

SC 126601

ARGYLL AND THE ISLANDS ENTERPRISE COMPANY  
(Limited by Guarantee)  
Report and Accounts  
31 March 2002

 ERNST & YOUNG



# Argyll and the Islands Enterprise Company

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REGISTERED NO. 126604

## **DIRECTORS**

M J Greig (Resigned 22 November 2001)  
A Johnston (Chairman)  
T C Macnair  
R Mann (Resigned 21 February 2002)  
P Timms  
M Carmichael  
W Campbell (Resigned 22 November 2001)  
A Hay  
G Hobhouse  
J Sillars  
A Barge  
I M Cleaver (Appointed 21 March 2002)  
L M Moffat (Appointed 21 March 2002)  
J M MacLeod (Appointed 21 March 2002)  
C A MacLennan (Appointed 21 March 2002)

## **SECRETARIES**

T G McLean (Resigned 21 February 2002)  
A MacLeod (Appointed 23 October 2001)  
A Milstead (Appointed 21 February 2002)

## **AUDITORS**

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

## **BANKERS**

The Clydesdale Bank plc  
Poltalloch Street  
Lochgilphead  
Argyll  
PA31 8ST

## **SOLICITORS**

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

## **REGISTERED OFFICE**

Cowan House  
Inverness Retail and Business Park  
Inverness  
IV2 7GF

 **ERNST & YOUNG**

## DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 March 2002.

### RESULTS

The net surplus for the year, after taxation, amounted to £142,186 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.

### 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 5.

#### *The board*

At 31 March 2002, the board of Argyll and the Islands Enterprise Company comprised twelve non-executive members, including the chairman. New Board members are appointed through the HIE network policy of "Appointability through Openness" which involves wide local advertising and consultation to identify candidates for Board membership to replace those retiring by rotation. None of the board members received any remuneration for holding office during the year.

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

#### *The chief executive and management group*

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

The system of internal financial control is based on a framework of monthly management information, financial regulations, administrative procedures including the segregation of duties, and various levels of delegation specified by the Scottish Office 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 chief executive and management group (continued)*

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 and the Islands Enterprise Company has established an audit committee, composed of non-executive members of the board, one of whom acts as chairman. The committee 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 and 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 by the year ended 31 March 2002, in accordance with the guidance to be issued by them.

#### *Conflicts of interest procedures*

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

Whenever a board member/director or member of staff has an interest in an application for assistance, 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 the processing and decision making are invoked when the chairman of Argyll and the Islands Enterprise Company declares an interest.

#### *Citizen's charter*

Argyll and 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 November 1997.

DIRECTORS' REPORT

**DIRECTORS AND THEIR INTERESTS**

The directors at 31 March 2002 were those listed on page 1. None of the directors are members of the company.

At the annual general meeting of the company, A Johnston, T C Macnair, P Timms and A Barge retire by rotation and being eligible, A Johnston, P Timms and A Barge offer themselves for re-election.

**DIRECTORS AND OFFICERS LIABILITY INSURANCE**

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

**AUDITORS**

On 28 June 2001, Ernst and Young transferred its entire business to Ernst and Young LLP a limited liability partnership, incorporated under the Limited Liability Act 2000. The directors consented to treating the appointment of Ernst and Young as extending to Ernst and Young LLP with effect from 28 June 2001.

A resolution to reappoint Ernst and Young LLP as auditors will be put to the member at the annual general meeting.

On behalf of the board



Secretary

25 July 2002

## Argyll and the Islands Enterprise Company

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### 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 surplus or deficit of the company for that period. In preparing those accounts, the directors are required to:

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

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ARGYLL and THE ISLANDS ENTERPRISE COMPANY**

We have audited the company's financial statements for the year ended 31 March 2002, 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.

**Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

**Basis of audit opinion**

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the 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 financial statements.

