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Inverness and Nairn Local Enterprise Company

(Limited by Guarantee)

Report and Accounts

31 March 1998

ERNST & YOUNG



Inverness and Nairn Local Enterprise Company

Registered No. 124797

DIRECTORS

N G Cordiner	(Chairman)
J M Campbell	(Vice Chairman)
J R Asher	
E A Fraser	(Resigned 29 July 1997)
G W Girvan	
H H MacBean	
G M R MacRae	
A G Sellar	
H B Sheerin	
R R W Stewart	
P A Thorn	
I R M Urquhart	(Appointed 27 January 1998)
G M Sword	(Appointed 27 January 1998)

SECRETARY

F M Larg

AUDITORS

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

BANKERS

The Royal Bank of Scotland plc
Chief Office
29 Harbour Road
Inverness
IV1 1TW

SOLICITORS

South Forrest
8 Ardross Terrace
Inverness
IV3 5NW

REGISTERED OFFICE

Castle Wynd
Inverness
IV2 3DW

CHAIRMAN'S REPORT

The signs of enterprise and growth are evident throughout the Inverness and Nairn area, in the activities of individuals, communities and businesses large and small. Their determination to solve problems, build their expertise and serve their customers or clients by adding quality to whatever they do, is generating the success they deserve. They are also helping to create the more diversified economy which is our key aim, providing a firm base for sustained growth beyond the millennium.

The next few years could be the most exciting and rewarding since INE was established in 1991, as plans, promotional activities and the spin-off from recent successful developments mature.

Inverness College, as part of the University of the Highlands and Islands, will make a critical contribution to sustaining growth through the educational resources it will develop and deploy. Our appraisal of the options for the future location of the college illustrates the benefits that could accrue from the favoured single site campus at Craig Dunain.

Our Technology and Healthcare Initiative is on the verge of its first major success. We are talking with two major healthcare companies which have identified Inverness as their preferred site for major developments, largely as a result of our co-operative strategy and the growing reputation of our workforce.

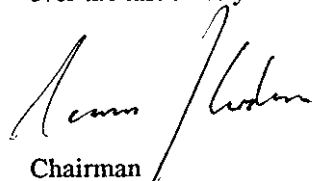
Nairn is demonstrating that determination and co-operation can bring new hope to a community by tackling problems and bringing considerable flair to their resolution. Both residents and visitors are reaping considerable rewards from a variety of initiatives by local people and business, backed by public bodies such as INE, and looking forward to particular benefits from the Walker Cup in 1999.

Contrasting companies such as BARMAC at Ardersier and the Official Loch Ness Monster Exhibition in Drumnadrochit are tied by a common thread. Both aim to develop world class qualities - BARMAC in the standards of its labour force through a £2 million training programme, and the exhibition through a major upgrade to establish it as a leading international interpretive centre. We believe considerable additional benefits will be generated for the Loch Ness-side community through developments proposed by Historic Scotland for Urquhart Castle, and we will be pressing that view at a forthcoming planning inquiry.

Growing interest in the development of Inverness and Nairn, and in taking leadership of the process, was evident as we made the first changes to our board through the HIE Network's 'Appointability Through Openness' policy.

Two positions on the INE board were widely advertised and received a heartening number of applications. As a result, we appointed local businessmen Ian Urquhart of Drumnadrochit and Grant Sword of Nairn. Their wide business experience will prove of considerable benefit to the continuing work of INE.

I thank Ann Fraser of Beauly, who retired from the board during the year, for her invaluable contribution over the last three years.


Chairman
1 May 1998-

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 March 1998.

RESULTS

The company received funding of £5.2m from a variety of sources and the net result for the year was an excess of expenditure over the income amounting to £183,280. This reflected the Board's decision to reduce previous years' surpluses.

PRINCIPAL ACTIVITY, 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 and training services within the Inverness and Nairn area and aims to fully utilise its annual operating budget.

The Working Year

In previous reports, we have described collaborative efforts with a series of other local organisations to foster growth areas which we believe will make a substantial contribution to the future economic health of Inverness and Nairn.

