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UK MAIL LTD

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

for the year ended 31 March 2007

Company Registration No 02072003

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COMPANIES HOUSE

DIRECTORS AND ADVISERS

DIRECTORS

C G Buswell
W Cockburn
S Glew
P Kane
I Paterson
S Patrick

SECRETARY

C Cochrane

REGISTERED OFFICE

Express House
464 Berkshire Avenue
Slough
Berkshire
SL1 4PL

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
The Atrium
1 Harefield Road
Uxbridge
UB8 1EX

BANKERS

Lloyds TSB Bank plc
125 Colmore Row
Birmingham
B3 2DS

SOLICITORS

Martineau Johnson LLP
No 1 Colmore Square
Birmingham
B4 6AA

Travers Smith LLP
10 Snow Hill
London
EC1A 2AL

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2007

PRINCIPAL ACTIVITIES

UK Mail Ltd is a private limited company incorporated on 7th November 1986 under English law and domiciled in England On 16th March 2003, the Company was wholly acquired by Business Post Group plc a public limited company incorporated and domiciled in England and listed on the London Stock Exchange (LSE BPG)

The principal activity of the Company is the operation of business mail collection and delivery services

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

Pre-tax profits of £6 349 000 (2006 £3,327 000) have been achieved on revenue of £90 302 000 (2006 £40 409 000) The directors consider the results to be satisfactory and ahead of their expectations

New UK Mail customers signed over the last year included the BBC, the Department of Work and Pensions and a number of major banks Additionally, the Company continued to win significant further business from existing customers UK Mail's high service levels and focus on providing customers with innovative added value solutions have been a major factor in winning two key awards in the year the Royal Mail 'Down Stream Access' award and the Royal Bank of Scotland Group 'Best Services Supplier' award

As well as excellent progress in the market for pre-sorted mail items, where strong levels of new business wins have continued, good progress has been made in the market for un-sorted mail The Company's un-sorted mail service introduced progressively throughout the year, has made an encouraging start and contributed a modest amount to operating profit. We now have fourteen sorting machines of which twelve are letter sorters and two are 'flat' sorters

In the year we handled over 1 billion mail items In March 2007 alone we handled over 110 million mail items giving an annualised throughput of some 1 3 billion items representing 5 5% of the total mail market by volume

PRINCIPAL RISKS AND UNCERTAINTIES

The management of the business and the execution of the Company's strategy are subject to a number of risks

The key financial risks and uncertainties affecting the Company are considered to relate to credit risk on trade debt and Royal Mail access price risk. The primary risks and uncertainties facing the business which could have a material adverse impact on the Company include

Computer systems

Handling millions of transactions each month the Company is highly reliant on the availability and smooth running of its computer systems Any wide scale systems failure would cause significant disruption to the business but disaster recovery procedures are well established and regularly tested

Financial risk management

Foreign exchange risk

The Company is not significantly exposed to the effects of fluctuations in exchange rates since all income is in sterling and costs denominated in foreign currency principally the euro, represent less than 5% of all expenditure

Interest rate risk

The Company holds cash balances and is cash generative

Short-term financing is provided by the parent Company, with no interest charged to the Company As a result the Company is not exposed to an interest rate risk

Price risk

Pricing is determined through reference to the contractual agreement that the Company has with Royal Mail These terms are monitored by Postcomm

Credit risk

Trade receivables

The Company does have a significant concentration of credit risk, with approximately 28% of the Company's revenues derived from the telecommunications sector and 27% from financial institutions However the Company's exposure is limited by insuring trade receivables The Company has implemented policies that require appropriate credit checks on potential customers before sales commence The largest customer accounts for less than 9% of revenue with no other customer accounting for over 7% Given the forecast growth of the company these ratios should naturally reduce

Liquidity risk

The Board reviews both the long and short-term financing requirements of the Company to ensure that there are sufficient available funds both for the day-to-day operations of the Company and for planned capital investments

KEY PERFORMANCE INDICATORS (KPI's)

Given the straightforward nature of the business the Company's directors are of the opinion that analysis using KPI's is not necessary for an understanding of the development, performance or position of the business

RESULTS AND DIVIDENDS

The Company s profit for the financial year was £4 297 000 (2006 £2 387 000) No interim dividend was paid during the year (2006 £nil) The directors do not recommend the payment of a final dividend (2006 £nil)

