ZC197

Company Registration No: [redacted]

THE MANCHESTER SHIP CANAL COMPANY

Report and Financial Statements

For the year ended 31 March 2010

OFFICERS AND PROFESSIONAL ADVISERS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

T F Allison
Sir Richard Leese
M MacKay
P P Wainscott
J Whittaker

SECRETARY

W J Bowley (Resigned 31 July 2009)
C R Marrison Gill (Appointed 31 July 2009)

PRINCIPAL OFFICE

Maritime Centre
Port of Liverpool
L21 1LA

REGISTRARS AND TRANSFERS OFFICE

Capita Registrars Limited
Registration and New Issues
Bourne House
34 Beckenham Road
Beckenham
Kent
BR3 4TU

BANKERS

Royal Bank of Scotland PLC
National Westminster Bank PLC
22 Castle Street
Liverpool
L2 0UP

AUDITORS

Deloitte LLP
Chartered Accountants and Statutory Auditors
Liverpool
United Kingdom

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2010

PRINCIPAL ACTIVITIES

The principal activities of the Company are the provision of port facilities, cargo handling and marine related services An integral part of the port operations is the management of its land and property interests

COMPANY STATUS

The Company is a statutory unregistered company incorporated by The Manchester Ship Canal Act 1885 and is primarily governed by its Acts and Orders 1885 to 2009 and such provisions of the Companies Acts as are applicable to the Company pursuant to the Unregistered Companies Regulations 2009

RESULTS AND DIVIDENDS

The trading results for the year and the Company's financial position at the end of the year are shown in the attached financial statements, and are discussed further in the business review below

The directors proposed and paid interim ordinary dividends of £19 720,000 (2009 £nil) No final dividend is proposed (2009 £nil) The directors proposed dividends of £140,000 (2009 £140,000) on the 3 5% (net) preference shares

REVIEW OF BUSINESS, DEVELOPMENTS AND PROSPECTS

Summary of results

The results for the year and the previous year are summarised in the table below

	2010 £'000	2009 £'000	Change £'000	%
Turnover *	31,736	27,071	4,665	17 2
Gross profit	16,580	10,588	5,992	56 5
Operating profit	15,779	9,657	6,122	63 4

* Turnover includes £4,635,000 arising from a substantial completion of services provided under the terms of existing contractual arrangements The directors consider no further obligations exist given that all services have now been rendered and the likelihood of the reinstatement of activities in the future is remote

The Company's results and financial position are set out in the profit and loss account and balance sheet on pages 8 and 9

Net assets were £72,673,000 at 31 March 2010 (2009 £79,233,000) In addition to the profit for the financial year of £15,423,000, the net asset position has changed principally because of the payment of interim dividends to the immediate parent undertaking of £19,720,000 and recognised actuarial loss net of tax relating to the pension fund of £2,263 000

Port operations

The level of business activity for the port operations has been satisfactory and is consistent with expectations during the year As referred to above, turnover for the year ended 31 March 2010 has benefitted from the recognition of revenue of £4,635,000 under contractual arrangements where no further obligations exist With the exception of this, it is anticipated that the present level of activity within the business will be maintained for the foreseeable future

DIRECTORS' REPORT

Summary of key performance indicators

The directors use divisional annual budgets aggregated into a Company budget as the basis for measuring Company performance In addition, the Company prepares three year rolling high level forecasts and each division prepares a three year strategic plan from a participative process

The directors have monitored the progress of the overall Company strategy and the individual strategic elements by reference to certain financial and non-financial key performance indicators for the continuing business

	2010	2009	Absolute Change	% Change	Method of calculation
Turnover (£'000)	£31,736	£27,071	£4,665	17 2	Year on year change in turnover
Investment in trade debtors as a percentage of turnover	9 6%	12 4%	(2 8%)	(22 5)	Trade debtors net of provisions as a percentage of turnover
Turnover per employee (£'000)	£417 6	£347 1	£70 5	20 3	Turnover divided by average number of employees
Tonnage throughput	6,296k	7,241k	(945k)	(13 1)	Year on year growth in tonnage using standard tonnage measures for the Ports industry

As referred to above, turnover for the year ended 31 March 2010 has benefitted from the recognition of revenue of £4,635,000 under contractual arrangements where no further obligations exist The key performance indicators for turnover, investment in trade debtors and turnover per employee have benefitted from this inclusion

Tonnage throughput has fallen year on year which was fully expected as a result of the decline in the wider global economic climate The effect on turnover has not been as significant due to minimum guarantees agreed with certain customers As the Company continues to focus on financial efficiency, costs have been controlled and credit terms have been actively managed, resulting in an improvement in the underlying gross profit margin and a reduction in the investment in trade debtors as a percentage of turnover

PRINCIPAL RISKS AND UNCERTAINTIES

It is now widely understood that the principal challenges facing UK businesses relate to those generated by the global economic downturn The resulting lack of liquidity in the financial markets has reduced the ability of individuals and businesses to borrow money and this has ultimately led to a lack of demand in the global marketplace

