

126604

**HIE Argyll and the Islands**  
**(Limited by Guarantee)**  
**Report and Financial Statements**

31 March 2008



## HIE Argyll and the Islands

(Formerly Argyll and the Islands Enterprise Company)

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Registered No: 126604

### Directors

P Timms	(Resigned 19 March 2008)
I M Cleaver	(Resigned 19 March 2008)
M Currie	(Appointed 4 July 2007, Resigned 19 March 2008)
A Hill	(Resigned 28 May 2007)
A Macaskill	(Resigned 18 May 2007)
R Macintyre	(Resigned 19 March 2008)
C A MacLennan	(Resigned 19 March 2008)
J M MacLeod	(Resigned 19 March 2008)
L M Moffat	(Resigned 19 March 2008)
G Ross	(Resigned 19 March 2008)
C Reavey	(Resigned 19 March 2008)
F Duthie	(Appointed 19 March 2008)
D Yule	(Appointed 19 March 2008)

### Secretary

A MacLeod	
A Milstead	(Resigned 19 March 2008)

### 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 2008.

### Results

The net surplus for the year, after taxation, amounted to £121,353 and is dealt with as shown in note 15 to the accounts.

### Principal activity

The principal activity of the company for the year to 31 March 2008 was to operate as a Local Enterprise Company under an operating contract with Highlands and Islands Enterprise. Under this contract the company delivered 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

During the year we focussed on Aquaculture and marine science in Argyll, part of which involves ongoing dialogues with the Scottish Government as further opportunities arise. An action plan commenced for the Kintyre peninsula to address local economic fragility. A business demand survey was undertaken in an effort to influence future provision on the new 17 acre site at Sandbank, Dunoon. There is growing interest in the commercial development of tidal energy projects off Islay.

### 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, 2008.

### 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 2008, the board of HIE Argyll and the Islands comprised 3 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.

## Directors' report

### Corporate governance (continued)

#### *The Area Director and management group*

The Area Director 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.

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 2008 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*

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.

## Directors' report

### Corporate governance (continued)

#### 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 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.

#### Customer Service

The HIE Network is committed to "Customer Service Excellence", a new customer service standard released by the Cabinet Office in 2008 to succeed "Charter Mark". This will help to embed a renewed emphasis on customer service in HIE's refocused organisational structure. We are committed to continually improving our service and welcome comments and suggestions. We take all complaints seriously and have an effective, easy to use internal complaints procedure. When it is not possible to solve a complaint internally, a complainant is entitled under the terms of the Scottish Public Services Ombudsman Act 2002 to have his or her complaint considered by the Scottish Public Services Ombudsman (SPSO). Two complaints proceeded to the SPSO during the year but they will not be upholding either complaint.

### 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:

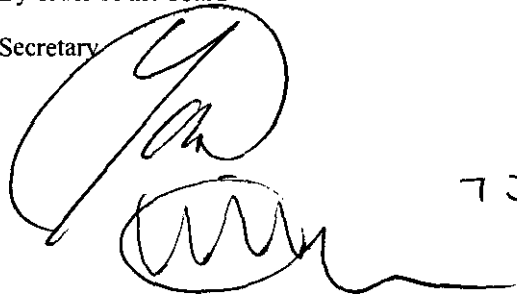
- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information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

### Directors

The company's directors are those listed on page 1.

By order of the board

Secretary



7 January 2009

Alan Macleod

## **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 2008 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

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 2008 and of its deficit 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 8 January 2009

# Income and expenditure account

for the year ended 31 March 2008

		2008	2007
	Notes	£	£
<b>Income</b>	2	8,534,964	11,140,884
Operating expenditure		7,160,520	9,967,058
Administrative expenditure		1,532,550	1,157,605
<b>Operating (deficit)/surplus</b>	3	(158,106)	16,221
Interest receivable and other income	6	133,331	37,954
Interest payable	7	(92,140)	(7,834)
<b>Net (deficit)/surplus on ordinary activities before taxation</b>		(116,915)	46,341
Tax on ordinary activities	8	4,438	2,303
<b>Net (deficit)/surplus for the financial year</b>		(121,353)	44,038