We view the realisation of the University of the Highlands and Islands Project, including the development of Inverness College, as the single most important development for Inverness and Nairn to and beyond the Millennium. The Technology and Healthcare Initiative aims to win for the area a significant share of the rapid international expansion of modern high-tech businesses and companies producing an ever-growing range of healthcare products. Both of these projects will require staff of high educational attainment, generating a direct and indirect impact that offers the potential to transform the economic structure of the area.

As the year drew to a close, we published the results of an independent study - commissioned by INE with the co-operation of Inverness College - to examine the options for the future location of the college, which will play a pivotal role in the University of the Highlands and Islands. The appraisal favoured relocation from the college's existing sites to a single site campus at Craig Dunain, which could create 300 jobs and bring additional economic benefits estimated at £150 million over the next 30 years.

The 200-acre Craig Dunain site offers a magnificent edge-of-town Victorian building and campus and has ample scope to provide an associated business school, science and technology park, student accommodation and leisure and cultural amenities. Such economic benefits would far outweigh initial extra costs of £1.5 million that the move to Craig Dunain would involve.

The study considered the college's present site to be too cramped to accommodate all the academic, business development and local employment benefits to be gained from the future role of the college. It also recommended against an option for relocation to a greenfield site on the A96 east of Inverness because of much higher costs and poorer business growth potential.

We believe the Craig Dunain site will help Inverness College to realise its full potential within the University of the Highlands and Islands. During the early part of the next financial year, we will be discussing the findings of the study with the college and other funding partners.

DIRECTORS' REPORT

**PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND
FUTURE DEVELOPMENTS (continued)**

The Technology and Healthcare Initiative is being driven forward through a series of complementary activities. INE and the Highland Health Board have jointly funded a Technology and Healthcare Executive who will be responsible for stimulating progress towards a series of ambitious targets.

The Highland Healthcare Partnership, which acts as a catalyst for a number of development projects, has established working groups with specific short term objectives to realise opportunities in Research and Development, Complementary Medicine and Telemedicine, which utilises advanced telecommunications to link consultants to remote clinics. Numerous research-based projects are in the early stages of development and we are extremely heartened by the level of activity within this growth area.

An example of the growth that can be achieved in the healthcare sector lies in the performance of Inverness Medical, which went into full production towards the end of 1997 to launch a self-testing kit for diabetics in North America early in 1998.

The launch will guarantee full production at Inverness Medical - the single biggest inward investment yet won by the Highlands and Islands Enterprise network - for the next five years and trigger a substantial increase in its 191-strong workforce. The firm remains on schedule to achieve a total workforce of 375 over the next three years, with a forecast spin-off of a further 100 jobs.

INE is also working with the Highland Psychiatric Research Group to assist the development of a research foundation which will foster advanced work on the treatment of schizophrenia and dyslexia.

Part of the group's activities will be based close to Raigmore Hospital in a £1.25 million Business Technology Centre at Beechwood Business Park, which will offer 16 high quality incubator units, with shared administrative and secretarial services, for a range of businesses with growth potential. Plans for the centre are at an advanced stage and we hope to be in a position to begin construction during 1998/99. The proposed units are attracting strong interest and we expect some 60 per cent of the available space to be pre-let.

The attraction and credibility of Inverness, and much of the Highlands, as a location for inward investment depends to a critical degree on the quality and speed of international air links through London. Consequently, we were extremely disappointed by decisions by British Airways to withdraw its services to London Heathrow and by KLM UK to withdraw services to London Stansted and Amsterdam.

The Heathrow services were switched to London Gatwick under a franchise to British Regional Airlines (BRA), bringing considerable economic benefits to Inverness through local crewing, maintenance and servicing, and by basing flight deck personnel in the area. We are actively supporting the efforts of BRA to develop a high quality service to Gatwick which will meet the needs of Highland businesses and visitors travelling to the Highlands from throughout the world.