Despite the downturn in the global economic environment, the results for the year have remained strong, which is largely attributed to the benefit of a strong and diverse portfolio of customers and service provision Although several European ports have been hit by the global decline in container volumes, Peel Ports Group is not as reliant on container handling as many other port businesses With its strong and diverse service offering, the Company is showing greater resilience in the current environment

Operational risk

The regional ports within the wider Peel Ports group ("the Group) each form part of a wider transport infrastructure The key operational risk and uncertainty relates to the dependency upon the economic activity of the businesses and consumers within an economic geographic proximity of the ports These consumers and businesses generate the trade which flows through the ports and when they are subject to economic cycles or, at the extreme, to failure there is an unavoidable impact on the port

The mitigation of this risk comes from the wide and diverse nature of customers, markets and products served by the ports This has the effect of minimising the impact of a particular cycle or business failure and indeed one trade can hedge against another

DIRECTORS' REPORT

Financial risk

The key financial risk arises from the level of long term debt held by the Company and the wider Peel Ports Group and the interest arising thereon Peel Ports Group long term debt amounting to £1,183,572,000 falls due for repayment between 31 December 2013 and 30 September 2046 In addition the cash flow risk arising in connection with interest charges is mitigated through the use of interest swaps Further details on this risk can be found in the consolidated financial statements of Peel Ports Shareholder FinanceCo Limited, the smallest UK group in which the accounts of the Company are consolidated

In addition, financial risk arises from credit extended to customers This risk is mitigated by using strict credit control procedures, the imposition of appropriate credit limits and obtaining third party credit references

The directors consider that the combination of stable trading of the port business, effective working capital management and the development of the asset base assists in managing the risks arising from the level of debt and variability in interest rates

After making enquiries and as disclosed in note 1 to the financial statements, on page 11, the directors have a reasonable expectation the Company has adequate resources to continue in operational existence for the foreseeable future and for this reason they continue to adopt the going concern basis in preparing the financial statements

DIRECTORS

The directors of the Company who served during the year and thereafter, except as noted below, are listed on page 1

P A Scott and A C Simpson, who were directors on 31 March 2009, resigned as directors on 1 April 2009 and 9 October 2009 respectively

The Manchester Ship Canal Company is primarily governed by its Acts and Orders 1885 to 2009 These statutes do not differentiate between executive and non-executive directors

Under the Companies Acts Sir Richard Leese would be regarded as a non-executive director Sir Richard Leese has been leader of Manchester City Council since 1996

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the financial year, the Company made no contributions for charitable purposes (2009 £400) The Company made no political contributions during the financial year (2009 £nil)

PAYMENT POLICY

In the absence of dispute, amounts due to trade and other suppliers were settled as expeditiously as possible within the terms of payment

EMPLOYEES

The Company considers that employee involvement is essential to the continuing development and success of its business and uses a variety of methods to inform, consult and involve its employees The primary communication channels for employees are within the Company's operating units

Applications for employment by disabled persons are given full consideration, having regard to the capabilities of the applicant In the event of employees becoming disabled, every effort is made to provide them with employment in the Company and to arrange any necessary re-training It is the policy of the Company that the training, career development and promotion of disabled persons should as far as possible, be identical to that of a person who does not suffer from any disability Appropriate access and facilities are also provided for any disabled employees as required Training programmes are in place to ensure that the Company has suitably qualified individuals to undertake the various operational tasks within the Company

DIRECTORS' REPORT

ENVIRONMENT

The Company is conscious of the impact of its operations on the environment Necessary attention is given to environmental issues particularly when developing new projects, refurbishing existing properties and considering possible acquisitions Design consultants are encouraged to promote good environmental performance, with consideration given to environmental risk, energy consumption, the use of environmentally friendly materials and the avoidance of materials hazardous to health

AUDITORS AND THE DISCLOSURE OF INFORMATION TO THE AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as auditors, and a resolution to reappoint them will be proposed at the forthcoming Ordinary General Meeting

On behalf of the Board

P P Wainscott
Director
27 July 2010

DIRECTORS' RESPONSIBILITIES STATEMENT

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 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 accounting 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MANCHESTER SHIP CANAL COMPANY

We have audited the financial statements of The Manchester Ship Canal Company for the year ended 31 March 2010 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the reconciliation of movements in total shareholders' funds, note of historical cost profits and losses and the related notes 1 to 24 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 auditors' 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, 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 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
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 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 Company's affairs as 31 March 2010 and of its 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

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

Patrick Loftus (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Liverpool, United Kingdom
30/7/2010

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
TURNOVER	2	31,736	27,071
Cost of sales		(15,156)	(16,483)
GROSS PROFIT		16 580	10,588
Administrative expenses		(1 012)	(1,057)
Other operating income		211	126
OPERATING PROFIT	5	15,779	9,657
Profit on disposal of tangible fixed assets	6	-	2,876
Net interest payable and similar charges	7	(332)	(1,124)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		15,447	11,409
Tax on profit on ordinary activities	8	(24)	185
PROFIT FOR THE FINANCIAL YEAR	17	15,423	11,594