**Opinion**

*In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 March 2002 and of its surplus for the year then ended and have been properly prepared in accordance with the Companies Act 1985.*

*Ernst & Young LLP*

Registered Auditor  
Inverness

*7 August 2002*

# Argyll and the Islands Enterprise Company

## INCOME AND EXPENDITURE ACCOUNT

For the year ended 31 March 2002

	Notes	2002 £	2001 £
<b>INCOME</b>	2	7,579,836	6,976,408
Operating expenditure		6,546,860	6,212,990
Administrative expenditure		893,691	878,837
<b>NET OPERATING SURPLUS/(DEFICIT)</b>	3	139,285	(115,419)
Interest receivable	6	22,324	84,656
Interest payable	7	(13,614)	(1,819)
<b>NET SURPLUS/(DEFICIT) ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		147,995	(32,582)
Tax on ordinary activities	8	5,809	22,349
<b>NET SURPLUS/(DEFICIT) FOR THE FINANCIAL YEAR</b>	15	£142,186	£(54,931)

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002 £	2001 £
Net surplus/(deficit) for the financial year	142,186	(54,931)
Unrealised (deficit)/surplus on revaluation of land and buildings	(20,000)	20,000
<b>Total gains and losses relating to the year</b>	<b>£122,186</b>	<b>£(34,931)</b>



# Argyll and the Islands Enterprise Company

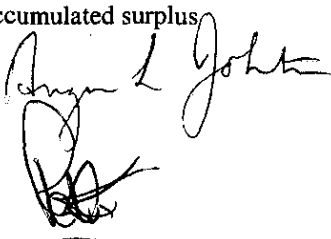
## BALANCE SHEET

As at 31 March 2002

	Notes	2002 £	2001 £
<b>FIXED ASSETS</b>			
Tangible assets	9	134,600	155,118
Investments	10	1,389,717	1,487,540
		<u>1,524,317</u>	<u>1,642,658</u>
<b>CURRENT ASSETS</b>			
Debtors	11	3,110,603	1,738,501
Cash at bank and in hand		11,092	83,178
		<u>3,121,695</u>	<u>1,821,679</u>
<b>CREDITORS: amounts falling due within one year</b>	12	2,969,188	1,811,358
		<u>152,507</u>	<u>10,321</u>
<b>NET CURRENT ASSETS</b>			
		<u>1,676,824</u>	<u>1,652,979</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
<b>PROVISION FOR LIABILITIES AND CHARGES</b>	13	1,487,117	1,585,458
		<u>£189,707</u>	<u>£67,521</u>

## CAPITAL AND RESERVES

Revaluation reserve	15	37,200	57,200
Accumulated surplus	15	152,507	10,321



)  
) Director  
)

25 July 2002

<u>£189,707</u>	<u>£67,521</u>
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# Argyll and the Islands Enterprise Company

## STATEMENT OF CASH FLOWS

For the year ended 31 March 2002

	Notes	2002 £	2001 £
<b>NET CASH OUTFLOW FROM OPERATING ACTIVITIES</b>	16(a)	(62,745)	(1,729)
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>	16(b)	8,710	82,837
<b>TAXATION</b>	16(b)	(18,051)	(25,041)
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>	16(b)	-	-
<b>(DECREASE)/INCREASE IN CASH</b>		£(72,086)	£56,067
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS</b>			
		£	£
(Decrease)/increase in cash in the period	16(c)	(72,086)	56,067
Movement in net funds in the period		(72,086)	56,067
Net funds at 1 April 2001		83,178	27,111
Net funds at 31 March 2002		£11,092	£83,178

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 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) *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 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.

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 1. ACCOUNTING POLICIES (continued)

#### (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.

#### (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.

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

#### (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 and Islands Enterprise, together with amounts received and due from third parties. Income does not include £271,138 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).

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 2. INCOME (continued)

An analysis of income by funding source is given below:

	2002 £	2001 £
Highlands and Islands Enterprise	6,646,424	5,519,727
European Union	787,481	1,227,943
Other	145,931	228,738
	<u>£7,579,836</u>	<u>£6,976,408</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 expenditure of £9,752,255 in the Argyll area. This is dealt with in the accounts of Highlands and Islands Enterprise.

