

Isles of Scilly Steamship Company Limited

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Isles of Scilly Steamship Company Limited

Directors' report

For the year ended 31 March 2012

The directors present their annual report and financial statements of the group for the year ended 31 March 2012.

Principal activities

The principal activities of the company and its subsidiaries are the provision of regular sea and air services for passengers and cargo between the mainland and the Isles of Scilly.

During the year under review the companies continued the operation of ancillary activities as follows: marine engineers, garage services, ship repairers and operation of a dry dock, operation of the inter-island launch service, operation of Land's End Aerodrome, operation of scenic flights and aeronautical engineering.

Review of business

The results for the year are shown in the profit and loss account on page 6.

The group's turnover increased by 4.0% (2011: increase of 14.6%) to £11,645,554 (2011: £11,198,789.) The increase in turnover was due in part to the inclusion of Nike Engineering Limited following the acquisition of that business in May 2011. The Group continued to benefit from the contract with Kiers for carriage of both materials for and contractors working on the build of the new school on St Mary's. This contract completed in September 2011 and contributed significantly to profits in both the current and previous year.

Operating profit was £859,511 (2011: £820,164.)

The Group continues to place monies on terms of between 6 and 12 months with major UK banks with interest receivable for the year of £85,416 (2011: £67,818). Given the level of funds held this return reflects the low rates of interest available for secure term deposits in the UK.

Profit before tax was £944,927 (2011: £887,982) an increase of 6.4%.

The decrease in cash in the year was £38,960 (2011: increase of £767,756.) The Group's capital expenditure of £1,898,459 (2011: £494,406) included the purchase of the freehold of Land's End Airport, the acquisition of the business assets of Nike Engineering and significant investment in our shipping assets. The Group had net funds of £4,709,524 at the year end (2011: £4,748,484) and remains debt free (2011: £Nil).

Shareholders' funds increased by £892,617 to £8,096,082 (2011: £7,203,465.)

The Group continues to be involved with other partners in the development of a scheme for improvements to St Mary's harbour. The success of this scheme will depend on the availability of funding from the Department for Transport and the European convergence programme. A similar project for the harbour at Penzance is being developed, although this is at a less advanced stage and uncertainty remains as to how this project will be progressed.

Subsequent to the end of the financial year the Board completed its review of options for the replacement of its major shipping assets and concluded that it would invest to secure the continuation in service, until at least 2018, of the Scillonian III, the Gry Maritha and the Lyonesse Lady. The Board will at the appropriate time make provision for their replacement.

Whilst visitor numbers declined again in the year, the Group increased its share of the overall market. Nonetheless the continuing fall in passenger journeys will impact on the Group's ability to pass on increases in the cost of fuel and the usage charges levied by both the airports and harbours from which we operate.

Isles of Scilly Steamship Company Limited

Directors' report

For the year ended 31 March 2012

Following the end of the Kiers contract the Group intends to dispose of the IVOR B and it is currently being offered for sale.

Directors

The directors who held office during the year were:

Committees

| | |
|-----------------------------|---------|
| RW Banfield | |
| HR Duncan | A |
| JHM East (Vice Chairman) | A, R, N |
| PD Hardaker | A, R |
| J Marston (Chief executive) | N |
| AJ May (Chairman) | N |
| Mrs JM Walder | R |
| TB Ward | |

'A' signifies that the director is a member of the audit committee.

'R' signifies that the director is a member of the remuneration committee.

'N' signifies that the director is a member of the nominations committee.

The chairman and chief executive may be invited to attend meetings of the audit and remuneration committees when appropriate.

Dividend

The directors recommend the payment of a final dividend of £103,474 (2011: £99,831), 8p (2011: 8p) per share. This is based on shareholdings at 17 May 2012 and will be paid on 5 November 2012.

Auditors

In accordance with section 485 of the Companies Act 2006, a resolution proposing that Francis Clark LLP be re-appointed as auditors of the company will be put to the Annual General Meeting.