A positive contribution to the future of air travel to and from Inverness came in an announcement by Highlands and Islands Airports Ltd of the development of a new terminal building at Dalcross. Scheduled for completion in May of 1999, the terminal will finally provide the quality of facilities which Inverness and the Highlands deserve, easing congestion and offering a much more impressive 'Gateway to the Highlands'.

DIRECTORS' REPORT

**PRINCIPAL ACTIVITY, REVIEW OF THE BUSINESS AND
FUTURE DEVELOPMENTS (continued)**

This gateway concept is particularly important in encouraging the success of continuing initiatives to secure more holiday charter services into Inverness Airport. Falcon Travel of Zurich, which launched a highly successful programme in 1997, has arranged an even more ambitious and higher capacity programme for the summer of 1998.

To such visitors, the environment of the Highlands is a key attraction. That is one of the reasons why we consider it important to assist projects which will make significant contributions towards the environment or increase enjoyment of the countryside.

During the year, we invested £148,000 in a variety of environmental works, and the installation of mooring facilities and interactive information points, carried out on the Caledonian Canal by British Waterways. The canal represents a significant tourism resource, increasingly used by overseas visitors. For example, growing numbers of German tourists are being won by the determined marketing efforts of self-drive cruiser hire companies such as Caley Cruisers, which we are assisting to develop new vessels specifically for the continental market.

Equally important is our assistance to projects such as the Great Glen Cycle Path, part of the national cycle network; to the variety of award-winning floral projects throughout the area; and to participation in the European Entente Florale.

Special events not only boost low season tourism business but add to the enjoyment of Inverness by residents and visitors alike. During 1997, we assisted the Inverness Mod, participated in local elements of the successful Highland Festival and supported arrangements for the first Hogmanay Party, which provided an excellent learning experience for plans for a major millennium event. In May of 1998, we will launch the first Highland Food Festival and have approved funding for the World Orienteering Championships which will attract over 2,000 competitors and visitors to the Inverness area in 1999. We are also assisting planning for the Walker Cup which will do much to promote the attractions of Nairn's championship golf courses.

The construction and oil fabrication industries reached peak activity during the year, complementing growth in other sectors of the local economy. New retail facilities were completed at Inverness Retail and Business Park, which will provide much needed land for new business developments. Significant future additions to Inverness retail facilities were heralded by the approval of plans for a shopping centre at Academy Street and the extension of the Eastgate Shopping Centre.

Opportunities are also opening up in Nairn which is benefiting from the improved contracts position of BARMAC at Ardersier, which has secured orders providing work for the next two years. The greater stability of BARMAC, and a variety of locally led initiatives assisted by INE and others, are injecting new heart into Nairn and helping to restore civic pride. We published a Nairn Business Directory, to stimulate trade, and local business associations are developing a customer charter. The loyalty scheme Nairn 1st Choice generated a heartening response, with cards being issued to over 5,000 customers who will benefit from purchasing goods and services from 70 participating businesses.

A major milestone in training was achieved when we helped BARMAC launch a £2 million training scheme which will involve 100 Skillseekers on Modern Apprenticeships and initiate vocational training programmes for all of its 2,600 workforce. In this way, BARMAC aims to build a world class workforce which will give them an edge in the competitive global market for oil-related fabrication.

DIRECTORS' REPORT

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 Committee on the Financial Aspects of Corporate Governance (in Cadbury Committee).

A statement of the directors' responsibilities in respect of the accounts is set out on page 10.

The board

At 31 March 1998, the board of Inverness and Nairn Local Enterprise Company comprised twelve non-executive members, including the chairman. New board members are appointed by the existing board and none 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

The chief executive is aware of the need for effective internal financial control, and acknowledges her responsibility for the system of control to enable the efficient management of Inverness and Nairn Local 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.

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

Inverness and Nairn Local 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 internal auditors. The meetings are also attended, by invitation, by the Chief Executive. Meetings are held at least four times a year.

Inverness and Nairn Local Enterprise Company has an internal audit service, provided by Highlands and Islands Enterprise, the work of which concentrates on areas of key activities determined by an analysis of the areas of greatest risk and in accordance with the annual internal audit plan approved by Highlands and Islands Enterprise. The internal auditors report to the committee on a regular basis and have direct access to the chairman of the committee.

