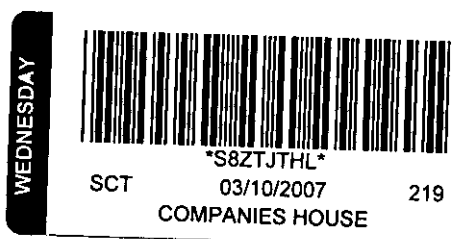


SC 126604

HIE Argyll and the Islands
(Formerly Argyll and the Islands Enterprise Company)
(Limited by Guarantee)
Report and Financial Statements

31 March 2007



HIE Argyll and the Islands

(Formerly Argyll and the Islands Enterprise Company)

Registered No 126604

Directors

P Timms	(Chairman)
A Barge	(Resigned 22 June 2006)
I M Cleaver	
M Currie	(Appointed 4 July 2007)
A Hill	(Resigned 28 May 2007)
A Macaskill	(Resigned 18 May 2007)
R Macintyre	(Appointed 4 July 2007)
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 2007

Results

The net surplus for the year, after taxation, amounted to £44,038 and is dealt with as shown in note 15 to the accounts

Principal activity

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.

Review of the business and future developments

2006/07 has been a year of considerable achievement for HIE Argyll and the Islands with targets exceeded across all four strategic themes, growing businesses, strengthening communities, developing skills and global connections. Highlights included 95 new business start ups, 25 businesses assisted to engage in international trade development, 50 business growth projects, 16 community groups helped to increase capacity, 61 new/enhanced community assets, 367 people undertaking Modern Apprenticeships or Get Ready for Work programmes and 100 workforce development grants. This year also saw the successful early progression of the integration of Careers Scotland, the co location of part of the careers team at Lochgilphead, and all operating targets for the delivery of Careers Scotland services in Argyll and the Islands met or exceeded.

Turning to strategic projects, there has been strong progress of the Argyll Marine Science Initiative at Dunstaffnage, with 4 start ups or early stage marine biotechnology businesses now located in the area, offering highly paid, innovative and high quality jobs. The Scottish Association for Marine Science (SAMS) at Dunstaffnage, a key part of the development of the future University of the Highlands and Islands (UHI), has also been well positioned for long term sustainability and growth of commercialisation of research with a Highlands and Islands Enterprise funding approval of £2,500,000 payable over 3 years against specified benchmarks and performance milestones. A first payment of £700,000 was made this year.

This year has also seen significant capital investment in the development of Argyll College within the UHI with HIE Argyll and the Islands grants totalling £373,085 awarded for the building of a Construction Skills Centre in Argyll and to assist Argyll College to acquire expanded premises at Lochgilphead.

Toward the end of the financial year, HIE Argyll and the Islands, working along with Highlands and Islands Enterprise colleagues, successfully obtained significant additional budget and was able to embark on site servicing of 17 acres of land for industrial development at Sandbank near Dunoon, the Rothesay Inner Harbour development on Bute, and to contribute £1,683,462 to the Argyll and Bute Council led Argyll Air Services project, opening up the potential for the operation of a daily passenger air service linking the islands of Coll and Colonsay to Oban and on to Glasgow Airport. This increased investment resulted in a total operating expenditure by HIE Argyll and the Islands of £9,967,058 million in 2006/07.

Looking ahead, Directors noted the critical importance of continuing to pursue strategic objectives for the development of marine science and tourism, culture and heritage, along with a focus on achieving sustainable economic growth of islands and fragile areas. Key challenges remain to sustain and grow key businesses, innovation, career resilience, skills and community development and to continue to work effectively in partnership with others, optimising all available resources for the good of the area.

Directors' report

Corporate governance

The Highlands and Islands Enterprise (HIE) 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, 2007.

As part of its continuous improvement activities, the HIE Network made some enhancements to its governance arrangements for 2006/07. These included the establishment of a Network Audit Committee which exists to support the Accountable Officer, the HIE Board and the Local Enterprise Company Boards in discharging their respective responsibilities for issues of risk, control, governance and associated assurance for the Network. In addition, the HIE Area Operations Group has been created and is an essential component of the HIE Network governance and accountability structure. The Director of Area Operations has, as a key objective, the responsibility for ensuring that the Local Enterprise Company operates to the highest standards of corporate governance and the Area Director is responsible to him for their actions. As a result of these revised governance arrangements, 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 2007, the board of HIE Argyll and the Islands comprised 9 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 seven 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 Area Director and management group

The Area Director (formerly known as 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 HIE Argyll and the Islands. 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.