Isles of Scilly Steamship Company Limited

Directors' report

For the year ended 31 March 2012

Directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit and loss of the group for that period. In preparing these 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 adequate accounting records that are sufficient to show and explain the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Statement of disclosure to auditor

(a) so far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

By order of the Board

Hugh Town
St Mary's
Isles of Scilly

J Marston
Secretary

31 July 2012

Isles of Scilly Steamship Company Limited

Independent auditor's report to the shareholders of Isles of Scilly Steamship Company Limited

We have audited the financial statements of Isles of Scilly Steamship Company Limited for the year ended 31 March 2012 set out on pages 6 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2012 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Isles of Scilly Steamship Company Limited

Independent auditor's report to the shareholders of Isles of Scilly Steamship Company Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Allen BSC FCA (Senior Statutory Auditor)
for and on behalf of Francis Clark LLP, Statutory Auditor

Lowin House
Tregolls Road
TRURO
TR1 2NA

31 July 2012

Isles of Scilly Steamship Company Limited

Group profit and loss account

For the year ended 31 March 2012

| | Notes | 2012 £ | 2011 £ |
|---|-------|--------------|--------------|
| Turnover | 2 | | |
| Continuing operations | | 11,343,093 | 11,198,789 |
| Acquisitions | | 302,461 | - |
| | | <hr/> | <hr/> |
| | | 11,645,554 | 11,198,789 |
| Cost of sales before exceptional item | | (10,833,893) | (10,319,114) |
| | | <hr/> | <hr/> |
| Gross profit | | 811,661 | 879,675 |
| Other operating income | | 47,850 | - |
| | | <hr/> | <hr/> |
| Operating profit/(loss) before exceptional item | | | |
| Continuing operations | | 945,742 | 879,675 |
| Acquisitions | | (86,231) | - |
| | | <hr/> | <hr/> |
| | | 859,511 | 879,675 |
| Cost of sales – exceptional item | 3 | - | (59,511) |
| | | <hr/> | <hr/> |
| Operating profit/(loss) | 4 | | |
| Continuing operations | | 945,742 | 820,164 |
| Acquisitions | | (86,231) | - |
| | | <hr/> | <hr/> |
| | | 859,511 | 820,164 |
| Other interest receivable and similar income | | 85,416 | 67,818 |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | | 944,927 | 887,982 |
| Taxation | 5 | 1,634 | 1,040 |
| | | <hr/> | <hr/> |
| Profit on ordinary activities after taxation and profit for the financial year | 17 | 946,561 | 889,022 |
| | | <hr/> <hr/> | <hr/> <hr/> |

There were no discontinued operations within the group during the years ended 31 March 2012 or 2011.

There are no recognised gains or losses in the above years other than those passing through the profit and loss account.

Isles of Scilly Steamship Company Limited

Note of group historical cost profits and losses

For the year ended 31 March 2012

| | 2012 | 2011 |
|---|----------------|-------------|
| | £ | £ |
| Reported profit on ordinary activities before taxation | 944,927 | 887,982 |
| Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount | 1,535 | 1,537 |
| | <hr/> | <hr/> |
| Historical cost profit on ordinary activities before taxation | 946,462 | 889,519 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Historical cost profit retained after taxation | 948,096 | 890,559 |
| | <hr/> <hr/> | <hr/> <hr/> |

Isles of Scilly Steamship Company Limited

Balance sheet

As at 31 March 2012

| | Notes | The Company | | The Group | |
|---|-------|--------------------|------------------|--------------------|------------------|
| | | 2012 | 2011 | 2012 | 2011 |
| | | £ | £ | £ | £ |
| Fixed assets | | | | | |
| Intangible assets | 7 | - | - | 47,999 | - |
| Tangible assets | 8 | 1,332,711 | 334,527 | 5,470,006 | 4,463,277 |
| Investments | 9 | 264,787 | 264,786 | - | - |
| | | <u>1,597,498</u> | <u>599,313</u> | <u>5,518,005</u> | <u>4,463,277</u> |
| Current assets | | | | | |
| Stocks | 10 | - | - | 872,794 | 831,317 |
| Debtors | 11 | 1,886,302 | 1,829,371 | 1,270,609 | 1,245,690 |
| Cash at bank and in hand | | 4,659,104 | 4,589,845 | 4,709,524 | 4,748,484 |
| | | <u>6,545,406</u> | <u>6,419,216</u> | <u>6,852,927</u> | <u>6,825,491</u> |
| Creditors: amounts falling due within one year | 12 | (3,074,119) | (2,526,462) | (3,992,850) | (3,813,803) |
| Net current assets | | <u>3,471,287</u> | <u>3,892,754</u> | <u>2,860,077</u> | <u>3,011,688</u> |
| Total assets less current assets | | <u>5,068,785</u> | <u>4,492,067</u> | <u>8,378,082</u> | <u>7,474,965</u> |
| Provisions for liabilities and charges | 13 | - | - | (282,000) | (271,500) |
| Net assets | | <u>5,068,785</u> | <u>4,492,067</u> | <u>8,096,082</u> | <u>7,203,465</u> |
| Capital and reserves | | | | | |
| Called up share capital | 15 | 1,293,422 | 1,247,549 | 1,293,422 | 1,247,549 |
| Other reserves | 16 | - | - | - | 1,535 |
| Profit and loss account | 17 | 3,775,363 | 3,244,518 | 6,802,660 | 5,954,381 |
| Shareholders' funds | 18 | <u>5,068,785</u> | <u>4,492,067</u> | <u>8,096,082</u> | <u>7,203,465</u> |

