

TALL SHIPS YOUTH TRUST

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

29 FEBRUARY 2004

Company Number: 567460

Charity Number: 314229

TALL SHIPS YOUTH TRUST

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

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TALL SHIPS YOUTH TRUST

LEGAL AND ADMINISTRATIVE DETAILS

FOR THE YEAR ENDED 29 FEBRUARY 2004

Tall Ships Youth Trust is a company limited by guarantee.

Company Registration Number: 567460

Charity Registration Number: 314229

Registered Office: 2A The Hard
Portsmouth
Hampshire
PO1 3PT

Patron: His Royal Highness The Prince Philip Duke of Edinburgh KG

Vice Patrons: Mr M A C Drummond OBE, DL, JP
Gen Sir Patrick Howard-Dobson GCB
Mr B A Stewart
Vice Admiral Sir George Vallings KCB (resigned May 2003)

Trustees who served at any time during the financial year and including changes in the period to 3 June 2004 are as follows:-

Trustees: Mr T P Allen (appointed April 2003)
Mr I A Carruthers
Mr J A F Cowderoy
Mr D Darbyshire
Lord Greenway
Vice Admiral M Gretton
Mr M Jay CBE DL (appointed January 2004)
Colonel D E King OBE
Mr I Laidlaw (resigned May 2003)
Mr R Morley
Mr G W Pritchard-Gordon
Mr A C Salvesen
Mr I R Ventham

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Chief Executive: Mrs C A Law

Secretary: Blakelaw Secretaries Limited

Bankers: Royal Bank of Scotland Plc
Messrs Hoare & Co
Lloyds TSB Bank Plc

Solicitors: Blake Laphorn Linnell
Harbour Court
Compass Road, North Harbour
Portsmouth
PO6 4ST

Auditors: Grant Thornton
Registered Auditors
Chartered Accountants
Manor Court
Barnes Wallis Road
Segensworth
Fareham
PO15 5GT

TALL SHIPS YOUTH TRUST

REPORT OF THE COUNCIL

FOR THE YEAR ENDED 29 FEBRUARY 2004

The Trustees present their report together with the audited financial statements for the year ended 29 February 2004.

Objects and Powers

The Charity is dedicated to the personal development of young people through crewing Tall Ships. Its principal activities continue to be to provide opportunities to go to sea in the Trust's square-rigged Tall Ships and to promote sail training internationally.

Review of Activities

The Tall Ships Youth Trust had great success during the year. Our 2 square-rigged brigs were in operation for 12 months of the year, carrying many more young people than in previous years.

Charitable Mission – Young People

The personal development of young people through crewing Tall Ships remains our primary charitable purpose.

During the last year we have further developed our youth work policies, practices and procedures. Our innovative Youth Mentor scheme, whereby professionally qualified teachers and youth workers sail as volunteers on the ships, continues to attract interest and praise. We received extremely favourable feedback from our Ofsted inspection in September, our professional reputation strengthens and we are receiving an increasing number of invitations to engage with other national and international bodies.

Anecdotal evidence of the positive impact that crewing Tall Ships has on young lives grows apace. More importantly, we are also now building a solid base of empirical evidence. An analysis of end of voyage evaluations indicates that personal skills substantially improve during voyages. For example, over 80% of young people feel that their communication skills improve and over 90% say that they are better team players as a result.

The Tall Ships Youth Trust added a further international dimension to its work in 2003 with an exciting new initiative – Voyages of Understanding – integrating young people from different countries, cultures and backgrounds on a voyage. In addition to encouraging a young person's personal development, these voyages help to break down assumptions and prejudices about race, faith and culture. Since the first voyage 12 months ago, the Trust has supported over 100 international trainees on voyages, including mixing Muslims from Bali with those from Bradford, Protestants with Catholics from Northern Ireland, Israelis with Palestinians. At the time of writing this report, we are seeking funding for another 200 young people on the next 4 voyages that are planned.

In addition to developing the scope and variety of our work with young people, we are also keen to ensure that we are giving benefit to an ever increasing number of them. We are achieving this in two ways. Firstly, we are increasing the opportunities for young people to join

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us on youth only (16 to 25) voyages. For example, in 2003/04, we offered 13,900 such voyage

Charitable Mission – Young People (continued)

nights, an increase of 18% on five years ago. We expect the number to increase by a further 9% in 2004/05 to 15,100 voyage nights.

