

**THE MANCHESTER SHIP CANAL
COMPANY**

**Report and Financial Statements
For the year ended 31 March 2007**

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THE MANCHESTER SHIP CANAL COMPANY

REPORT AND FINANCIAL STATEMENTS FOR 2007

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OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Whittaker
P A Scott
T E Allison
D S Green
M Mackay
P P Wainscott
Sir Richard Leese

SECRETARY

W J Bowley

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 & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

THE MANCHESTER SHIP CANAL COMPANY

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2007

PRINCIPAL ACTIVITIES

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

On 1 September 2006, the Company sold land options and disposed of a portfolio of non-operational properties at open market value to members of the Peel Holdings group. The disposal was effected by means of the sale of its interests in properties held for investment purposes. The sale resulted in a profit of £9,066,000.

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 £26,945,000 (2006 £nil). No final dividend is proposed (2006 £nil). The directors proposed and paid preference dividends of £280,000 (2006 £nil), representing the full entitlement to dividends on the preference shares for the years ended 31 March 2006 and 31 March 2007.

REVIEW OF BUSINESS, DEVELOPMENTS AND PROSPECTS

Summary of results

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

	2007	2006	Change	
	£'000	£'000	£'000	%
Turnover	24,546	26,014	(1,468)	(5.6%)
Gross profit	9,107	10,366	(1,259)	(12.1%)
Operating profit before exceptional items	8,765	9,333	(568)	(6.1%)

The Company's results and financial position are set out in the profit and loss account and balance sheets on pages 7 and 8.

Net assets were £59,760,000 at 31 March 2007 (2006 £75,952,000). In addition to profit for the financial year of £13,828,000, the net asset position has changed because of:

- a capital contribution of £10,000,000 arising from a gift received from Peel Ports Investments Limited,
- the payment of interim dividends to the immediate parent undertaking of £26,945,000 (2006 £nil), and
- a reduction in net book value of fixed assets of £14,845,000 due to restatement to historic cost arising from a change in classification of properties (see note 10 to the financial statements).

Investment property management operations

On 1 September 2006, the Company disposed of its remaining interests in properties held for investment purposes.

Port operations

The level of business activity for the port operations has been satisfactory and is consistent with expectations during the year. It is anticipated that the present level of activity within the business will be maintained for the foreseeable future. During the financial year costs relating to redundancies were incurred due to a re-structuring programme.

THE MANCHESTER SHIP CANAL COMPANY

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.

	2007	2006	Absolute Change	% Change	Method of calculation
Turnover from Port & Canal operations	£24,311k	£24,454k	(£143k)	(0.6)	Year on year change in turnover expressed in £'000s
Investment in trade debtors as a percentage of turnover	12.3%	13.4%	(1.1%)	(8.2)	Trade debtors net of provisions as a percentage of turnover
Turnover per employee	£261.1k	£211.5k	£49.6k	23.5	Turnover divided by average number of employees
Tonnage throughput (rolling 12 month basis)	8,284k Tonnes	7,598k Tonnes	686k Tonnes	9.0	Year on year growth in tonnage using standard tonnage measures for the Ports industry

PRINCIPAL RISKS AND UNCERTAINTIES

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.

The key financial risk arises from the level of debt held by the Group and the interest arising thereon. Further details on this risk can be found in the consolidated financial statements of Peel Holding (Ports) Limited, the smallest UK group in which the accounts of the Company are consolidated.

The directors consider that the combination of swap instruments utilised by the Group, stable trading of the ports business, effective working capital management and the development of the asset base act as significant factors to manage the risks arising from the level of debt and variability in interest rates.

DIRECTORS

The directors who held office during the financial year are listed on page 1.

The Manchester Ship Canal Company is primarily governed by its Acts and Orders 1885 to 1992. These statutes do not differentiate between executive and non-executive directors.

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

DIRECTORS' INTERESTS IN SHARES AND FINANCIAL INSTRUMENTS

In accordance with the repeals of sections 324-326 and 328-329 and Parts 2 to 4 of Schedule 13 of the Companies Act 1985, no disclosure is prepared in respect of the directors' interests in the shares of the Company or the ultimate holding company, Tokenhouse Investments (Guernsey) Limited.

