

**Argyll and the Islands Enterprise Company
(Limited by Guarantee)**

Report and Financial Statements

31 March 2003



Argyll and the Islands Enterprise Company

Registered No: 126604

Directors

A Johnston	(Chairman)
A Barge	
M Carmichael	
I M Cleaver	
A Hay	(Resigned 12/05/03)
A Hill	(Appointed 22/05/03)
G Hobhouse	
A Macaskill	(Appointed 22/05/03)
C A MacLennan	
J M MacLeod	
T C Macnair	(Retired 20/11/02)
L M Moffat	
J Sillars	(Resigned 01/05/03)
P Timms	

Secretary

A MacLeod
A Milstead

Auditors

Ernst & Young LLP
Moray House
16 Bank Street
Inverness
IV1 1QY

Bankers

The Clydesdale Bank plc
Poltalloch Street
Lochgilphead
Argyll
PA31 8ST

Solicitors

Legal Services
Highlands and Islands Enterprise
Cowan House
Inverness Retail and Business Park
Inverness
IV2 7GF

Registered Office

Cowan House
Inverness Retail and Business Park
Inverness
IV2 7GF

Directors' report

The directors present their report and accounts for the year ended 31 March 2003.

Results

The net surplus for the year, after taxation, amounted to £166,402 and is dealt with as shown in note 15 to the accounts.

Principal activities, review of the business and future developments

The principal activity of the company is to operate as a Local Enterprise Company under an operating contract with Highlands and Islands Enterprise. Under this contract the company delivers economic and social development, environmental renewal and training services within the areas of Argyll, Bute, Arran and the Cumbraes.

Corporate governance

The HIE Network have in place procedures which ensure that the highest standard of corporate governance are maintained at all times. In accordance with The Institute of Chartered Accountants in England and Wales Turnbull Committee report 'Internal Control Guidance for Directors on the Combined Code' these include systematic procedures for the identification and management of risk. The directors are pleased to report that these procedures have been complied with throughout the year.

A statement of the directors' responsibilities in respect of the accounts is set out on page 5.

The Board

At 31 March 2003, the board of Argyll and the Islands Enterprise Company comprised 11 non-executive members, including the chairman. New Board members are appointed through the HIE network policy of 'Appointability through Openness' which involves wide local advertising and consultation to identify candidates for Board membership to replace those retiring by rotation. None of the board members received any remuneration for holding office during the year.

The board meets at least nine times a year. The role of the board is the strategic oversight of the enterprise company, ensuring that it is carrying through its statutory remit. The board has specific responsibility for approving the overall strategy and operating plans, ensuring that the executive has thorough arrangements for appraisal, monitoring and evaluation of programmes and seeing that targets are set and met.

The Chief Executive and management group

The Chief Executive is aware of the need for effective internal financial control, and acknowledges his responsibility for the system of control to enable the efficient management of Argyll and the Islands Enterprise Company. This responsibility is undertaken in conjunction with the audit committee. The system can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of monthly management information, financial regulations, administrative procedures including the segregation of duties, and various levels of delegation specified by the Scottish Executive and the board of Highlands and Islands Enterprise. In particular it includes strategic planning, identification of targets and annual operating plans all approved by the board.

The Chief Executive has a pivotal role in assisting the board to develop policies and priorities and in ensuring that they are implemented effectively.

Directors' report

Corporate governance (continued)

Audit and compliance

Argyll and the Islands Enterprise Company has established an audit committee, composed of non-executive members of the board, one of whom acts as Chairman. The committee supports the Local Enterprise Company's Accountable Officer in reviewing the effectiveness of the internal control environment and provides a forum for reporting by the company's external and internal auditors. The meetings are also attended, by invitation, by the Chief Executive. Meetings are held at least four times a year.

The committee reviews reports by both external audit and Highlands and Islands Enterprise internal audit. On the basis of these reports the committee form a view on the effectiveness of the systems of internal control. Both the external auditors and Highlands and Islands Enterprise internal audit attend at least one audit committee meeting per year.

The Greenbury Report

While none of the board members who held office during the year received any remuneration, the recommendations of the Greenbury Code of Best Practice have been applied in so far as they are appropriate to Argyll and the Islands Enterprise Company.

