

SC 126004



# **Argyll & the Islands ENTERPRISE**

(Limited by Guarantee)

## **Report and Accounts**

31 March 2001



Registered No. 126604

**DIRECTORS**

R Cuninghame (resigned 15<sup>th</sup> November 2000)  
M J Greig  
A Johnston \* (Chairman)  
T C Macnair \*  
R Mann  
P Timms \*  
M Carmichael \*  
W Campbell  
A Hay  
G Hobhouse  
J Sillars  
A Barge (appointed 20<sup>th</sup> April 2000)

\* Indicates Member of the Audit Committee

**SECRETARY**

T G McLean

**AUDITORS**

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

**BANKERS**

The Clydesdale Bank plc  
Poltalloch Street  
Lochgilphead  
Argyll PA31 8ST

**REGISTERED OFFICE**

The Enterprise Centre  
Kilmory Industrial Estate  
Lochgilphead  
Argyll  
PA31 8SH

**STATEMENT OF DIRECTORS'**

To the members of Argyll & the Islands Enterprise Company

The directors present their report and accounts for the year ended 31 March 2001.

**RESULTS**

The net expenditure for the year, after taxation, amounted to £54,931 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 annual renewable 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.

**POST BALANCE SHEET EVENT**

Following the enterprise networks review undertaken by the Scottish Executive into the status of Local Enterprise Companies in Scotland, the ownership of Argyll & the Islands Enterprise is being amended in order that Highlands & Islands Enterprise will become the sole member. It is intended this process will be completed by 31 March 2002.

**CORPORATE GOVERNANCE**

The directors are pleased to report that the company has been in full compliance throughout the year with the Code of Best Practice issued by the Cadbury Committee on the Financial Aspects of Corporate Governance.

A statement of the directors' responsibilities in respect of the accounts is set out on page 6.

*The Board*

At 31 March 2001, the Board of Argyll & the Islands Enterprise Company comprised eleven non-executive members, including the Chairman. New Board members are appointed through the HIE network policy of "Appointability through Openness" which involves local advertising and wide consultation to identify candidates for Board membership to replace those retiring by rotation. None of the Board members received any remuneration for holding office during the year.

## STATEMENT OF DIRECTORS'

To the members of Argyll & the Islands Enterprise Company

### *The Board (continued..)*

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

### *The Chief Executive and Management Group*

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

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

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

### *Audit and Compliance*

Argyll & the Islands Enterprise Company has established an audit committee, composed of non-executive members of the Board, one of whom acts as Chairman. The committee provides a forum for reporting by the company's external and HIE internal auditors. The meetings are also attended, by invitation, by the Chief Executive. Meetings are held at least four times a year.

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

### *The Greenbury Report*

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

## STATEMENT OF DIRECTORS'

To the members of Argyll & the Islands Enterprise Company

### *The Turnbull Report*

As Accounting Officer, the Chief Executive is aware of the recommendations of the Turnbull Committee and is taking reasonable steps to comply with the Treasury's requirement for a statement of internal control to be prepared for the year ended 31 March 2002, in accordance with the guidance to be issued by them.

### *Conflicts of Interest Procedures*

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

Whenever a Board Member/Director or member of staff has an interest in an application for assistance, he/she is required to declare the interest and thereafter to take no part in the investigation, processing or approval of the case. Such declarations by Board members/directors are recorded in the minutes of the appropriate Board meetings and in a register of interests.

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

### *Citizen's Charter*

Argyll & the Islands Enterprise Company is committed to the principles of the Citizen's Charter and the HIE network was re-awarded the Charter Mark in October 2000.

## **DIRECTORS AND THEIR INTERESTS**

The directors at 31 March 2001 were those listed on page 2. Each of the directors is a member of the company and undertakes in the event of the company being wound up to contribute to the assets of the company such amount as may be required, not exceeding £1.

At the annual general meeting of the company M Carmichael, J Sillars & G Hobhouse retire by rotation, and being eligible, offer themselves for re-election. M Greig also retires by rotation, but is ineligible for re-election.