THE MANCHESTER SHIP CANAL COMPANY

DIRECTORS' REPORT

POLITICAL AND CHARITABLE CONTRIBUTIONS

During the financial year, contributions by the Company for charitable purposes totalled £15,200 (2006 £16,434)

The Company made no political contributions during the financial year (2006 £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

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

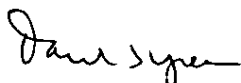
In the case of each person who is a director of the Company at the date when the report is approved

- so far as each is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the Company's auditors are unaware, and
- each of the directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information (as defined) 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 s234ZA of the Companies Act 1985

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

On behalf of the Board



D. S. Green

Director

13 December 2007

THE MANCHESTER SHIP CANAL COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

Company law requires the directors to prepare financial statements for each financial period. 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). The financial statements are required by law to 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records that 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 1985 and the Company's own Acts and Orders, in particular, Section 42 of the Harbours Act 1964. 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 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the note of historical cost of profit and losses, the reconciliation of movements in total shareholders' funds and the related notes 1 to 23. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The director's responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of director's responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Section 42 of the Harbours Act 1964. We also report to you whether in our opinion the information given in the director's report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the director's report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and Section 42 of the Harbours Act 1964, and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Manchester

15 December 2007

THE MANCHESTER SHIP CANAL COMPANY

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
TURNOVER	2	24,546	26,014
Cost of sales		<u>(15,439)</u>	<u>(15,648)</u>
GROSS PROFIT		9,107	10,366
<hr/>			
Other administrative expenses		(1,054)	(2,040)
Restructuring costs		(2,852)	-
<hr/>			
Administrative expenses		(3,906)	(2,040)
Other operating income		712	1,007
<hr/>			
OPERATING PROFIT	5	5,913	9,333
Profit on disposal of tangible fixed assets	6	9,277	1,199
Net interest payable and similar charges	7	<u>(1,270)</u>	<u>(1,605)</u>
<hr/>			
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		13,920	8,927
Tax on profit on ordinary activities	8	<u>(92)</u>	<u>(2,506)</u>
<hr/>			
PROFIT FOR THE FINANCIAL YEAR	18	<u>13,828</u>	<u>6,421</u>

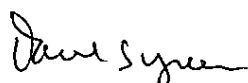
The above results are derived from continuing operations

THE MANCHESTER SHIP CANAL COMPANY

BALANCE SHEET 31 March 2007

	Note	2007 £'000	2006 £'000
FIXED ASSETS			
Tangible assets			
- Investment properties	10	-	18,009
- Other fixed assets	11	36,554	35,694
		36,554	53,703
CURRENT ASSETS			
Debtors	12	117,292	107,936
Cash at bank and in hand		1,827	3,010
		119,119	110,946
CREDITORS: amounts falling due within one year	13	(66,836)	(50,904)
NET CURRENT ASSETS		52,283	60,042
TOTAL ASSETS LESS CURRENT LIABILITIES		88,837	113,745
CREDITORS: amounts falling due after more than one year	14	(31,765)	(35,252)
PROVISIONS FOR LIABILITIES	16	(136)	(1,155)
NET ASSETS EXCLUDING PENSION ASSET/(LIABILITY)		56,936	77,338
Pension asset/(liability)	19	2,824	(1,386)
NET ASSETS INCLUDING PENSION ASSET/(LIABILITY)		59,760	75,952
FINANCED BY CAPITAL AND RESERVES			
Called up share capital	17	4,000	4,000
Revaluation reserve	18	17,771	32,616
Capital redemption reserve	18	3,278	3,278
Other reserve	18	-	5,644
Investment in own shares	18	(212)	(212)
Profit and loss account	18	34,923	30,626
TOTAL SHAREHOLDERS' FUNDS		59,760	75,952

The financial statements on pages 7 to 23 were approved by the Board of directors on 13 December 2007 and were signed on its behalf by



D S Green
Director

THE MANCHESTER SHIP CANAL COMPANY

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES For the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Profit for the financial year		13,828	6,421
Other recognised gains and losses			
Change in asset categories of certain properties	10	(14,845)	-
Capital contribution	18	10,000	-
Actuarial gain relating to the pension schemes	19(e)	2,528	1,459
Movement on deferred taxation relating to pension liability		(758)	(438)
		<u>(3,075)</u>	<u>1,021</u>
Total recognised net gains and losses for the financial year		<u>10,753</u>	<u>7,442</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES For the year ended 31 March 2007