DIRECTORS' REPORT

CORPORATE GOVERNANCE (continued)

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 Inverness and Nairn Local Enterprise Company.

Conflicts of interest procedures

Inverness and Nairn Local 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 Inverness and Nairn Local Enterprise Company declares an interest.

Citizen's charter

Inverness and Nairn Local 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.

Computers - Year 2000

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. Our operations depend not only on our own computer systems, but also to some degree on those of our providers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

A HIE network wide programme, designed to address the impact of the Year 2000 on our operations, has been commissioned by the HIE Board and is under way. Resources have been allocated and the Board receives regular reports on progress. Consequently, the HIE network is well advanced in the phase of assessing the risks to our operations resulting from the date change to the Year 2000. Once this phase is completed we can assess the likely impact on our activities and develop prioritised action plans to deal with the key risks. We expect to be Year 2000 compliant by October 1998.

DIRECTORS' REPORT

FIXED ASSETS

During the year the company invested £14,275 in equipment as detailed in note 9 to the accounts. As detailed in note 10 to the accounts, a total of £150,000 was invested in loans during the year before £21,211 was provided in respect of a diminution in the value of loan and share investments.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year ended 31 March 1998 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 G W Girvan and J R Asher retire.

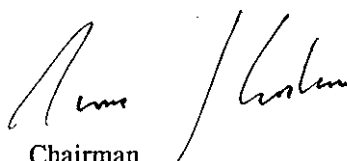
DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

On behalf of the board


Chairman

1 May 1998

Inverness and Nairn Local Enterprise Company

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 or 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 THE AUDITORS

to the members of Inverness and Nairn Local Enterprise Company

We have audited the accounts on pages 12 to 26 which have been prepared under the historical cost convention and on the basis of the accounting policies set out on pages 15 and 16.

Respective responsibilities of directors and auditors

As described on page 10 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

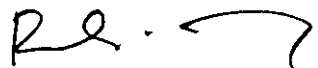
Basis of opinion

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 1998 and of its net expenditure for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


Chartered Accountants
Registered Auditor
Inverness

5 May 1998

Inverness and Nairn Local Enterprise Company

INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 March 1998

	Notes	1998 £	1997 £
INCOME	2	5,215,618	5,281,918
Operating expenditure		4,661,151	4,710,012
Administrative expenditure		779,911	720,274
OPERATING EXPENDITURE	3(a)	(225,444)	(148,368)
Interest receivable	6	53,909	42,084
Interest paid	7	(611)	(1,108)
NET EXPENDITURE ON ORDINARY ACTIVITIES BEFORE TAXATION		(172,146)	(107,392)
Tax on ordinary activities	8	11,134	9,371
NET EXPENDITURE FOR THE FINANCIAL YEAR	16	£(183,280)	£(116,763)


STATEMENT OF RECOGNISED GAINS AND LOSSES

There are no recognised gains or losses other than the net expenditure of £183,280 in the year ended 31 March 1998 and the net expenditure of £116,763 in the year ended 31 March 1997.

Inverness and Nairn Local Enterprise Company

BALANCE SHEET

as at 31 March 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	9	107,407	115,980
Investments	10	1,444,711	1,421,699
		<u>1,552,118</u>	<u>1,537,679</u>
CURRENT ASSETS			
Debtors	11	864,962	343,876
Cash at bank		-	196,117
		<u>864,962</u>	<u>539,993</u>
CREDITORS: amounts falling due within one year	12	<u>864,171</u>	<u>356,757</u>
NET CURRENT ASSETS		<u>791</u>	<u>183,236</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,552,909</u>	<u>1,720,915</u>
CREDITORS: amounts falling due after one year			
Obligations under finance leases	13	373	3,209
		<u>1,552,536</u>	<u>1,717,706</u>
PROVISIONS FOR LIABILITIES AND CHARGES	14	<u>1,548,910</u>	<u>1,530,800</u>
		<u>£3,626</u>	<u>£186,906</u>
CAPITAL AND RESERVES			
Accumulated surplus	16	3,626	186,906
			