Secondly, we are supporting more young adults to join voyages for those aged 18+. In the last 12 months the proportion of those aged 18 to 25 on these voyages has increased from 17% to 22%. Feedback from the young people themselves indicates that the inter-generational dimension of these voyages is proving popular and the more diverse range of life experiences available to young people as a result gives added benefit. Evaluating this effect is one of our strategic objectives for the coming year.

Taking into account the total expenditure of the Trust, including Tall Ships Limited, the cost per person per voyage night is £100. The Trustees believe that this demonstrates that our brigs provide both a valuable and cost effective medium for supporting the personal development of young people.

Strategic Review

At the beginning of 2003/04, our Chief Executive led the Trustees through a Strategic Review with the objective of agreeing a framework for the charity for the next few years. As part of this, we established a Purpose, Vision and Values statement that has proved a useful reference point for us during the last 12 months.

We reaffirmed our Purpose as “the personal development of young people through crewing Tall Ships” and we agreed that we would deliver this by:

- taking young people aged 16 to 25
- ensuring a mix of young people and adopting an inclusive recruitment policy whilst mindful of practicalities, safety and voyage dynamics
- recruiting predominantly from the UK but enabling a multi-national mix

We agreed that our vision for the Trust was “to be the leader in youth development through the Tall Ships experience” and we established a set of underlying values:

In all we do and say, we will:

- Support young people to develop their potential
- Seek the highest standards in our work with young people
- Manage professionally and efficiently
- Value and respect our crews and staff
- Appropriately harness the enthusiasm of our volunteers and supporters
- Manage our ships safely and to the highest standards
- Communicate effectively and openly

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Promoting the Trust's Work

One of the most significant issues that resulted from the Strategic Review was the need to review the charity's name. Whilst the Members felt that the previous name, Sail Training Association, had served the charity well in the past, they voted by an overwhelming majority at an EGM in Portsmouth on 1 August 2003 to adopt a new name – the Tall Ships Youth Trust - that they felt more closely reflected the charity's progressive work with young people and would help to attract more charitable donations and funds.

We continued to develop new strategies for PR, sales and marketing and in the last 12 months have had some considerable success in promoting the Trust's work including extensive coverage in national and regional newspapers, television and radio. The Voyages of Understanding have been a particularly effective PR platform and the BBC has filmed two programmes on board. The first of these, "Britain's Toughest Family" is a series of physical challenges for families, with the first round focussed on voyages on board Prince William. The second, "I'd Do Anything" challenges individuals to conquer their fears with a candidate nominated to join our brig to climb to the top of our 120 ft mast to overcome their fear of both heights and water.

We added a number of new promotional materials during the year. These included new dodgers for the ships and a new introductory leaflet and we are currently working on a new interactive CD ROM (sponsored by the HSBC Education Trust) to be given to every young person in advance of their voyage. We launched a new website at the London Boat Show in January 2004 and the level of traffic continues to grow. For example, the number of hits per month has increased from 250,000 a year ago to over 400,000 currently. The associated number of unique visitors has increased from 11,000 to 20,000 in the same period. The message board, virtual tour of the ships and ships' tracker (accurate to 100 metres) are proving particularly popular.

The London Boat Show in January 2004 took place in Docklands for the first time and provided a great opportunity to explain our work to members of the public using Prince William as a magnificent backdrop. Over 11,000 visitors were given a personal guided tour by one of our 150 hard working volunteers during the 10 day show.

Finally, amongst the growing promotional material, we must congratulate our head office team for producing ALOFT, the Trust's supporters' magazine. This highly professional marketing tool captures perfectly the essence of the Trust's charitable work. It makes us all feel proud to be associated with such a forward looking and dynamic charity.

The Trust's Ships - Prince William and Stavros S Niarchos

The Trust has two outstanding Tall Ships, built and maintained to the highest standards, each able to carry 48 young people on every voyage for the next 30 years. We are grateful that our charitable mission led so many generous individuals and organisations to give their time, energy and over £11 million to create these fine vessels. We re-echo our thanks of previous reports to all those who contributed to this achievement.

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The Trust's Ships - Prince William and Stavros S Niarchos (continued)

As the year began, Prince William was launching our 2003 UK Port Event programme with a series of open days, day sails and Members' events on the east coast ending in May at the International Festival of the Sea in Leith. During the months that followed, she completed an intensive schedule of voyages right round the UK coast and then took part in the Tall Ships races.

