Shetland Heat Energy and Power Limited

Directors' report and financial statements
Registered number SC181964
31 March 2011

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Directors' report

The directors present their directors' report and financial statements for the year ended 31 March 2011.

Principal activity

The company's principal activity is the supply of hot water for heating systems.

Business review

The financial statements report a loss for the year of £12,872 (*2010: loss of £67,422*), after making a gift aid payment of £339,037 (*2010: £340,233*) to the Shetland Charitable Trust. The Company's underlying financial performance, not including the Gift Aid payment, again showed a healthy profit of £326,165 (2010: £272,811). The company has over 1,100 customers. After several years of expansion, the company is consolidating the existing operation and the rate of new connections has slowed over the last three years. Further expansion of the Scheme in the future will be dependent on the identification of new sources of heat. The most promising at this time is a potential wind to heat scheme using electricity produced by three 2.3MW aero generators with heat stored in a large thermal store. The Company is actively investigating the possibility of smaller schemes in other areas of Shetland.

The Directors have agreed that a further gift aid payment should be paid over to Shetland Charitable Trust during the course of the current year. This and previous gift aid payments give the Shetland Charitable Trust a good return on its investments both in the company and the infrastructure of the district heating scheme since 2002. The Directors believe that they have successfully struck a balance between keeping the tariff for heat at an attractive level for customers (when compared with the cost of alternatives) and generating sufficient profits for the Shetland Charitable Trust group.

Proposed dividend

The directors do not recommend the payment of a dividend.

Directors

The directors who held office during the year and up to the date of this report were as follows:

G Robinson (Chair)
RC Nickerson (Vice Chair)
AGL Duncan
R S Henderson
JH Henry

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

JP Goddard
Secretary

22-24 North Road
Lerwick
Shetland
29 August 2011

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG LLP
37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditor's report to the members of Shetland Heat Energy and Power Limited

We have audited the financial statements of Shetland Heat Energy and Power Limited for the year ended 31 March 2011 set out on pages 4 to 11. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 2, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2011 and of its loss for the year then ended;
- have been properly prepared in accordance with UK 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.

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

DJ Watt (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants

1 September 2011

Profit and loss account

for the year ended 31 March 2011

	Note	2011 £	2010 £
Turnover	1	**1,845,562**	1,525,819
Cost of sales		**(853,893)**	(650,661)
Gross profit	2	**991,669**	875,158
Administrative expenses		**(683,331)**	(605,943)
Gift aid payment to Shetland Charitable Trust		**(339,037)**	(340,233)
Other operating income		**7,235**	5,023
Operating loss		**(23,464)**	(65,995)
Interest receivable	5	**1,548**	1,719
Loss on ordinary activities before taxation		**(21,916)**	(64,276)
Tax on loss on ordinary activities	6	**9,044**	(3,146)
Loss profit for the financial year		**(12,872)**	(67,422)

Turnover and the operating losses above arose wholly from continuing operations.

There were no recognised gains or losses other than the losses for the financial years reported above.

Balance sheet

at 31 March 2011

	Note	2011		2010	
		£	£	£	£
Fixed assets					
Tangible assets	7		**469,177**		302,640
Current assets					
Stock	8	**41,964**		36,079	
Debtors	9	**473,654**		439,970	
Cash at bank and in hand		**138,421**		157,994	
		654,039		634,043	
Creditors: amounts falling due within one year	10	**(456,566)**		(197,474)	
Net current assets			**197,473**		288,739
Total assets less current liabilities			**666,650**		591,379
Deferred grants	11		**(2,812)**		(5,625)
Provisions for liabilities and charges	12		**(37,801)**		(46,845)
Net assets			**626,037**		538,909
Capital and reserves					
Called up share capital	13		**600,000**		500,000
Profit and loss account	14		**26,037**		38,909
Shareholders' funds	15		**626,037**		538,909

These financial statements were approved by the board of directors on 29 August 2011 and were signed on its behalf by:

G Robinson
Director

R Nickerson
Director

Company registered number: SC181964

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that its financial statements are fully consolidated in the group financial statements prepared by the Shetland Charitable Trust, the company's parent company.

As the company is a wholly owned subsidiary of Shetland Charitable Trust, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the directors' report on page 1.

The directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Plant and machinery	-	10 years
Computer control system	-	10 years
Fixtures, fittings and equipment	-	3 years
Motor vehicles	-	3 years

Grants

Capital based grants are included within deferred grants in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Taxation

The charge or credit for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the supply of hot water for heating systems and arises entirely in the United Kingdom.

Stock

Stocks are valued at the lower of cost and net realisable value.