Directors' report

Corporate governance (continued)

The Area Director and management group (continued)

The Area Director 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 2007 each business unit and subsidiary of Highlands & Islands Enterprise was asked to review the operation of Internal Control arrangements in their area and the Area Director provided the HIE Chief Executive with a statement of assurance confirming the outcome of this review

Audit and compliance

As noted previously, the audit committee of the company was decommissioned with effect from 1 April, 2006, and has now been replaced by a Network Audit Committee

The Network Audit Committee reviewed reports by both external audit and Highlands and Islands Enterprise internal audit. In line with good practice the Head of Internal Audit and Audit Scotland have attended all meetings of the network audit committee during the year. The Local Enterprise Company external auditors have attended when reports prepared by them have been tabled.

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 HIE Argyll and the Islands.

Conflicts of interest procedures

HIE Argyll and the Islands 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, approval or rejection of the case. Such declarations by 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 and/or senior staff of HIE Argyll and the Islands 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.

Directors' report

Openness

The HIE Network is committed to full compliance with the Freedom of Information (Scotland) 2002 Act and 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

Corporate governance (continued)

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 Charter Mark standard is reviewed every three years with the possibility of interim reviews during that period. 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. A new standard for Customer Service, to replace Charter Mark, will be released by the Cabinet Office this year and the Network will apply for this new standard in December 2007.

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.

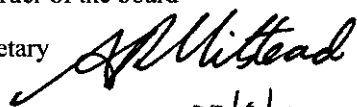
Directors and their interests

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


22/8/07

Statement 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 regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and Applicable Law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the surplus or deficit 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 HIE Argyll and the Islands

We have audited the company's financial statements for the year ended 31 March 2007 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 23. 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

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are 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.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

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 2007 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

Registered Auditor
Inverness

Date *29 August 2007*

Income and expenditure account

for the year ended 31 March 2007

		2007	2006
	Notes	£	£
Income	3	11,140,884	8,723,550
Operating expenditure		9,967,058	7,594,739
Administrative expenditure		1,157,605	1,140,233
Operating surplus/(deficit)	4	16,221	(11,422)
Interest receivable and other income	7	37,954	28,393
Interest payable	8	(7,834)	(13,495)
Net surplus on ordinary activities before taxation		46,341	3,476
Tax on ordinary activities	9	2,303	1,881
Net surplus for the financial year		44,038	1,595

Statement of total recognised gains and losses

		2007	2006
	Notes	£	£
Net surplus for the financial year		44,038	1,595
Actuarial (loss)/gain	21(b)	(252,000)	458,000
Total recognised (losses)/gains		(207,962)	459,595

Balance sheet

at 31 March 2007

		2007	2006
	Notes	£	£
Fixed assets			
Tangible assets	10	764	2,558
Investments	11	969,782	853,909
		<u>970,546</u>	<u>856,467</u>
Current assets			
Debtors	12	4,617,189	2,280,361
Cash at bank and in hand		7,997	18,985
		<u>4,625,186</u>	<u>2,299,346</u>
Creditors' amounts falling due within one year	13	4,601,134	2,287,332
		<u>24,052</u>	<u>12,014</u>
Net current assets			
		<u>994,598</u>	<u>868,481</u>
Total assets less current liabilities			
		<u>970,546</u>	<u>856,467</u>
Provisions for liabilities and charges	14		
		<u>24,052</u>	<u>12,014</u>
Net assets excluding retirement benefits			
Retirement benefits (liability)/asset	21	(139,000)	81,000
		<u>(114,948)</u>	<u>93,014</u>
Net (liabilities)/assets including retirement benefits			
		<u>(114,948)</u>	<u>93,014</u>
Capital and reserves			
Accumulated surpluses before retirement benefits (deficit)/surplus	16	24,052	12,014
Retirement benefits (deficit)/surplus	16	(139,000)	81,000
		<u>(114,948)</u>	<u>93,014</u>
Accumulated (deficit)/surplus			

Jane Macleod, } Directors
22/8/07 }

Statement of cash flows

for the year ended 31 March 2007

		2007	2006
	Notes	£	£
Net cash outflow from operating activities	17(a)	(21,227)	(6,597)
Returns on investments and servicing of finance	17(b)	12,120	9,898
Taxation	17(b)	(1,881)	(1,762)
Capital expenditure and financial investment	17(b)		
(Decrease)/increase in cash		<u>(10,988)</u>	<u>1,539</u>

Reconciliation of net cash flow to movements in net funds

		2007	2006
	Notes	£	£
(Decrease)/increase in cash	17(c)	<u>(10,988)</u>	<u>1,539</u>
Movement in net funds		(10,988)	1,539
Net funds at 1 April 2006		18,985	17,446
Net funds at 31 March 2007		<u>7,997</u>	<u>18,985</u>

Notes to the financial statements

at 31 March 2007

1. Fundamental accounting concept

As a result of the application of FRS 17 as detailed in Note 21 the company has a net deficit of £114,948 at 31 March 2007. This deficit results from bringing a long term pension liability onto the balance sheet and does not reflect the company's ability to continue as a going concern or to meet its liabilities as they fall due.