The above results are derived from continuing operations

BALANCE SHEET
As at 31 March 2010

	Note	2010 £'000	2009 £'000
FIXED ASSETS			
Tangible assets	10	51 129	49,801
CURRENT ASSETS			
Debtors amounts falling due within one year	11	94 141	104 027
Debtors amounts falling due after more than one year	11	3 523	-
Cash at bank and in hand		324	2 565
		97,988	106,592
CREDITORS amounts falling due within one year	12	(44,132)	(47,159)
NET CURRENT ASSETS		53,856	59,433
TOTAL ASSETS LESS CURRENT LIABILITIES		104,985	109,234
CREDITORS amounts falling due after more than one year	13	(31,279)	(30,885)
PROVISIONS FOR LIABILITIES	15	(1 036)	(1,115)
NET ASSETS EXCLUDING PENSION ASSET		72,670	77,234
Pension asset	18	3	1,999
NET ASSETS INCLUDING PENSION ASSET		72,673	79,233
CAPITAL AND RESERVES			
Called up share capital	16	4,000	4,000
Revaluation reserve	17	17,549	17,771
Capital redemption reserve	17	3,278	3,278
Investment in own shares	17	(212)	(212)
Profit and loss account	17	48,058	54,396
TOTAL SHAREHOLDERS' FUNDS		72,673	79,233

The financial statements of The Manchester Ship Canal (company registration number ZC197), were approved by the Board of Directors on 27 July 2010 and were signed on its behalf by

P P Wainscott
Director

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Profit for the financial year		15,423	11,594
Other recognised gains and losses			
Actuarial loss relating to the pension schemes	18	(3,143)	(2,243)
Movement on deferred taxation relating to pension liability		880	628
		(2,263)	(1,615)
Total recognised net gains and losses for the financial year		13,160	9,979

RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS
For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Profit for the financial year		15,423	11,594
Dividends paid	9	(19,720)	-
Other recognised gains and losses for the financial year		(2,263)	(1,615)
Net change in shareholders' funds		(6,560)	9,979
Opening shareholders' funds		79,233	69,254
Closing shareholders' funds		72,673	79,233

NOTE OF HISTORICAL COST PROFITS AND LOSSES
For the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Reported profit on ordinary activities before taxation		15,447	11,409
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount		222	222
Historical cost profit for the year before taxation		15,669	11,631
Historical cost profit for the year after taxation		15,645	11,816

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

1 ACCOUNTING POLICIES

These financial statements are prepared under the historical cost convention as modified by the revaluation of certain fixed assets and in accordance with applicable United Kingdom law and accounting standards A summary of the more important accounting policies, which have been applied consistently throughout the current and prior year is set out below

Basis of preparation

The Company is a main operating company of the Peel Ports Shareholder FinanceCo Limited Group ('the Group') and is party to the cross guarantee of the Group's debt facility Therefore in making their assessment of the Company's going concern assumption the directors have considered the assumptions and conclusions of Group s management in making their assessment of going concern on a Group basis The directors of the Company are cognisant of the following going concern disclosure which appears in the financial statements of Peel Ports Shareholder FinanceCo Limited for the year ended 31 March 2010

- the directors prepare and update detailed annual budgets, three year higher level forecasts, and three year strategic plans Together these show that sufficient resources are available to the business and on this basis the directors continue to adopt the going concern assumption,
- at the balance sheet date the Group has borrowings of £1,063,572,000 which are subject to covenant restrictions The borrowings are in place until 31 December 2013 No breaches have occurred in the historical period and the budgets and forecasts prepared by the directors, taking account of reasonable changes in trading performance, indicate the Group will continue to comply with covenant requirements for a period of at least 12 months from the date of approval of the financial statements,
- in the year ended 31 March 2010, the reduction in turnover in an extremely challenging economic environment was contained at £37m or 9 2% £22m of the reduction in turnover related to lower margin non-Ports business Despite the reduced turnover the fall in operating profit before exceptional items was contained at 2 1% due to a combination of improved sales mix and the realised benefit of the Group's restructuring exercises,
- during the two years ended 31 March 2010 the Group responded to the difficult economic environment by restructuring its business and cutting costs Whilst the opportunities for growth in turnover during the next twelve months remain constrained, the financial statements for the year ending 31 March 2011 will show a lower cost base, reflecting the benefit of the steps taken by the directors,
- cash inflows generated in the year enabled the Group to finance fixed asset additions of £25m from cash, together with all financing outflows, resulting in a marginal year on year reduction in net cash of £0 9m, and
- there are undrawn loan facilities of £60 million available to the Group

After making enquiries, the directors have formed a judgment, at the time of approving the financial statements, that there is a reasonable expectation that the Group and therefore the Company has adequate resources to continue in operational existence for the foreseeable future For this reason, the directors continue to adopt the going concern basis in preparing the financial statements

Turnover

Port and canal income comprises amounts receivable by the Company in respect of services provided during the financial year Rental turnover comprises property rental income and rental premiums, which are accounted for on an accruals basis Revenue is recognised upon provision of services Turnover excludes sales related taxes

Related party disclosures

The Company has taken advantage of the exemption in paragraph 3 (c) of Financial Reporting Standard No 8 "Related party disclosures" and has not disclosed details of transactions with fellow wholly-owned undertakings within the Peel Ports Shareholder FinanceCo Limited group of companies