It was during the races, as the fleet made its way along the east coast of Sweden, that Prince William and her crew justifiably won the admiration of the international fleet. On board was a novice crew of 48 young people aged 16 to 25, the sea conditions were rough, the wind force 7 and it was dark. Captain Liam Keating and his crew responded to an emergency call from a sinking Swedish 30ft yacht, Freedom. Fliss Green (our 22 year old Bosun) and two members of the novice voyage crew launched the RIB into the high seas and transferred buckets over to help bail out the yacht. On arrival, they found Freedom with one metre of water in the cabin.

Halfway through the rescue, the Captain of Freedom fell in the cockpit and seriously injured himself on a winch. Prince William's crew arranged for the transfer of a Doctor from another vessel six nautical miles astern. For four exhausting hours Bosun Fliss and her team kept the RIB steady, transferring crew and supplies, relaying radio messages and standing by ready to evacuate the crew. On board Prince William, the wardroom was turned into a triage centre and the galley prepared emergency food. Eventually, Freedom managed to repair their bilge pump and limped slowly into port.

However, Prince William's eventful voyage was still to continue. Having just crossed the finish line of the race, our crew responded to a second emergency call from the Danish ketch, Jens Krogh, who had fouled her propeller and was drifting. Prince William steamed back for five hours to find the ketch, passed a rope around her main mast and towed her over 100 miles, through high seas and worsening conditions, back to Travemunde in Germany.

Both rescues were an outstanding example of seamanship and bravery by all the crew on board Prince William. The young people were given an unparalleled lesson on how to care for and rescue seafarers in distress on the sea by a complement of salaried and volunteer crew who acted well above and beyond the call of duty. We are extremely proud of them and this outstanding act of bravery.

In recognition of these remarkable feats, the crew of the Tall Ships Youth Trust's brig Prince William has since been presented with the Maritime and Coastguard Agency's Chief Coastguard Commendation.

After such an eventful race, Prince William completed the summer schedule with a visit to the Southampton Boat Show. In October she joined sister ship Stavros S Niarchos in the Solent for a fiercely competitive Brig Match Race that tested the skills of both crews over two days of racing with only 17 seconds separating the two brigs overall.

Prince William's winter programme focussed on the south coast until Christmas, sailing up the Thames in January 2004 to take centre stage at the London Boat Show. Her interim dry

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docking was scheduled for February in Cadiz before she sailed south for six weeks in the Canaries and Azores, including a joint venture with the Azorean Sea Scouts, returning to the UK at the end of April. At the time of writing this report, Prince William is once again hard at work around the UK coast.

Stavros S Niarchos, meanwhile, was completing her second visit to the Caribbean as the year began, with a four month programme in Barbados and Antigua. This culminated in winning a glittering array of prizes in the Antigua Classic Yacht Race, including the World Peace Cup. Her return sail across the Atlantic took her to the Azores for a month, and she finally returned to UK shores in July 2003 for another intensive summer programme including voyages supported by the HSBC Education Trust and the Merseyside Police.

Stavros then headed south again in November to spend Christmas in the Canaries before sailing to the Caribbean in January 2004. She was greeted on arrival in Barbados by a welcome reception laid on by Pritchard-Gordon Tankers Ltd. This company had also generously sponsored 10 Bajan young people on voyages this year and has already committed to a further 15 next year.

As the year ended, Stavros was completing her 4 months in the Caribbean and returned across the Atlantic in May. Her summer 2004 programme starts with seven voyages in the Mediterranean. So that cost is not a barrier to young people, the Stavros S Niarchos Foundation has very generously paid for the flight costs of all salaried, volunteer and voyage crew on those voyages and has also underwritten the cost of unsold berths. We are most grateful to the Foundation for its continued support which means that young people who would otherwise not be able to join a voyage are able to do so.

The vital task remains to maximise the sale of berths at prices that enable the income of the ships to match their outgoings. This means finding new ways of extending the season beyond the summer holidays for young people who are at school, as well as offering voyages likely to attract young adults, particularly in the spring and autumn shoulder periods outside the main holiday weeks.

