

WELSH HIGHLAND RAILWAY LIMITED
(Limited by Guarantee)

DIRECTORS' REPORT
and
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

Company No. 0790125 (England and Wales)
Registered Charity No. 1039817



WELSH HIGHLAND RAILWAY LIMITED

(Limited by Guarantee)

COMPANY INFORMATION

Directors	D. W. Allan A. Blackwell G. Farr A. J. Goodwin J. Hewett A. McNicol R. Ollier J. M. Savage R. A. Sinclair P. Thomason
Secretary	G. Ll. Hughes
Company Number	0790125 (England and Wales)
Registered Charity Number	1039817
Registered Office	Gelerts Farm Works Madoc Street Porthmadog Gwynedd LL49 9DY
Auditors	Morris Gregory Chartered Accountants and Registered Auditors County End Business Centre Jackson Street Springhead Oldham OL4 4TZ
Bankers	Girobank Plc 62 Hagley Road Birmingham B16 8PE and National Westminster Bank Plc 72 High Street Porthmadog Gwynedd LL49 9NR

WELSH HIGHLAND RAILWAY LIMITED
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DIRECTORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2002

The directors present their report and financial statements for the year ended December 31, 2002.

Principal activity and status

The Company's principal activity continued to be the operation and development of its site at Porthmadog. It aims to preserve and illustrate the history of the Welsh Highland Railway, which ceased operations in 1937, and to support the revival of the whole of that scenic route as a railway for the benefit of tourists and residents alike. The Company is a registered charity under Charity Number 1039817.

Chairman's report

Running a preserved railway is quite unlike any other business. It relies on the goodwill of its members and on the efforts of the volunteers who keep the whole thing going. These efforts can be both volatile and ephemeral and the trick is to keep everyone satisfied. This is almost impossible, as perceived values and subtly changing concepts can often mask the essential clarity of purpose. Yet a clear goal is vital in order to focus the mind and to sweep away the clutter than can obscure that goal.

Over recent years the main aim of the company has been simply to stay alive, to consolidate its position after a decade of disappointment and to redefine its role as circumstances change. Identifying these changes and responding to them is a function that is the board's responsibility. A significant standing item on the board's agenda, "The Future", was introduced during the year. This has been helpful in isolating these changes and trying to chart a way forward. Our position is also subject to buffeting from factors outside our control, the main one of these is the current difficulties of the Festiniog Railway. However, given that our relationship with the Festiniog Railway is now stable, and that most of the inherent misunderstandings have diminished, the board has felt more confident in examining the potential of our position, bearing in mind the strictures of the company's constitution.

It is perhaps worth remembering that we are an independent statutory company, which owns the freehold of its site, which runs a viable business, and which is represented in its own right on the Heritage Railway's Association. I think that it is fair to say that it is the board's duty to satisfy the aspirations of our members, within the remit of the company's constitution. With this in mind the company shall remain fiercely independent but it shall also play a significant role in the rebuilding and running of the Welsh Highland Railway, with the emphasis on Welsh Highland heritage.

The company has a responsibility to play its part in the financial success of the whole operation, and at the same time ensuring that we as a company also benefit from the effort of our members.

During the year the company has made strenuous efforts to secure the necessary planning permission for the extension to Pont Croesor. It has raised considerable funds to enable the work at least to be started, but it must be said that we must continue to generate much more capital to enable the work to be completed.

Fares were increased in an attempt to mitigate against the horrific raise in insurance premiums following various disasters on the main rail network. Such vast increases effect our small operation disproportionately and work against all the best efforts of members to secure a viable operation.

Internally, a revitalised carriage and wagon department is enthusiastically ensuring that stock in good condition is available for the operating department. The loco department, after some initial hesitation with the repair of the "Gelert", finally arranged for the boiler to go to Isaac Newtons for the completion of work. The loco is expected to return to Welsh Highland Metals in time for the 2003 summer season.

The future is brighter than it has been for some time and I commend the work of the company to its members.