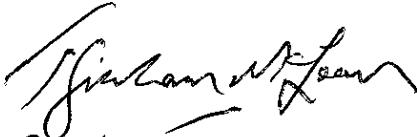
STATEMENT OF DIRECTORS'

To the members of Argyll & the Islands Enterprise Company

**DIRECTORS AND OFFICERS LIABILITY INSURANCE**

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

On behalf of the Board



Secretary

23<sup>rd</sup> May 2001

## STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**REPORT OF AUDITORS'**

*To the members of Argyll & the Islands Enterprise Company*

We have audited the accounts on pages 9 to 23, which have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, and on the basis of the accounting policies set out on pages 12 and 13.

**Respective responsibilities of directors and auditors**

As described on page 6 the company's directors are responsible for the preparation of the accounts in accordance with applicable United Kingdom Law and accounting standards. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you. Our responsibilities, as independent auditors, are established in the United Kingdom by Statute, the Auditing Practices Board and by our profession's ethical guidance.

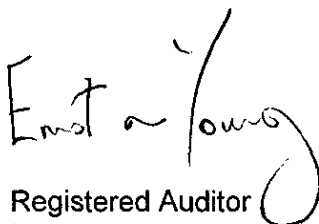
**Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

**Opinion**

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 March 2001 and of its net expenditure for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

  
Registered Auditor  
Inverness

23<sup>rd</sup> May 2001



**INCOME AND EXPENDITURE ACCOUNT**  
for the year ended 31 March 2001

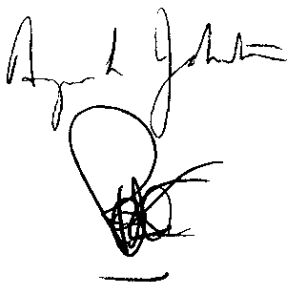
	Notes	2001 £	2000 £
<b>INCOME</b>	2	6,976,408	7,178,519
Operating expenditure		6,212,990	6,289,194
Administrative expenditure		878,837	841,539
<b>NET OPERATING (EXPENDITURE)/INCOME</b>	3	(115,419)	(65,289)
Gain on sale of fixed assets			12,000
Interest receivable	6	84,656	63,259
Interest payable	7	(1,819)	(1,830)
<b>NET (EXPENDITURE)/INCOME ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(32,582)	121,215
Tax on ordinary activities	8	22,349	29,152
<b>NET (EXPENDITURE)/INCOME FOR THE FINANCIAL YEAR</b>	15	(54,931)	92,063

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	2001 £	2000 £
<b>NET (EXPENDITURE)/INCOME FOR THE FINANCIAL YEAR</b>	(54,931)	92,063
Unrealised surplus on revaluation of land and buildings	20,000	8,000
	(34,931)	100,063

**BALANCE SHEET**  
as at 31 March 2001

	Notes	2001 £	2000 £
<b>FIXED ASSETS</b>			
Tangible assets	9	155,118	137,459
Investments	10	1,487,540	1,664,227
		<u>1,642,658</u>	<u>1,801,686</u>
<b>CURRENT ASSETS</b>			
Debtors	11	1,738,501	2,283,969
Cash at bank and in hand		83,178	27,111
		<u>1,821,679</u>	<u>2,311,080</u>
<b>CREDITORS: amounts falling due within one year</b>	12	<u>1,811,358</u>	<u>2,245,828</u>
<b>NET CURRENT ASSETS/(LIABILITIES)</b>		<u>10,321</u>	<u>65,252</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,652,979	1,866,938
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	13	<u>1,585,458</u>	<u>1,764,486</u>
		<u>67,521</u>	<u>102,452</u>
<b>CAPITAL AND RESERVES</b>			
Revaluation reserve	15	57,200	37,200
Accumulated surplus / (deficit)	15	10,321	65,252



} Directors

<u>67,521</u>	<u>102,452</u>
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STATEMENT OF CASH FLOWS  
for the year ended 31 March 2001

	Notes	2001 £	2000 £
<b>NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES</b>	3(b)	<u>(1,729)</u>	<u>(76,604)</u>
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	16	<u>82,837</u>	<u>63,435</u>
<b>TAXATION</b>	16	<u>(25,041)</u>	<u>(21,766)</u>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	16	<u>-</u>	<u>60,000</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	16	<u>56,067</u>	<u>25,065</u>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
			£
Increase in cash in period			56,067
<b>Movement in net funds in the period</b>			<u>56,067</u>
<b>Net funds at 1 April 2000</b>			<u>27,111</u>
<b>Net funds at 31 March 2001</b>			<u>83,178</u>

## **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 & 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 & 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 & Islands Enterprise by virtue of the control exercised over it through the negotiated operating contract.