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation net of depreciation and any provision for impairment Depreciation is provided on other fixed assets at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows

- Operational buildings at rates varying between 1% and 4% per annum
- Plant and machinery at rates varying between 15% and 25% per annum
- Port and canal assets include freehold and long leasehold land which is not depreciated except for dredging deposit ground bunds which are written off according to annual usage The remaining port and canal assets are depreciated at rates varying between 1% and 5% per annum
- No depreciation is charged on capital work in progress until the assets are available for use On completion, such assets are transferred to the appropriate category of tangible fixed assets

Residual value is calculated on prices prevailing at the date of acquisition The carrying value of previously revalued tangible fixed assets was frozen under the transitional arrangements of Financial Reporting Standard No 15, "Tangible Fixed Assets

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold, and
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Cash flow statement

The Company is a wholly owned subsidiary of Peel Ports Shareholder FinanceCo Limited The cash flows of the Company are included in the consolidated cash flow statement of Peel Ports Shareholder FinanceCo Limited Consequently the Company is exempt under the terms of Financial Reporting Standard No 1 (Revised 1996), from publishing a cash flow statement

Preference shares

Preference shares are accounted for in accordance with FRS 25 "Financial instruments Disclosure and presentation' The preference shares are accounted for as debt in the financial statements in accordance with the requirements of FRS 25 Cumulative dividends payable on the shares are included in creditors due within one year until the Company has paid them to the shareholders

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

Pension costs

Defined contribution scheme
The cost of the Company s money purchase pension arrangements are charged to the profit and loss account on the basis of contributions payable in respect of the accounting period

Company Defined benefit scheme

The Company also operates a defined benefit scheme, which requires contributions to be made to a separately administered fund This has been accounted for under the full requirements of FRS 17 'Retirement Benefits"

Under FRS 17, the defined benefit scheme assets are measured using market values Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability Any increase in the present value of liabilities of the Company's defined benefit pension scheme expected to arise from employee service in the period is charged against operating profit The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in other finance income Actuarial gains and losses are recognised in the statement of total recognised gains and losses

The Company recognises an asset in respect of any surplus, being the excess of the value of the assets in the scheme over the present value of the scheme's liabilities, only to the extent that it is able to recover the surplus, either through reduced contributions in the future or from refunds from the scheme

Leased assets

Assets acquired under finance leases are capitalised at a value equivalent to the cost incurred by the lessor and depreciated over their expected useful economic lives Finance charges thereon are charged to the profit and loss account in the period in which they accrue The capital element of the future lease payments is reflected within creditors

Expenditure on operating leases is charged directly to the profit and loss account

Bank borrowings

Interest-bearing bank loans and overdrafts are recorded at the value of the proceeds received, net of direct issue costs Finance charges are accounted for on an accruals basis in the profit and loss account using the effective interest method and are added to the carrying amount of the investment to the extent that they are not settled in the period which they cover

Government grants

Government grants received in respect of capital expenditure are credited to a deferred income account and released to the profit and loss account over the useful economic life of the assets to which they relate

2 SEGMENTAL INFORMATION

	2010 £'000	2009 £'000
Turnover arises in the UK from the following sources		
Port and canal operations	29,633	25,402
Rental income	2,103	1,669
	31,736	27,071

Turnover includes £4,635,000 arising from a substantial completion of services provided under the terms of existing contractual arrangements The directors consider no further obligations exist given that all services have now been rendered and the likelihood of the reinstatement of activities in the future is remote

The Company has taken advantage of the exemption from SSAP 25 'segmental reporting' on the basis that such disclosures are included in the consolidated financial statements of Peel Ports Shareholder FinanceCo Limited

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

3 DIRECTORS' EMOLUMENTS

The directors are also directors of other Group companies and spend the majority of their time dealing with the affairs of those companies For this reason no recharge of the emoluments was made to the Company in the year ended 31 March 2010 (2009 £nil)

4 EMPLOYEE INFORMATION

The average monthly number of persons (including executive directors) employed by the Company during the year was

	2010 No	2009 No.
Administration	20	22
Port operational and maintenance staff	56	56
	76	78

The staff costs for the above persons were

	2010 £'000	2009 £'000
Wages and salaries	2,019	2,157
Social security costs	164	167
Pension fund service cost (note 18)	373	472
Other pension costs (note 18)	5	7
	2,561	2,803

5 OPERATING PROFIT

	2010 £'000	2009 £'000
Operating profit is stated after charging/(crediting):		
Depreciation – owned assets	1,486	1,454
Depreciation – leased assets	195	70
Profit on disposal of assets	(50)	(211)
Foreign currency exchange (gain)/loss	(20)	17
Hire of plant and machinery under operating leases	221	102
Hire of other assets under operating leases	947	982
Grant releases	(67)	(75)
The analysis of auditors' remuneration is as follows		
Fees payable to the Company s auditors for the audit of the Company s annual accounts	20	35

Fees paid to the Company's auditors, Deloitte LLP, for services other than the statutory audit are not disclosed in the financial statements of the Company as the financial statements of the Company's parent, Peel Ports Shareholder FinanceCo Limited, are required to disclose non-audit fees on a consolidated basis