These financial statements were approved by the Board of directors on 31 July 2012 and were signed on its behalf by:

AJ May
Director

Isles of Scilly Steamship Company Limited

Group cash flow statement

For the year ended 31 March 2012

| | <i>Notes</i> | £ | 2012 £ | £ | 2011 £ |
|---|--------------|--------------------|--------------------|-----------|-----------|
| Net cash inflow from operating activities | 22 | | 1,607,390 | | 1,138,770 |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | 64,789 | | 65,109 | |
| Net cash inflow from returns on investments and servicing of finance | | | 64,789 | | 65,109 |
| Taxation | | | | | |
| Corporation tax paid | | (498) | | (460) | |
| Capital expenditure | | | (498) | | (460) |
| Payments to acquire tangible fixed assets | | (1,898,459) | | (494,406) | |
| Receipts from sales of tangible fixed assets | | 301,761 | | 105,805 | |
| Payments to acquire intangible fixed assets | | (59,999) | | - | |
| Net cash outflow from capital expenditure | | | (1,656,697) | | (388,601) |
| Equity dividends paid | | | (53,944) | | (47,062) |
| (Decrease)/increase in cash in the year | 23 | | (38,960) | | 767,756 |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

1 **Accounting policies**

1.1 **Accounting convention**

The financial statements are prepared under the historical cost convention, modified to include the revaluation of certain assets.

1.2 **Turnover**

Turnover represents charges for the supply of sea and air passenger and freight services and associated income. Revenue is recognised when the group fulfils its contractual obligations to customers in respect of the goods and services provided and excludes Value Added Tax.

1.3 **Goodwill and other intangible assets**

Acquired goodwill and other intangible assets are written off in equal instalments over their estimated useful economic lives.

1.4 **Tangible fixed assets and depreciation**

Depreciation is calculated at the following annual rates which are intended to write off the cost or valuation less residual value of assets over their estimated useful lives as follows:

| | |
|---------------------------------------|--|
| Freehold properties | 50 years (straight line) |
| Aircraft engines and major components | number of hours flown (straight line) |
| Leasehold properties | over the period of the lease (straight line) |
| Plant and equipment | At various rates appropriate to the relevant asset (straight line) |

1.5 **Investments**

Investments are included in the financial statements at cost less amounts written off for permanent diminution in value.

1.6 **Stocks**

Stocks and work in progress are stated at the lower of cost and net realisable value after provision has been made for obsolete and slow-moving stock. For work in progress cost is taken as production cost, which includes an appropriate proportion of attributable overheads.

1.7 **Taxation**

Deferred tax is provided in full in respect of taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. The deferred tax balance has not been discounted.

1.8 **Assets acquired under mortgage loans and hire purchase agreements**

Where assets are acquired under a mortgage or hire purchase agreement which gives rights approximating to ownership, the amount representing the outright purchase price of such assets is included in tangible fixed assets. The capital element of future repayments is treated as a liability and the interest is charged to the profit and loss account over the period of the mortgage or hire purchase agreement.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

1.9 Consolidation

The consolidated financial statements incorporate the financial statements of Isles of Scilly Steamship Company Limited and its subsidiary undertakings. The financial statements of all group companies are made up to 31 March 2012. In accordance with the exemptions granted under Section 408 of the Companies Act 2006, a separate profit and loss account dealing with the results of the company only has not been presented.

1.10 Pension costs

The pension costs charged in the financial statements represent the contributions payable by the company during the year in accordance with FRS 17 (Revised). Defined benefit pension funds have been accounted for as defined contribution schemes since these are multi-employer schemes and the company has been unable to identify its share of the underlying assets or liabilities of these funds.

1.11 Ship maintenance

When the ships are dry-docked for overhaul, the costs of these overhauls are charged against the profit and loss account as incurred.

Other repair or service costs are also charged against the profit and loss account as incurred.