Conflicts of interest procedures

Argyll and the Islands Enterprise Company operates strict and comprehensive procedures to deal with potential conflicts of interest. These include holding, and updating annually, registers of interests covering not only board members/directors but also all members of staff. These registers are available to any member of the public who wishes to examine them. Interests which must be registered are rigorously defined as: any contractual or financial relationship, or simply position of authority, with outside companies or organisations.

Whenever a board member/director or member of staff has an interest in an application for assistance, they are required to declare the interest and thereafter to take no part in the investigation, processing or approval of the case. Such declarations by board members/directors are recorded in the minutes of the appropriate board meetings.

Additional procedures such as referring to Highlands and Islands Enterprise for the processing and decision making are invoked when the chairman of Argyll and the Islands Enterprise Company declares an interest.

Complaints

The HIE Network has in place a clear policy for dealing with complaints. Where it is not possible to resolve the complaint internally a complainant is entitled under the terms of the Scottish Public Services Ombudsman Act 2002 to have their complaint considered by the Scottish Public Services Ombudsman.

Openness

The HIE Network complies with the Scottish Executive Code of Practice on Access to Information and the Data protection Act 1998.

Service First

The HIE Network regularly monitors the progress in meeting the standards and aspirations embodied in the principles of public service delivery contained in Service First and, if necessary, takes action to ensure that effective performance is maintained or achieved. The HIE Network retains Charter Mark status which was awarded for the third time in 2000.

Directors' report

Corporate governance (continued)

Directors and their interests

The company's directors are those listed on page 1. None of the directors are members of the company.

At the board meeting to approve the financial statements for the year ended 31 March 2003, M Carmichael, G Hobhouse and J MacLeod will retire by rotation and being eligible, offer themselves for re-election.

Directors and officers liability insurance

During the year the company purchased and maintained liability insurance for its directors and officers as permitted by section 310(3) of the Companies Act 1985.

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the member, Highlands and Islands Enterprise.

By order of the board



Secretary

24/7/2003

Statements of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the net surplus or deficit of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

Independent auditors' report

to the member of Argyll and the Islands Enterprise Company

We have audited the company's financial statements for the year ended 31 March 2003 which comprise the Income and Expenditure Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's member, 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 member 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 member 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 legal and regulatory requirements and United Kingdom 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 to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company 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 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 affairs of the company as at 31 March 2003 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
Inverness

24 July 2003

Income and expenditure account

for the year ended 31 March 2003

	Notes	2003 £	2002 £
Income	2	8,598,455	7,579,836
Operating expenditure		7,429,234	6,546,860
Administrative expenditure		1,003,052	893,691
Net operating surplus	3	166,169	139,285
Interest receivable	6	38,144	22,324
Interest payable	7	(38,136)	(13,614)
Net surplus on ordinary activities before taxation		166,177	147,995
Tax on ordinary activities	8	225	(5,809)
Net surplus for the financial year		166,402	142,186

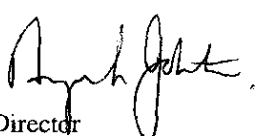
Statement of total recognised gains and losses

	2003 £	2002 £
Net surplus for the financial year	166,402	142,186
Unrealised deficit on revaluation of land and buildings	-	(20,000)
Total gains and losses relating to the year	166,402	122,186

Balance sheet

at 31 March 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	9	14,043	134,600
Investments	10	1,568,932	1,389,717
		<u>1,582,975</u>	<u>1,524,317</u>
Current assets			
Debtors	11	1,935,746	3,110,603
Cash at bank and in hand		49,419	11,092
		<u>1,985,165</u>	<u>3,121,695</u>
Creditors: amounts falling due within one year	12	1,666,256	2,969,188
		<u>318,909</u>	<u>152,507</u>
Net current assets		<u>1,901,884</u>	<u>1,676,824</u>
Total assets less current liabilities		<u>1,901,884</u>	<u>1,676,824</u>
Provision for liabilities and charges	13	1,582,975	1,487,117
		<u>318,909</u>	<u>189,707</u>
Capital and reserves			
Revaluation reserve	15	-	37,200
Accumulated surplus	15	318,909	152,507
		<u>318,909</u>	<u>189,707</u>