### **(c) *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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### **(d) *Land and buildings***

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

### **(e) *Fixed asset funding***

Under the operating agreement between the company and Highlands & Islands Enterprise, the proceeds arising from the disposal of any Highlands & 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.

**1. ACCOUNTING POLICIES (continued)**

**(f) *Loans***

Loans advanced by the company are shown as the amount outstanding at the balance sheet date less provisions for any anticipated losses. Where loans have been funded by Highlands & 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 & 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 & Islands Enterprise's defined benefit pension scheme.

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

**(j) *Deferred taxation***

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

**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 & Islands Enterprise, together with amounts received and due from third parties. Income does not include £300,897 which was received from Highlands & Islands Enterprise to fund capital assets which is credited to either the loan/investment or asset repayment provision (note 13).

**2. INCOME (continued)**

An analysis of income by funding source is given below:

	2001 £	2000 £
Highlands & Islands Enterprise	5,519,727	5,824,825
European Union	1,227,943	1,243,480
Other	228,738	110,214
	<u>6,976,408</u>	<u>7,178,519</u>

**3. NET OPERATING INCOME/(EXPENDITURE)**

(a) This is stated after charging/(crediting):

	2001 £	2000 £
Auditors remuneration	5,750	5,650
Operating lease rentals - equipment	5,113	26,788
- property	27,675	31,353
Depreciation of fixed assets	6,238	12,601
Asset repayment provision released	(6,238)	(12,601)
	<u></u>	<u></u>

(b) Reconciliation of net operating expenditure to net cash flow from operating activities:

	2001 £	2000 £
Net operating income/(expenditure)	(115,419)	47,786
Decrease / (increase) in debtors	544,523	17,610
(Increase) / decrease in creditors	(430,833)	(142,000)
Depreciation	6,238	12,601
Decrease in asset repayment provision	(6,238)	(12,601)
Provision and write off against investments	(66,810)	(73,986)
Decrease in investment repayment provision	66,810	73,986
	<u></u>	<u></u>
Net cash (outflow) from operating activities	<u>(1,729)</u>	<u>(76,604)</u>

**4. DIRECTORS' REMUNERATION**

None of the directors who held office during the year received any remuneration (2000 - £nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £13,933 (2000 - £12,146).

**5. STAFF COSTS**

The company has 32 direct employees (2000 - 34). Other staff members are employees of Highlands & Islands Enterprise who have been seconded to the company. The average weekly number of whole and part-time staff during the year was 35 (2000 - 37).

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

	Secondees £	Core £	Employees Project £	2001 Total £	2000 Total £
Salaries	106,284	354,326	210,346	670,956	704,997
Social security costs	9,116	23,065	18,106	50,287	55,549
Other pension costs	10,628	38,965	-	49,593	47,810
	<u>126,028</u>	<u>416,356</u>	<u>228,452</u>	<u>770,836</u>	<u>808,356</u>

**6. INTEREST RECEIVABLE**

	2001 £	2000 £
Loan interest	62,649	53,507
Bank interest	22,007	9,752
	<u>84,656</u>	<u>63,259</u>

**7. INTEREST PAYABLE**

	2001 £	2000 £
Bank interest	<u>1,819</u>	<u>1,830</u>

**8. TAX ON ORDINARY ACTIVITIES**

	2001 £	2000 £
Corporation tax at 20% (2000 - 20%)	22,349	25,986
Underprovided in prior years	-	3,166
	<u>22,349</u>	<u>29,152</u>

The charge for the year represents tax at 20% on interest receivable.