Highlands and Islands Enterprise has agreed to provide sufficient funds to the company to enable it to meet the deficit resulting from the long term pension liability as at 31 March 2007. The directors believe that it is therefore appropriate to prepare the accounts on the going concern basis.

2. 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) *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.

Notes to the financial statements

at 31 March 2007

2. Accounting policies (continued)

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.

(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.

3. 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 £240,000 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 14).

An analysis of income by funding sources is given below.

	2007 £	2006 £
Highlands and Islands Enterprise	10,811,003	8,365,682
European Union	229,121	334,768
Other	100,760	23,100
	<u>11,140,884</u>	<u>8,723,550</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 £642,787 in the Argyll area. This is dealt with in the accounts of Highlands and Islands Enterprise.

Notes to the financial statements

at 31 March 2007

4. Net operating surplus/(deficit)

This is stated after charging/(crediting)

		2007	2006
		£	£
Auditors remuneration	audit services	6,858	6,000
	non audit services – tax compliance	670	670
Operating lease rentals	equipment	2,353	10,951
	property	46,000	51,958
Depreciation of fixed assets		1,794	2,703
Asset repayment provision released		(1,794)	(2,703)
Increase in provision against investments		20,044	14
Investment repayment provision increased		(20,044)	(14)

5. Directors' remuneration

None of the directors who held office during the year received any remuneration (2006 £nil)

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £2,281 (2006 £3,167)

6. Staff costs

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

	<i>Employees</i>		2007	2006
	<i>Core</i>	<i>Project</i>	<i>Total</i>	<i>Total</i>
	£	£	£	£
Wages and Salaries	762,591	17,158	779,749	751,791
Social security costs	57,416	1,220	58,636	53,014
Other pension costs	128,871	3,500	132,371	121,288
	<u>948,878</u>	<u>21,878</u>	<u>970,756</u>	<u>926,093</u>

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

	2007	2006
	No	No
Senior management	2	2
Operation functions	24	25
Administration and support staff	5	4
	<u>31</u>	<u>31</u>

Notes to the financial statements

at 31 March 2007

7. Interest receivable and other income

	2007 £	2006 £
Loan interest	7,834	13,495
Bank interest	12,120	9,898
	<u>19,954</u>	<u>23,393</u>
Expected return on pension plan assets	109,000	86,000
Interest on pension plan liabilities	(91,000)	(81,000)
	<u>37,954</u>	<u>28,393</u>

8. Interest payable

	2007 £	2006 £
Loan interest repaid to Highlands and Islands Enterprise	7,834	13,495
Other interest payable		
	<u>7,834</u>	<u>13,495</u>

9. Tax

(a) The tax charge is made up as follows

	2007 £	2006 £
Current tax		
UK corporation tax	2,303	1,881
Over provided in prior year		
Total current tax	<u>2,303</u>	<u>1,881</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% (2006 – 19%) The differences are reconciled below

	2007 £	2006 £
Net surplus for the financial year before tax	46,341	3,476
Net surplus for the financial year multiplied by standard rate of corporation tax in the UK of 19% (2006 – 19%)	8,805	660
Disallowed expenses and non taxable income	(6,502)	1,221
Over provided in prior year		
	<u>2,303</u>	<u>1,881</u>

The tax charge relates to bank interest only

Notes to the financial statements

at 31 March 2007

10. Tangible fixed assets

	<i>Equipment and furnishings £</i>
Cost	
At 1 April 2006	181,773
Disposals	(700)
At 31 March 2007	181,073
Depreciation	
At 1 April 2006	179,215
Provided during the year	1,794
Disposals	(700)
At 31 March 2007	180,309
Net book value	
At 31 March 2007	764
At 1 April 2006	2,558