Director

24/7/2003

Statement of cash flows

for the year ended 31 March 2003

	Notes	2003 £	2002 £
Net cash inflow/(outflow) from operating activities	16(a)	43,903	(62,745)
Returns on investments and servicing of finance	16(b)	8	8,710
Taxation	16(b)	(5,584)	(18,051)
Capital expenditure and financial investment	16(b)	-	-
Increase/(decrease) in cash		<u>38,327</u>	<u>(72,086)</u>

Reconciliation of net cash flow to movements in net funds

	Notes	2003 £	2002 £
Increase/(decrease) in cash	16(c)	<u>38,327</u>	<u>(72,086)</u>
Movement in net funds		38,327	(72,086)
Net funds at 1 April 2002		11,092	83,178
Net funds at 31 March 2003		<u>49,419</u>	<u>11,092</u>

Notes to the financial statements

at 31 March 2003

1. Accounting policies

(a) Accounting convention

The accounts are prepared under the historical cost convention, as modified by the revaluation of land and buildings, and in accordance with applicable accounting standards.

(b) Basis of operations

The company contracts with Highlands and Islands Enterprise to create and deliver business and social development, training and environmental programmes throughout the area of Argyll, Bute, Arran and the Cumbraes. Funding for the company's activities is provided principally by Highlands and Islands Enterprise and the annual accounts are prepared on the assumption that the company will continue to be contracted with Highlands and Islands Enterprise for the foreseeable future. Although the company is limited by guarantee and has no shareholders, in accordance with s258 of the Companies Act 1985 it is a subsidiary undertaking of Highlands and Islands Enterprise by virtue of Highlands and Islands Enterprise being the sole member of the company.

(c) Related parties transactions

The company is a wholly owned subsidiary of Highlands and Islands Enterprise, the consolidated accounts of which are publicly available. Accordingly the company has taken advantage of the exemption in FRS 8 from disclosing transactions with member of the Highlands and Islands Enterprise group.

(d) Depreciation

Depreciation is provided on all tangible fixed assets, other than land and property, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Equipment and furnishings	-	25% per annum
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(e) Land and buildings

Land and buildings held for industrial and commercial use are accounted for in accordance with Statement of Standard Accounting Practice 19 : "Accounting for Investment properties". These are included in the balance sheet on the basis of open market value as defined by the guidance notes issued by the Royal Institute of Chartered Surveyors. Surpluses or deficits on revaluation are taken to a revaluation reserve unless the deficit is considered to be permanent, in which case it is charged to income and expenditure.

(f) Fixed asset funding

Under the operating agreement between the company and Highlands and Islands Enterprise, the proceeds arising from the disposal of any Highlands and Islands Enterprise funded assets shall be immediately returned to that entity. Accordingly, funding received in respect of capital expenditure is credited to an asset repayment provision and is released to income over the expected useful lives of the relevant assets by instalments so as to match the depreciation charge.

(g) Loans

Loans advanced by the company are shown at the amount outstanding at the balance sheet date less provisions for any anticipated losses. Where loans have been funded by Highlands and Islands Enterprise a reduction in annual funding will be made to reflect the loan repayments received by the company. Accordingly, funding received in respect of loan advances is credited to a loan repayment provision.

Notes to the financial statements

at 31 March 2003

1. Accounting policies (continued)

(h) *Unquoted investments*

Investments made by the company are included at cost unless, in the opinion of the directors, there has been a permanent diminution in value, in which case an appropriate adjustment is made. Such investments are deemed permanently impaired where there is no prospect of improvement in the fortunes of the company in the foreseeable future. Where investments have been funded by Highlands and Islands Enterprise a reduction in annual funding will be made to reflect investment realisations made by the company. Accordingly, funding received in respect of investments is credited to an investment repayment provision.

(i) *Operating leases*

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

(j) *Pensions*

Direct employees are members of the local government superannuation scheme. Seconded staff are members of Highlands and Islands Enterprise's defined benefit pension scheme.

Both schemes are defined benefit pension schemes which require contributions to be made to separately administered funds. Contributions to these funds are charged to the income and expenditure account as far as is possible, to spread the cost of pensions over the employees/secondees' working lives with the company.

2. Income

Income which is stated net of value added tax, represents funding for continuing activities received and accrued under the operating contract with Highlands and Islands Enterprise, together with amounts received and due from third parties. Income does not include £676,244 which was received from Highlands and Islands Enterprise to fund capital assets which is credited to either the loan/investment or asset repayment provision (note 13).