The retained profit for the year of £4,297 000 (2006 £2,387,000) has been transferred to reserves

CHARITABLE AND POLITICAL DONATIONS

The Company made no charitable donations (2006 £nil) during the year No political donations were made (2006 £nil)

SUPPLIER PAYMENT POLICY

The Company's policy concerning the payment of its trade payables is to follow the CBI's Prompt Payers' Code which can be found at http://www payontime co uk The Company endeavours to agree standard terms of payment with its major suppliers at the commencement of business Suppliers fulfilling the conditions of supply are paid in accordance with the agreed standard terms Other suppliers are paid in accordance with the contractual terms as agreed from time to time The Company had trade payable days of 32 8 (2006 23 9)

EMPLOYMENT POLICY

The Company has continued to make significant progress in Human Resource management over the last year The Employee Consultative Group has been strengthened to provide a robust platform for all employees to make a significant contribution to bringing about change in the workplace and to provide a forum for the exchange of information, opinions and feedback

Reward schemes have also been reviewed resulting in improved incentives and competitive benefits Group employee turnover has continued to fall, having now reduced every year for the last 5 years The Group continues to coach and train managers in a wide variety of skill areas including Dispute Resolution, Performance Management, Accident Investigation and Supervisory Skills The Group's training and development activities were recognised with a National Training Award in September 2005 The Group has adopted both the HCI and Childcare Voucher Schemes and continues to provide the Basic Skills training course aimed at those employees needing tuition in English and Mathematics

To support the staff welfare programme the Group provides, through a third party, a 24 hour confidential help line that provides counselling and advice on a wide range of subjects The Group continues to ensure that all the requirements of current and future employment and health and safety legislation are met and kept up to date with changes in legislation through quarterly seminars

The Company's policy and practice is to encourage the recruitment and subsequent training, career development and promotion of disabled persons according to their aptitudes and abilities and the retention and retraining of employees who also become disabled during their employment

DIRECTORS

The directors who have held office during the year and up to the date of signing the financial statements were

C G Buswell	
W Cockburn (Chairman)	
P D C Fitzwilliam	(resigned 2 June 2006)
S Glew	(appointed 5 June 2006)
P Kane	
I Paterson	
S Patrick	

On 2 June 2006 Peter Fitzwilliam resigned as a director of the board of the Company and the ultimate parent company, Business Post Group plc, and as Company Secretary Martin Wright was appointed Company Secretary on 2 June 2006 and resigned on 31 October 2006 Steven Glew was appointed to both the board of the Company, and to the board of the ultimate parent company, Business Post Group plc on 5 June 2006 Steven Glew was appointed Company Secretary on 31 October 2006 and resigned on 1 December 2006 Charles Cochrane was appointed Company Secretary on 1 December 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company 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 that the financial statements comply with IFRS (as adopted by the European Union), 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 confirm that they have complied with the above requirement in preparing the financial statements

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

STATEMENT OF DISCLOSURE OF INFORMATION TO THE AUDITORS

The directors have taken all the steps that ought to have been taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

So far as the directors are aware, there is no relevant audit information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company s auditors are unaware

AUDITORS

As a result of an elective resolution, the Company has dispensed with the holding of an annual general meeting under Section 366A of the Companies Act 1985 and dispensed with the obligation to appoint auditors annually under Section 386 of the Companies Act 1985

PricewaterhouseCoopers LLP have indicated their willingness to continue in office and will therefore continue in office as auditor to the Company until further notice

By order of the board

S Glew
Director
16 August 2007

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF UK MAIL LTD

We have audited the financial statements of UK Mail Ltd for the year ended 31 March 2007, which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Shareholders' Equity, and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities

International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been 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 judgments 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, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 March 2007 and of its profit and cash flows for the year 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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
West London
17 August 2007

INCOME STATEMENT

for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Revenue		90,302	40,409
Cost of sales		(80,164)	(35 976)
Gross profit		10,138	4,433
Administrative expenses		(3,655)	(1,101)
Operating profit	2	6,483	3,332
Interest payable	3	(134)	(5)
Profit before taxation		6,349	3,327
Taxation	5	(2,052)	(940)
Profit for the financial year		4,297	2,387

The profit for the financial year arises from the Company's continuing activities, and is wholly attributable to equity holders of the Company