Notes to the financial statements

at 31 March 2007

11. Investments

	<i>Unquoted shares £</i>	<i>Loans £</i>	<i>Total £</i>
Cost			
At 1 April 2006	1,266,260	775,184	2,041,444
Additions	240,000		240,000
Repayments		(104,083)	(104,083)
Written off		(49,883)	(49,883)
At 31 March 2007	1,506,260	621,218	2,127,478
Provisions			
At 1 April 2006	580,000	607,535	1,187,535
Added in year	20,000		20,000
Written off in year		(49,839)	(49,839)
At 31 March 2007	600,000	557,696	1,157,696
Net book value			
At 31 March 2007	906,260	63,522	969,782
At 1 April 2006	686,260	167,649	853,909

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 2007

11. 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%	
Gigha Halibut Limited	Ordinary shares	20%	Operation of fish hatcheries and farms
	Preference shares	100%	

12. Debtors

	<i>2007</i>	<i>2006</i>
	<i>£</i>	<i>£</i>
Highlands and Islands Enterprise	4,568,382	2,212,576
Other debtors	41,250	49,613
Prepayments and accrued income	7,557	8,136
Other taxes		10,036
	<u>4,617,189</u>	<u>2,280,361</u>

Notes to the financial statements

at 31 March 2007

13. Creditors: amounts falling due within one year

	2007	2006
	£	£
Highlands and Islands Enterprise	4,200,861	2,182,862
Other creditors	361,030	40,644
Current corporation tax	2,303	1,881
Accruals and deferred income	22,686	61,945
Other taxes	14,254	
	<u>4,601,134</u>	<u>2,287,332</u>

14. Provisions for liabilities and charges

	<i>Loan/investment repayment provision</i>	<i>Asset repayment provision</i>	<i>Total</i>
	£	£	£
At 1 April 2006	853,909	2,558	856,467
Funding received from Highlands and Islands Enterprise	240,000		240,000
Funding repaid to Highlands and Islands Enterprise	(104,083)		(104,083)
Written off in the year	(49,883)		(49,883)
	<u>939,943</u>	<u>2,558</u>	<u>942,501</u>
Depreciation for the year (note 10)		(1,794)	(1,794)
Movement in provision against investments (note 11)	29,839		29,839
	<u>969,782</u>	<u>764</u>	<u>970,546</u>

15. 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 2007

16. Movement on reserves

	<i>Accumulated Surpluses</i> £	<i>Retirement Benefits Liability</i> £	<i>Total</i> £
At 31 March 2005	9,419	(376,000)	(366,581)
Net surplus/(deficit) for the year	2,595	(1,000)	1,595
Actuarial gain (Note 21(b))		458,000	458,000
At 31 March 2006	12,014	81,000	93,014
Net surplus for the year	12,038	32,000	44,038
Actuarial (loss) (Note 21(b))		(252,000)	(252,000)
At 31 March 2007	24,052	(139,000)	(114,948)

17. Notes to the statement of cash flows

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

	2007	2006
	£	£
Net operating surplus/(deficit)	16,221	(11,422)
FRS 17 pension adjustments	(14,000)	6,000
	2,221	(5,422)
Increase in debtors	(2,336,828)	(480,211)
Increase in creditors	2,313,380	479,036
Depreciation	1,794	2,703
Decrease in asset repayment provision	(1,794)	(2,703)
Increase in provision and write off against investments	20,044	14
Increase in investment repayment provision	(20,044)	(14)
Net cash outflow from operating activities	(21,227)	(6,597)

Notes to the financial statements

at 31 March 2007

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

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

	2007	2006
	£	£
<i>Returns on investments and servicing of finance</i>		
Interest received	19,954	23,393
Interest paid	(7,834)	(13,495)
	<u>12,120</u>	<u>9,898</u>

	2007	2006
	£	£
<i>Taxation</i>		
Corporation tax paid	(1,881)	(1,762)

	2007	2006
	£	£
<i>Capital expenditure and financial investment</i>		
Payment to acquire shares	(240,000)	(253,400)
Receipts from Highlands and Islands Enterprise to fund loans and shares	240,000	253,400
Loans repaid	104,083	136,743
Funding repaid to Highlands and Islands Enterprise	(104,083)	(136,743)

(c) Analysis of changes in net funds

	At 1 April 2006	Cash flows	At 31 March 2007
	£	£	£
Cash at bank	18,985	(10,988)	7,997

18. 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

Notes to the financial statements

at 31 March 2007

19. 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>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
	£	£	£	£
Operating leases which expire within one year				3,320
within two to five years	8,000	8,001		
after five years	38,000	38,000		
	<u>46,000</u>	<u>46,001</u>	<u></u>	<u>3,320</u>

20. Other commitments

	<i>2007</i>	<i>2006</i>
	£	£
Approved funding	9,721,425	4,770,420

The above commitments represent future programme expenditure where approval has been granted for projects at the year end. These commitments will be met through funding from Highlands and Islands Enterprise in subsequent financial years.