**9. TANGIBLE FIXED ASSETS**

	<i>Land and buildings</i> £	<i>Equipment and furnishings</i> £	<i>Total</i> £
Cost or valuation:			
At 1 April 2000	125,000	163,104	288,104
Additions	-	3,897	3,897
Revaluations	20,000	-	20,000
At 31 March 2001	<u>145,000</u>	<u>167,001</u>	<u>312,001</u>
Depreciation:			
At 1 April 2000	-	150,645	150,645
Provided during the year	-	6,238	6,238
At 31 March 2001	<u>-</u>	<u>156,883</u>	<u>156,883</u>
Net book value:			
At 31 March 2001	<u>145,000</u>	<u>10,118</u>	<u>155,118</u>
At 1 April 2000	<u>125,000</u>	<u>12,459</u>	<u>137,459</u>

The land and buildings were valued at their open market value at 31 March 2001 by Graham & Sibbald, Chartered Surveyors.

On the historical cost basis, land and buildings would have been included as follows:

Cost at 1 April 2000 and 31 March 2001	<u>£87,800</u>
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**10. INVESTMENTS**

	<i>Unquoted shares £</i>	<i>Loans £</i>	<i>Total £</i>
Cost:			
At 1 April 2000	1,527,000	840,356	2,367,356
Additions	20,000	277,000	297,000
Repayments	-	(93,137)	(93,137)
Written off	-	(143,739)	(143,739)
Redemptions	(170,000)	-	(170,000)
At 31 March 2001	<u>1,377,000</u>	<u>880,480</u>	<u>2,257,480</u>
Provisions:			
At 1 April 2000	350,000	353,129	703,129
Movement in provision	215,000	(4,828)	210,172
Written off in year	-	(143,361)	(143,361)
At 31 March 2001	<u>565,000</u>	<u>204,940</u>	<u>769,940</u>
Net book value:			
At 31 March 2001	<u>812,000</u>	<u>675,540</u>	<u>1,487,540</u>
At 1 April 2000	<u>1,177,000</u>	<u>487,227</u>	<u>1,664,227</u>

Details of the investments in which the company holds more than 10% of the nominal value of any class of share capital is as follows:

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

**10. INVESTMENTS (continued)**

<i>Name of company</i>	<i>Country of registration and operation</i>	<i>Shareholding</i>	<i>Proportion of class held</i>	<i>Nature of business</i>
Highland Magnetics Limited	Scotland	Preferred ordinary Preference	100% 100%	Manufacture wound Magnetic cores
Islay Cheese Company Limited	Scotland	Cumulative redeemable preference	100%	Dairy products
Telecom Services Centres Limited	Scotland	Cumulative convertible participating preferred ordinary Preference Preferred Ordinary Cumulative redeemable preference	100% 100% 100%	Information technology specialists
Argyll Bakeries Limited	Scotland	'C' cumulative redeemable	24%	Bakery products
Kames Marine Fish Farming Limited	Scotland	Redeemable Preference Shares Ordinary Shares	100% 20%	Fish farm
Transaction Television Limited		'A' Ordinary Shares	6%	Electronic Information Service
Integrin Advanced Biosystems Ltd		Cumulative convertible Participating preferred Ordinary shares	100%	Marine Biotech Research

**11. DEBTORS**

	<i>2001 £</i>	<i>2000 £</i>
Highlands & Islands Enterprise	1,221,682	1,768,585
Other debtors	486,125	498,775
Other taxes	20,630	11,403
Prepayments and accrued income	10,064	5,206
	<u>1,738,501</u>	<u>2,283,969</u>

**12. CREDITORS:** amounts falling due within one year

	2001 £	2000 £
Highlands & Islands Enterprise	1,618,023	2,161,931
Other creditors	165,236	52,411
Current corporation tax	22,349	25,986
Accruals	5,750	5,500
	<u>1,811,358</u>	<u>2,245,828</u>

**13. PROVISION FOR LIABILITIES AND CHARGES**

	<i>Loan/investment repayment provision</i> £	<i>Asset repayment provision</i> £	<i>Total</i> £
At 1 April 2000	1,664,227	100,259	1,764,486
Funding received from Highlands & Islands Enterprise	297,000	3,897	300,897
Funding repaid to Highlands & Islands Enterprise	(263,137)	-	(263,137)
Written off in the year	(143,739)	-	(143,739)
	<u>1,554,351</u>	<u>104,156</u>	<u>1,658,507</u>
Depreciation for the year (note 9)	-	(6,238)	(6,238)
Movement in provision against investments (note 10)	(66,811)	-	(66,811)
At 31 March 2001	<u>1,487,540</u>	<u>97,918</u>	<u>1,585,458</u>

**14. SHARE CAPITAL**

The company does not have share capital and is limited by guarantee. The liability of members is restricted to £1 each.