## Statement of total recognised gains and losses

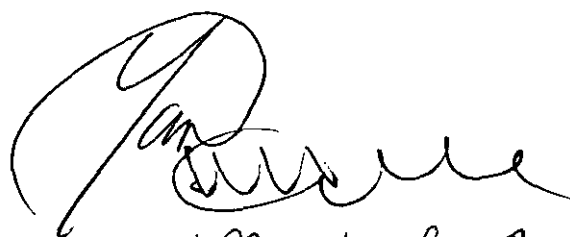
		2008	2007
	Notes	£	£
Net (deficit)/surplus for the financial year		(121,353)	44,038
Actuarial gain/(loss)	20(b)	252,000	(252,000)
<b>Total recognised gains/(losses)</b>		130,647	(207,962)



# Balance sheet

at 31 March 2008

		2008	2007
	Notes	£	£
<b>Fixed assets</b>			
Tangible assets	9	-	764
Investments	10	492,045	969,782
		<u>492,045</u>	<u>970,546</u>
<b>Current assets</b>			
Debtors	11	2,513,156	4,617,189
Cash at bank and in hand		4,435	7,997
		<u>2,517,591</u>	<u>4,625,186</u>
<b>Creditors:</b> amounts falling due within one year	12	2,474,892	4,601,134
		<u>42,699</u>	<u>24,052</u>
<b>Net current assets</b>			
		<u>534,744</u>	<u>994,598</u>
<b>Total assets less current liabilities</b>			
<b>Provisions for liabilities and charges</b>	13	492,045	970,546
		<u>42,699</u>	<u>24,052</u>
<b>Net assets excluding retirement benefits</b>			
Retirement benefits - (liability)/asset	20	(27,000)	(139,000)
		<u>15,699</u>	<u>(114,948)</u>
<b>Net assets/(liabilities) including retirement benefits</b>			
		<u>15,699</u>	<u>(114,948)</u>
<b>Capital and reserves</b>			
Accumulated surpluses before retirement benefits deficit	15	42,699	24,052
Retirement benefits deficit	15	(27,000)	(139,000)
		<u>15,699</u>	<u>(114,948)</u>
Accumulated (deficit)/surplus			



Allan Macleod

7 January 2009

) Directors  
)  
)

# Statement of cash flows

for the year ended 31 March 2008

		2008	2007
	Notes	£	£
<b>Net cash outflow from operating activities</b>	16(a)	(23,450)	(21,227)
<b>Returns on investments and servicing of finance</b>	16(b)	22,191	12,120
<b>Taxation</b>	16(b)	(2,303)	(1,881)
<b>Capital expenditure and financial investment</b>	16(b)	-	-
<b>Decrease in cash</b>		<u>(3,562)</u>	<u>(10,988)</u>

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

		2008	2007
	Notes	£	£
<b>Decrease in cash</b>	16(c)	<u>(3,562)</u>	<u>(10,988)</u>
<b>Movement in net funds</b>		(3,562)	(10,988)
<b>Net funds at 1 April 2007</b>		7,997	18,985
<b>Net funds at 31 March 2008</b>		<u>4,435</u>	<u>7,997</u>

## Notes to the financial statements

at 31 March 2008

### 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 2008

### 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 £375,000 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 13).

An analysis of income by funding sources is given below:

	2008 £	2007 £
Highlands and Islands Enterprise	7,425,405	10,811,003
European Union	479,213	229,121
Other	630,346	100,760
	<u>8,534,964</u>	<u>11,140,884</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 £[ ] in the Argyll area. This is dealt with in the accounts of Highlands and Islands Enterprise.

## Notes to the financial statements

at 31 March 2008

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

This is stated after charging/(crediting):

	2008 £	2007 £
Auditors remuneration - audit services	7,461	6,858
- non audit services – tax compliance	710	670
Operating lease rentals - equipment	2,372	2,353
- property	46,000	46,000
Depreciation of fixed assets	765	1,794
Asset repayment provision released	(765)	(1,794)
Increase in provision against investments	-	20,044
Investment repayment provision increased	-	(20,044)
	<u>          </u>	<u>          </u>

### 4. Directors' remuneration

None of the directors who held office during the year received any remuneration (2007 - £nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £2,964 (2007 - £2,281).