	2007 £'000	2006 £'000
Reported profit on ordinary activities before taxation	13,920	8,927
Realisation of investment property revaluation surpluses of previous years	-	16,827
Historical cost profit on ordinary activities before taxation	<u>13,920</u>	<u>25,754</u>
Historical cost profit for the financial year	<u>13,828</u>	<u>23,248</u>

RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' FUNDS For the year ended 31 March 2007

	Note	2007 £'000	2006 £'000
Profit for the financial year		13,828	6,421
Dividends paid	9	(26,945)	-
Other recognised gains and losses for the financial year		(3,075)	1,021
Net change in shareholders' funds		<u>(16,192)</u>	<u>7,442</u>
Opening shareholders' funds		<u>75,952</u>	<u>68,510</u>
Closing shareholders' funds		<u>59,760</u>	<u>75,952</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

1. ACCOUNTING POLICIES

These financial statements are prepared under the historical cost convention as modified by the revaluation of fixed asset investment properties and certain other 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 except where noted, is set out below

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

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

Investment Properties

Investment properties are included in the balance sheet at their open market value and, in accordance with Statement of Standard Accounting Practice No 19 "Accounting for investment properties", are not depreciated or amortised. This departure from the requirements of the Companies Act 1985 is necessary for the financial statements to give a true and fair view in accordance with applicable United Kingdom accounting standards. Depreciation is only one of many factors reflected in the valuation and the amount which might otherwise have been shown cannot be separately identified or quantified

Surpluses or deficits arising from revaluation are transferred to the unrealised revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. Realised revaluation surpluses representing the difference between historical cost and the asset's carrying value are reclassified by way of a transfer to profit and loss account reserve in the year in which the property disposal occurs

Properties in the course of development or practically completed but not substantially let are included in the balance sheet at cost subject to provisions if the directors consider it prudent having regard to the prevailing market conditions. Cost includes interest and directly attributable overheads whilst the property is in the course of development

Reclassifications between investment properties, other fixed assets and stocks are made at the lower of net book value and net realisable value

Other Fixed Assets

Other 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 vehicles 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"

Fixed Asset Investments

Listed investments and other investments are stated at cost to the Company less provision for impairment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

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,
- 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

Turnover

Port and canal income comprises amounts receivable by the Company in respect of services provided during the financial year. Property investment 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

Trading property sales are accounted for on a legal completion basis

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

Pension costs

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

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

THE MANCHESTER SHIP CANAL COMPANY

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2007

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.

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

	2007	2006
	£'000	£'000
Turnover arises in the UK from the following sources		
Port and canal operations	24,311	24,454
Rental income	235	1,560
	24,546	26,014
	24,546	26,014

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.

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 2007 (2006: £nil).

4. EMPLOYEE INFORMATION

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

	2007	2006
	No	No
Administration	27	47
Port operational and maintenance staff	67	76
	94	123
	94	123

The staff costs for the above persons were

	2007	2006
	£'000	£'000
Wages and salaries	2,116	3,013
Social security costs	207	242
Pension fund service cost (note 19)	672	756
	2,995	4,011
	2,995	4,011

THE MANCHESTER SHIP CANAL COMPANY

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2007

5. OPERATING PROFIT

	2007	2006
	£'000	£'000
Operating profit is stated after charging/(crediting):		
Depreciation – owned assets	1,420	1,405
Depreciation – leased assets	70	119
Grant releases	(73)	(71)
Auditors' remuneration – audit services	30	30
	1,492	1,471
Port and Canal income includes:		
Pilotage (including exemption certificates of £6,000 (2006 £6,000))	1,492	1,471
Railways	388	388
	1,173	1,231

Fees paid to the Company's auditors, Deloitte & Touche 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

6. PROFIT ON DISPOSAL OF TANGIBLE FIXED ASSETS

	2007	2006
	£'000	£'000
Sale of land options	6,675	-
Disposal of investment properties	2,391	1,152
Disposal of other fixed assets	211	47
	9,277	1,199