The related notes on pages 10 to 21 form part of these financial statements

UK MAIL LTD

BALANCE SHEET

as at 31 March 2007

	Notes	2007 £'000	2006 £'000
ASSETS			
Non-current assets			
Intangible assets	6	713	143
Property, plant and equipment	7	5,475	1,737
		6,188	1,880
Current assets			
Trade and other receivables	9	36,156	20,172
Cash and cash equivalents	10	1,539	642
		37,695	20,814
LIABILITIES			
Current liabilities			
Borrowings	11	(611)	(139)
Trade and other payables	12	(29,723)	(18,581)
Current tax liabilities		(2,932)	(860)
		(33,266)	(19,580)
Net current assets		4,429	1,234
Non-current liabilities			
Borrowings	11	(4,054)	(1,018)
Deferred tax liabilities	13	(61)	(81)
Net assets		6,502	2,015
Shareholders' equity			
Ordinary shares	14	-	-
Retained earnings		6,502	2,015
Total shareholders' equity		6,502	2,015

The financial statements on pages 6 to 21 were approved by the board of directors on 16 August 2007 and were signed on its behalf by

S Glew
Director

The related notes on pages 10 to 21 form part of these financial statements

CASH FLOW STATEMENT

for the year ended 31 March 2007

	Notes	2007 £'000	2006 £'000
Operating activities			
Cash generated from/(used in)operations	15	2,536	(3,378)
Interest paid		(134)	(5)
Net cash inflow/(outflow) from operating activities		2,402	(3,383)
Investing activities			
Purchase of intangible assets	6	(763)	(193)
Purchase of property, plant and equipment	7	(4,249)	(1,843)
Net cash outflow from investing activities		(5,012)	(2,036)
Financing activities			
Proceeds from re-financing under finance leases		3,814	1,157
Repayment of finance lease liabilities		(307)	-
Net cash inflow from financing activities		3,507	1,157
Net increase/(decrease) in cash and cash equivalents	19	897	(4,262)
Cash and cash equivalents at the beginning of the year	19	642	4,904
Cash and cash equivalents at the end of the year	19	1,539	642

The related notes on pages 10 to 21 form part of these financial statements

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

for the year ended 31 March 2007

	Share Capital £'000	Retained Earnings £'000	Total Equity £'000
Balance as at 1 April 2005	-	(436)	**(436)**
Employees' share option scheme			
- value of employee services	-	64	**64**
Profit for the financial year	-	2 387	**2,387**
Balance as at 31 March 2006	**-**	**2,015**	**2,015**
Balance as at 1 April 2006	-	2,015	**2,015**
Employees' share option scheme			
- value of employee services	-	190	**190**
Profit for the financial year	-	4 297	**4,297**
Balance as at 31 March 2007	**-**	**6,502**	**6,502**

The related notes on pages 10 to 21 form part of these financial statements

1 Principal accounting policies

Accounting policies for the year ended 31 March 2007

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

Basis of preparation

These financial statements have been prepared in accordance with the Companies Act, 1985 and those IFRS standards as adopted by the European Union and IFRIC interpretations which are effective as at 31 March 2007 The following Standards, Interpretations and Amendments, which became effective for and were adopted during the year ended 31 March 2007, had no material impact on the Company's results or financial position

	Effective date for periods beginning on or after
IFRS 6 'Exploration for and Evaluation of Mineral Resources'	1 January 2006
Amendment to IFRS 4 'Insurances Contracts'	1 January 2006
IFRIC 4 'Determining whether an Arrangement Contains a Lease'	1 January 2006
IFRIC 5 'Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds'	1 January 2006
IFRIC 7 'Applying the Restatement Approach under IAS 29 - Financial Reporting in Hyperinflationary Economies'	1 March 2006

The following Standards, Interpretations and Amendments are effective subsequent to the year end and consequently have not been adopted for the year ended 31 March 2007 Application of these will not result in a material change to the reported Company's results or financial position

	Effective date for periods beginning on or after
Amendments to IAS 1 'Presentation of Financial Statements'	1 January 2007
IFRS 7 'Financial Instruments Disclosures'	1 January 2007
IFRS 8 'Operating Segments'	1 January 2009
IFRIC 8 'Scope of IFRS 2'	1 May 2006
IFRIC 9 'Re-assessment of Embedded Derivatives'	1 June 2006
IFRIC 10 'Interim Financial Reporting and Impairment'	1 November 2006
IFRIC 11 'IFRS 2 - Group and Treasury Share Transactions'	1 March 2007
IFRIC 12 'Service Concession Arrangements'	1 January 2008