### 5. Staff costs

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

	<i>Employees</i>		2008	2007
	<i>Core</i>	<i>Project</i>	<i>Total</i>	<i>Total</i>
	£	£	£	£
Wages and Salaries	869,316	-	869,316	779,749
Social security costs	61,522	-	61,522	58,636
Other pension costs	148,248	-	148,248	132,371
	<u>1,079,086</u>	<u>-</u>	<u>1,079,086</u>	<u>970,756</u>

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

	2008 No.	2007 No.
Senior management	2	2
Operation functions	21	24
Administration and support staff	6	5
	<u>29</u>	<u>31</u>

## Notes to the financial statements

at 31 March 2008

### 6. Interest receivable and other income

	2008 £	2007 £
Loan interest	92,140	7,834
Bank interest	22,191	12,120
	<u>114,331</u>	<u>19,954</u>
Expected return on pension plan assets	126,000	109,000
Interest on pension plan liabilities	(107,000)	(91,000)
	<u>133,331</u>	<u>37,954</u>

### 7. Interest payable

	2008 £	2007 £
Loan interest repaid to Highlands and Islands Enterprise	92,140	7,834
	<u>92,140</u>	<u>7,834</u>

### 8. Tax

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

	2008 £	2007 £
Current tax:		
UK corporation tax	4,438	2,303
	<u>4,438</u>	<u>2,303</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 20% (2007 – 19%). The differences are reconciled below:

	2008 £	2007 £
Net (deficit)/surplus for the financial year before tax	(116,915)	46,341
Net (deficit)/surplus for the financial year multiplied by standard rate of corporation tax in the UK of 20% (2007 – 19%)	(23,383)	8,805
Disallowed expenses and non-taxable income	27,821	(6,502)
	<u>4,438</u>	<u>2,303</u>

The tax charge relates to bank interest only.

## Notes to the financial statements

at 31 March 2008

### 9. Tangible fixed assets

	<i>Equipment and furnishings £</i>
Cost:	
At 1 April 2007	181,073
Disposals	(190)
At 31 March 2008	180,883
Depreciation:	
At 1 April 2007	180,309
Provided during the year	765
Disposals	(191)
At 31 March 2008	180,883
Net book value:	
At 31 March 2008	-
At 1 April 2007	764

## Notes to the financial statements

at 31 March 2008

### 10. Investments

	<i>Unquoted shares £</i>	<i>Loans £</i>	<i>Total £</i>
Cost:			
At 1 April 2007	1,506,260	621,218	2,127,478
Additions	375,000	-	375,000
Repayments	-	(572,968)	(572,968)
Transfers to parent	(991,260)	-	(991,260)
Written off	(100,000)	(12,844)	(112,844)
At 31 March 2008	790,000	35,406	825,406
Provisions:			
At 1 April 2007	600,000	557,696	1,157,696
Released in year	-	(531,497)	(531,947)
Relating to transfer to parent	(180,000)	-	(180,000)
Written off in year	(100,000)	(12,838)	(112,838)
At 31 March 2008	320,000	13,361	333,361
Net book value:			
At 31 March 2008	470,000	22,045	492,045
At 1 April 2007	906,260	63,522	969,782

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>
Flexible Technology Limited	Preferred ordinary	100%	Electronic
	Preference	100%	circuits
	Cumulative redeemable preference	100%	
	Cumulative convertible participating preferred ordinary	100%	



## Notes to the financial statements

at 31 March 2008

### 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	Ordinary shares	12.7%	Marine Biotech Research
Blacks of Dunoon (Bakers) Limited	Cumulative redeemable preference shares	100%	Bakery products
Gigha Halibut Limited	Ordinary shares	20%	Operation of fish hatcheries and farms
	Preference shares	100%	

### 11. Debtors

	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>
Highlands and Islands Enterprise	2,327,072	4,568,382
Other debtors	180,000	41,250
Prepayments and accrued income	6,084	7,557
	<u>2,513,156</u>	<u>4,617,189</u>