Directors			
1 May 1998.			
		<u>£3,626</u>	<u>£186,906</u>

Inverness and Nairn Local Enterprise Company

STATEMENT OF CASH FLOWS

for the year ended 31 March 1998

	Notes	1998 £	1997 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	3(b)	(249,256)	(152,597)
RETURNS ON INVESTMENTS and SERVICING OF FINANCE	17	53,298	41,110
TAXATION	17	(9,833)	(15,682)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	17	3,670	(5,007)
FINANCING	17	(3,670)	5,007
DECREASE IN CASH AND CASH EQUIVALENTS	17	£(205,791)	£(127,169)
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS			
		1998 £	1997 £
Decrease in cash in period		(205,791)	(127,169)
Cash outflow from increase in lease financing		3,670	4,069
New hire purchase agreements		-	(9,077)
Movement in net funds in the period		(202,121)	(132,177)
Net funds at 1 April 1997		189,238	321,415
Net funds at 31 March 1998		£(12,883)	£189,238

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS

at 31 March 1998

1. ACCOUNTING POLICIES

(a) *Accounting convention*

The accounts are prepared under the historical cost convention 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 renewal programmes throughout the Inverness and Nairn area. 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 the control exercised over it through the negotiated operating contract.

(c) *Depreciation*

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Equipment	-	25% per annum
Tenants' improvements	-	4% per annum

(d) *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.

(e) *Loans*

Loans advanced by the company are shown at the amount outstanding at the balance sheet date less provisions for any anticipated losses. Where loans have been funded by Highlands and Islands Enterprise a reduction in annual funding will be made to reflect the loan repayments received by the company. Accordingly, funding received in respect of loan advances is credited to a loan repayment provision.

NOTES TO THE ACCOUNTS

at 31 March 1998

1. ACCOUNTING POLICIES (continued)

(f) *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 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.

(g) *Leases and hire purchase commitments*

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the company, are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

(h) *Pensions*

Seconded staff are members of Highlands and Islands Enterprise's defined benefit pension scheme. The scheme requires contributions to be made to a separately administered fund. Contributions to the fund are charged to the income and expenditure account so as, as far as is possible, to spread the cost of pensions over the secondees' working lives with the company.

(i) *Deferred taxation*

Provision is made for deferred taxation, using the liability method, on all timing differences to the extent that it is probable that the liability will crystallise.

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 £167,946 which was received from Highlands and Islands Enterprise to fund capital assets and is credited to either the loan/investment or asset repayment provision (see note 14).

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS at 31 March 1998

2. INCOME (continued)

An analysis of income by funding sources is given below:

	1998 £	1997 £
Highlands and Islands Enterprise	4,823,065	5,000,101
European Union	241,665	140,738
Other	150,888	141,079
	<u>£5,215,618</u>	<u>£5,281,918</u>

3. OPERATING INCOME/(EXPENDITURE)

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

	1998 £	1997 £
Auditor's remuneration	7,875	7,500
Depreciation of owned fixed assets	20,918	21,716
Depreciation of assets held under finance leases and hire purchase contracts	1,930	3,183
Operating lease rentals - equipment	1,693	1,584
Property lease	124,000	124,000
Asset repayment provision released	(22,848)	(24,899)
Loss on sale of investments	-	13,650
Provision against investments	21,241	1,114
	<u></u>	<u></u>

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

	1998 £	1997 £
Operating expenditure	(225,444)	(148,368)
(Increase)/decrease in debtors	(521,086)	90,303
Increase/(decrease) in creditors	497,274	(94,532)
Depreciation	22,848	24,899
Loss on disposal of investments	-	13,650
Decrease in asset repayment provision	(22,848)	(24,899)
Provision against investments	21,241	1,114
Decrease in investment repayment provision	(21,241)	(14,764)
	<u></u>	<u></u>
Net cash outflow from operating activities	<u>£(249,256)</u>	<u>£(152,597)</u>

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS

at 31 March 1998

4. DIRECTORS' REMUNERATION

None of the directors who held office during the year received any remuneration (1997 - £Nil).