SORP 2000

The major risks to which the Company is exposed, as identified by the Directors, have been reviewed and systems have been established to mitigate these risks.

DIRECTORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 2002

Organisation

The Directors determine the general policy of the Company, with the day to day management being delegated to Heads of Department and the Commercial Manager.

Directors

The directors who served during the year were:

D. W. Allan	
A. Blackwell	
G. Farr	
A. J. Goodwin	
J. H. Kerr	(Resigned June 29, 2002)
J. Hewett	(Appointed June 29, 2002)
A. McNicol	
R. Ollier	
J. M. Savage	
R. A. Sinclair	
P. Thomason	

Constitution

The Company is limited by guarantee and its governing document is its Memorandum and Articles of Association. In the event of a winding up of the company each member shall contribute to the debts and liabilities up to a minimum of £1.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit and loss 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

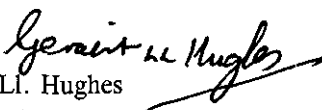
The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets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

Auditors

The auditors, Morris Gregory will be proposed for re-appointment in accordance with Section 385 of the Companies Act 1985.

This report was approved by the board on May 24, 2003 and has been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

Signed on behalf of the board of directors.


G. Ll. Hughes
Secretary

**INDEPENDENT AUDITORS' REPORT TO THE
MEMBERS OF WELSH HIGHLAND RAILWAY LIMITED**

We have audited the financial statements of Welsh Highland Railway Limited for the year ended December 31, 2002 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards 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 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 of 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 or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.


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 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 of the state of the charitable company's state of affairs as at December 31, 2002 and of its incoming resources and application of resources, including its income and expenditure in the year then ended, and have been properly prepared in accordance with the Companies Act 1985.


MORRIS GREGORY
CHARTERED ACCOUNTANTS
and
REGISTERED AUDITORS
OLDHAM

May 24, 2003

STATEMENT OF FINANCIAL ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2002

SUMMARY INCOME AND EXPENDITURE ACCOUNT

	<u>Notes</u>	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u> <u>2002</u>	<u>Total</u> <u>2001</u>
		£	£	£	£
Incoming resources					
Passenger fares and other income	2	-	25,504	25,504	25,658
Covenanted income from subsidiary companies		-	3,203	3,203	11,000
Contribution from Russell Cafe		-	1,500	1,500	1,500
Fundraising and subscriptions		28,852	10,057	38,909	34,968
Total income		<u>£ 28,852</u>	<u>£40,264</u>	<u>£ 69,116</u>	<u>£ 73,126</u>
Resources expended					
Direct charitable expenditure					
Railway operating costs and projects		13,264	38,862	52,126	42,365
Other expenditure					
Management and administration		-	6,540	6,540	5,025
Total expenditure		<u>£ 13,264</u>	<u>£ 45,402</u>	<u>£ 58,666</u>	<u>£ 47,390</u>
Net income for the year	3	<u>£ 15,588</u>	<u>£ (5,138)</u>	<u>£ 10,450</u>	<u>£ 25,736</u>

There were no recognised gains or losses other than those included in the statement of financial affairs.

BALANCE SHEET
AT DECEMBER 31, 2002

	<u>Notes</u>	<u>2002</u>	<u>2001</u>
		£	£
Fixed assets			
Tangible assets	5	273,944	265,933
Investments	6	18,102	18,202
		<u>292,046</u>	<u>284,135</u>
Current assets			
Stocks		500	500
Debtors	7	18,025	10,565
Cash at bank and in hand		37,694	43,685
		<u>56,219</u>	<u>54,750</u>
Creditors: amounts falling due within one year	8	(14,146)	(11,915)
Net current assets		<u>42,073</u>	<u>42,835</u>
Total assets less current liabilities		<u>334,119</u>	<u>326,970</u>
Creditors: amounts falling due after more than one year	9	(24,854)	(27,870)
Deferred grants	10	(11,538)	(11,823)
		<u>£ 297,727</u>	<u>£ 287,277</u>
Capital			
Revaluation reserve	12	118,521	118,957
Restricted income funds	12	62,804	47,216
Unrestricted funds	12	116,402	121,104
Retained funds	13	<u>£ 297,727</u>	<u>£ 287,277</u>

The financial statements have been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies.