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

	<i>2008</i>	<i>2007</i>
	<i>£</i>	<i>£</i>
Highlands and Islands Enterprise	1,904,138	4,200,861
Other creditors	521,861	361,030
Current corporation tax	4,438	2,303
Accruals and deferred income	20,108	22,686
Other taxes	24,347	14,254
	<u>2,474,892</u>	<u>4,601,134</u>

## Notes to the financial statements

at 31 March 2008

### 13. Provisions for liabilities and charges

	<i>Loan/investment repayment provision</i>	<i>Asset repayment provision</i>	<i>Total</i>
	£	£	£
At 1 April 2007	969,782	764	970,546
Funding received from Highlands and Islands Enterprise	375,000	-	375,000
Funding repaid to Highlands and Islands Enterprise	(572,968)	-	(572,968)
Disposals	(811,260)	-	(811,260)
Written off in the year	(6)	-	(6)
	(39,452)	764	(38,688)
Depreciation for the year (note 9)	-	(764)	(764)
Movement in provision against investments (note 10)	531,497	-	531,497
At 31 March 2008	492,045	-	492,045

### 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>Accumulated Surpluses</i>	<i>Retirement Benefits - Liability</i>	<i>Total</i>
	£	£	£
At 31 March 2006	12,014	81,000	93,014
Net surplus for the year	12,038	32,000	44,038
Actuarial gain (Note 20(b))	-	(252,000)	(252,000)
At 31 March 2007	24,052	(139,000)	(114,948)
Net surplus for the year	18,647	(140,000)	(121,353)
Actuarial (loss) (Note 20(b))	-	252,000	252,000
At 31 March 2008	42,699	(27,000)	15,699

## Notes to the financial statements

at 31 March 2008

### 16. Notes to the statement of cash flows

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

	2008	2007
	£	£
Net operating surplus/(deficit)	(158,106)	16,221
FRS 17 pension adjustments	159,000	(14,000)
	<u>894</u>	<u>2,221</u>
Decrease/(increase) in debtors	2,104,033	(2,336,828)
(Decrease)/increase in creditors	(2,128,377)	2,313,380
Depreciation	764	1,794
Decrease in asset repayment provision	(764)	(1,794)
Decrease in provision and write off against investments	(711,497)	20,044
Decrease in investment repayment provision	711,497	(20,044)
	<u>(23,450)</u>	<u>(21,227)</u>

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

	2008	2007
	£	£
<i>Returns on investments and servicing of finance</i>		
Interest received	114,331	19,954
Interest paid	(92,140)	(7,834)
	<u>22,191</u>	<u>12,120</u>

	2008	2007
	£	£
<i>Taxation</i>		
Corporation tax paid	(2,303)	(1,881)

	2008	2007
	£	£
<i>Capital expenditure and financial investment</i>		
Payment to acquire shares	(375,000)	(240,000)
Receipts from Highlands and Islands Enterprise to fund loans and shares	375,000	240,000
Loans repaid	572,968	104,083
Funding repaid to Highlands and Islands Enterprise	(572,968)	(104,083)
	<u>-</u>	<u>-</u>

## Notes to the financial statements

at 31 March 2008

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

(c) Analysis of changes in net funds

	<i>At 1 April 2007</i>	<i>Cash flows</i>	<i>At 31 March 2008</i>
	£	£	£
Cash at bank	7,997	(3,562)	4,435

### 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>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	£	£	£	£
Operating leases which expire:				
within one year	-	-	-	-
within two to five years	38,000	8,000	-	-
after five years	-	38,000	-	-
	<u>38,000</u>	<u>46,000</u>	<u>-</u>	<u>-</u>

The annual commitments under non-cancellable operating leases will be met by Highlands and Islands Enterprise from 1 April 2008 onwards.

### 19. Other commitments

	<i>2008</i>	<i>2007</i>
	£	£
Approved funding	-	9,721,425

The above commitments at 31 March 2007 represented future programme expenditure where approval had been granted for projects at the year end. There is no disclosure at 31 March 2008 as these commitments will be met by Highlands and Islands Enterprise in subsequent financial years.