	2010 £'000	2009 £'000
Port and Canal income includes		
Pilotage (including exemption certificates of £3,000 (2009 £,5,000)	1,371	1,480
Railways	84	396
Port and canal expenditures includes		
Pilotage	1,295	1,319

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

6 PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS

	2010 £'000	2009 £'000
Grant of 999 year lease	-	2,876

7 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £'000	2009 £'000
Interest payable and similar charges		
On banks loans	(368)	(1,302)
On other loans	(82)	(149)
Finance lease and other interest	(45)	(30)
Dividends on shares classed as financial liabilities	(140)	(140)
	(635)	(1,621)
Interest receivable and similar income		
On bank and other deposits	1	53
Other finance income:		
Expected return on pension scheme assets	2,708	3,035
Interest on pension scheme liabilities	(2,406)	(2,591)
	302	444
Net interest payable and similar charges	332	(1 124)

The other finance income relates to the Company's defined benefits pension scheme (note 18)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	2010 £'000	2009 £'000
Current tax		
Corporation tax	-	-
Adjustments in respect of prior years		
UK corporation tax	-	(3)
Group relief	-	(300)
	-	(303)
Total current tax charge/(credit)	-	(303)
Deferred tax		
Origination and reversal of timing differences	162	176
Movement in FRS 17 deferred taxation	103	147
Adjustment in respect of prior years	(241)	(205)
Total deferred tax charge	24	118
Total tax on profit on ordinary activities	24	(185)

Reconciliation of current tax charge/(credit)

The current tax charge is lower (2009 lower) than that arising from applying the standard rate of UK corporation tax of 28% (2009 28%) The differences are explained below

	2010 £'000	2009 £'000
Profit on ordinary activities before taxation	15,447	11,409
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK 28% (2009 28%)	4,325	3,195
Capital allowances in excess of depreciation	(199)	(176)
Movement in FRS 17 pension surplus deferred taxation	(103)	(147)
Net disallowable expenditure	119	86
Movement in short term timing differences	37	-
Excess of book profits over taxable profits on sale of fixed assets	-	(823)
Group relief claimed without payment	(4,179)	(2,135)
Adjustments to tax charge in respect of prior years	-	(303)
Total current tax charge/(credit)	-	(303)

9 EQUITY DIVIDENDS PAID

	2010 £'000	2009 £'000
Interim ordinary dividends of £5 205 per share (2009 nil)	19 720	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

10 TANGIBLE FIXED ASSETS

	Land and buildings – freehold and long leasehold £'000	Plant and machinery - owned £'000	Plant and machinery - leased £'000	Capital work in progress £'000	Total £'000
Cost or valuation					
At 1 April 2009	71,218	29,107	1,497	1,402	103,224
Additions	373	706	287	1,643	3,009
Transfer from capital work in progress	1,000	403	-	(1,403)	-
At 31 March 2010	72,591	30,216	1,784	1,642	106,233
Depreciation					
At 1 April 2009	31,081	21,637	705	-	53,423
Charge for year	712	774	195	-	1,681
At 31 March 2010	31,793	22,411	900	-	55,104
Net book value					
At 31 March 2010	40,798	7,805	884	1,642	51,129
At 31 March 2009	40,137	7,470	792	1,402	49,801

Non depreciable land

Included within land and buildings is freehold and long leasehold land, which is not subject to depreciation, amounting to £20,311,000 (2009 £20,266,000) and £81,000 (2009 £81,000) respectively

Historical cost of fixed assets

The historical cost of land and buildings is £54,820,000 (2009 £53,447,000)

If land and buildings had not been revalued, they would have been included at the following amounts

	2010 £'000	2009 £'000
Cost	54,820	53,447
Depreciation	28,470	27,980
Net book value	26,350	25,467

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

11 DEBTORS

	2010 £'000	2009 £'000
Amounts falling due within one year.		
Trade debtors	3,058	3,366
Amounts owed by Group undertakings	89,762	100,364
Other debtors	72	61
Prepayments and accrued income	1,249	236
	94,141	104,027
Amounts falling due after more than one year		
Prepayments and accrued income	3,523	-

12 CREDITORS AMOUNTS FALLING DUE WITHIN ONE YEAR

	2010 £'000	2009 £'000
Bank overdrafts	-	205
Finance leases	132	153
Debt falling due within one year	132	358
Trade creditors	1,939	1,360
Amounts owed to Group undertakings	32,909	33,583
Other creditors including taxation and social security	100	573
Government grants	67	75
Accruals and deferred income	1,925	4,290
Dividends on shares classed as financial liabilities	7,060	6,920
	44,132	47,159

Details of security on the above borrowings are disclosed in note 14

13 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2010 £'000	2009 £'000
Bank loans	24,238	24,238
Perpetual debenture stocks	2,233	2,233
Finance leases	138	73
3,999,980 3 5% (net) preference shares (see note 16)	4,000	4,000
Debt falling due after more than one year	30,609	30,544
Other creditors	388	-
Government grants	282	341
	31,279	30,885