Despite the general malaise in the travel industry due to world events during 2003/04 and fewer sailing days in the year as a result of planned maintenance requirements including Stavros S Niarchos' dry docking, Tall Ships Limited's turnover reduced by just 2% compared to the previous year. Expenditure increased in the year due to the ongoing costs of maintaining the ships. We spent additional money on repairs and maintenance including a new main t'gallant, a new main upper topsail and relocation of the long boat cradles on Prince William. We also modified several areas on Stavros S Niarchos including the laundry storage, mess hall, galley and the voyage crew showers and heads. All other costs, however, were kept under control.

New Fundraising Strategy

Having focussed fundraising efforts over the last few years on raising the capital funds to cover the construction costs of the brigs, 2003/04 was the first full year of the Trust's new Fundraising Strategy, aimed at increasing funds to support their day-to-day operation.

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New Fundraising Strategy (continued)

The Strategy recommended two main sources of income.

The first of these, grant making trusts, have been targeted by developing several different “asks” which we then individually tailor to the criteria set by each trust.

In addition to many unrestricted donations from trusts in 2003/04, we were particularly delighted to receive a grant from the Foundation for Sport and the Arts for £250K restricted to supporting young people, particularly those from black, minority ethnic and other disadvantaged groups, to join a voyage. We also received £150K from the Lundy Charitable Trust, £132K of it restricted to the repayment of the ships’ loan with the £18K balance added to unrestricted income.

In 2004/05, we will continue to target grant making trusts and plan to increase the overall level of income from this source by identifying new trusts, by implementing a renewals campaign encouraging trusts that have already donated to do so again and by working with a small number of trusts on applications for significant amounts over several years. We have already received a second £150K from the Lundy Charitable Trust towards repaying the ships’ loan.

The Fundraising Strategy also recommended that we find new and different ways of attracting those who were already warm Tall Ships Youth Trust supporters to some form of committed giving – either membership or donation. During 2003/04, we undertook several head-to-head tests of different recruitment methods. These included recruiting individuals as they finished their voyage and inserting leaflets into sailing magazines. By analysing the results from these tests and applying the lessons learnt we have been able to increase income levels whilst maintaining costs at an acceptable level. We will build on this work in 2004/05, developing our computer systems to automate the administrative processing and to provide new management and financial statistics.

Finally, the Fundraising Strategy recommended that we supplement the committed giving programmes with cash appeals. The first of these, in autumn 2002, focused on existing members and donors with a small trial on ex voyagers and produced a better than expected average donation of £100 including gift aid. The autumn 2003 cash appeal proved equally successful and we will continue to develop this initiative in 2004/5.

During 2003/04, we held a number of receptions on the brigs. These were planned to thank donors and Members and to secure more donations. However, no significant link was established between those who attended a reception and those who made a donation to our cash appeal. This was a costly exercise that contributed to the reduction in voyage fees as the ships were taken out of service for a number of days, but it was an essential part of testing and developing the Fundraising Strategy. Having tried this approach once, we will not repeat it to the same extent in 2004/05. Certainly, any receptions planned for the forthcoming year must cover all associated costs including the loss of voyage fee income and, ideally, raise additional funds.

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As with many other charities, legacies are an increasing source of funds. In 2002/03 we received one for £87K. In 2003/04 we received five totalling £280K. We are extremely grateful to those who have chosen to donate in this way. By using these funds to support more young people on voyages, we believe that these legacies live up to their name in the lasting effect they have on the lives of young people for many, many years to come.

2003/04 was the first full year of the new Fundraising Strategy and we have been pleased with the results with gross income for the year totalling £987K compared to £721K the previous year.

We thank our many loyal Members, donors and sponsors who responded so generously during the year to our various requests for donations and other help with ship visits and fundraising activities. Whilst too numerous to list individually, we want to thank a few who have been particularly supportive during the 2003/04 year:

| | |
|---|---------------------------------------|
| Stavros S Niarchos Foundation | Lundy Charitable Trust |
| Association of Sea Training Organisations | Rank Foundation |
| Department for Education and Skills | Rotherham NSF/Partnership SRB Project |
| Foundation for Sport and the Arts | Royal Navy |
| HSBC Education Trust | Trinity House (The Corporation of) |

Our Volunteers

The Tall Ships Youth Trust has literally thousands of individuals who dedicate themselves to the service of the Trust and our mission for young people.