At 31 March 2001 the company had eleven members.

**15. MOVEMENT ON RESERVES**

	<i>Revaluation reserve</i> £	<i>Accumulated surplus</i> £	<i>Total</i> £
Balance at 1 April 1999	77,200	(74,811)	2,389
Net income for the year	-	92,063	92,063
Revaluation surplus	8,000	-	8,000
Realised revaluation surplus on sale	(48,000)	48,000	-
At 1 April 2000	<u>37,200</u>	<u>65,252</u>	<u>102,452</u>
Net expenditure for the year	-	(54,931)	(54,931)
Revaluation surplus	20,000	-	20,000
At 31 March 2001	<u>57,200</u>	<u>10,321</u>	<u>67,521</u>

**16. GROSS CASH FLOWS**

	2001 £	2000 £
<b>NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES</b>	(1,729)	(76,604)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	84,656	65,265
Interest paid	(1,819)	(1,830)
	82,837	63,435
<b>TAXATION</b>		
Corporation tax paid	(25,041)	(21,766)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Loans advanced	277,000	100,000
Payment to acquire shares	20,000	50,000
Receipts from Highlands & Islands Enterprise to fund loans and shares	(297,000)	(150,000)
Loans repaid	(93,137)	(165,477)
Funding repaid to Highlands & Islands Enterprise	93,137	165,477
Payments to acquire fixed assets	(3,897)	(13,438)
Receipts from Highlands & Islands Enterprise to fund assets	3,897	13,438
Proceeds from redemption of investments	(170,000)	(75,000)
Funding repaid to Highlands & Islands Enterprise in respect of investments	170,000	75,000
Proceeds from sale of fixed assets	-	60,000
	0	60,000
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	56,067	(25,065)

**17. CONTINGENT LIABILITY**

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

**18. FINANCIAL COMMITMENTS**

At 31 March 2001 the company had annual commitments under non-cancellable operating leases as set out below:

	<i>Property</i>		<i>Other</i>	
	<i>2001</i>	<i>2000</i>	<i>2001</i>	<i>2000</i>
	£	£	£	£
Operating leases which expire:				
within one year	-	-	1,575	4,351
within two to five years	-	-	3,538	5,113
after five years	27,677	27,677	-	-
	<u>27,677</u>	<u>27,677</u>	<u>5,113</u>	<u>9,464</u>

**19. OTHER COMMITMENTS**

	<i>2001</i>	<i>2000</i>
Approved funding	<u>£3,319,154</u>	<u>£2,408,391</u>

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

**20. PENSION COMMITMENTS**

Staff seconded from Highlands & Islands Enterprise are members of a defined benefit pension scheme which is funded by Highlands & Islands Enterprise and recharged to the company. Core employees are members of a local government superannuation scheme. The assets of both schemes are held separately from those of the company.

The accounts of Highlands & Islands Enterprise for the year ended 31 March 2001 include details of the actuarial valuation and the assumptions used therein.

Contributions to the local government scheme are determined by a qualified actuary on the basis of annual valuations using the projected unit method. The result of the most recent valuation, which was conducted at 31 March 1999 was as follows:

	<i>Local government</i>
Main assumptions:	
Rate of return on investments	11.4
Rate of salary increases (% per annum)	4.3
Rate of pension increases (% per annum)	2.8
Market value of scheme's assets (£million)	£5,590m
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	108%

