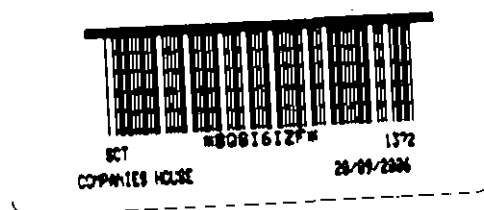


## Report and Financial Statements



# Argyll and the Islands Enterprise Company

---

Registered No: 126604

## Directors

P Timms	(Chairman)
A Barge	(Resigned 22 June 2006)
M Carmichael	(Resigned 25 October 2005)
I M Cleaver	
A Hill	
G Hobhouse	(Resigned 15 December 2005)
A Macaskill	
C A MacLennan	
J M MacLeod	
L M Moffat	
G Ross	
C Reavey	

## Secretary

A MacLeod  
A Milstead

## Auditors

Ernst & Young LLP  
Barony House  
Stoneyfield Business Park  
Stoneyfield  
Inverness  
IV2 7PA

## Bankers

Bank of Scotland  
Poltalloch Street  
Lochgilphead  
Argyll  
PA31 8LW

## 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 2006.

### Results

The net surplus for the year, after taxation, amounted to £1,595 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 Highlands and Islands Enterprise Network has in place procedures which ensure that the highest standards of Corporate Governance are maintained at all times. The procedures outlined below were in place throughout the HIE Network for the year ended 31 March, 2006.

As part of its continuous improvement activities, the HIE Network is making some enhancements to its governance arrangements for 2006/07. These include the establishment of revised Audit Committee arrangements and the appointment of a Director of Area Operations who has as a key objective, the responsibility for ensuring that the local enterprise companies operate to the highest standard of corporate governance. As a result of the revised Audit Committee arrangements for the HIE Network, the audit committee of the company was decommissioned with effect from 1 April, 2006.

### Risk assessment

The HIE Network, in line with best practice, has robust procedures in place for the systematic identification and management of risk. A risk management strategy highlights that effective risk management is essential to the achievement of the Network's objectives. Implementation of the strategy includes a quarterly assessment of risk by management and the assessment of risk at individual project level. Where appropriate, action plans are put in place to address significant risks. 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 2006, the board of Argyll and the Islands Enterprise Company comprised 10 non-executive members, including the chairman. New directors are appointed through the Highlands and Islands Enterprise Network's policy of 'Appointability through Openness' which involves wide local advertising and consultation to identify candidates for new directors to replace those retiring by rotation. None of the directors received any remuneration for holding office during the year.

The board met eleven times during the 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 and the board are aware of the need for effective internal control, and acknowledge their responsibility for the system of control to enable the efficient management of Argyll and the Islands

## Directors' report

### Corporate governance (continued)

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 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.

### Statements of Assurance

For the year ended 31 March 2006 each business unit and subsidiary of Highlands & Islands Enterprise were asked to review the Internal Control arrangements in their area and provided the HIE Chief Executive with a statement of assurance confirming the outcome of this review.

### Audit and compliance

Argyll and the Islands Enterprise Company had established an audit committee, composed of directors of the board, one of whom acted as Chairman. Monitoring guidance was issued to all Local Enterprise Companies during the year. This guidance included the HM Treasury Audit Committee Handbook. The committee supported the Local Enterprise Company's Accountable Officer in reviewing the effectiveness of the internal control environment and provided a forum for reporting by the company's external and internal auditors. The meetings are also attended, by invitation, by the Chief Executive. Meetings were held five times during the year. As noted previously, the audit committee of the company was decommissioned with effect from 1 April, 2006.

The committee reviewed 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. It is good practice for both the external auditors and Highlands and Islands Enterprise internal audit to attend at least one audit committee meeting per year.

### The Greenbury Report

While none of the directors 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 at least annually, registers of interests covering not only 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, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities and non-financial interests.

Whenever a 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 directors are recorded in the minutes of the appropriate board meetings.