2 Turnover

The analysis of turnover by activity is as follows:

| | 2012 £ | 2011 £ |
|--------------------------------|-------------------|-------------------|
| Services by sea | 5,721,585 | 5,633,259 |
| Services by air | 4,650,391 | 4,579,784 |
| Other non-transport activities | 1,273,578 | 985,746 |
| | <u>11,645,554</u> | <u>11,198,789</u> |

3 Exceptional items

The group incurred legal and professional costs of £Nil (2011: £59,511) in connection with the Isles of Scilly Link Project.

4 Operating profit

| | 2012 £ | 2011 £ |
|--|----------------|----------------|
| Operating profit is stated after charging/(crediting): | | |
| Depreciation of tangible assets | 768,533 | 885,466 |
| Profit on sale of tangible fixed assets | (178,564) | (4,196) |
| Amortisation of intangible fixed assets | 12,000 | - |
| Rental of other assets - operating leases | 239,448 | 205,142 |
| Hire of plant and machinery - rentals payable under operating leases | 29,090 | 27,590 |
| Auditors remuneration | 11,150 | 14,500 |
| | <u>768,533</u> | <u>885,466</u> |

The total figure of net operating expenses for continuing operations includes £388,692 (2011: £Nil) in respect of acquisitions.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

| 5 Taxation | 2012 £ | 2011 £ |
|--|-------------|-------------|
| Current tax charge | | |
| UK Corporation Tax - current year | 528 | 460 |
| - prior year | 38 | - |
| | <hr/> | <hr/> |
| | 566 | 460 |
| Deferred tax (credit)/charge | (2,200) | (1,500) |
| | <hr/> | <hr/> |
| | (1,634) | (1,040) |
| | <hr/> <hr/> | <hr/> <hr/> |
| Factors affecting the tax credit for the year | | |
| Profit on ordinary activities before taxation | 944,927 | 887,982 |
| | <hr/> <hr/> | <hr/> <hr/> |
| Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 20% (2011: 21%) | 188,986 | 186,476 |
| | <hr/> | <hr/> |
| Effects of: | | |
| Non deductible expenses | 1,146 | (43,315) |
| Depreciation | 118,062 | 161,730 |
| Capital allowances | (83,477) | (87,421) |
| Tax losses arising | 77,624 | 53,291 |
| Profit of business not subject to taxation | (302,341) | (270,761) |
| Tonnage tax | 528 | 460 |
| Prior year | 38 | - |
| | <hr/> | <hr/> |
| | (188,420) | (186,016) |
| | <hr/> | <hr/> |
| Current tax charge | 566 | 460 |
| | <hr/> <hr/> | <hr/> <hr/> |

The group's shipping business operates under the UK tonnage tax regime. For the current year the tax charge arising is calculated by reference to the net tonnage of the ships operated by the business rather than the tax adjusted results.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

6 Dividends

| | 2012 £ | 2011 £ |
|---------------------------|-----------|-----------|
| Prior year final dividend | 99,817 | 84,701 |

The directors propose a final ordinary dividend of £103,474 (2011: £99,831) for the year ended 31 March 2012. The dividend will be submitted for formal approval at the Annual General Meeting to be held on 12 September 2012.

7 Intangible fixed assets – Group

| | Goodwill £ | Other intangible assets £ | Total £ |
|-----------------------|---------------|------------------------------------|------------|
| <i>Cost</i> | | | |
| At 1 January 2011 | - | - | - |
| Additions | 58,000 | 1,999 | 59,999 |
| At 31 March 2012 | 58,000 | 1,999 | 59,999 |
| <i>Amortisation</i> | | | |
| At 1 January 2011 | - | - | - |
| Charge for the period | 11,600 | 400 | 12,000 |
| At 31 March 2012 | 11,600 | 400 | 12,000 |
| <i>Net book value</i> | | | |
| At 31 March 2012 | 46,400 | 1,599 | 47,999 |
| At 31 March 2011 | - | - | - |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