The effect of the profit on disposal of fixed assets on the amount charged to the profit and loss account for taxation was £nil (2006 £nil)

7. NET INTEREST PAYABLE AND SIMILAR CHARGES

	2007	2006
	£'000	£'000
Interest payable and similar charges:		
On banks loans	(1,821)	(1,683)
On other loans	(81)	(81)
Finance lease and other interest	(69)	(98)
Preference dividends paid 3 5p per share (2006 3 5p per share)	(140)	(140)
	(2,111)	(2,002)
Interest receivable and similar income.		
On bank and other deposits	110	61
Other finance income:		
Expected return on pension scheme assets	2,973	2,440
Interest on pension scheme liabilities	(2,242)	(2,104)
	731	336
Net interest payable and similar charges	(1,270)	(1,605)

The other finance income relates to the Company's defined benefits pension scheme (note 19(c))

THE MANCHESTER SHIP CANAL COMPANY

NOTES TO THE FINANCIAL STATEMENTS For the year ended 31 March 2007

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007 £'000	2006 £'000
Current tax		
Group relief	-	2,269
UK corporation tax	-	-
	-	2,269
Adjustments in respect of prior years		
Group relief	(33)	(58)
UK corporation tax	97	143
	64	85
Total current tax	64	2,354
Deferred tax		
Origination and reversal of timing differences	(997)	104
Movement in FRS 17 deferred taxation	1,047	116
Adjustment in respect of prior years	(22)	(68)
	28	152
Total deferred tax	28	152
Total tax on profit on ordinary activities	92	2,506

The corporation tax charge is lower (2006 lower) than that arising from applying the standard rate of UK Corporation tax of 30% (2006 30%). The differences are explained below

	2007 £'000	2006 £'000
Profit on ordinary activities before taxation	13,920	8,927
Tax at 30%	4,176	2,678
Capital allowances in excess of depreciation	(57)	(83)
Movement in FRS 17 pension surplus deferred taxation	(1,047)	(116)
Net (non-taxable income)/disallowable expenditure	(1,093)	160
Movement in short term timing differences	1,054	(22)
Excess of book profits over taxable profits on sale of fixed assets	(771)	(349)
Group relief claimed without payment	(2,262)	-
Adjustments to tax charge in respect of prior years	64	86
Total current tax	64	2,354

9. EQUITY DIVIDENDS PAID

	2007 £'000	2006 £'000
Interim ordinary dividends of £7 112 per share (2006 £nil per share)	26,945	-
	26,945	-

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2007

10. INVESTMENT PROPERTIES

	Freehold and long leasehold £'000
Valuation	
At 1 April 2006	18,009
Disposals	(228)
Reversal of revaluation reserve on reclassification of properties	(14,845)
Reclassification of properties to Other fixed assets	<u>(2,936)</u>
At 31 March 2007	<u>-</u>

Reclassification of properties

On 1 September 2006, the Company disposed of its interests in properties held for investment purposes. Properties retained by the Company are considered to be an integral part of the port operations and are not considered by the directors to be investment properties within the meaning of Statement of Standard Accounting Practice No 19 "Accounting for investment properties". These operational assets have been reclassified as "Other fixed assets" and have been restated to historic cost in accordance with Company accounting policies.

Historical cost of investment properties

The historical cost to the Company of all investment properties is £nil (2006 £3,164,000)

Valuations

Certain investment properties held at 1 April 2006 were professionally valued at 31 March 2005 by CB Richard Ellis, King Sturge International Property Consultants and Surveyors, Scott Doherty Associates and James Barr & Son (all Chartered Surveyors) on the basis of open market value.

In the opinion of the directors, having consulted the Company's own professionally qualified staff, the open market values of land and investment properties at 1 April 2006 and at the date of disposal were not materially different from their values incorporated in the financial statements.