### 3. NET OPERATING SURPLUS/(DEFICIT)

This is stated after charging/(crediting):

	2002 £	2001 £
Auditors remuneration	5,500	5,750
Operating lease rentals - equipment	10,289	5,113
- property	38,625	27,675
Depreciation of fixed assets	6,656	6,238
Asset repayment provision released	(6,656)	(6,238)
	<u></u>	<u></u>

### 4. DIRECTORS' REMUNERATION

None of the directors who held office during the year received any remuneration (2001 - £nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties, totalled £15,307 (2001 - £13,933).

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 5. STAFF COSTS

The company has 32 direct employees (2001 - 32). Other staff members are employees of Highlands and Islands Enterprise who have been seconded to the company. The average weekly number of whole and part-time staff during the year was 34 (2001 - 35).

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

	<i>Secondees</i>	<i>Employees</i>		<i>2002</i>	<i>2001</i>
	<i>£</i>	<i>Core</i>	<i>Project</i>	<i>Total</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Salaries	81,910	452,541	124,992	659,443	670,956
Social security costs	6,695	33,565	9,914	50,174	50,287
Other pension costs	9,112	38,526	8,424	56,062	49,593
	<u>£97,717</u>	<u>£524,632</u>	<u>£143,330</u>	<u>£765,679</u>	<u>£770,836</u>

### 6. INTEREST RECEIVABLE

	<i>2002</i>	<i>2001</i>
	<i>£</i>	<i>£</i>
Loan interest	12,614	62,649
Bank interest	9,710	22,007
	<u>£22,324</u>	<u>£84,656</u>

### 7. INTEREST PAYABLE

	<i>2002</i>	<i>2001</i>
	<i>£</i>	<i>£</i>
Bank interest	1,000	1,819
Loan interest repaid to Highlands and Islands Enterprise	12,614	-
	<u>£13,614</u>	<u>£1,819</u>

### 8. TAX ON ORDINARY ACTIVITIES

	<i>2002</i>	<i>2001</i>
	<i>£</i>	<i>£</i>
Corporation tax at 18.5% (2001 - 20%)	£5,809	£22,349

The charge for the year represents tax at 18.5% on bank interest received.

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 9. TANGIBLE FIXED ASSETS

	<i>Land &amp; buildings</i> £	<i>Equipment &amp; furnishings</i> £	<i>Total</i> £
Cost or valuation:			
At 1 April 2001	145,000	167,001	312,001
Additions	-	6,138	6,138
Revaluation	(20,000)	-	(20,000)
At 31 March 2002	125,000	173,139	298,139
Depreciation:			
At 1 April 2001	-	156,883	156,883
Provided during the year	-	6,656	6,656
At 31 March 2002	-	163,539	163,539
Net book value:			
At 31 March 2002	£125,000	£9,600	£134,600
At 1 April 2001	£145,000	£10,118	£155,118

The land and buildings were valued at their open market value at 31 March 2002 by Graham and Sibbald, Chartered Surveyors.

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

Cost at 1 April 2001 and 31 March 2002	£87,800
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# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 10. INVESTMENTS

	<i>Unquoted shares £</i>	<i>Loans £</i>	<i>Total £</i>
Cost:			
At 1 April 2001	1,377,000	880,480	2,257,480
Additions	130,000	135,000	265,000
Repayments	-	(260,859)	(260,859)
Written off	-	(3,452)	(3,452)
Disposals	(115,000)	-	(115,000)
At 31 March 2002	1,392,000	751,169	2,143,169
Provisions:			
At 1 April 2001	565,000	204,940	769,940
Movement in provision	-	(13,739)	(13,739)
Written off in year	-	(2,749)	(2,749)
At 31 March 2002	565,000	188,452	753,452
Net book value:			
At 31 March 2002	£827,000	£562,717	£1,389,717
At 1 April 2001	£812,000	£675,540	£1,487,540