## Directors' report

### Corporate governance (continued)

Additional procedures such as referring to Highlands and Islands Enterprise for the processing and decision making are invoked when the chairman and/or senior staff 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 believes it is fully compliant with the Freedom of Information (Scotland) 2002 Act. HIE is committed to being as open as possible, recognising the need to balance openness with being able to conduct its business effectively and in accordance with the remit laid down by the Scottish Executive.

### Customer Service

The HIE Network regularly monitors progress in meeting the Government's customer service standards such as Charter Mark and, if necessary, takes action to ensure that effective performance is maintained or achieved. The HIE Network was awarded Charter Mark status for the fourth time in December 2004 and, following a further, independent on-site review in December 2005, Charter Mark assessors found that the HIE Network had demonstrated ongoing compliance with the Charter Mark standards.

### Disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information.

### Directors and their interests

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

Directors are appointed for a period of three years, and serve a maximum of two three-year terms. Similarly, the chairperson of the board can serve for no longer than two three-year terms although services as a director will not count towards the six year limit. Once an individual has served as the company chair, he/she will stand down as a director of the company.

By order of the board

  
Secretary

8 August 2006

## **Statements of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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 and of the net income or expenditure 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; 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 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 2006 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 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**

The directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view, are properly prepared in accordance with the Companies Act 1985 and that the information given in the Directors' Report is consistent with the financial statements.

We also 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.

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2006 and of its surplus 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.

*Ernst & Young LLP*

Ernst & Young LLP  
Registered Auditor  
Inverness

Date

*14 August 2006*

**Income and expenditure account**

for the year ended 31 March 2006

		2006	2005
	Notes	£	£
<b>Income</b>	2	8,723,550	9,834,597
Operating expenditure		7,594,739	8,700,051
Administrative expenditure		1,140,233	1,150,250
<b>Operating deficit</b>	3	(11,422)	(15,704)
Interest receivable and other income	6	28,393	24,073
Interest payable	7	(13,495)	(19,800)
<b>Net surplus/(deficit) on ordinary activities before taxation</b>		3,476	(11,431)
Tax on ordinary activities	8	1,881	1,747
<b>Net surplus/(deficit) for the financial year</b>		1,595	(13,178)

**Statement of total recognised gains and losses**

		2006	2005
	Notes	£	£
Net surplus/(deficit) for the financial year		1,595	(13,178)
Actuarial gain	20	458,000	13,000
<b>Total surplus/(deficit) relating to the financial year</b>		459,595	(178)



**Balance sheet**

at 31 March 2006

		2006	2005
	Notes	£	£
<b>Fixed assets</b>			
Tangible assets	9	2,558	5,261
Investments	10	853,909	737,266
		<u>856,467</u>	<u>742,527</u>
<b>Current assets</b>			
Debtors	11	2,280,361	1,800,150
Cash at bank and in hand		18,985	17,446
		<u>2,299,346</u>	<u>1,817,596</u>
<b>Creditors:</b> amounts falling due within one year	12	2,287,332	1,808,177
		<u>12,014</u>	<u>9,419</u>
<b>Net current assets</b>			
		<u>868,481</u>	<u>751,946</u>
<b>Total assets less current liabilities</b>			
		<u>856,467</u>	<u>742,527</u>
<b>Provisions for liabilities and charges</b>	13		
		<u>12,014</u>	<u>9,419</u>
<b>Net assets excluding retirement benefits</b>			
		<u>81,000</u>	<u>(376,000)</u>
Retirement benefits – asset/(liability)	20		
		<u>93,014</u>	<u>(366,581)</u>
<b>Net assets/( liabilities) including retirement benefits</b>			
		<u>93,014</u>	<u>(366,581)</u>
<b>Capital and reserves</b>			
Accumulated surplus/(deficit)	15	93,014	(366,581)
		<u>93,014</u>	<u>(366,581)</u>

Directors



8 August 2006

**Statement of cash flows**

for the year ended 31 March 2006

		2006	2005
	Notes	£	£
<b>Net cash (outflow)/inflow from operating activities</b>	16(a)	(6,597)	1,752
<b>Returns on investments and servicing of finance</b>	16(b)	9,898	9,273
<b>Taxation</b>	16(b)	(1,762)	(694)
<b>Capital expenditure and financial investment</b>	16(b)	-	-
<b>Increase in cash</b>		<u>1,539</u>	<u>10,331</u>