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities held for trading

The preparation of financial statements in conformity with generally accepted accounting principles, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates

The critical accounting judgements and the key sources of estimation uncertainty are detailed in note 22

The financial statements have been prepared on a going concern basis

Intangible assets

Intangible assets include acquired computer software licences not part of the operating software acquired with a related piece of hardware These are capitalised on the basis of the costs incurred to acquire and bring to use the specific software These costs are amortised on a straight line basis over their estimated useful lives, normally three to four years

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the year in which it is incurred

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value Land is not depreciated Depreciation is calculated over the estimated useful economic life less residual value of the asset as follows

Freehold buildings	fifty years on a straight line basis
Short leasehold improvements	over the period of the lease on a straight line basis
Motor vehicles, plant and equipment	10% to 33% annually on a reducing balance or straight line basis
Computer equipment	14% to 33% annually on a straight line basis

The normal expected useful lives and residual values of the major categories of property, plant and equipment are reviewed annually

The carrying value of property, plant and equipment is reviewed at least annually Any resultant impairment losses are charged immediately to the income statement

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the term of the lease

Leasing agreements, which transfer to the Company substantially all the benefits and risks of ownership of an asset, are treated as if the asset has been purchased outright The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases The lease rentals are treated as consisting of capital and interest elements The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give constant periodic rates of charge on the remaining balance outstanding at each accounting period Assets held under finance leases are depreciated over the shorter of the lease term and the useful lives of equivalent owned assets

Segment reporting

A business segment is a component of the Company that is engaged in providing a group of related services that are subject to risks and returns that are different from those of other business segments A geographical segment is a component of the Company that operates within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments

The Company operates in one business and one geographic segment being the business mail collection and delivery and UK markets respectively

Revenue

Revenue reflects all sales made by the Company, and is stated net of value added tax Revenue is recognised in the accounting period in which consignments are delivered to customers

The revenue and profit before tax, all of which arises in the United Kingdom, is attributable to one activity, the provision of business mail collection and delivery services

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax

The tax currently payable is based on the taxable profit for the year Taxable profit differs from the net profit in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible

Full provision is made for deferred taxation on all taxable temporary differences Deferred tax assets and liabilities are recognised separately on the balance sheet Deferred tax assets are recognised only to the extent that they are expected to be recoverable

Deferred taxation is recognised in the income statement unless it relates to taxable transactions taken directly to equity, in which case the deferred tax is also recognised in equity The deferred tax is released to the income statement at the same time as the taxable transaction is recognised in the income statement

Pension costs

The Company sponsors a number of employees' personal pension plans The assets of the plans are held separately from those of the Company in independently administered funds The pension costs charged in the income statement represent contributions payable by the Company to the plans together with the administration charges of the plans

Foreign currencies

Transactions in foreign currencies are recorded in sterling at the rate ruling at the transaction date Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date All exchange differences arising from trading transactions are dealt with in the income statement

Share-based payments

The costs of equity-settled share-based payments are recognised in the income statement with a corresponding increase in equity over the vesting period as services are provided to the Company The charge is based on the fair value of the equity instrument granted and the number of equity instruments that are expected to vest

The fair value is measured at grant date and takes account of vesting conditions that relate to the market price of the ultimate parent company's shares In order to determine the value of the instrument a pricing model relevant to the type of instrument is used

The costs of cash-settled share-based payments are recognised in the income statement with a corresponding increase in equity over the vesting period as services are provided to the Company The charge is based on the fair value of the liability at each reporting date, with any changes in fair value recognised in the income statement

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain If the effect of the time value of money is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense

Exceptional items

Items of income and expense that are considered to be material either by size or nature, are separately disclosed and classified as "exceptional items" on the face of the income statement

Dividends

Interim dividends are recognised as a distribution from retained earnings in the period in which they are paid

Final dividends are recognised as a distribution from retained earnings in the period in which they are declared at the general meeting

Financial instruments

In accordance with the requirements of IAS 32 and IAS 39, financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires

* **Trade receivables** These are recognised and carried at the original invoice amount less an allowance for any non-collectible amounts Provision is made when there is objective evidence that the Company will not be able to collect the debts Bad debts are written off to the income statement when identified

* **Cash and cash equivalents** These comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less

* **Interest-bearing loans and borrowings** All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method Amortised cost is calculated by taking into account any issue costs, and any discount or premium

* **Share capital** Ordinary shares are classified as equity

For the purpose of the cash flow statement cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts

2 Operating profit

	2007 £'000	2006 £'000
The following items have been charged in arriving at operating profit		
Employee benefits expense (note 4)	3,728	2 219
Depreciation of owned property, plant and equipment (note 7)	511	106
Amortisation of intangibles (included in administrative expenses) (note 6)	193	50
Operating lease rentals payable		
- Plant and machinery	22	2
- Other	846	80
Repairs and maintenance expenditure on property plant and equipment	190	1
Trade receivables impairment (included in administrative expenses)	133	38

Services provided by the Company's auditor

	2007 £'000	2006 £'000
During the year the Company obtained the following services from the Company's auditor at costs as detailed below		
Audit services - statutory audit	20	10
Tax compliance services	7	7
	27	17

3 Finance costs

	2007 £'000	2006 £'000
Finance lease interest payable	134	5

4 Employees and directors

Employee benefit expense for the Company during the year (including directors)

	2007 £'000	2006 £'000
Wages and salaries	3,199	1,953
Social security costs	299	169
Other pension costs	40	33
Share-based payments	190	64
	3,728	2 219

	2007 Number	2006 Number
Average monthly number of persons employed (including directors)		
Operations	105	42
Administration	12	15
	117	57

	2007 £'000	2006 £'000
Key management compensation		
Salaries and short-term employee benefits	405	612
Post-employment benefits	11	25
Share-based payments	39	68
	455	705

The key management figures above include the executive board directors as detailed below

	2007 £'000	2006 £'000
Directors' compensation		
Aggregate emoluments	224	429
Post-employment benefits	9	19
	233	448

The highest paid director was paid £107 500 during the year (2006 £110,670) In addition Company pension contributions of £5 375 were made to a money purchase pension scheme (£2006 £3,775)

Business Post Group plc has a separate long term incentive agreement with W Cockburn in relation to his consultancy services Under this Mr Cockburn will be entitled to receive bonuses if the profit of UK Mail exceeds specified targets within a four year period of the commencement of trading on 10 May 2004 and £209,680 (2006 £67 000) has been accrued in the financial statements in respect of the anticipated payment in 2008

5 Taxation

Analysis of charge in period

	2007 £'000	2006 £'000
Current tax - current year	1,951	864
Current tax - adjustment in respect of prior years	121	(5)
Deferred tax (note 13) - current year	18	81
Deferred tax (note 13) - prior years	(38)	-
Taxation	2,052	940

The differences between the total current tax shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax are explained below

	2007 £'000	2006 £'000
Profit on ordinary activities before tax	6,349	3,327
Profit on ordinary activities at the standard rate of corporation tax in the UK of 30% (2006 30%)	1,905	998
Effects of		
Expenses not deductible for tax purposes	64	19
Group relief claimed	-	(72)
Adjustment in respect of prior years	83	(5)
Total tax charge	2,052	940

6 Intangible assets

	2007 £'000	2006 £'000
Cost		
At beginning of the year	193	-
Additions	763	193
At 31 March	956	193
Aggregate amortisation		
At beginning of the year	50	-
Charge for the year	193	50
At 31 March	243	50
Net book value at 31 March	713	143

All amortisation charges in the year have been charged through administrative expenses

Computer software has a useful economic life of between 3 and 4 years

7 Property, plant and equipment

	Freehold land and buildings £'000	Short leasehold premises £'000	Motor vehicles plant and equipment £'000	Computer equipment £'000	Total £'000
Cost					
At 1 April 2006	68	13	1 762	-	1 843
Additions	82	631	3 434	102	4 249
At 31 March 2007	150	644	5 196	102	6,092
Accumulated depreciation					
At 1 April 2006	4	1	101	-	106
Charge for the year	10	22	467	12	511
At 31 March 2007	14	23	568	12	617
Net book value at 31 March 2007	136	621	4,628	90	5,475