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



# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 10. INVESTMENTS (continued)

<i>Name of company</i>	<i>Shareholding</i>	<i>Proportion of class held</i>	<i>Nature of business</i>
Highland Magnetics Limited	Preferred ordinary Preference	100% 100%	Manufacture wound magnetic cores
Islay Cheese Company Limited	Cumulative redeemable preference	100%	Dairy products
Telecom Services Centres Limited	Cumulative convertible participating preferred ordinary 'C' Preference shares	100% 100%	Information technology specialists
Argyll Bakeries Limited	'C' cumulative redeemable preference	100%	Bakery products
Transaction Television Limited	'A' Ordinary shares	6%	Electronic Information Service
Integrin Advanced Biosystems Ltd	Cumulative convertible participating preferred ordinary shares	100%	Marine Biotech Research
Fynefish Products Limited	Cumulative convertible participating preferred ordinary shares Preference shares	100% 100%	Fish processing
Blacks of Dunoon (Bakers) Limited	Cumulative redeemable preference shares	100%	Bakery products

### 11. DEBTORS

	2002 £	2001 £
Highlands and Islands Enterprise	2,970,450	1,221,682
Other debtors	135,233	486,125
Other taxes	-	20,630
Prepayments and accrued income	4,920	10,064
	<u>£3,110,603</u>	<u>£1,738,501</u>

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

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

	2002 £	2001 £
Highlands and Islands Enterprise	2,647,981	1,618,023
Other creditors	250,574	165,236
Current corporation tax	5,809	22,349
Accruals	25,839	5,750
Other taxes	38,985	-
	<u>£2,969,188</u>	<u>£1,811,358</u>

### 13. PROVISION FOR LIABILITIES AND CHARGES

	<i>Loan/investment repayment provision</i> £	<i>Asset repayment provision</i> £	<i>Total</i> £
At 1 April 2001	1,487,540	97,918	1,585,458
Funding received from Highlands and Islands Enterprise	265,000	6,138	271,138
Funding repaid to Highlands and Islands Enterprise	(375,859)	-	(375,859)
Written off in the year	(3,452)	-	(3,452)
	<u>1,373,229</u>	<u>104,056</u>	<u>1,477,285</u>
Depreciation for the year (note 9)	-	(6,656)	(6,656)
Movement in provision against investments (note 10)	16,488	-	16,488
At 31 March 2002	<u>£1,389,717</u>	<u>£97,400</u>	<u>£1,487,117</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. During the year, Highlands and Islands Enterprise became the sole member of the company.

At 31 March 2002 the company had one member (2001 – ten).

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 15. MOVEMENT ON RESERVES

	<i>Revaluation reserve</i>	<i>Accumulated surplus</i>	<i>Total</i>
	£	£	£
Balance at 1 April 2000	37,200	65,252	102,452
Net deficit for the year	-	(54,931)	(54,931)
Revaluation surplus	20,000	-	20,000
At 1 April 2001	57,200	10,321	67,521
Net surplus for the year	-	142,186	142,186
Revaluation deficit	(20,000)	-	(20,000)
At 31 March 2002	£37,200	£152,507	£189,707

### 16. NOTES TO STATEMENT OF CASH FLOWS

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

	2002	2001
	£	£
Net operating surplus/(deficit)	139,285	(115,419)
(Increase)/decrease in debtors	(1,376,400)	544,523
Increase/(decrease) in creditors	1,174,370	(430,833)
Depreciation	6,656	6,238
Decrease in asset repayment provision	(6,656)	(6,238)
Provision and write off against investments	(13,036)	(66,810)
Increase in investment repayment provision	13,036	66,810
Net cash (outflow) from operating activities	£(62,745)	£(1,729)

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 16. NOTES TO STATEMENT OF CASH FLOWS (continued)