THE MANCHESTER SHIP CANAL COMPANY

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2007

11 OTHER 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 2006	27,351	51,193	1,497	4,586	84,627
Reclassification of properties (note 10)	2,936	-	-	-	2,936
Additions	-	300	-	189	489
Disposals	(1,070)	(33)	-	-	(1,103)
Transfer from capital work in progress	22	4,703	-	(4,725)	-
At 31 March 2007	<u>29,239</u>	<u>56,163</u>	<u>1,497</u>	<u>50</u>	<u>86,949</u>
Depreciation					
At 1 April 2006	5,938	42,499	496	-	48,933
Charge for year	363	1,057	70	-	1,490
Disposals	-	(28)	-	-	(28)
At 31 March 2007	<u>6,301</u>	<u>43,528</u>	<u>566</u>	<u>-</u>	<u>50,395</u>
Net book value					
At 31 March 2007	<u>22,938</u>	<u>12,635</u>	<u>931</u>	<u>50</u>	<u>36,554</u>
At 31 March 2006	<u>21,413</u>	<u>8,694</u>	<u>1,001</u>	<u>4,586</u>	<u>35,694</u>

Non depreciable land

Included within land and buildings is freehold and long leasehold land, which is not subject to depreciation, in the amount of £11,075,000 (2006 £12,756,000) and £81,000 (2006 £81,000) respectively

Valuations

Professional valuations were carried out at 31 December 1990 by Richard Ellis, Chartered Surveyors, at 31 March 1994 by Dunlop Heywood & Co Limited, Chartered Surveyors and at 31 March 1995 by Knight Frank & Rutley, Chartered Surveyors, on the basis of open market value, in respect of certain port and canal assets

Historical cost of other fixed assets

The historical cost of other fixed assets is £69,178,000 (2006 £66,329,000)

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2007

12 DEBTORS

	2007	2006
	£'000	£'000
Amounts falling due within one year		
Trade debtors	3,024	3,492
Amounts owed by group undertakings	113,136	103,644
Other debtors	806	399
Prepayments and accrued income	326	401
	<u>117,292</u>	<u>107,936</u>

13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007	2006
	£'000	£'000
Finance leases	176	211
Debt falling due within one year	176	211
Trade creditors	1,168	572
Development costs to site completion	24	24
Amounts owed to group undertakings	53,985	41,599
Other taxes and social security	64	-
Other creditors	336	453
Government grants	70	71
Corporation tax	-	11
Accruals and deferred income	4,233	1,043
Dividends on shares classes as financial liabilities	6,780	6,920
	<u>66,836</u>	<u>50,904</u>

Details of security on the above borrowings are disclosed in note 15

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

14 CREDITORS. AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £'000	2006 £'000
Secured bank loans	24,238	27,866
Perpetual Debenture Stocks	2,233	2,233
Finance leases	415	591
3,999,980 3 5% (net) preference shares (see note 17)	4,000	4,000
	<hr/>	<hr/>
Debt falling due after more than one year	30,886	34,690
Other creditors	389	-
Government grants	490	562
	<hr/>	<hr/>
	<u>31,765</u>	<u>35,252</u>

Details of security on the above borrowings are disclosed in note 15

15. BORROWINGS

	2007 £'000	2006 £'000
(a) Analysis of net debt		
Creditors – amounts falling due within one year	176	211
Creditors – amounts falling due after more than one year	30,886	34,690
	<hr/>	<hr/>
Gross debt	31,062	34,901
Cash at bank and in hand	(1,827)	(3,010)
	<hr/>	<hr/>
Net debt	<u>29,235</u>	<u>31,891</u>
(b) Maturity of financial liabilities		
Finance leases		
Within one year	176	211
Between one and two years	207	176
Between two and five years	208	415
	<hr/>	<hr/>
	591	802
	<hr/>	<hr/>
Other debt		
Between two and five years	28,238	31,866
After five years	2,233	2,233
	<hr/>	<hr/>
	30,471	34,099
	<hr/>	<hr/>
Gross debt	<u>31,062</u>	<u>34,901</u>

Amounts included within other debt include bank loans of £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%.