21. 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 2007, 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 2007. Scheme assets are stated at their market value at 31 March 2007.

Notes to the financial statements

at 31 March 2007

21. Pension commitments (continued)

	<i>March 31 2007</i>	<i>March 31 2006</i>	<i>March 31 2005</i>
Main assumptions			
Inflation rate (% per annum)	3.2%	3.1%	2.9%
Rate of salary increases (% per annum)	4.7%	4.6%	4.4%
Rate of pension increase (% per annum)	3.2%	3.1%	2.9%
Discount rate (% per annum)	5.4%	6.0%	5.4%

HIE Argyll and the Island'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 2007 %</i>	<i>Value at March 31 2007 £</i>	<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>
Equities	7.8	1,278,000	7.4	1,201,000	7.7	882,000
Bonds	4.9	213,000	4.6	162,000	4.8	160,000
Property	5.8	174,000	5.5	143,000	5.7	114,000
Cash	4.9	76,000	4.6	73,000	4.8	38,000
Estimated employer assets		1,741,000		1,579,000		1,194,000
Present value of scheme liabilities		(1,835,000)		(1,453,000)		(1,530,000)
Present value of unfunded liabilities		(45,000)		(45,000)		(40,000)
(Deficit)/surplus in the scheme		(139,000)		81,000		(376,000)
Related deferred tax liability						
Net pension (liability)/asset		(139,000)		81,000		(376,000)

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

	<i>2007 £</i>	<i>2006 £</i>
Actual return less expected return on pension scheme assets	1,000	247,000
Experience gains and losses arising on the scheme liabilities	5,000	96,000
Changes in assumptions underlying the present value of the scheme liabilities	(258,000)	115,000
Actual (loss)/gain recognised in statement of total recognised gains and losses	(252,000)	458,000

Notes to the financial statements

at 31 March 2007

21. Pension commitments (continued)

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

	2007 £	2006 £
Share of surplus/(deficit) in scheme at beginning of the year	81,000	(376,000)
Movement in year		
Current service costs	(59,000)	(58,000)
Contributions	53,000	50,000
Contributions in respect of unfunded benefits	2,000	2,000
Past service costs	18,000	
Impact of settlements and curtailments		
Net return on assets	18,000	5,000
Actuarial (losses)/gains	(252,000)	458,000
Share of (deficit)/surplus in scheme at end of the year	(139,000)	81,000

(d) History of experience gains and losses

	2007 £	2006 £	2005 £	2004 £	2003 £
Difference between the actual and expected return on scheme assets	1,000	247,000	39,000	144,000	(264,000)
Value of assets	1,741,000	1,579,000	1,194,000	1,025,000	763,000
Percentage of scheme assets	0.1%	15.6%	3.3%	14%	(34.6%)
Experience gains and losses on scheme liabilities	5,000	96,000	7,000	(4,000)	(3,000)
Present value of liabilities	1,880,000	1,498,000	1,570,000	1,396,000	1,098,000
Percentage of the present value of scheme liabilities	0.3%	6.4%	0.4%	(0.3%)	(0.3%)
Total amount recognised in statement of total recognised gains and losses	(252,000)	458,000	13,000	52,000	(313,000)
Present value of liabilities	1,880,000	1,498,000	1,570,000	1,396,000	1,098,000
Percentage of the present values of the scheme liabilities	(13.4%)	30.6%	0.8%	3.7%	(28.5%)

Notes to the financial statements

at 31 March 2007

22. 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		2,897	Development Grant	P Timms, Managing Director
Flexible Technology Limited	25,104		8,031	Development Grant	P Timms, Managing Director
MacLennan Motors	2,087			Rural petrol grant	C A MacLennan, Partner
Gigha Halibut Limited	240,000		240,000	Equity	A Barge, Director
Western Ferries (Clyde) Limited		398,400	205,766	Building Grant	Gordon Ross, Managing Director

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

Argyll & Bute Council
 Cumbræ Community Development Company
 Iomart Chille Chomain
 Oban War & Peace Museum
 Prince's Trust – Argyll & Bute
 Rothesay Golf Club

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

23. 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

HIE Argyll and the Islands 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