Details of security on the above borrowings are disclosed in note 14

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

14 BORROWINGS

	2010 £'000	2009 £'000
(a) Analysis of net debt		
Creditors – amounts falling due within one year	132	358
Creditors – amounts falling due after more than one year	30 609	30 544
Gross debt	30,741	30,902
Cash at bank and in hand	(324)	(2,565)
Net debt	30,417	28,337
(b) Maturity of financial liabilities		
Finance leases		
Within one year	132	153
Between one and two years	95	58
Between two and five years	43	15
	270	226
Other debt		
Within one year	-	205
Between two and five years	24,238	24,238
After five years	6,233	6,233
	30,471	30,676
Gross debt	30,741	30,902

Other debt includes bank loans of £24,238,000 (2009 £24,238,000) which are secured by a fixed legal charge on certain freehold properties and investments and a floating charge over all other assets of certain Group companies both present and future There is a cross corporate guarantee between certain Group companies in respect of secured borrowings The loans bear interest at LIBOR plus applicable margin

The perpetual debenture stocks are secured by floating charges over the undertaking of the Company and bear interest at rates between 3 5% and 4% The perpetual debenture stocks are listed on the London Stock Exchange, a regulated market and since inception have never been traded The directors consider that the fair value of the instruments is not materially different from the carrying value in the financial statements

Finance lease obligations are secured on the assets to which they relate (note 10)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

15 PROVISIONS FOR LIABILITIES

	Deferred taxation £'000
At 1 April 2009	1 115
Profit and loss account	(79)
At 31 March 2010	1,036

Provision for deferred tax comprises	2010 £'000	2009 £'000
Accelerated capital allowances	1,194	1,232
Other timing differences	(158)	(117)
	1,036	1,115

16 CALLED UP SHARE CAPITAL

	Number	2010 £'000	2009 £'000
Authorised under the Manchester Ship Canal Acts and Orders			
Ordinary shares of £1 each	4,000,000	4,000	4,000
3 5% (net) preference shares of £1 each*	4,000,000	4,000	4,000
Total authorised share capital at 31 March	8,000,000	8,000	8,000
Allotted, called-up and fully paid share capital			
Ordinary shares of £1 each ranking for dividend	3,788,402	3,788	3 788
Ordinary shares of £1 each vested in trustees and not ranking for dividend	211,598	212	212
Shares classed as equity shareholder funds	4,000,000	4,000	4,000
3 5% (net) preference shares of £1 each*	3,999,980	4,000	4,000
Total allotted share capital at 31 March	7,999,980	8,000	8,000

The holders of preference shares of £1 each are entitled to receive notice of any general meeting of the Company and vote on resolutions proposed, carrying equal voting rights with ordinary shares

Section 12 of the Manchester Ship Canal (Finance) Act 1904 provides that in respect of profits (as that term is defined in Section 24 of the Manchester Ship Canal Act 1945), two thirds of this sum should be paid to preference shareholders and one third to ordinary shareholders provided that when the said two thirds due to the preference shareholders shall in any year amount to £200,000 all remaining profits shall be payable to the ordinary shareholders This amount of £200,000 was reduced by 30% to £140,000 by virtue of the Finance Act 1972 Schedule 23 (18) and Section 46 of the Finance Act 1976

* In accordance with Financial Reporting Standard (FRS) 25 the 3 5% (net) preference shares are classified as creditors due after more than one year on the balance sheet (see note 13) Cumulative dividends are accrued within creditors until they are paid

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

17 RESERVES

	Revaluation reserve £'000	Investment in own shares £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2009	17,771	(212)	3,278	54 396	75,233
Profit for the financial year	-	-	-	15,423	15,423
Dividends	-	-	-	(19,720)	(19,720)
Actuarial loss relating to the pension fund (note 18)	-	-	-	(3,143)	(3,143)
Movement on tax relating to pension asset	-	-	-	880	880
Transfer of amount equivalent to additional depreciation on revalued assets	(222)	-	-	222	-
At 31 March 2010	17,549	(212)	3,278	48,058	68,673

18 PENSION FUND

Defined contribution scheme

The Company operates a money purchase pension scheme providing benefits based on actual contributions paid in the United Kingdom The assets of the scheme are held separately from the assets of the Company and are administered by trustees and managed professionally The contributions of the Company varied between 2% and 6% (2009 varied between 2% and 6%) of pensionable salaries for the financial year Company contributions to money purchase pension schemes are matched by employees Contributions totalling £5,000 were paid during the year (2009 £7,000)

Company defined benefit scheme

The Company also operates a defined benefit pension scheme based on final pensionable pay which was closed to new entrants with effect from 22 January 2001 The assets of the scheme are held separately from those of the Company

Contributions of the Company to the defined benefits pension scheme are based on pension costs across the Company as a whole The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method The most recent actuarial valuations are at April 2009

The main assumptions in the actuarial valuation as at April 2009 were that long-term investment rates would be 7 0% per annum pre retirement and 4 75% per annum post retirement, pensionable salary increases would be 2 8% per annum, the majority of pensions in payment would increase at a rate of between 2 8% and 3 3% per annum, and price inflation would be 2 8% per annum As at the latest actuarial valuation, the value of the assets was enough to cover between 78% and 88% of the benefits that had accrued to members, after allowing for expected future increases in earnings