Payments to directors for travelling and subsistence expenses, necessarily incurred in discharging their duties totalled £Nil (1997 - £533).

5. STAFF COSTS

At 31 March 1998 the company had 15 (1997 - 15) direct employees. Other staff members are employees of Highlands and Islands Enterprise who have been seconded to the company. The average weekly number of total staff during the year was 37 (1997 - 37).

Details of charges made for the services of secondees and details of direct employee costs were as follows:

	<i>Secondees</i>	<i>Core</i>	<i>Employees Project</i>	<i>1998 Total</i>	<i>1997 Total</i>
	£	£	£	£	
Salaries	415,968	146,935	66,002	628,905	626,806
Social security costs	31,597	14,050	5,087	50,734	52,096
Other pension costs	-	42,215	-	42,215	37,134
	<u>£447,565</u>	<u>£203,200</u>	<u>£71,089</u>	<u>£721,854</u>	<u>£716,036</u>

6. INTEREST RECEIVABLE

	<i>1998</i>	<i>1997</i>
	£	£
Bank interest	33,072	19,876
Loan interest	20,837	22,208
	<u>£53,909</u>	<u>£42,084</u>

7. INTEREST PAID

	<i>1998</i>	<i>1997</i>
Finance charges payable under finance leases and hire purchase contracts	£611	£1,108
	<u>£611</u>	<u>£1,108</u>

8. TAX ON ORDINARY ACTIVITIES

	<i>1998</i>	<i>1997</i>
	£	£
Corporation tax at 21%	11,400	10,100
Overprovided in previous year	(266)	(729)
	<u>£11,134</u>	<u>£9,371</u>

The charge for the year represents tax at 21% on interest received.

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS at 31 March 1998

9. TANGIBLE FIXED ASSETS

	<i>Equipment</i> £	<i>Tenants improvements</i> £	<i>Total</i> £
Cost:			
At 1 April 1997	190,535	60,490	251,025
Additions during the year	14,275	-	14,275
At 31 March 1998	204,810	60,490	265,300
Depreciation:			
At 1 April 1997	123,097	11,948	135,045
Provided during the year	20,428	2,400	22,848
At 31 March 1998	143,525	14,368	157,893
Net book value:			
At 31 March 1998	£61,285	£46,122	£107,407
At 1 April 1997	£67,438	£48,542	£115,980

The net book value of equipment above includes an amount of £5,790 (1997 - £7,721) in respect of assets held under finance leases and hire purchase contracts.

10. INVESTMENTS

	<i>Loans</i> £	<i>Unquoted shares</i> £	<i>Total</i> £
Cost:			
At 1 April 1997	401,865	1,080,003	1,481,868
Additions	150,000	-	150,000
Repayments	(105,747)	-	(105,747)
Amounts written off	(37,884)	-	(37,884)
At 31 March 1998	408,234	1,080,003	1,488,237
Provisions:			
At 1 April 1997	60,169	-	60,169
Provided in year	21,211	-	21,211
Amounts written off	(37,854)	-	(37,854)
At 31 March 1998	43,526	-	43,526
Net book value:			
At 31 March 1998	£364,708	£1,080,003	£1,444,711
At 1 April 1997	£341,696	£1,080,003	£1,421,699

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS at 31 March 1998

10. INVESTMENTS (continued)

Details of the investments in which the company has a shareholding are as follows:

<i>Name of company</i>	<i>Country of registration (or incorporation) and operation</i>	<i>Holding</i>	<i>Proportion held</i>	<i>Nature of business</i>	<i>Net book value £</i>
Inverness Medical Limited	Scotland	6% Cumulative redeemable preference shares	100%	Bio-medical research and production	1,000,000
Inverness Thistle & Caledonian FC Limited	Scotland	Ordinary	0.01%	Football club	3
Kingswood Linen Services Limited	Scotland	Preference Cumulative convertible preferred ordinary shares	25.9% 100%	Laundry services	70,000 10,000
					<hr/> £1,080,003 <hr/>