An analysis of income by funding sources is given below:

	2003	2002
	£	£
Highlands and Islands Enterprise	7,561,247	6,646,424
European Union	849,522	787,481
Other	187,686	145,931
	<u>8,598,455</u>	<u>7,579,836</u>

In addition to the amounts dealt with in the company's own income and expenditure account the company's efforts and initiatives resulted in additional property and environmental expenditure of £2,463,499 in the Argyll area. This is dealt with in the accounts of Highlands and Islands Enterprise.

Notes to the financial statements

at 31 March 2003

3. Net operating surplus

This is stated after charging/(crediting):

	2003	2002
	£	£
Auditors remuneration - audit	4,750	5,500
- non audit	650	600
Operating lease rentals - equipment	11,891	10,289
- property	36,333	38,625
Depreciation of fixed assets	9,304	6,656
Asset repayment provision released	(9,304)	(6,656)
	<u> </u>	<u> </u>

4. Directors' remuneration

None of the directors who held office during the year received any remuneration (2002 - £nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £11,303 (2002 - £15,307).

5. Staff costs

Details of total charges made for all staff services during the year were as follows:

	<i>Employees</i>		2003	2002
	<i>Core</i>	<i>Project</i>	<i>Total</i>	<i>Total</i>
	£	£	£	£
Wages and Salaries	616,902	176,573	793,475	659,443
Social security costs	42,628	14,024	56,652	50,174
Other pension costs	51,738	15,686	67,424	56,062
	<u>711,268</u>	<u>206,283</u>	<u>917,551</u>	<u>765,679</u>

The average monthly number of total staff, including seconded staff, during the year was as follows:

	2003	2002
	No.	No.
Senior management	2	2
Training function	4	4
Enterprise functions	22	17
Administration	8	9
Support staff	1	2
	<u>37</u>	<u>34</u>

Notes to the financial statements

at 31 March 2003

6. Interest receivable

	2003 £	2002 £
Loan interest	38,136	12,614
Bank interest	8	9,710
	<u>38,144</u>	<u>22,324</u>

7. Interest payable

	2003 £	2002 £
Bank interest	-	1,000
Loan interest repaid to Highlands and Islands Enterprise	38,136	12,614
	<u>38,136</u>	<u>13,614</u>

8. Tax

(a) The tax charge is made up as follows:

	2003 £	2002 £
Current tax:		
UK corporation tax	-	5,809
Overprovided in prior year	(225)	-
Total current tax	<u>(225)</u>	<u>5,809</u>

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19% (2002 – 20%). The differences are reconciled below:

	2003 £	2002 £
Net surplus for the financial year before tax	166,177	147,995
Net surplus for the financial year multiplied by standard rate of corporation tax in the UK of 19% (2002 – 20%)	31,574	29,509
Disallowed expenses and non-taxable income	(31,574)	(23,219)
Marginal relief	-	(491)
Overprovided in prior year	(225)	-
	<u>(225)</u>	<u>5,809</u>

Notes to the financial statements

at 31 March 2003

9. Tangible fixed assets

	<i>Land and buildings £</i>	<i>Equipment and furnishings £</i>	<i>Total £</i>
Cost or valuation:			
At 1 April 2002	125,000	173,139	298,139
Additions	-	13,747	13,747
Disposals	(125,000)	-	(125,000)
At 31 March 2003	-	186,886	186,886
Depreciation:			
At 1 April 2002	-	163,539	163,539
Provided during the year	-	9,304	9,304
At 31 March 2003	-	172,843	172,843
Net book value:			
At 31 March 2003	-	14,043	14,043
At 1 April 2002	125,000	9,600	134,600

Notes to the financial statements

at 31 March 2003

10. Investments

	<i>Unquoted shares £</i>	<i>Loans £</i>	<i>Total £</i>
Cost:			
At 1 April 2002	1,392,000	751,169	2,143,169
Additions	31,000	631,497	662,497
Repayments	-	(123,410)	(123,410)
Written off	-	(7,247)	(7,247)
Disposals	(357,000)	-	(357,000)
At 31 March 2003	1,066,000	1,252,009	2,318,009
Provisions:			
At 1 April 2002	565,000	188,452	753,452
Movement in provision	20,000	(17,299)	2,701
Written off in year	-	(7,076)	(7,076)
At 31 March 2003	585,000	164,077	749,077
Net book value:			
At 31 March 2003	481,000	1,087,932	1,568,932
At 1 April 2002	827,000	562,717	1,389,717