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

	2002 £	2001 £
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		
Interest received	22,324	84,656
Interest paid	(13,614)	(1,819)
	<u>8,710</u>	<u>82,837</u>
<b>TAXATION</b>		
Corporation tax paid	(18,051)	(25,041)
	<u></u>	<u></u>
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>		
Loans advanced	135,000	277,000
Payment to acquire shares	130,000	20,000
Receipts from Highlands and Islands Enterprise to fund loans and shares	(265,000)	(297,000)
Loans repaid	(260,859)	(93,137)
Funding repaid to Highlands and Islands Enterprise	260,859	93,137
Payments to acquire fixed assets	(6,138)	(3,897)
Receipts from Highlands and Islands Enterprise to fund assets	6,138	3,897
Proceeds from redemption of investments	(115,000)	(170,000)
Funding repaid to Highlands and Islands Enterprise in respect of investments	115,000	170,000
	<u>-</u>	<u>-</u>

(c) Analysis of changes in net funds

	At 1 April 2001	Cash flows	At 31 March 2002
Cash at bank	£83,178	£(72,086)	£11,092
	<u></u>	<u></u>	<u></u>

### 17. CONTINGENT LIABILITY

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

# Argyll and the Islands Enterprise Company

## NOTES TO THE ACCOUNTS

At 31 March 2002

### 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>	
	2002	2001	2002	2001
	£	£	£	£
Operating leases which expire:				
within one year	-	-	3,538	1,575
within two to five years	-	-	-	3,538
after five years	27,676	27,677	-	-
	<u>£27,676</u>	<u>£27,677</u>	<u>£3,538</u>	<u>£5,113</u>

### 19. OTHER COMMITMENTS

	2002	2001
Approved funding	<u>£1,884,708</u>	<u>£3,319,154</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 and Islands Enterprise in the next financial year.

NOTES TO THE ACCOUNTS

At 31 March 2002

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. 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 and Islands Enterprise for the year ended 31 March 2002 include details of the actuarial valuation and the assumptions used therein.

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

	£/%
Main assumptions:	
Rate of return of investments (% per annum)	2.8
Rate of salary increases (% per annum)	4.3
Rate of pension increases (% per annum)	2.8
Discount rate (% per annum)	5.9
Market value of scheme's assets at 31 March 2002 (£ million)	6,020

The assets in the Glasgow City Council scheme and the expected rate of return were:

	Long-term Rate of return Expected at 31 March 2002 %	Value at 31 March 2002 £000
Equities	7.5	4,680,000
Bonds	5.5	613,000
Property	6.0	540,000
Cash	4.0	187,977
Total market value of scheme assets		6,020,977

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

	£
Estimated employer assets	1,151,000
Present value of scheme liabilities	1,088,000
Surplus in the scheme	63,000
Related deferred tax liability	(12,600)
Net pension asset	50,400

## NOTES TO THE ACCOUNTS

At 31 March 2002



## 21. TRANSACTIONS INVOLVING DIRECTORS

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

<i>Business/organisation</i>	<i>Approvals brought forward £</i>	<i>Amount approved in year £</i>	<i>Amount paid in year £</i>	<i>Nature of transaction</i>	<i>Director and interest</i>
Flexible Technology Limited	68,420	-	20,000	Grant assistance	P Timms, Managing Director
Otter Ferry Seafish	161,640	-	153,000	Grant assistance	A Barge, Director
Otter Ferry Salmon	11,000	-	-	Grant assistance	A Barge, Director

NOTES TO THE ACCOUNTS

At 31 March 2002

**21. TRANSACTIONS INVOLVING DIRECTORS (continued)**

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

Argyll & Bute Careers Partnership  
Argyll & Bute Council  
Campbeltown & Kintyre Enterprise Trust  
Kilmartin House Trust  
NADAIR Trust  
North Ayrshire Council  
Tarbert Harbour Authority  
AILLIST Tourist Board  
Argyll College  
Loch Awe Improvement Association

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

**22. PARENT UNDERTAKING**

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

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