**Reconciliation of net cash flow to movements in net funds**

		2006	2005
	Notes	£	£
<b>Increase in cash</b>	16(c)	<u>1,539</u>	<u>10,331</u>
<b>Movement in net funds</b>		1,539	10,331
<b>Net funds at 1 April 2005</b>		17,446	7,115
<b>Net funds at 31 March 2006</b>		<u>18,985</u>	<u>17,446</u>

## Notes to the financial statements

at 31 March 2006

### 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

#### (e) 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.

#### (f) 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.

#### (g) 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.

#### (h) Operating leases

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

## Notes to the financial statements

at 31 March 2006

### 1. Accounting policies (continued)

#### (i) 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.

On the advice of an independent qualified actuary, contribution payments are made to the plans to ensure that the plans' assets are sufficient to cover future liabilities. Pension plan assets are measured using market values. Pension plan liabilities are measured using the projected unit method and discounted by the yield available on long-dated, high quality corporate bonds. Any increase in the present value of the liabilities of the defined benefit pension plans expected to arise from employee service in the period is charged against operating surplus. The expected return on the plans' assets and the increase during the period in the present value of the plans' liabilities arising from the passage of time are included in interest receivable and other income. Actuarial gains and losses are recognised in the statement of total recognised gains and loss.

### 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 £253,400 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:

	2006 £	2005 £
Highlands and Islands Enterprise	8,365,682	9,093,586
European Union	334,768	704,331
Other	23,100	36,680
	<u>8,723,550</u>	<u>9,834,597</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 £224,341 in the Argyll area. This is dealt with in the accounts of Highlands and Islands Enterprise.

## Notes to the financial statements

at 31 March 2006

### 3. Net operating surplus/(deficit)

This is stated after charging/(crediting):

	2006 £	2005 £
Auditors remuneration - audit	6,000	5,792
- non audit	670	650
Operating lease rentals - equipment	10,951	9,004
- property	51,958	38,094
Depreciation of fixed assets	2,703	4,237
Asset repayment provision released	(2,703)	(4,237)
(Decrease)/increase in provision against investments	(89,711)	133,306
Loan repayment provision increased/(decreased)	89,711	(133,306)

### 4. Directors' remuneration

None of the directors who held office during the year received any remuneration (2005 - £nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £3,167 (2005 - £9,785).

### 5. Staff costs

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

	Employees		2006	2005
	Core	Project	Total	Total
	£	£	£	£
Wages and Salaries	729,214	22,577	751,791	778,895
Social security costs	51,392	1,622	53,014	55,113
Other pension costs	116,682	4,606	121,288	116,515
	897,288	28,805	926,093	950,523

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

	2006 No.	2005 No.
Senior management	2	2
Operation functions	25	28
Administration and support staff	4	4
	31	34

# Notes to the financial statements

at 31 March 2006

## 6. Interest receivable and other income

	2006 £	2005 £
Loan interest	13,495	19,800
Bank interest	9,898	9,273
	<u>23,393</u>	<u>29,073</u>
Expected return on pension plan assets	86,000	74,000
Interest on pension plan liabilities	(81,000)	(79,000)
	<u>28,393</u>	<u>24,073</u>

## 7. Interest payable

	2006 £	2005 £
Loan interest repaid to Highlands and Islands Enterprise	13,495	19,800
Other interest payable	-	-
	<u>13,495</u>	<u>19,800</u>

## 8. Tax

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

	2006 £	2005 £
Current tax:		
UK corporation tax	1,881	1,762
Over provided in prior year	-	(15)
	<u>1,881</u>	<u>1,747</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% (2005 – 19%). The differences are reconciled below:

	2006 £	2005 £
Net surplus/(deficit) for the financial year before tax	3,476	(11,431)
Net surplus/(deficit) for the financial year multiplied by standard rate of corporation tax in the UK of 19% (2005 – 19%)	660	(2,172)
Disallowed expenses and non-taxable income	1,221	3,934
Over provided in prior year	-	(15)
	<u>1,881</u>	<u>1,747</u>

The tax charge relates to bank interest only.