Details of the investments in which the company holds more than 20% of the nominal value of any class of share capital is as follows:

<i>Name of company</i>	<i>Shareholding</i>	<i>Proportion of class held</i>	<i>Nature of business</i>
Bell Woven (Scotland) Limited	Preferred ordinary Cumulative redeemable preference	100% 100%	Textile labels
Bras Direct (UK) Limited	'A' redeemable preference	100%	Clothing distribution
Bute Fabrics Limited	Cumulative participating preferred ordinary	100%	Wool and wool blend fabrics

Notes to the financial statements

at 31 March 2003

10. Investments (continued)

<i>Name of company</i>	<i>Proportion Shareholding</i>	<i>Nature of of class held</i>	<i>business</i>
Flexible Technology Limited	Preferred ordinary Preference Cumulative redeemable preference Cumulative convertible participating preferred ordinary	100% 100% 100% 100%	Electronic circuits
Highland Magnetics Limited	Preferred ordinary Preference	100% 100%	Manufacture wound magnetic cores
Islay Cheese Company Limited	Cumulative redeemable preference	100%	Dairy products
Argyll Bakeries Limited	'C' cumulative redeemable preference	100%	Bakery products
Integrin Advanced Biosystems Ltd	Cumulative convertible participating preferred ordinary shares	100%	Marine Biotech Research
Fynefish Products Limited	Cumulative convertible participating preferred ordinary shares Preference shares	100% 100%	Fish processing
Blacks of Dunoon (Bakers) Limited	Cumulative redeemable preference shares	100%	Bakery products

During the year the company's investment in Telecom Services Centres Limited, comprising a total of 332,000 shares with a historic cost of £357,000, was sold for a consideration of £4,205,101. Under the terms of the operating agreement with Highlands and Islands Enterprise, Highlands and Islands Enterprise is the beneficial owner of the income and capital derived from these shares, and accordingly, these proceeds have been paid to Highlands and Islands Enterprise.

Notes to the financial statements

at 31 March 2003

11. Debtors

	2003 £	2002 £
Highlands and Islands Enterprise	1,736,297	2,970,450
Other debtors	196,887	135,233
Prepayments and accrued income	-	4,920
Other taxes	2,562	-
	<u>1,935,746</u>	<u>3,110,603</u>

12. Creditors: amounts falling due within one year

	2003 £	2002 £
Highlands and Islands Enterprise	1,534,879	2,647,981
Other creditors	101,563	250,574
Current corporation tax	-	5,809
Accruals and deferred income	29,814	25,839
Other taxes	-	38,985
	<u>1,666,256</u>	<u>2,969,188</u>

13. Provisions for liabilities and charges

	<i>Loan/investment repayment provision</i> £	<i>Asset repayment provision</i> £	<i>Total</i> £
At 1 April 2002	1,389,717	97,400	1,487,117
Funding received from Highlands and Islands Enterprise	662,497	13,747	676,244
Funding repaid to Highlands and Islands Enterprise	(480,410)	(87,800)	(568,210)
Written off in the year	(7,247)	-	(7,247)
	<u>1,564,557</u>	<u>23,347</u>	<u>1,587,904</u>
Depreciation for the year (note 9)	-	(9,304)	(9,304)
Movement in provision against investments (note 10)	4,375	-	4,375
	<u>1,568,932</u>	<u>14,043</u>	<u>1,582,975</u>
At 31 March 2003			

14. Share capital

The company does not have share capital and is limited by guarantee. The liability of members is restricted to £1 each. Highlands and Islands Enterprise is the sole member of the company.