8 Tangible fixed assets - Company

| | Assets in the course of construction £ | Plant and equipment £ | Short leasehold property £ | Freehold property £ | Total £ |
|--------------------------|---|-----------------------------|-------------------------------------|---------------------------|------------------|
| Cost or valuation | | | | | |
| At 1 April 2011 | - | 37,372 | 104,327 | 503,629 | 645,328 |
| Additions | 24,196 | - | 260,149 | 735,123 | 1,019,468 |
| | ----- | ----- | ----- | ----- | ----- |
| At 31 March 2012 | 24,196 | 37,372 | 364,476 | 1,238,752 | 1,664,796 |
| | ----- | ----- | ----- | ----- | ----- |
| Depreciation | | | | | |
| At 1 April 2011 | - | 13,044 | 104,327 | 193,430 | 310,801 |
| Charge for year | - | 10,072 | 11,212 | - | 21,284 |
| | ----- | ----- | ----- | ----- | ----- |
| At 31 March 2012 | - | 23,116 | 115,539 | 193,430 | 332,085 |
| | ----- | ----- | ----- | ----- | ----- |
| Net book value | | | | | |
| At 31 March 2012 | 24,196 | 14,256 | 248,937 | 1,045,322 | 1,332,711 |
| | ===== | ===== | ===== | ===== | ===== |
| At 31 March 2011 | - | 24,328 | - | 310,199 | 334,527 |
| | ===== | ===== | ===== | ===== | ===== |

The company has taken advantage of the transitional provisions of Financial Reporting Standard 15 and prior revaluations have not been updated.

Freehold property includes property revalued by £321,366 (2011: £321,366) at 31 March 1991 at open market value. On a historical cost basis the property has an original cost of £121,384 (2011: £121,384) with depreciation charged of £36,415 (2011: £36,415) to date.

Included in freehold property is land with a cost of £735,123 which has not been depreciated.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

Tangible fixed assets (continued) – Group

| | Assets in the course of construction £ | Plant and equipment £ | Short leasehold property £ | Freehold property £ | Total £ |
|--------------------------|---|-----------------------------|-------------------------------------|---------------------------|------------------|
| Cost or valuation | | | | | |
| At 1 April 2011 | - | 12,656,877 | 276,429 | 503,631 | 13,436,937 |
| Additions | 24,196 | 878,991 | 260,149 | 735,123 | 1,898,459 |
| Disposals | - | (198,795) | - | - | (198,795) |
| | ----- | ----- | ----- | ----- | ----- |
| At 31 March 2012 | 24,196 | 13,337,073 | 536,578 | 1,238,754 | 15,136,601 |
| | ----- | ----- | ----- | ----- | ----- |
| Depreciation | | | | | |
| At 1 April 2011 | - | 8,522,705 | 257,525 | 193,430 | 8,973,660 |
| Impairment loss | - | 10,550 | - | - | 10,550 |
| On disposals | - | (75,598) | - | - | (75,598) |
| Charge for year | - | 727,867 | 30,116 | - | 757,983 |
| | ----- | ----- | ----- | ----- | ----- |
| At 31 March 2012 | - | 9,185,524 | 287,641 | 193,430 | 9,666,595 |
| | ----- | ----- | ----- | ----- | ----- |
| Net book value | | | | | |
| At 31 March 2012 | 24,196 | 4,151,549 | 248,937 | 1,045,324 | 5,470,006 |
| | ===== | ===== | ===== | ===== | ===== |
| At 31 March 2011 | - | 4,134,172 | 18,904 | 310,201 | 4,463,277 |
| | ===== | ===== | ===== | ===== | ===== |

The group has taken advantage of the transitional provisions of Financial Reporting Standard 15 and prior revaluations have not been updated.

Included in freehold property is land with a cost of £735,123 which has not been depreciated.

Tangible fixed assets include the following revaluations to arrive at an open market value:

| | Plant and equipment £ | Short leasehold property £ | Freehold property £ | Total £ |
|---|-----------------------------|-------------------------------------|---------------------------|------------|
| 31 March 1987 | 23,886 | - | - | 23,886 |
| 31 March 1991 | - | 41,225 | 321,366 | 362,591 |
| | ----- | ----- | ----- | ----- |
| | 23,886 | 41,225 | 321,366 | 441,477 |
| | ===== | ===== | ===== | ===== |
| Historical cost of revalued assets | 20,706 | 10,588 | 121,384 | 166,744 |
| | ----- | ----- | ----- | ----- |
| Depreciation on historical cost to date | 20,701 | 10,216 | 36,415 | 67,332 |
| | ===== | ===== | ===== | ===== |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

9 Fixed asset investments - Company

| | Shares in subsidiary undertakings £ | Total £ |
|------------------|--|----------------|
| Cost | | |
| At 31 March 2011 | 264,786 | 264,786 |
| Addition | 1 | 1 |
| | ----- | ----- |
| At 31 March 2012 | 264,787 | 264,787 |
| | ===== | ===== |