	Freehold land and buildings £'000	Short leasehold premises £'000	Motor vehicles plant and equipment £'000	Computer equipment £'000	Total £'000
Cost					
At 1 April 2005	-	-	-	-	-
Additions	68	13	1 762	-	1 843
At 31 March 2006	68	13	1 762	-	1 843
Accumulated depreciation					
At 1 April 2005	-	-	-	-	-
Charge for the year	4	1	101	-	106
At 31 March 2006	4	1	101	-	106
Net book value at 31 March 2006	64	12	1 661	-	1 737

8 Assets held under finance leases

Assets held under finance leases have the following net book value

	2007 £'000	2006 £'000
Cost	5 108	1 294
Aggregate depreciation	(661)	(125)
Net book value	4,447	1 169

Included in assets held under finance leases are plant and equipment with a net book value of £3 734,000 (2006 £960 000) and computer software of £713 000 (2006 £209 000)

9 Trade and other receivables

	2007 £'000	2006 £'000
Trade receivables, net of provisions for impairment	14,908	12,081
Amounts owed by group undertakings	20,981	7,811
Other debtors	9	149
Prepayments and accrued income	258	131
	36,156	20,172

All amounts are due within one year

Interest does not accrue on the unsecured inter-company balances which are repayable on demand

10 Cash and cash equivalents

	2007 £'000	2006 £'000
Cash at bank and in hand	1,539	642

The effective interest rate on the cash and bank balances was Nil% (2006 Nil%)

11 Borrowings

Current	2007 £'000	2006 £'000
Bank loans and overdrafts due within one year or on demand		
Finance lease obligations	611	139
Non-current		
Finance lease obligations	4,054	1,018

12 Trade and other payables - current

	2007 £'000	2006 £'000
Trade payables	9,138	4,031
Amounts owed to group undertakings	11,975	9 996
Accruals	3,518	1 572
Deferred income	28	32
Other taxation and social security	5,064	2 950
	29,723	18,581

Interest does not accrue on the unsecured inter-company balances which are repayable on demand

13 **Deferred tax**

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 30% (2006 30%)

The movement on the deferred tax account is as shown below

	2007 £'000	2006 £'000
Deferred tax liability		
At beginning of the year	81	-
Income statement (credit)/charge	(20)	81
At 31 March	61	81

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net

14 **Called up share capital**

	2007 £	2006 £
Authorised issued allotted and fully paid 100 Ordinary shares of £1 each	100	100

15 **Cash flow from operating activities**

The reconciliation of profit to cash generated from/(used in) operations is as follows

	2007 £'000	2006 £'000
Profit for the financial year	4,297	2,387
Taxation	2,052	940
Interest payable	134	5
Depreciation and amortisation	705	156
Share-based payments	190	64
Increase in trade and other receivables	(15,984)	(16,032)
Increase in trade and other payables	11,142	9 102
Cash generated from/(used in) operations	2,536	(3 378)

16 **Financial instruments**

Short term debtors and creditors

Short term debtors and creditors have been excluded

Interest rate risk profile of financial liabilities

The interest risk profile of the Company's financial liabilities at 31 March 2007 was

	2007			
	Book value £'000	Floating rate financial liabilities £'000	Book value £'000	Floating rate financial liabilities £'000
Finance leases	4,665	4,665	1 157	1 157

All financial liabilities are sterling denominated

All the Company's payables falling due within one year (other than bank and other borrowings) are excluded from the above table either due to the exclusion of short term items or because they do not meet the definition of a financial liability, such as tax balances

Maturity profile of financial liabilities

The maturity profile of the carrying amount of the Company's non-current financial liabilities at the end of the year was as follows

	2007 £'000	2006 £'000
Between one and two years	646	146
Between two and five years	2,172	486
After five years	1,236	386
	4,054	1 018

Financial liabilities comprise finance leases (note 11) Creditors due within one year are excluded from the above table as they are of a short term nature

Borrowing facilities

The Company has undrawn borrowing facilities of £12m under a group arrangement (2006 £12m) These facilities are in place until 31 December 2007

Fair value of financial assets and liabilities

The following table provides a comparison by category of the carrying amounts and fair values of the Company's financial assets and liabilities at 31 March 2007 and 2006 Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest Where available market values have been used to determine fair values Where market values are not available, fair values have been calculated by discounting expected cash flows at prevailing interest rates Set out below is a summary of the methods and assumptions used for each category of financial instrument.