The cumulative redeemable preference shares in Inverness Medical Limited carry an entitlement to dividend at the rate of 6p per annum. However, the directors believe that to show a true and fair view the cumulative preference dividend should only be recognised as accrued income once Inverness Medical Limited's profitability and cash flow has been established. These cumulative redeemable preference shares may be redeemed at £1.05 per share at any time at the option of Inverness Medical Limited on or prior to 23 June 2000. If Inverness Medical Limited is unable to redeem all or any of the preference shares on or prior to 23 June 2000, the company shall redeem the preference shares as soon as it may lawfully do so thereafter at a redemption price of £1.20 per share.

Kingswood Linen Services Limited commenced trading in March 1997 and no audited accounts are available.

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS

at 31 March 1998

11. DEBTORS

	1998 £	1997 £
Highlands and Islands Enterprise	717,986	293,013
Amounts due from fellow subsidiary undertakings	-	335
Other debtors	53,779	15,716
Other taxes	80,969	26,966
Prepayments and accrued income	12,228	7,846
	<u>£864,962</u>	<u>£343,876</u>

Included in other debtors is an amount of £2,735 which is due after more than one year (1997 - £3,135).

12. CREDITORS: amounts falling due within one year

	1998 £	1997 £
Bank overdraft	9,674	-
Highlands and Islands Enterprise	379,140	81,351
Trade creditors	446,673	250,937
Amounts due to fellow subsidiary undertakings	406	-
Current corporation tax	11,400	10,100
Accruals	14,042	10,699
Obligations under finance leases and hire purchase contracts (note 13)	2,836	3,670
	<u>£864,171</u>	<u>£356,757</u>

13. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

	1998 £	1997 £
Amounts payable:		
Within one year	2,836	3,670
Within two to five years	373	3,209
	<u>£3,209</u>	<u>£6,879</u>

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS at 31 March 1998

14. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Loan/ investment repayment provision £</i>	<i>Asset repayment provision £</i>	<i>Total £</i>
At 1 April 1997	£1,421,699	£109,101	£1,530,800
Funding from Highlands and Islands Enterprise	150,000	17,946	167,946
Funding repaid to Highlands and Islands Enterprise	(105,747)	-	(105,747)
	<u>1,465,952</u>	<u>127,047</u>	<u>1,592,999</u>
Depreciation for the year (note 9)	-	(22,848)	(22,848)
Provision against investments (note 10)	(21,241)	-	(21,241)
	<u>£1,444,711</u>	<u>£104,199</u>	<u>£1,548,910</u>

15. SHARE CAPITAL

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

At 31 March 1998 the company had 22 members.

16. MOVEMENT ON RESERVES

	<i>Accumulated surplus/(deficit) £</i>
At 1 April 1996	303,669
Net expenditure for year	(116,763)
	<u>186,906</u>
At 31 March and 1 April 1997	186,906
Net expenditure for year	(183,280)
	<u>£3,626</u>

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS at 31 March 1998

17. GROSS CASH FLOWS

	1998 £	1997 £
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(249,256)	(152,597)
RETURNS OF INVESTMENTS and SERVICING OF FINANCE		
Interest received	53,909	42,218
Interest element of finance lease rental payments	(611)	(1,108)
	<u>53,298</u>	<u>41,110</u>
TAXATION		
Corporation tax paid	(9,833)	(15,682)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Loans advanced	(150,000)	(5,000)
Payment to acquire shares	-	(80,000)
Receipts from Highlands and Islands Enterprise to fund loans and shares	150,000	85,000
Loans repaid	105,747	64,586
Funding repaid to Highlands and Islands Enterprise in respect of loans	(105,747)	(64,586)
Payments to acquire fixed assets	(14,275)	(28,387)
Receipts from Highlands and Islands Enterprise to fund fixed assets	17,945	23,381
Proceeds from sale of investments	-	227,336
Funding repaid to Highlands and Islands Enterprise in respect of investments	-	(227,337)
	<u>3,670</u>	<u>(5,007)</u>
FINANCING		
Receipts from finance lease arrangements	-	9,076
Repayment of capital element of finance lease rentals	(3,670)	(4,069)
	<u>(3,670)</u>	<u>5,007</u>
DECREASE IN CASH AND CASH EQUIVALENTS	£(205,791)	£(127,169)