Details of subsidiary undertakings are as follows:

| | Percentage of allotted ordinary share capital | |
|--|--|-------|
| | 2012 | 2011 |
| <i>Isles of Scilly Skybus Limited</i> | 100% | 100% |
| Principal activity - provision of freight and passenger air services between the mainland and the Isles of Scilly. | | |
| <i>Westward Airways (Lands End) Limited</i> | 100% | 100% |
| Principal activity - operation of Lands End Aerodrome | | |
| <i>Isles of Scilly Shipping Company Limited</i> | 100% | 100% |
| Principal activity – provision of passenger and cargo services by sea between the mainland and the Isles of Scilly | | |
| <i>Lyonesse Shipping Company Limited</i> | 100% | 100% |
| Principal activity – leasing of ships | | |
| <i>Lyonesse Air Transport Limited</i> | 100% | 100% |
| Dormant | | |
| <i>Penzance Dry Dock (2009) Limited</i> | 100% | 100% |
| Principal activity – operation of a dry dock | | |
| <i>Nike Engineering Limited</i> | 100% | - |
| Principal activity – mechanical and marine engineering | | |
| | ===== | ===== |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

10 Stocks

| | The Company | | The Group | |
|---------------------------------|-------------|-------------|-------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £ | £ | £ | £ |
| Fuel | - | - | 120,423 | 61,327 |
| Engineering spares and workshop | - | - | 737,470 | 755,262 |
| Other consumables | - | - | 14,901 | 14,728 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | - | - | 872,794 | 831,317 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

11 Debtors

| | The Company | | The Group | |
|---|-------------|-------------|-------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| | £ | £ | £ | £ |
| <i>Amounts falling due within one year:</i> | | | | |
| Trade debtors | - | 448 | 918,401 | 1,019,251 |
| Amounts owed by group undertakings | 1,785,544 | 971,189 | - | - |
| Prepayments and accrued income | 100,758 | 57,734 | 244,544 | 188,939 |
| Other debtors | - | - | 94,964 | 37,500 |
| Deferred tax asset (see below) | - | - | 12,700 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,886,302 | 1,029,371 | 1,270,609 | 1,245,690 |
| <i>Amounts falling due in more than one year:</i> | | | | |
| Amounts owed by group undertakings | - | 800,000 | - | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 1,886,302 | 1,829,371 | 1,270,609 | 1,245,690 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Deferred tax asset – group

| | Deferred taxation |
|---------------------------------|-------------------|
| | £ |
| Balance at 1 April 2011 | - |
| Profit and loss account | 12,700 |
| | <hr/> |
| Balance at 31 March 2012 | 12,700 |
| | <hr/> <hr/> |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

Debtors (continued)

Deferred tax is provided at 20% (2010: 20%) analysed over the following timing differences:

| | 2012 £ | 2011 £ |
|-----------------------------------|---------------|-----------|
| Unutilised losses carried forward | 12,700 | - |

12 Creditors: amounts falling due within one year

| | 2012 £ | The Company 2011 £ | 2012 £ | The Group 2011 £ |
|-----------------------------------|------------------|--------------------------|------------------|------------------------|
| Trade creditors | 573 | - | 858,511 | 727,383 |
| Amount owed to group undertakings | 2,979,818 | 2,412,918 | - | - |
| Corporation tax | - | - | 528 | 460 |
| Other taxes and social security | 8,408 | 16,592 | 52,277 | 63,809 |
| Other creditors | 2,025 | 1,363 | 2,025 | 1,363 |
| Accruals and deferred income | 83,295 | 95,589 | 3,079,509 | 3,020,788 |
| | <u>3,074,119</u> | <u>2,526,462</u> | <u>3,992,850</u> | <u>3,813,803</u> |

Amounts relating to payments made by customers for travel, in advance of their scheduled departure date, are included in deferred income.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

13 Provisions for liabilities and charges - Group

| | Deferred taxation £ |
|---------------------------------|-------------------------------|
| Balance at 1 April 2011 | 271,500 |
| Profit and loss account | 10,500 |
| | <hr/> |
| Balance at 31 March 2012 | 282,000 |
| | <hr/> <hr/> |

Deferred tax is analysed over the following timing differences:

| | 2012 £ | Fully provided 2011 £ |
|-----------------------------------|------------------|------------------------------------|
| Accelerated capital allowances | 532,500 | 532,500 |
| Unutilised losses carried forward | (250,500) | (261,000) |
| | <hr/> | <hr/> |
| | 282,000 | 271,500 |
| | <hr/> <hr/> | <hr/> <hr/> |

If revalued assets were realised at their net book value at the year end the potential corporation tax liability for the company and group would have been £Nil (2011: £Nil).