Notes *(continued)*

2 Loss on ordinary activities before taxation

	2011 £	2010 £
Loss on ordinary activities before taxation is stated: after charging		
Depreciation written off tangible fixed assets	**83,149**	63,192
after crediting		
Consultancy income included within other operating income	**1,756**	2,537
Auditor's remuneration:		
Audit of these financial statements	**10,500**	10,500
Other services: tax compliance	**3,500**	3,500

3 Remuneration of directors

The directors received no remuneration from the company during the year *(2010: nil)*.

4 Staff numbers and costs

The company had no employees during the year *(2010: none)*.

Employee costs totalling £242,279 *(2010: £228,713)* were charged to the company by Shetland Charitable Trust, the parent undertaking, in respect of work performed on behalf of the company. Six employees worked wholly or mainly on the company's activities during the year.

5 Interest receivable

	2011 £	2010 £
On bank deposits	**1,548**	1,719

Notes *(continued)*

6 Taxation

	2011 £	2010 £
UK corporation tax		
Current tax on income for the year being total current tax	-	-
Total current tax	-	-
Deferred tax		
Origination/reversal of timing differences	**(5,698)**	(17,997)
Effect of change in tax rates	**(3,346)**	21,143
	(9,044)	3,146
Tax on loss on ordinary activities	**(9,044)**	3,146

Factors affecting the tax charge for the year

The current tax charge for the year is higher *(2010: higher)* than the standard rate of corporation tax in the UK 28% *(2010: 28%)*. The differences are explained below:

	2011 £	2010 £
Current tax reconciliation		
Loss on ordinary activities before taxation	**(21,916)**	(64,276)
Current tax at 28% *(2010: 28%)*	**(6,136)**	(17,997)
Effects of:		
Difference between depreciation and capital allowances	**23,282**	18,450
Other timing differences	**(17,146)**	(453)
Total current tax charge (see above)	-	-

Notes *(continued)*

7 Tangible fixed assets

	Plant and machinery	Fixtures, fittings and equipment	Computer control systems	Motor vehicles	Total
	£	£	£	£	£
Cost					
At beginning of year	603,428	33,547	15,298	21,521	673,794
Additions	48,173	4,251	197,262	-	249,686
At end of year	651,601	37,798	212,560	21,521	923,480
Depreciation					
At beginning of year	325,351	30,022	1,530	14,251	371,154
Charge for year	54,473	3,785	21,256	3,635	83,149
At end of year	379,824	33,807	22,786	17,886	454,303
Net book value					
At 31 March 2011	**271,777**	**3,991**	**189,774**	**3,635**	**469,177**
At 31 March 2010	278,077	3,525	13,768	7,270	302,640

8 Stock

	2011	2010
	£	£
Raw materials	**41,964**	36,079

9 Debtors

	2011	2010
	£	£
Trade debtors	**426,462**	427,951
Other debtors and accrued income	**47,192**	12,019
	473,654	439,970

10 Creditors: amounts falling due within one year

	2011	2010
	£	£
Trade creditors	**53,261**	11,283
Amounts owed to group undertakings (see note 16)	**30,056**	35,531
Other taxes and social security	**2,498**	10,739
Accruals and deferred income	**31,144**	38,307
Other creditors	**339,607**	249,444
	456,566	345,304

Notes *(continued)*

11 Deferred grants

	£
At beginning of year	5,625
Released during the year	(2,813)
At end of year	**2,812**

12 Provisions for liabilities and charges

	Deferred taxation £
At beginning of year	46,845
Credit for the year	(5,698)
Effect of change in tax rates	(3,346)
At end of year	**37,801**

The deferred tax liability at the year end is calculated at 26% (*2010: 28%*) and is analysed as follows:

	2011 £	2010 £
Difference between accumulated depreciation and capital allowances	**(64,807)**	(46,510)
Other timing differences	**102,608**	93,355
	37,801	46,845

13 Called up share capital

	2011 £	2010 £
Authorised		
Ordinary shares of £1 each	**1,000,000**	1,000,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	**600,000**	500,000

14 Profit and loss account

	2011 £	2010 £
At beginning of year	**38,909**	106,331
Loss for the financial year	**(12,872)**	(67,422)
At end of year	**26,037**	38,909

Notes *(continued)*

15 Reconciliation of movements in shareholders' funds

	2011 £	2010 £
Loss for the financial year	**(12,872)**	(67,422)
Net reduction in shareholders' funds	**(12,872)**	(67,422)
Opening shareholders' funds	**538,909**	606,331
Shares issued in year	**100,000**	-
Closing shareholders' funds	**626,037**	538,909

16 Ultimate parent undertaking

The company is a subsidiary undertaking of Shetland Charitable Trust which is its ultimate parent undertaking.

The consolidated accounts of Shetland Charitable Trust include the results of the company and a copy of those accounts may be obtained from 22-24 North Road, Lerwick, Shetland, ZE1 0NQ. No other group accounts include the results of the company.