Finance lease obligations are secured on the assets to which they relate (note 11).

c) Operating Lease Commitments

The Company does not have any commitments under non-cancellable operating leases.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2007

16. PROVISIONS FOR LIABILITIES

	Deferred taxation £'000	
At 1 April 2006		1,155
Profit and loss account		<u>(1,019)</u>
At 31 March 2007		<u>136</u>
Provision for deferred tax comprises	2007	2006
	£'000	£'000
Accelerated capital allowances	1,359	1,345
Other timing differences	<u>(1,223)</u>	<u>(190)</u>
	<u>136</u>	<u>1,155</u>

No provision is made for the liability to corporation tax on capital gains at 30% (2006 30%) estimated not to exceed £nil (2006 £1.2m) which would arise if interests in investment properties and certain other fixed assets were to be sold at their revalued amounts

17. CALLED UP SHARE CAPITAL

	Number	2007 £'000	2006 £'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	<u>8,000,000</u>	<u>8,000</u>	<u>8,000</u>
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	<u>211,598</u>	<u>212</u>	<u>212</u>
	4,000,000	4,000	4,000
3.5% (net) preference shares of £1 each*	<u>3,999,980</u>	<u>4,000</u>	<u>4,000</u>
Total allotted share capital at 31 March	<u>7,999,980</u>	<u>8,000</u>	<u>8,000</u>

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 states that in respect of the first £200,000 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

* 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 14). Cumulative dividends are accrued within creditors until they are paid

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2007

18. RESERVES

	Revaluation reserve £'000	Other reserve £'000	Investment in own shares £'000	Capital redemption reserve £'000	Profit and loss account £'000	Total £'000
At 1 April 2006	32,616	5,644	(212)	3,278	30,626	71,952
Capital contribution*	-	-	-	-	10,000	10,000
Realisation of Other reserve**	-	(5,644)	-	-	5,644	-
Profit for the financial year	-	-	-	-	13,828	13,828
Dividends	-	-	-	-	(26,945)	(26,945)
Reversal of revaluation reserve arising from reclassification of investment properties as other fixed assets (note 10)	(14,845)	-	-	-	-	(14,845)
Actuarial gain relating to the pension fund (note 19(e))	-	-	-	-	2,528	2,528
Movement on tax relating to pension asset	-	-	-	-	(758)	(758)
At 31 March 2007	17,771	-	(212)	3,278	34,923	55,760

* The capital contribution arising in the year relates to a gift received from the immediate parent undertaking, Peel Ports Investments Limited

** At 1 April 2006, the other reserve was considered non-distributable as it arose in respect of intra-group profits on disposals of fixed asset investment properties as a consequence of group re-organisations in prior periods. During the year ended 31 March 2007, the Peel Ports Holdings (Guernsey) Limited group of companies disposed of its portfolio of non-operational properties to the wider Peel Holdings group. As a result this reserve is now considered to be distributable.

19. PENSION FUND

The Company operates a money purchase pension scheme providing benefits based on actual contributions paid in the United Kingdom. The assets of the schemes 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% (2006 varied between 2% and 6%) of pensionable salaries for the financial period. Company contributions to money purchase pension schemes are matched by employees. Contributions totalling £13,000 were paid during the year (2006 £8,000).

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. The latest actuarial valuation as at April 2006 has been adjusted to reflect the positions at 31 March 2007 by a qualified independent actuary (in accordance with FRS 17).

(a) Major actuarial assumptions

	31 March 2007 % pa	31 March 2006 % pa	31 March 2005 % pa
Rate of increase in salaries	3.85	4.25	4.25
Rate of increase of pensions in payment	3.40	2.75	2.75
Rate of increase for deferred pensioners	3.10	2.75	2.75
Discount rate	5.30	5.40	5.50
Inflation	3.10	2.75	2.75

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

(b) Pension fund valuation and surplus / (deficit)

	Expected rate of return 31 March 2007 %	Fair value of assets 31 March 2007 £'000	Expected rate of return 31 March 2006 %	Fair value of assets 31 March 2006 £'000	Expected rate of return 31 March 2005 %	Fair value of assets 31 March 2005 £'000
Equities	7.75	31,863	7.75	31,473	7.75	25,465
Bonds	5.30	3,804	4.50	11,691	4.90	9,700
Gilts	4.80	9,035	-	-	-	-
Other investments	5.00	2,854	4.00	145	3.75	228
Total market value of assets		47,556		43,309		35,393
Present value of scheme liabilities		(43,522)		(45,290)		(39,222)
Surplus / (deficit) in the scheme		4,034		(1,981)		(3,829)
Irrecoverable surplus		-		-		-
Recognised surplus / (deficit)		4,034		(1,981)		(3,829)
Related deferred tax (liability)/asset		(1,210)		595		1,149
Net pension asset / (liability)		2,824		(1,386)		(2,680)