## 21. TRANSACTIONS INVOLVING DIRECTORS AND CHIEF EXECUTIVE

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

Business/organisation	Value of approved Approval	Payment Percentage of approved in yearproject costs	Nature of transaction	Director and interest
AILLST Tourist Board	£ 50,000.00	11%	Environmental Improvement	Martin Greig - Director
AILLST Tourist Board	£ 106,500.00	25%	HIE Activities	Martin Greig - Director
AILLST Tourist Board	£ 31,000.00	25%	HIE Activities	Martin Greig - Director
AILLST Tourist Board	£ 94,000.00	22%	Project Funding	Martin Greig - Director
AILLST Tourist Board	£ 42,250.00	34%	Project Funding	Martin Greig - Director
AILLST Tourist Board	£ 4,000.00	20%	Project Funding	Martin Greig - Director
Argyll College	£ 15,000.00	6%	Project Funding	Wilma Campbell - Director/Chair
Argyll College	£ 763.00	33%	Project Funding	Wilma Campbell - Director/Chair
Argyll College	£ 31,500.00	75%	Project Funding	Wilma Campbell - Director/Chair
Argyll College	£ 6,080.00	32%	Project Funding	Wilma Campbell - Director/Chair
Argyll College	£ 130,700.00	30%	Project Funding	Wilma Campbell - Director
Argyll & Bute Careers Partnership	£ 26,000.00	28%	Project Funding	Wilma Campbell - Director
Argyll & Bute Careers Partnership	£ 5,000.00	100%	Project Funding	Wilma Campbell - Director
Argyll & Bute Careers Partnership	£ 2,641.00	100%	Project Funding	Wilma Campbell - Director
Argyll & Bute Careers Partnership	£ 15,430.00	100%	Service Delivery	Wilma Campbell - Director
South Kintyre Credit Union	£ 4,550.00	70%	Project Funding	Michael Carmichael - Director
Argyll & Bute Council	£ 10,000.00	9%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 14,000.00	12%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 25,000.00	50%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 15,000.00	17%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 15,340.00	50%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 10,000.00	33%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 22,000.00	58%	Environmental Improvement	Allison Hay - Leader of Council
Argyll & Bute Council	£ 6,005.00	15%	Environmental Improvement	Allison Hay - Leader of Council
Colonsay Village Hall	£ 1,500.00	40%	Community Action Grant	Georgina Hobhouse - Committee Member
Kilmartin House Trust	£ 1,500.00	42%	Project Funding	Georgina Hobhouse - Trustee
Loch Awe Improvement Assc	£ 6,039.00	30%	Project Funding	Terence Macnair - Secretary/Treasurer
Tarbert Harbour Authority	£ 11,300.00	50%	Project Funding	Terence Macnair - Clerk to Trustees
Stray Theatre Company	£ 9,000.00	10%	Project Funding	Terence Macnair - Director
Ayrshire & Arran Tourist Board	£ 9,000.00	74%	Project Funding	Ronnie Mann - Chair
North Ayrshire Council	£ 3,000.00	9%	Project Funding	John Sillars - Councillor
North Ayrshire Council	£ 4,750.00	50%	Environmental Improvement	John Sillars - Councillor
Otter Ferry Seafish	£ 160,000.00	24%	Grant assistance	Alastair Barge - Director
<b>PAYMENTS ON PREV APPROV.</b>				
Flexible Technology	£ 88,000.00	40%	Grant assistance	Peter Timms - Managing Director
Auchrannie Hotel	£ 500,000.00	13%	Grant assistance	Ronnie Mann - Accountant/Consultant
<b>Supplier Relationships</b>				
Royal Marine Hotel				Martin Greig - Director
Auchrannie Hotel				Ronnie Mann - Accountant/Consultant

**21. TRANSACTIONS INVOLVING DIRECTORS AND CHIEF EXECUTIVE (continued)**

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

Argyll & Bute Council  
Colonsay Village Hall  
Argyll, The Islands, Stirling, Loch Lomond and the Trossachs Tourist Board  
Campbeltown & Kintyre Enterprise Trust  
North Ayrshire Council  
Argyll College  
Ayrshire & Arran Tourist Board  
Argyll & Bute Careers Partnership Ltd  
Kilmartin House Trust  
Loch Awe Improvement Assoc.  
Tarbert Harbour Authority

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

**22. POST BALANCE SHEET EVENT**

Following the enterprise networks review undertaken by the Scottish Executive into the status of Local Enterprise Companies in Scotland, the ownership of Argyll & the Islands Enterprise is being amended in order that Highlands & Islands Enterprise will become the sole member. It is intended this process will be completed by 31 March 2002.

**23. PARENT UNDERTAKING**

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

Argyll & the Islands Enterprise Company has been included in the group accounts prepared by Highlands & Islands Enterprise, copies of which can be obtained from Highlands & Islands Enterprise, Bridge House, 20 Bridge Street, Inverness, IV1 1QR.