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

14 Pension schemes

During the year the group operated two defined benefit pension schemes – the Merchant Navy Officers Pension Fund (New Section) (MNOFP) and The Merchant Navy Ratings Pension Fund (MNRPF). These schemes are multi-employer schemes. The group has been unable to identify its share of the underlying assets or liabilities of these schemes and therefore has accounted for these schemes as defined contribution schemes in accordance with FRS 17.

Merchant Navy Officers Pension Fund

The most recent actuarial valuation for the purposes of Regulations 14 and 30 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 for the MNOFP was carried out on 31 March 2009. The Projected Unit funding method was used and assets valued at their stated market value. The assumptions which have the most effect on the results of the MNOFP valuation are those relating to future investment returns and changes in mortality rates.

The valuation showed that the market value of the assets was £1,547 million and disclosed a shortfall of £557 million.

The MNOFP Employers Group and MNOFP EG Limited are currently investigating arranging the cessation of the benefit accrual under the MNOFP.

Merchant Navy Ratings Pension Fund

The most recent actuarial valuation for the purpose of Regulation 14 of the Occupational Pension Schemes (Minimum Funding Requirement and Actuarial Valuations) Regulations 1996 for the MNRPF was carried out at 31 March 2011. The projected unit method was used. The assumptions which have the most effect on the results of the MNRPF valuation are those relating to the valuation rate of interest, rate of salary escalation and Section 148 order revaluation and the rate of future pension increases.

The valuation disclosed a shortfall of £212 million on an ongoing basis.

On 31 May 2001 this scheme was closed and replaced by the Merchant Navy Ratings Pension Plan.

The deficit is proposed to be repaid by the members of the fund over a period of 13 years to 31 March 2021. The company's share of this deficit has not been accurately determined. During the year the company was charged £25,884 (2011: £24,357) towards the deficit.

Other Schemes

The company and group also operated defined contribution pension schemes during the year, being the Merchant Navy Ratings Pension Plan and a group sponsored pension plan.

Pension Cost Charge

The total pension cost charge for the period represents contributions payable by the group to the funds and amounted to £133,949 (2011: £103,187). Contributions amounting to £26,560 (2011: £49,190) were payable to the funds at the year end and are included in creditors. The respective figures of the company are £59,521 of contributions (2011: £46,889) and £13,500 in creditors (2011: £37,720).

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

| | | | |
|----|---|-----------------------------------|--------------------------------------|
| 15 | Share capital | 2012 £ | 2011 £ |
| | <i>Allotted, called up and fully paid</i> | | |
| | 1,293,422 Ordinary shares of £1 each | 1,293,422 | 1,247,549 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| | 45,873 (2011: 37,639) ordinary shares were issued in the year at par in lieu of dividend. | | |
| 16 | Other reserves - Group | | Revaluation reserve £ |
| | At 1 April 2011 | | 1,535 |
| | Transferred to profit and loss account | | (1,535) |
| | | | <hr/> |
| | At 31 March 2012 | | - |
| | | | <hr/> <hr/> |
| 17 | Profit and loss account | The Company 2012 £ | The Group 2012 £ |
| | At 31 March 2011 | 3,244,518 | 5,954,381 |
| | Profit for the financial year | 630,662 | 946,561 |
| | Dividends | (99,817) | (99,817) |
| | Transfer from revaluation reserve | - | 1,535 |
| | | <hr/> | <hr/> |
| | At 31 March 2012 | 3,775,363 | 6,802,660 |
| | | <hr/> <hr/> | <hr/> <hr/> |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

18 Reconciliation of movements in shareholders' funds

| | 2012 | The Company | 2012 | The Group |
|-------------------------------------|------------------|--------------------|------------------|------------------|
| | £ | 2011 | £ | 2011 |
| | | £ | | £ |
| Profit for the financial year | 630,662 | 323,147 | 946,561 | 889,022 |
| Dividends | (99,817) | (84,701) | (99,817) | (84,701) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| New share capital subscribed | 530,845 | 238,446 | 846,744 | 804,321 |
| | 45,873 | 37,639 | 45,873 | 37,639 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Net addition to shareholders' funds | 576,718 | 276,085 | 892,617 | 841,960 |
| Opening shareholders' funds | 4,492,067 | 4,215,982 | 7,203,465 | 6,361,505 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Closing shareholders' funds | 5,068,785 | 4,492,067 | 8,096,082 | 7,203,465 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

19 Related party transactions

During the period services supplied by the group, where directors had an interest, amounted to £49,163 (2011: £52,817), the balance owing to the group, in respect of these transactions at 31 March 2012 was £9,387 (2011: £17,313). Dividends paid during the year to directors amounted to £13,116 (2011: £10,184).