## Notes to the financial statements

at 31 March 2006

### 9. Tangible fixed assets

	<i>Equipment and furnishings £</i>
Cost or valuation:	
At 1 April 2005	183,659
Disposals	(1,886)
	<hr/>
At 31 March 2006	181,773
	<hr/>
Depreciation:	
At 1 April 2005	178,398
Provided during the year	2,703
Disposals	(1,886)
	<hr/>
At 31 March 2006	179,215
	<hr/>
Net book value:	
At 31 March 2006	2,558
	<hr/>
At 1 April 2005	5,261
	<hr/>

## Notes to the financial statements

at 31 March 2006

## 10. Investments

	<i>Unquoted shares £</i>	<i>Loans £</i>	<i>Total £</i>
Cost:			
At 1 April 2005	1,012,860	1,001,652	2,014,512
Additions	253,400	-	253,400
Repayments	-	(136,743)	(136,743)
Written off	-	(89,725)	(89,725)
At 31 March 2006	1,266,260	775,184	2,041,444
Provisions:			
At 1 April 2005	580,000	697,246	1,277,246
Written off in year	-	(89,711)	(89,711)
At 31 March 2006	580,000	607,535	1,187,535
Net book value:			
At 31 March 2006	686,260	167,649	853,909
At 1 April 2005	432,860	304,406	737,266

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
Bute Fabrics Limited	Cumulative participating preferred ordinary	100%	Wool and wool blend fabrics
Flexible Technology Limited	Preferred ordinary Preference Cumulative redeemable preference Cumulative convertible participating preferred ordinary	100% 100% 100% 100%	Electronic circuits



## Notes to the financial statements

at 31 March 2006

### 10. Investments (continued)

<i>Name of company</i>	<i>Shareholding</i>	<i>Proportion of class held</i>	<i>Nature of business</i>
Argyll Bakeries Limited	'C' cumulative redeemable preference	100%	Bakery products
Integrin Advanced Biosystems Ltd	Cumulative convertible participating preferred ordinary shares	100%	Marine Biotech Research
	Cumulative convertible participating redeemable preferred ordinary shares	100%	
	Cumulative redeemable preference shares	100%	
Fynefish Products Limited	Cumulative convertible participating preferred ordinary shares	100%	Fish processing (in receivership)
	Preference shares	100%	
Blacks of Dunoon (Bakers) Limited	Cumulative redeemable preference shares	100%	Bakery products
Aquapharm Bio-Discovery Limited	Cumulative convertible participating redeemable preferred ordinary shares	100%	Bio-technology
	'A' Ordinary shares	100%	

### 11. Debtors

	2006 £	2005 £
Highlands and Islands Enterprise	2,212,576	1,752,789
Other debtors	49,613	40,265
Prepayments and accrued income	8,136	7,096
Other taxes	10,036	-
	<u>2,280,361</u>	<u>1,800,150</u>

### 12. Creditors: amounts falling due within one year

	2006 £	2005 £
Highlands and Islands Enterprise	2,182,862	1,478,945
Other creditors	40,644	273,273
Current corporation tax	1,881	1,762
Accruals and deferred income	61,945	7,901
Other taxes	-	46,296
	<u>2,287,332</u>	<u>1,808,177</u>

## Notes to the financial statements

at 31 March 2006

### 13. Provisions for liabilities and charges

	<i>Loan/investment repayment provision</i>	<i>Asset repayment provision</i>	<i>Total</i>
	£	£	£
At 1 April 2005	737,266	5,261	742,527
Funding received from Highlands and Islands Enterprise	253,400	-	253,400
Funding repaid to Highlands and Islands Enterprise	(136,743)	-	(136,743)
Written off in the year	(89,725)	-	(89,725)
	<u>764,198</u>	<u>5,261</u>	<u>769,459</u>
Depreciation for the year (note 9)	-	(2,703)	(2,703)
Movement in provision against investments (note 10)	89,711	-	89,711
	<u>853,909</u>	<u>2,558</u>	<u>856,467</u>
At 31 March 2006			