### 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 2008, 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.

## Notes to the financial statements

at 31 March 2008

### 20. Pension commitments (continued)

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 2008. Scheme assets are stated at their market value at 31 March 2008:

	<i>March 31 2008</i>	<i>March 31 2007</i>	<i>March 31 2006</i>			
Main assumptions:						
Inflation rate (% per annum)	3.6%	3.2%	3.1%			
Rate of salary increases (% per annum)	5.1%	4.7%	4.6%			
Rate of pension increase (% per annum)	3.6%	3.2%	3.1%			
Discount rate (% per annum)	6.9%	5.4%	6.0%			
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 2008 %</i>	<i>Value at March 31 2008 £</i>	<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>
Equities	7.7	1,264,000	7.8	1,278,000	7.4	1,201,000
Bonds	5.7	250,000	4.9	213,000	4.6	162,000
Property	5.7	171,000	5.8	174,000	5.5	143,000
Cash	4.8	55,000	4.9	76,000	4.6	73,000
Estimated employer assets		1,740,000		1,741,000		1,579,000
Present value of scheme liabilities		(1,622,000)		(1,835,000)		(1,453,000)
Present value of unfunded liabilities		145,000		(45,000)		(45,000)
(Deficit)/surplus in the scheme		(27,000)		(139,000)		81,000
Related deferred tax liability		-		-		-
Net pension (liability)/asset		(27,000)		(139,000)		81,000

## Notes to the financial statements

at 31 March 2008

### 20. Pension commitments (continued)

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

	2008 £	2007 £
Actual return less expected return on pension scheme assets	(179,000)	1,000
Experience gains and losses arising on the scheme liabilities	(17,000)	5,000
Changes in assumptions underlying the present value of the scheme liabilities	448,000	(258,000)
Actual gain/(loss) recognised in statement of total recognised gains and losses	252,000	(252,000)

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

	2008 £	2007 £
Share of surplus/(deficit) in scheme at beginning of the year	(139,000)	81,000
Movement in year:		
Current service costs	(72,000)	(59,000)
Contributions	55,000	53,000
Contributions in respect of unfunded benefits	22,000	2,000
Past service costs	-	18,000
Impact of settlements and curtailments	(164,000)	-
Net return on assets	19,000	18,000
Actuarial gains/(losses)	252,000	(252,000)
Share of deficit in scheme at end of the year	(27,000)	(139,000)

(d) History of experience gains and losses

	2008 £	2007 £	2006 £	2005 £	2004 £
Difference between the actual and expected return on scheme assets	(179,000)	1,000	247,000	39,000	144,000
Value of assets	1,740,000	1,741,000	1,579,000	1,194,000	1,025,000
Percentage of scheme assets	(10.3%)	0.1%	15.6%	3.3%	14%
Experience gains and losses on scheme liabilities	(17,000)	5,000	96,000	7,000	(4,000)
Present value of liabilities	1,767,000	1,880,000	1,498,000	1,570,000	1,396,000
Percentage of the present value of scheme liabilities	(1.0%)	0.3%	6.4%	0.4%	(0.3%)
Total amount recognised in statement of total recognised gains and losses	252,000	(252,000)	458,000	13,000	52,000
Present value of liabilities	1,767,000	1,880,000	1,498,000	1,570,000	1,396,000
Percentage of the present values of the scheme liabilities	14.3%	(13.4%)	30.6%	0.8%	3.7%

## Notes to the financial statements

at 31 March 2008

### 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	(1,467)	-	Development Grant	A Barge, Partner
Flexible Technology Limited	4,603	(4,603)	-	Development Grant	P Timms, Managing Director
Flexible Technology Limited	17,073	(5,177)	(11,896)	Development Grant	P Timms, Managing Director
First Milk Ltd	-	184,140	(64,727)	Development Grant	R MacIntyre, Director
Western Ferries (Clyde) Limited	192,634	(171,096)	-	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  
 Cumbrae 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.

### 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.

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.