Contributions totalling £441,000 were paid during the year (2009 £553,000) No special contributions were made during the year (2009 £nil)

As at 31 March 2010 the assets of the defined benefits pension scheme were valued at £50 million Company contributions for the defined benefit pension schemes for the year ending 31 March 2011 are expected to be in the region of £1,000,000 The most recent actuarial valuations were updated to 31 March 2010 by qualified actuaries These informal valuations used a set of assumptions consistent with those required under FRS 17 The major assumptions used by the actuaries are set out below

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

Major actuarial assumptions	**31 March 2010 %**	**31 March 2009 %**
Rate of increase in pensionable salaries	3.60	4.00
Rate of increase of pensions in payment	3.60	2.75
Rate of increase for deferred pensioners	3.60	2.75
Discount rate	5.50	6.75
Inflation	3.60	2.75
Mortality		
Current pensioners		
Actuarial tables used	110% SAPS tables, birth year, with medium cohort improvements and a 1% underpin	PMA92/PFA92 tables birth year, with medium cohort improvements and a +4 year age rating
Male life expectancy at age 65	20.6 years	18.8 years
Future pensioners		
Actuarial tables used	110% SAPS tables, birth year, with medium cohort improvements and a 1% underpin	PMA92/PFA92 tables, birth year, with medium cohort improvements and a +4 year age rating
Male life expectancy at age 65 (currently aged 45)	22.5 years	19.7 years

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice

Changes in the present value of the defined benefit liabilities are as follows:	**2010 £'000**	**2009 £'000**
Opening defined benefit liability	36,497	40,308
Service cost	373	472
Interest cost	2,406	2,591
Employee contributions	57	66
Actuarial gains on scheme liabilities	12,734	(5,116)
Benefits paid	(2,145)	(1,824)
Closing defined benefit liability	49,922	36,497

Analysis of the defined benefit obligation.	**2010 £'000**	**2009 £'000**
Present value of funded liabilities	49,922	36,497

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

Reconciliation of fair value of scheme assets	**2010 £'000**	**2009 £'000**
Opening fair value of scheme assets	39,274	46,310
Expected return on scheme assets	2,708	3 035
Actuarial gain/(losses) on scheme assets	9,591	(8 866)
Contributions by the Company	441	553
Contributions by employees	57	66
Benefits paid	(2,145)	(1,824)
Closing fair value of scheme assets	49,926	39,274

Amounts to be recognised in the balance sheet	**2010 £'000**	**2009 £'000**
Present value of funded liabilities	(49,922)	(36,497)
Fair value of scheme assets	49,926	39,274
	4	2,777
Present value of unfunded liabilities	-	-
Surplus	4	2,777
Irrecoverable surplus	-	-
Recognisable surplus before deferred taxation	4	2,777
Deferred taxation	(1)	(778)
Amount recognised in the balance sheet	3	1,999

Amount to be recognised in the profit and loss account	**2010 £'000**	**2009 £'000**
Current service cost	373	472
Interest cost	2,406	2,591
Expected return on scheme assets	(2,708)	(3,035)
Total expense	71	28

Cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses since adoption of FRS 17	**2010 £'000**	**2009 £'000**
Opening cumulative	2,842	5,085
Actuarial gains on scheme liabilities	12,734	5,116
Actuarial losses on scheme assets	(9,591)	(8,866)
Irrecoverable surplus	-	1,507
Movement in the year	3,143	(2,243)
Closing cumulative	5,985	2,842

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

Plan assets

	Fair value of assets 31 March 2010	31 March 2010	Expected rate of return 31 March 2010	Fair value of assets 31 March 2009	31 March 2009	Expected rate of return 31 March 2009
	£'000	%	%	£'000	%	%
Equities	26,254	53	8 50	19,973	51	8 50
Fixed Interest Gilts	5,613	11	4 50	9,586	24	3 80
Corporate Bonds	18,037	36	5 50	9,586	24	6 75
Cash and insured schemes	22	-	0 50	129	1	0 50
Total market value of assets	49,926	100	6 96	39,274	100	6 90

The overall expected return on assets is calculated as the weighted average of the expected returns on each individual asset class The expected returns are set by reference to market indicators, including price inflation, dividend yields, economic growth, yields on index linked gilts and bonds and interest rates The actual return on plan assets was a gain of £12,299,000 (2009 loss £5,831,000)

History of experience gains and losses	**2010 £'000**	**2009 £'000**	**2008 £'000**	**2007 £'000**	**2006 £'000**
Present value of defined benefit liability	(49,922)	(36,497)	(40,308)	(43,522)	(45,290)
Fair value of scheme assets*	49,926	39,274	46,310	47,556	43,309
Surplus	4	2,777	6,002	4,034	(1,981)
Experience (losses)/gains on scheme liabilities and changes in assumptions :					
Amount	(12,734)	5,116	4,493	2,738	(4,402)
Percentage of present value of scheme liabilities	(25%)	14%	11%	6%	(10%)
Difference between expected and actual return on scheme assets:					
Amount	9,591	(8,866)	(3,335)	(210)	5,861
Percentage of scheme assets	19%	(23%)	(7%)	(0 4%)	14%