18. ANALYSIS OF CHANGES IN NET DEBT

	At 1 April 1997	Cash flows	Other non- cash charges	At 31 March 1998
Cash in hand, at bank	196,117	(205,791)	-	(9,674)
Finance leases/HP liabilities	(6,879)	3,670	-	(3,209)
	<u>£189,238</u>	<u>£(202,121)</u>	<u>-</u>	<u>£(12,883)</u>

Inverness and Nairn Local Enterprise Company

NOTES TO THE ACCOUNTS

at 31 March 1998

19. 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.

20. CONTINGENT ASSET

A grant of £350,000 paid by the company, £275,000 in the year to 31 March 1993 and £75,000 in the year to 31 March 1994, may be repayable together with a premium thereon of £350,000, making a total repayable sum of £700,000.

The repayable sum shall be paid to the company, in instalments of £17,500 per machine if the grant obligant manufactures and assembles its product outside the Highlands and Islands area.

21. FINANCIAL COMMITMENTS

At 31 March 1998 the company had annual commitments under non-cancellable operating and similar leases as set out below:

	<i>Property</i>		<i>Equipment</i>	
	<i>1998</i>	<i>1997</i>	<i>1998</i>	<i>1997</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Operating and similar leases which expire:				
within two to five years	-	-	1,877	1,584
in over five years	124,000	124,000	-	-
	<u>£124,000</u>	<u>£124,000</u>	<u>£1,877</u>	<u>£1,584</u>

22. OTHER COMMITMENTS

	<i>1998</i>	<i>1997</i>
Approved funding	<u>£1,166,868</u>	<u>£880,284</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.

23. PENSION COMMITMENTS

Staff seconded from Highlands and Islands Enterprise (HIE) are members of a defined benefit pension scheme which is funded by Highlands and Islands Enterprise and recharged to the company. The assets of the scheme are held separately from those of the company.

The accounts of Highlands and Islands Enterprise for the year ended 31 March 1998, include details of the actuarial valuation and of the assumptions used therein.

NOTES TO THE ACCOUNTS

at 31 March 1998

24. TRANSACTIONS INVOLVING DIRECTORS

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

<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>%</i>	<i>Director and interest</i>
Strathaird Salmon Limited	2,151	-	1,500	Company training grant	15	Phillip Thorn, chief executive and indirect shareholder
Strathaird Salmon Limited	11,978	-	2,008	Finance for business grant	21	Phillip Thorn, chief executive and indirect shareholder
Ashers Bakery Limited	-	14,500	10,040	Finance for business grant	20	J Asher, director
Ashers Bakery Limited	-	665	307	Marketing grant	33	J Asher, director
Morton Hotels Limited	-	270,000	28,799	Finance for business grant	28	G Sword, managing director
	-	150,000	150,000	Finance for business loan	28	G Sword, managing director
Hugh MacRae & Company	-	5,000	-	Consultancy assistance grant	50	G MacRae, managing director

NOTES TO THE ACCOUNTS
at 31 March 1998

24. TRANSACTIONS INVOLVING DIRECTORS (continued)

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

The Highland Council
Inverness, Nairn & Badenoch & Strathspey Education Business Partnership
Inverness Harbour Trust
Inverness College
Nairn Initiative
Inverness & District Chamber of Commerce
Highlands of Scotland Tourist Board
The Quality Partnership
Inverness Town Centre Management Project
Moray Firth Radio

In the instances of Inverness, Nairn & Badenoch & Strathspey Education Business Partnership, Inverness College and Inverness Town Centre Management Project the directors only have an interest by way of their appointment to the board/committee of the foregoing as a representative of Inverness and Nairn Local Enterprise Company.

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

25. 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. Inverness and Nairn Local 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, Bridge House, 20 Bridge Street, Inverness IV1 1QR.