### 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.

### 15. Movement on reserves

	<i>Total</i>
	£
At 31 March 2004	(366,403)
Net deficit for the year	(13,178)
Actuarial gain (Note 20(b))	13,000
At 31 March 2005	(366,581)
Net surplus for the year	1,595
Actuarial gain (Note 20(b))	458,000
At 31 March 2006	<u>93,014</u>

# Notes to the financial statements

at 31 March 2006

## 16. Notes to the statement of cash flows

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

	2006	2005
	£	£
Net operating deficit	(11,422)	(15,704)
FRS 17 pension adjustments	6,000	13,000
	<u>(5,422)</u>	<u>(2,704)</u>
Increase in debtors	(480,211)	(289,741)
Increase in creditors	479,036	294,197
Depreciation	2,703	4,237
(Decrease) in asset repayment provision	(2,703)	(4,237)
Decrease/(increase) in provision and write off against investments	89,711	(133,306)
(Increase)/decrease in investment repayment provision	(89,711)	133,306
Net cash (outflow)/inflow from operating activities	<u>(6,597)</u>	<u>1,752</u>

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

	2006	2005
	£	£
<i>Returns on investments and servicing of finance</i>		
Interest received	23,393	29,073
Interest paid	(13,495)	(19,800)
	<u>9,898</u>	<u>9,273</u>
	<u>2006</u>	<u>2005</u>
	£	£
<i>Taxation</i>		
Corporation tax paid	(1,762)	(694)

## Notes to the financial statements

at 31 March 2006

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

	2006 £	2005 £
<i>Capital expenditure and financial investment</i>		
Payment to acquire shares	(253,400)	(331,860)
Receipts from Highlands and Islands Enterprise to fund loans and shares	253,400	331,860
Loans repaid	136,743	123,289
Funding repaid to Highlands and Islands Enterprise	(136,743)	(123,289)
Payments to acquire fixed assets	-	(3,048)
Receipts from Highlands and Islands Enterprise to fund assets	-	3,048
Receipts from sale of fixed assets	-	2,585
Payment to Highlands & Islands Enterprise in respect of receipts from sale of fixed assets	-	(2,585)
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

### (c) Analysis of changes in net funds

	At 1 April 2005 £	Cash flows £	At 31 March 2006 £
Cash at bank	17,446	1,539	18,985
	<u>-</u>	<u>-</u>	<u>-</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>	
	2006 £	2005 £	2006 £	2005 £
Operating leases which expire:				
within one year	-	-	3,320	-
within two to five years	8,001	5,501	-	3,320
after five years	38,000	39,740	-	-
	<u>46,001</u>	<u>45,241</u>	<u>3,320</u>	<u>3,320</u>

## Notes to the financial statements

at 31 March 2006

### 19. Other commitments

	2006	2005
	£	£
Approved funding	4,770,420	5,432,165

The above commitments represent future programme expenditure where approval has been granted for significant projects at the year end. These commitments will be met through funding from Highlands and Islands Enterprise in subsequent financial years. The comparative figure has been restated to reflect the amended basis of disclosure.

### 20. Pension commitments

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. The accounts of Highlands and Islands Enterprise for the year ended 31 March 2006, include details of the actuarial valuation and of the assumptions used therein. Contributions are set at a common level throughout the Highlands and Islands Enterprise network and the resulting assets and liabilities of the pension scheme are not allocated throughout the group. Accordingly, contributions are accounted for within the company as though they were into a defined contribution scheme.

Direct employees are members of Strathclyde Pension Fund. The actuaries employed by the scheme allocate the assets and liabilities over the various employers who are members and the company accounts for these as required by FRS 17.

The assets of both schemes are held separately from those of the company.