* The fair value of scheme assets is shown at bid value at 31 March 2010 and 2009, and at mid-market value at all other dates

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

Assumption	**Change in assumption**	**Impact on scheme liabilities**
Discount rate	+/- 0 5%	-7%/+7%
Inflation	+/- 0 5%	+5%/-5%
Rate of increase in pensionable salaries	+/- 0 5%	+1%/-1%
Mortality	+1 year	+3%

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

Industry wide scheme

The Pilots National Pension Fund ("PNPF")

The PNPF is an industry-wide defined benefits scheme The most recent actuarial valuation, performed by an independent actuary, is as at 31 December 2004 As at that date, the scheme had assets with a market value of £339 million, representing 76% of the benefits accruing to members after allowing for future increases The most recent updated valuation available from the scheme actuary is at 31 December 2006 The value of the fund had increased to £350 million Approximately 32% of the scheme's assets were invested in equities 45% in bonds, with the balance being held in hedge funds and in cash The valuation assumptions adopted by the actuary were as follows

	%
Inflation	2 90
Rate of increase of pensionable salaries	3 90
Rate of increase for pensions in payment	2 75
Rate of increase for deferred pensions	2 75
Discount rate	4 70
Expected return on plan assets	
- Pre-retirement	7 90
- Post-retirement	4 80

The scheme rules have not historically provided a mechanism for the allocation of past-service deficits A number of different legal opinions has been issued concerning this scheme However, the Company has been unable to determine its share of the past-service deficit on a reasonable and consistent basis In prior years, the participating bodies for this scheme had agreed a voluntary arrangement to increase contributions in order to reduce the deficit Based on legal advice the directors agreed to make voluntary contributions in respect of the Company's share of past-service deficit totalling £622,000 payable in instalments over a 5 year period from 1 April 2006

In the year ended 31 March 2008, the pension fund trustees initiated legal proceedings against all participating employers as a means to obtain further contributions to fund the deficit As a result, all former voluntary payment plans have lapsed During the year, the Company did not make any voluntary contributions to this scheme (2009 £nil)

Since the balance sheet date, a court judgment has been issued However, as at this time, we have not yet been able to assess how this may impact the Company

In the absence of an agreement on the allocation of the past-service deficit, the Company is unable to determine its share of assets and liabilities for this scheme on a consistent and reasonable basis Because the Company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme is accounted for by the Company as if the scheme was a defined contribution scheme, the cost recognised within the profit and loss account being equal to the contributions payable to the scheme for the year

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

19 RELATED PARTY TRANSACTIONS

Entities in the Peel Holdings group of companies

The following summarises the transactions during the year between the Company other divisions of the Peel Holdings group of companies The other divisions of Peel Holdings are headed by the following entities

Related Party	Transaction	2010 £'000	2009 £'000
Peel Holdings Land & Property (UK) Limited	Fixed asset disposal	-	3 000
	Sales	926	100
	Purchases	(67)	-
	Rent paid	(1,128)	(755)
	Group relief	-	300

The following summarises the year end balances between the Company and other divisions of the Peel Holdings group of companies The other divisions of Peel Holdings are headed by the following entities

Related Party	2010 £'000	2009 £'000
Bridgewater Canal Trust	40	150
Peel Holdings Land & Property (UK) Limited	(52)	3,000

20 CAPITAL COMMITMENTS

	2010 £'000	2009 £'000
Capital expenditure contracted for but not provided for in these financial statements	84	234

21 OTHER FINANCIAL COMMITMENTS

At 31 March 2010, the Company had annual commitments under non-cancellable operating leases for land and buildings

	2010 £'000	2009 £'000
Expiring after 5 years	923	923

22 GROUP BORROWING FACILITY

The Company, together with certain of its fellow Group undertakings, has guaranteed the loans and bank overdrafts of certain Group companies At 31 March 2010 this amounted to £1,039 334,000 (2009 £1,039,334,000)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2010

23 ULTIMATE AND IMMEDIATE HOLDING COMPANY

The directors regard Tokenhouse Limited, a company incorporated in the Isle of Man, as the ultimate holding company and Peel Ports Investments Limited, a company registered in Great Britain, as the immediate parent company

The largest and smallest group of undertakings of which the Company is a member that produces publicly available consolidated financial statements is Peel Ports Shareholder FinanceCo Limited, a company registered in Great Britain Its group financial statements are available from -

The Company Secretary
Peel Ports Shareholder FinanceCo Limited
Maritime Centre
Port of Liverpool
Liverpool
L21 1LA

24 ULTIMATE CONTROLLING PARTY

Tokenhouse Limited is controlled by The 1997 Billown Settlement Trust By virtue of its controlling interest in Peel Ports Holdings (CI) Limited and the majority voting power held by the directors appointed by that company's immediate parent undertaking, Peel Ports Holdings (IOM) Limited the Company considers The 1997 Billown Settlement Trust to be the ultimate controlling party