(c) Analysis of amounts charged to performance statements

The following amounts have been recognised in the performance statements in the year to 31 March 2007 under the requirements of FRS 17

	2007 £'000	2006 £'000	2005 £'000
Operating profit			
Current service cost	(659)	(748)	(1,008)
Past service cost	-	-	(87)
Gain on curtailment	-	-	426
Total pension fund service costs (note 4)	(659)	(748)	(669)
Other finance income			
Expected return on pension scheme assets	2,973	2,440	2,429
Interest on pension scheme liabilities	(2,242)	(2,104)	(2,033)
Total other finance income (note 7)	731	336	396
Statement of Group total recognised gains and losses			
Actual return less expected return on pension scheme assets	(210)	5,861	932
Experience gains and losses arising on the scheme liabilities	338	(172)	(246)
Changes in assumptions underlying the present value of scheme liabilities	2,400	(4,230)	(620)
Variance between pension fund actuarial assumptions and actual experience	2,528	1,459	66
Deferred tax relating to above items	(758)	(438)	(20)
Actuarial gain recognised in the Statement of Group total recognised gains and losses	1,770	1,021	46

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2007

(d) Movements in gross surplus/(deficit) during the year

	2007 £'000	2006 £'000	2005 £'000
Deficit in scheme at beginning of the year	(1,981)	(3,829)	(4,687)
Current and past service costs	(659)	(748)	(1,095)
Gain on curtailment	-	-	426
Contributions paid by the Company	3,415	801	1,065
Other finance income	731	336	396
Actuarial gain	2,528	1,459	66
	<u>4,034</u>	<u>(1,981)</u>	<u>(3,829)</u>

(e) History of experience gains and losses

	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2003 £'000
Difference between expected and actual return on scheme assets:					
Amount	(210)	5,861	932	4,383	(10,826)
Percentage of scheme assets	(0.4%)	13.5%	2.6%	13.7%	(42.3%)
Experience gains on scheme liabilities:					
Amount	338	(172)	(246)	(109)	(178)
Percentage of present value of scheme liabilities	0.8%	(0.4%)	(0.6%)	(0.3%)	(0.5%)
Total gross amount recognised in statement of total recognised gains and losses:					
Amount	2,528	1,459	66	4,804	(9,235)
Percentage of present value of scheme liabilities	5.8%	3.2%	0.2%	13.1%	(26.5%)

(f) The Pilots National Pension Fund ("PNPF")

The PNPF is an industry-wide defined benefits scheme. Details of the most recent actuarial valuation can be found in the consolidated financial statements of Peel Ports Shareholder FinanceCo Limited. The participating bodies for this scheme have agreed a voluntary arrangement to increase contributions in order to reduce the deficit. The scheme rules do not provide a mechanism for the allocation of past-service deficits. A number of different legal opinions has been issued concerning this scheme and the Company is unable to determine its share of the past-service deficit on a reasonable basis. During the year ended 31 March 2007, the Company made voluntary contributions of £121,000 (2006: £nil) to this scheme.

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 and therefore continues to account for this scheme as a defined contribution scheme.

Based on legal advice the directors have 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.

20 CAPITAL COMMITMENTS

	2007 £'000	2006 £'000
Capital expenditure contracted for but not provided for in these financial statements	<u>582</u>	<u>2,150</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2007

21 GROUP BORROWING FACILITY

The Company, together with certain of its fellow group undertakings, has guaranteed the loans and bank overdrafts of certain bankers of group companies. At 31 March 2007 this amounted to £1,043,992,000 (2006 £1,078,097,000)

22. ULTIMATE AND IMMEDIATE HOLDING COMPANY

The directors regard Tokenhouse Investments (Guernsey) Limited, a company incorporated in Guernsey, as the ultimate holding company and Peel Ports Investments Limited, a company registered in Great Britain, as the immediate parent company

The largest 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

23. ULTIMATE CONTROLLING PARTY

Tokenhouse Investments (Guernsey) 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 its immediate parent undertaking, Peel Ports Holdings (Guernsey) Limited, the Company considers The 1997 Billown Settlement Trust to be the ultimate controlling party.