The financial statements were approved by the Board of Directors on May 24, 2003 and are signed on its behalf by:

D. W. ALLAN
Director



The notes on pages 6 to 11 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

1. Accounting policies

1.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable accounting standards and incorporate the results of the principal activity which is described in the directors' report and which is continuing.

The company has taken advantage of the exemption in FRS 1 from the requirement to prepare a cash flow statement on the grounds that it is a small company.

The company and its subsidiary undertakings comprise a small group. The company has taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts. The financial statements therefore present information about the company as one individual undertaking and not about its group.

The company is a registered charity under Charity Number 1039817.

1.2 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less depreciation.

Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Freehold buildings	-	2% straight line basis
Rail, rolling stock, plant and machinery	-	rates between 10% reducing balance basis and 50% straight line basis.

1.3 Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks.

2. Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, net of value added tax and trade discounts. Turnover is attributable to one continuing activity.

There were no exports during the year.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

3. Operating surplus

The operating surplus is stated after charging or (crediting):

	<u>2002</u>	<u>2001</u>
	£	£
Depreciation of tangible fixed assets		
- owned by the company	6,868	7,053
Life memberships released to income	(1,538)	(1,483)
Grant released to income	(285)	(285)

4. Taxation

There is no corporation tax payable because of the company's charitable status.

5. Tangible fixed assets

	<u>Freehold land and buildings</u>	<u>Rail, rolling stock, plant and machinery</u>	<u>Total</u>
	£	£	£
Cost or valuation			
At January 1, 2002	258,489	120,886	379,375
Additions	13,399	1,480	14,879
At December 31, 2002	<u>271,888</u>	<u>122,366</u>	<u>394,254</u>
Depreciation			
At January 1, 2002	24,686	88,756	113,442
Charge for the year	3,025	3,843	6,868
At December 31, 2002	<u>27,711</u>	<u>92,599</u>	<u>120,310</u>
Net book values			
At December 31, 2002	<u>£ 244,177</u>	<u>£ 29,767</u>	<u>£ 273,944</u>
At December 31, 2001	<u>£ 233,803</u>	<u>£ 32,130</u>	<u>£ 265,933</u>

Included in the cost or valuation of freehold land and buildings are assets stated at their 1990 valuation of £150,000. The original cost of these assets amounted to £35,549.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

6. Investments

	<u>2002</u>	<u>2001</u>
	£	£
Investment in subsidiary undertakings		
Subsidiary company - Cwmni Rheilffordd Beddgelert Cyfyngedig	18,100	18,100
- Cwmni Rheilffordd Caernarfon Cyfyngedig	-	100
- Welsh Highland Railway Trading Limited	2	2
	<u>£ 18,102</u>	<u>£ 18,202</u>

Cwmni Rheilffordd Caernarfon Cyfyngedig was dissolved on May 7, 2002.

	<u>Beddgelert</u>	<u>W H R Trading Ltd</u>
Country of registration	England and Wales	England and Wales
Holding	Ordinary shares	Ordinary shares
Proportion held	100%	100%
Aggregate of share capital and reserves		
At December 31, 2002	£ 18,351	£ 2
Profit/(loss) retained for the financial year ended		
December 31, 2002	£ -	£ -
Nature of business	(see below)*	Non-trading

*The raising of funds by various means in order to rebuild, restore and operate the narrow gauge railway between Porthmadog and Dinas. The company also operates the shop.