Close family members of the directors of the group were paid £19,275 (2011: £8,803) for services provided to the group.

20 Contingent liabilities

The Group and Company

The bankers hold bonds in respect of Air BP for £8,000 (2011: £8,000) and National Express of £2,500 (2011: £2,500).

The Company

The company has agreed to support the operation of its subsidiary companies Westward Airways (Lands End) Limited, Nike Engineering Limited and Penzance Dry Dock (2009) Limited for the foreseeable future by providing working capital via inter-company loan accounts.

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

21 Commitments - Group

Operating leases

Annual commitments under operating leases:

| | 2012 £ | 2011 £ |
|--|-----------------------------|-----------------------------|
| <i>Land and buildings:</i> | | |
| Operating lease which expires in 2-5 years | 152,000 | 145,500 |
| Operating lease which expires after five years | 82,980 | 62,550 |
| | <u> </u> | <u> </u> |

Capital commitment

| | 2012 £ | 2011 £ |
|-----------------------------------|-----------------------------|-----------------------------|
| Authorised but not contracted for | 19,300 | 10,350 |
| | <u> </u> | <u> </u> |

Company

The company has no capital commitments.

22 Reconciliation of operating profit to net cash inflow from operating activities

| | 2012 £ | 2011 £ |
|---|-----------------------------|-----------------------------|
| Operating profit | 859,511 | 820,164 |
| Depreciation | 768,533 | 885,466 |
| Amortisation | 12,000 | - |
| Profit on sale of tangible fixed assets | (178,564) | (4,196) |
| Increase in stocks | (41,477) | (220,400) |
| Decrease/(increase) in debtors | 8,408 | (209,567) |
| Increase/(decrease) in creditors | 178,979 | (132,697) |
| | <u> </u> | <u> </u> |
| Net cash inflow from operating activities | <u>1,607,390</u> | <u>1,138,770</u> |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

23 Reconciliation of net cash flow to movement in net funds

| | 2012 £ | 2011 £ |
|--|------------------|-----------|
| (Decrease)/increase in cash (note 24) | (38,960) | 767,756 |
| Movement in net funds in the year resulting from cash flows | (38,960) | 767,756 |
| Net funds at 1 April 2011 | 4,748,484 | 3,980,728 |
| Net funds at 31 March 2012 | 4,709,524 | 4,748,484 |

24 Analysis of changes in net funds

| | At 1 April 2011 £ | Cashflow £ | At 31 March 2012 £ |
|--------------------------|-------------------------|---------------|--------------------------|
| Cash at bank and in hand | 4,748,484 | (38,960) | 4,709,524 |
| | 4,748,484 | (38,960) | 4,709,524 |

25 Control

There is no particular individual who is the ultimate controlling party.

26 Staff numbers and costs

The average number of persons employed by the group during the year was as follows:

| | 2012 | 2011 |
|-----------|------------|------|
| Directors | 8 | 8 |
| Employees | 161 | 159 |
| | 169 | 167 |

The aggregate payroll costs of these persons were as follows:

| | 2012 £ | 2011 £ |
|-----------------------|------------------|-----------|
| Wages and salaries | 3,686,310 | 3,502,374 |
| Social security costs | 344,634 | 335,662 |
| Other pension costs | 133,949 | 103,187 |
| | 4,164,893 | 3,941,223 |

Isles of Scilly Steamship Company Limited

Notes

(forming part of the financial statements)

27 Remuneration of directors

| | 2012 £ | 2011 £ |
|---------------------------------|----------------|----------------|
| Directors' emoluments | 140,677 | 134,775 |
| Compensation for loss of office | - | 11,700 |
| | <hr/> | <hr/> |
| | 140,677 | 146,475 |
| | <hr/> <hr/> | <hr/> <hr/> |

Retirement benefits are accruing to 1 director (2011: 1) under defined contribution pension schemes.

28 Post balance sheet event

On 19 April 2012 the Board approved that improvement work on Lands End aerodrome would be undertaken. The contract for this work has been put out to tender and the Board are, for commercial reasons, unable to accurately estimate its likely cost.