#### (a) FRS 17 disclosures (relating to Strathclyde Pension Fund)

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2005 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 2006. Scheme assets are stated at their market value at 31 March 2006:

	March 31 2006	March 31 2005	March 31 2004
Main assumptions:			
Inflation rate (% per annum)	3.1%	2.9%	2.9%
Rate of salary increases (% per annum)	4.6%	4.4%	4.4%
Rate of pension increase (% per annum)	3.1%	2.9%	2.9%
Discount rate (% per annum)	6.0%	5.4%	5.5%

## Notes to the financial statements

at 31 March 2006

## 20. Pension commitments (continued)

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

	<i>Long-term rate of return expected at March 31 2006 %</i>	<i>Value at March 31 2006 £</i>	<i>Long-term rate of return expected at March 31 2005 %</i>	<i>Value at March 31 2005 £</i>	<i>Long-term rate of return expected at March 31 2004 %</i>	<i>Value at March 31 2004 £</i>
Equities	7.4	1,201,000	7.7	882,000	7.7	749,000
Bonds	4.6	162,000	4.8	160,000	5.1	146,000
Property	5.5	143,000	5.7	114,000	6.5	87,000
Cash	4.6	73,000	4.8	38,000	4.0	43,000
Estimated employer assets		1,579,000		1,194,000		1,025,000
Present value of scheme liabilities		(1,453,000)		(1,530,000)		(1,350,000)
Present value of unfunded liabilities		(45,000)		(40,000)		(46,000)
Surplus/(deficit) in the scheme		81,000		(376,000)		(371,000)
Related deferred tax liability		-		-		-
Net pension asset/(liability)		81,000		(376,000)		(371,000)

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

	<i>2006 £</i>	<i>2005 £</i>
Actual return less expected return on pension scheme assets	247,000	39,000
Experience gains and losses arising on the scheme liabilities	96,000	7,000
Changes in assumptions underlying the present value of the scheme liabilities	115,000	(33,000)
Actual gain recognised in statement of total recognised gains and losses	458,000	13,000

## Notes to the financial statements

at 31 March 2006

### 20. Pension commitments (continued)

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

	2006 £	2005 £
Share of deficit in scheme at beginning of the year	(376,000)	(371,000)
Movement in year:		
Current service costs	(58,000)	(63,000)
Contributions	50,000	48,000
Contributions in respect of unfunded benefits	2,000	2,000
Past service costs	-	-
Other finance income	-	-
Impact of settlements and curtailments	-	-
Net return on assets	5,000	(5,000)
Actuarial gains	458,000	13,000
Share of surplus/(deficit) in scheme at end of the year	81,000	(376,000)

(d) History of experience gains and losses

	2006 £	2005 £	2004 £	2003 £
Difference between the actual and expected return on scheme assets	247,000	39,000	144,000	(264,000)
Value of assets	1,579,000	1,194,000	1,025,000	763,000
Percentage of scheme assets	15.6%	3.3%	14.0%	(34.5%)
Experience gains and losses on scheme liabilities	96,000	7,000	(4,000)	(3,000)
Present value of liabilities	1,498,000	1,570,000	1,395,000	2,098,000
Percentage of the present value of scheme liabilities	6.4%	0.4%	(0.3%)	(0.3%)
Total amount recognised in statement of total recognised gains and losses	458,000	13,000	52,000	(313,000)
Present value of liabilities	1,498,000	1,570,000	1,395,000	1,098,000
Percentage of the present values of the scheme liabilities	30.6%	0.8%	3.7%	(28.5%)

## Notes to the financial statements

at 31 March 2006

### 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/ (withdrawn) in year £</i>	<i>Amount paid in year £</i>	<i>Nature of transaction</i>	<i>Director and interest</i>
Inver Cottage	1,467	-	-	Development grant	A Barge, Partner
Flexible Technology Limited	7,500	-	-	Development grant	P Timms, Managing Director
MacLennan Motors	2,087	-	-	Rural petrol grant	C A MacLennan, Partner
Gigha Halibut Limited	-	240,000	-	Equity	A Barge, Director



## Notes to the financial statements

at 31 March 2006

### 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:

Argyll & Bute Council  
Tiree Community Business  
Kilmartin House Trust  
Argyll College  
Oban War & Peace Museum  
Cumbrac Community Development Company  
North Ayrshire Council  
Colonsay Community Development Company  
Otter Ferry Pier Association

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..