Notes to the financial statements

at 31 March 2003

15. Movement on reserves

	<i>Revaluation reserve</i> £	<i>Accumulated surplus</i> £	<i>Total</i> £
At 1 April 2001	57,200	10,321	67,521
Net surplus for the year	-	142,186	142,186
Revaluation deficit	(20,000)	-	(20,000)
At 31 March 2002	37,200	152,507	189,707
Net surplus for year	-	166,402	166,402
Disposal	(37,200)	-	(37,200)
At 31 March 2003	-	318,909	318,909

16. Notes to the statement of cash flows

(a) Reconciliation of net operating surplus/(deficit) to net cash inflow/(outflow) from operating activities:

	2003 £	2002 £
Net operating surplus	166,169	139,285
Decrease/(increase) in debtors	1,174,857	(1,376,400)
Increase/(decrease) in creditors	(1,297,123)	1,174,370
Depreciation	9,304	6,656
Increase/(decrease) in asset repayment provision	(9,304)	(6,656)
Provision and write off against investments	4,375	(13,036)
Increase/(decrease) in investment repayment provision	(4,375)	13,036
Net cash inflow/(outflow) from operating activities	43,903	(62,745)

(b) Analysis of cash flows for headings noted in the statement of cash flows:

	2003 £	2002 £
<i>Returns on investments and servicing of finance</i>		
Interest received	38,144	22,324
Interest paid	(38,136)	(13,614)
	8	8,710
<i>Taxation</i>		
Corporation tax paid	(5,584)	(18,051)

Notes to the financial statements

at 31 March 2003

16. Notes to the statement of cash flows (continued)

	2003 £	2002 £
<i>Capital expenditure and financial investment</i>		
Loans advanced	631,497	135,000
Payment to acquire shares	31,000	130,000
Receipts from Highlands and Islands Enterprise to fund loans and shares	(662,497)	(265,000)
Loans repaid	(123,410)	(260,859)
Funding repaid to Highlands and Islands Enterprise	123,410	260,859
Payments to acquire fixed assets	(13,747)	(6,138)
Receipts from Highlands and Islands Enterprise to fund assets	13,747	6,138
Proceeds from redemption of investments	(357,000)	(115,000)
Funding repaid to Highlands and Islands Enterprise in respect of investments	357,000	115,000
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

(c) Analysis of changes in net funds

	At 1 April 2002 £	Cash flows £	At 31 March 2003 £
Cash at bank	11,092	38,327	49,419
	<u>11,092</u>	<u>38,327</u>	<u>49,419</u>

17. Contingent liability

Under the terms of the operating contract with Highlands and Islands Enterprise the company granted a floating charge over the whole of its assets to Highlands and Islands Enterprise.

18. Financial commitments

At 31 March the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Property</i>		<i>Other</i>	
	2003 £	2002 £	2003 £	2002 £
Operating leases which expire:				
within one year	-	-	272	3,538
within two to five years	-	-	10,678	-
after five years	33,177	27,677	-	-
	<u>33,177</u>	<u>27,677</u>	<u>10,950</u>	<u>3,538</u>

Notes to the financial statements

at 31 March 2003

19. Other commitments

	2003	2002
	£	£
Approved funding	1,682,924	1,884,708

The above commitments represent future programme expenditure where approval has been granted for Finance for Business, Community Action Grants and Environmental Renewal projects at the year end. These commitments will be met through funding from Highlands and Islands Enterprise in the next financial year.

20. Pension commitments

(a) SSAP 24 disclosures

Staff seconded from Highlands and Islands Enterprise are members of a defined benefit pension scheme which is funded by Highlands and Islands Enterprise and recharged to the company. Direct employees are members of Strathclyde Pension Fund. The assets of both schemes are held separately from those of the company.

The accounts of Highlands and Islands Enterprise for the year ended 31 March 2003, include details of the actuarial valuation and of the assumptions used therein.

The contributions to the Strathclyde Pension Fund are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The result of the most recent valuation, which was conducted as at 31 March 2002 was as follows:

	%
Main assumptions:	
Rate of return on investments (% per annum)	6.2
Rate of salary increases (% per annum)	4.1
Rate of pension increase (% per annum)	2.6
Market value of scheme's	£6,050,000

Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases

108%

Notes to the financial statements

at 31 March 2003

20. Pension commitments (continued)

(b) FRS 17 disclosures

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2002 and updated by a qualified actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 March 2003. Scheme assets are stated at their market value at 31 March 2003:

£/%

Main assumptions:

Rate of return on investments (% per annum)	2.5%
Rate of salary increases (% per annum)	4.0%
Rate of pension increase (% per annum)	2.5%
Discount rate (% per annum)	5.4%

Argyll and the Islands Enterprise Company's share of the assets in the Strathclyde Pension Fund scheme and the expected rate of return were:

	Long-term rate of return expected at 31 March 2003 %	Value at 31 March 2003 £	Long-term rate of return expected at 31 March 2002 %	Value at 31 March 2002 £
Equities	8.0	693,000	7.5	895,000
Bonds	4.8	113,000	5.5	117,000
Property	6.0	108,000	6.0	103,000
Cash	4.0	19,000	4.0	36,000
Total market value of assets		933,000		1,151,000

Argyll and the Islands Enterprise Company's estimated share of the scheme's assets and liabilities were:

	31 March 2003 £	31 March 2002 £
Estimated employer assets	933,000	1,151,000
Present value of scheme liabilities	(1,085,000)	(1,088,000)
Surplus in the scheme	(152,000)	63,000
Related deferred tax liability	-	(12,600)
Net pension (liability)/asset	(152,000)	50,400

Notes to the financial statements

at 31 March 2003

20. Pension commitments (continued)

(c) Reconciliation of net assets and reserves under FRS 17

	2003	2002
	£	£
Net assets		
Net assets as stated in the balance sheet	318,909	189,707
FRS 17 pension(liability)/asset	(152,000)	50,400
Net assets including pension liability	166,909	240,107

	2003	2002
	£	£
Reserves		
Accumulated surplus as stated in the balance sheet	318,909	152,507
FRS17 pension liability	(152,000)	50,400
Accumulated surplus including pension liability	166,909	202,907

(d) Analysis of the amount charged to operating profit

	2003
	£
Current service cost	63,000
Past service cost	-
Total operating charge	63,000

(e) Analysis of the amount charged to other finance costs

	2003
	£
Expected return on pension scheme assets	81,000
Interest on pension scheme liabilities	(64,000)
Net return	17,000

Notes to the financial statements

at 31 March 2003

20. Pension commitments (continued)

(f) Analysis of amount recognised in statement of total recognised gains and losses

	2003 £
Actual return less expected return on pension scheme assets	(320,000)
Experience gains and losses arising on the scheme liabilities	141,000
Changes in assumptions underlying the present value of the scheme liabilities	(45,000)
Actual loss recognised in statement of total recognised gains and losses	(223,000)

(g) Movement in surplus/(deficit) during the year

	2003 £
Share of surplus in scheme at beginning of the year	63,000
Movement in year:	
Current service costs	(63,000)
Contributions	54,000
Past service costs	-
Other finance income	-
Net Return on assets	17,000
Actuarial loss	(223,000)
Share of deficit in scheme at end of the year	(152,000)

(h) History of experience gains and losses

	2003 £
Difference between the actual and expected return on scheme assets	(320,000)
Value of assets	933,000
Percentage of scheme assets	(34.3%)
Experience gains and losses on scheme liabilities	141,000
Present value of liabilities	1,085,000
Percentage of the present value of scheme liabilities	12.9%
Total amount recognised in statement of total recognised gains and losses	(223,000)
Present value of liabilities	1,085,000
Percentage of the present values of the scheme liabilities	(20.6%)

Notes to the financial statements

at 3 March 2003-

21. Transactions involving directors

- (a) During the year the following grant and assistance payments were made to businesses in which the company's directors had a beneficial interest:

<i>Business/organisation</i>	<i>Approvals brought forward £</i>	<i>Amount approved in year £</i>	<i>Amount paid in year £</i>	<i>Nature of transaction</i>	<i>Director and interest</i>
Inver Cottage	-	5,500	4,033	Development grant	A Barge, Partner

Notes to the financial statements

at 31 March 2003

21. Transactions involving directors (continued)

- (b) Local organisations which received funding in the year and in which the directors have a non-financial interest include:

AILLSTTB
Young Enterprise Scotland (Argyll & Bute)
Kilmartin House Trust
Tiree Community Business
Argyll College

The directors noted in part (a) above, were not involved in the decision making process of the payment of the relevant grant or assistance.

22. Parent undertaking

The parent undertaking of the group of undertakings of which the company is a member is Highlands and Islands Enterprise, a body established in Scotland.

Argyll and the Islands Enterprise Company has been included in the group accounts prepared by Highlands and Islands Enterprise, copies of which can be obtained from Highlands and Islands Enterprise, Cowan House, Inverness Retail and Business Park, Inverness IV2 7GF.