7. Debtors

	<u>2002</u>	<u>2001</u>
	£	£
Due within one year		
Income tax recoverable	12,225	6,725
Other taxation recoverable	931	910
Other debtors	-	1,436
Amounts due from subsidiary companies	3,490	10
Prepayments and accrued income	1,379	1,484
	<u>£ 18,025</u>	<u>£ 10,565</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002

8. Creditors: amounts falling due within one year

	<u>2002</u>	<u>2001</u>
	£	£
Bank loans and overdrafts (secured)	1,952	1,767
Trade creditors	7,296	5,171
Amounts due to subsidiary company	-	203
Interest free loans	2,100	2,100
Accruals	1,275	1,177
Life memberships reserve	1,523	1,497
	<u>£ 14,146</u>	<u>£ 11,915</u>

9. Creditors: amounts falling due after more than one year

	<u>2002</u>	<u>2001</u>
	£	£
Life memberships reserve	13,737	14,801
Bank loan (secured)	11,117	13,069
	<u>£ 24,854</u>	<u>£ 27,870</u>
Analysis of maturity of bank loan:		
Within one year	1,952	1,767
Between one and two years	2,157	1,953
Between two and five years	7,923	7,172
After five years	1,037	3,944
	<u>£ 13,069</u>	<u>£ 14,836</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**

10. Deferred grants

	At January 1, 2002	Received during the year	Released to income	At December 31, 2002
	£	£	£	£
Welsh Development Agency	7,840	-	230	7,610
Welsh Tourist Board	2,183	-	15	2,168
Gwynedd Council	1,800	-	40	1,760
	<u>£ 11,823</u>	<u>£ -</u>	<u>£ 285</u>	<u>£ 11,538</u>
To be released:				
Within 12 months				285
After 12 months				11,253
				<u>£ 11,538</u>

The grants will be released back to income over the life of the assets to which they relate.

11. Liability of members

The number of members at December 31, 2002 is 943 (2001 : 970) and in the event of a winding up of the company each member shall contribute to the debts and liabilities up to a maximum of £1. In addition to the above there are 44 junior members.

12. Reserves

	Restricted income funds	Unrestricted funds	Revaluation reserve
	£	£	£
At January 1, 2002	47,216	121,104	118,957
Net income for the year	15,588	(5,138)	-
Transfers	-	436	(436)
At December 31, 2002	<u>£ 62,804</u>	<u>£ 116,402</u>	<u>£ 118,521</u>

13. Reconciliation of movement in retained funds

	<u>2002</u>	<u>2001</u>
	£	£
At January 1, 2002	287,277	261,541
Surplus for the year	10,450	25,736
At December 31, 2002	<u>£ 297,727</u>	<u>£ 287,277</u>

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2002**14. Special projects**

During the year the company had received specific donations of £28,852 (2001 : £24,575) which were held in connection with future expenditure on various projects as follows:

	<u>2002</u>	<u>2001</u>
	£	£
Pedemoura	1,730	1,730
Bagnall 3050	6,141	2,751
Bagnall 3023	268	236
Barclay Locos	112	112
Karen	2,461	2,991
Gladstone	631	631
NG15	4,628	4,628
Weighbridge	94	94
Museum	1,279	1,229
Membership	715	715
Workshop	102	50
Pont Croesor Extension Fund	44,055	32,000
Pen-y-Mount	102	102
Coach 42	365	195
Waggon 197	121	121
Boring machine	-	(170)
Brake van	-	(199)
	<u>£ 62,804</u>	<u>£ 47,216</u>

15. Analysis of fund balances between the net assets

	<u>Revaluation reserve</u>	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
	£	£	£	£
Tangible fixed assets	118,521	92,619	62,804	273,944
Investments	-	18,102	-	18,102
Net current assets	-	42,073	-	42,073
Creditors due after more than one year	-	(24,854)	-	(24,854)
Deferred grants	-	(11,538)	-	(11,538)
	<u>£ 118,521</u>	<u>£ 116,402</u>	<u>£ 62,804</u>	<u>£ 297,727</u>

16. Capital commitments

At December 31, 2002 the company had capital commitments of £Nil (2001 : £Nil) both authorised and contracted for.