	2007		2006	
	Book value £'000	*Fair value* £'000	Book value £'000	Fair value £'000
Primary financial instrument held or issued to finance the Company's operations				
Finance leases	(4,665)	(4,665)	(1 157)	(1,157)
Cash at bank and in hand	1,539	1,539	642	642

Summary of methods and assumptions

Finance leases — The fair value is based on discounting the cash flows at prevailing interest rates

Financial instruments held for trading purposes

The Company does not trade in financial instruments

Currency analysis of monetary net assets

All monetary assets and liabilities are sterling denominated

17 Contingent liabilities

The Company, together with fellow subsidiaries of Business Post Group plc, acts as a guarantor under a £12m group borrowing facility (2006 £12m)

18 Capital and other financial commitments

	2007 £'000	2006 £'000
Contracts placed for future capital expenditure not provided in the financial statements	328	-

19 Analysis of net cash/(debt)

	At 1 April 2005 £'000	Cash Flow £'000	At 1 April 2006 £'000	Cash Flow £'000	At 31 March 2007 £'000
Cash at bank and in hand	4 904	(4 262)	642	897	1,539
Finance leases	-	(1 157)	(1 157)	(3 508)	(4,665)
Net cash/(debt)	4,904	(5,419)	(515)	(2,611)	(3,126)

20 Related party transactions

Key management compensation is disclosed in note 4

Intercompany balances arise from recharges of costs from and to other group companies Year end balances arising from these recharges are as follows

	2007 £'000	2006 £'000
Receivable from related parties		
Parent undertaking	20,981	7 811
Payable to related parties		
Fellow group undertakings	(11,975)	(9 996)

The following transactions were carried out during the year with related parties

	2007	2006
Recharges from fellow subsidiaries	(27,343)	(10 380)
Recharges to fellow subsidiaries	2,396	6 020
Financing received from parent company	36,138	562
	11,191	(3 798)

21 Ultimate parent undertaking and controlling party

Business Post Group plc a company incorporated in Great Britain, is the immediate and ultimate parent undertaking and the ultimate controlling party

P Kane, a director of the Company and of the parent undertaking together with members of his close family and certain family trusts, the beneficiaries of which are persons connected with P Kane control directly and indirectly 45 8% of the issued share capital of the parent undertaking In addition his brother M Kane controls a further 12 8% of the issued share capital of the parent undertaking

The parent undertaking of the largest and smallest group which includes the Company and for which group accounts are prepared is Business Post Group plc Copies of the financial statements can be publicly obtained from the registered office at Express House, 464 Berkshire Avenue Slough, Berkshire SL1 4PL

22 Critical accounting judgements and key sources of estimation uncertainty

The Company's accounting policies are set out in note 1 to these financial statements Management is required to exercise significant judgement in the application of these policies Areas which management believes require the most critical accounting judgements are as follows (apart from those policies involving estimation which are outlined in (b) below)

a) Critical accounting judgements in applying the Company's accounting policies

Exceptional items

The Directors consider that items of income or expense which are material by virtue of their nature and amount should be disclosed separately if the financial statements are to fairly present the financial performance of the Company The Directors label these items collectively as 'exceptional items'

Determining which transactions are to be considered exceptional is often a subjective matter However, circumstances that the Directors believe would give rise to exceptional items, requiring separate disclosure would include

(i) loss or cessation of a material contract representing 5% or more of the Company's revenues

(ii) disposal of fixed assets where the profit or loss represents 5% or more of the Company's profit before tax,

(iii) disposal of investments,

(iv) organisational or restructuring programmes

Leases

In determining whether a lease is a finance lease or an operating lease, management is required to evaluate where the substantial risks and rewards reside Where management conclude that the arrangement constitutes a finance lease, then it is necessary to both calculate the proportion of the payment which should be treated as finance cost and capital repayment and to judge the likely period of use at the inception of the agreement

b) Key sources of estimation uncertainty

Useful economic lives of property, plant and equipment

Depreciation of property plant and equipment is charged so as to write down the value of those assets to their residual value over their respective useful lives The Directors are required to assess both the useful economic lives of the assets so that depreciation is charged on a systematic and proportionate basis and the probable residual values

Recoverability of trade receivables

Trade receivables are recorded net of provisions for bad debts and credit notes In evaluating the required provision the Directors consider debtor specific circumstances in addition to historical trends