The volunteers in the Tall Ships Youth Trust's network of 60 volunteer support groups (branches) across the UK continue their tireless work to enable the charity to reach out to the young people who will most benefit from a Tall Ships voyage but who would otherwise neither know of nor be able to afford the experience. Each year these volunteers raise huge amounts of income for the charity. In 2003/04, for example, £430K was contributed by branches towards voyage fee income. Particular thanks are given to those Branches who were able to fill complete voyages: Chilterns, Derbyshire and South Staffordshire, Glasgow and West Scotland, Mersey and Deeside, North of Scotland and South Yorkshire.

Playing such a vital role in our land based activity with young people, we decided to undertake a complete review of branches in 2003/04. Following an extensive consultation process, including one-to-one discussions and open meetings around the UK, we implemented a New Strategy for Regions and Branches in January 2004 which sets the framework for our branch volunteers for the foreseeable future. We have distributed the first sections of a new Operations Manual that translates the Strategy into practical guidelines and we are working on a series of "how to" guides to compliment these.

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Our Volunteers (continued)

On the water, our volunteer crews continue to provide vital support, offering much needed encouragement to our young voyage crews and assistance to our salaried crews. We thank all of these volunteers without whom the Trust would not be able to function.

Following Sir Robin Knox-Johnston's retirement at the end of 2001, Lord Ambrose Greenway graciously undertook the role of Acting President until the Trust was able to recruit a new Chairman in January 2004. We owe particular thanks to him and also those Trustees who took responsibility for the subsidiaries and other committees of Council: Ian Carruthers, David Darbyshire, Michael Gretton, David King, Andrew Salvesen and Ian Ventham.

Our Crews, Staff and Ship Managers

The ships' captains and crew, our staff at the Trust's head office and our colleagues at Northern Marine Management Limited have achieved outstanding results in 2003/04 in their respective roles. We have a most professional, effective and efficient team and we are grateful to them for their continued hard work and commitment.

Financial Results for the Year Ended 29 February 2004

The Trust ended the year with fund balances totalling £12,303K (£10,053K in its unrestricted funds and £2,250K in its restricted and endowment funds).

The results show a loss for the year of £34K, after adding back £285K of non-cash depreciation of the original cost of the two brigs to the net outgoing resources of £319K shown in the Statement of Financial Activities. The outflow for the year is £273K greater than in the previous year (from an outflow of £46K in 2002/2003 to £319K in 2003/2004) and this change is explained by a number of factors:

Incoming resources from Donations, Membership and Legacies increased by £266K (from £721K in 2002/03 to £987K in 2003/04). Two major donations and an increase in legacies contributed to this significant increase, offset by a major donation of £300K received in the year 2002/03 but not recurring in 2003/04. The costs of fundraising increased by £32K as a result of new activities.

Income from Subsidiaries decreased in the year by £552K (from £2,153K in 2002/03 to £1,601K in 2003/04). This was mainly due to Tall Ships Races Limited's income of £485K received in 2002/03 not being repeated in 2003/04, having reached an accord in December 2002 to transfer the business to Sail Training International (Events) CVBA. Tall Ships Limited's income reduced by £67K due to the general malaise in the travel industry and fewer sailing days as a result of planned maintenance requirements and Stavros S Niarchos' dry docking.

Income from Branches increased in the year by £59K (£95K in 2003/04; £36K in 2002/03), representing receipts not directly expended on voyage fees in each year.

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Direct Charitable Expenditure also increased during the year by £37K largely as a result of:

- More funds being released from restricted funds to support bursaries for young people who otherwise could not have afforded the cost of a voyage, so that restricted fund expenditure increased by £162K (from £132K in 2002/03 to £294K in 2003/04)
- Tall Ships Limited's expenditure increased by £233K (from £1,780K in 2002/03 to £2,013K in 2003/04) in the year due to several factors including additional manning requirements as a result of legislative changes, the ongoing costs of maintaining the ships including a programme of refurbishment of Stavros S Niarchos' facilities, and the amortisation of dry docking costs.
- Offset against these, Tall Ships Races Limited did not incur costs in 2003/04 compared to the £360K incurred in 2002/03.

The cost of Management, Administration and Finance reduced in the year by £17K (from £357K in 2002/03 to £340K in 2003/04), a 5% reduction on the previous year.

During the year the Trust continued to repay the loan provided to meet the construction costs of the ships. Total repayments of £500K were made in the year reducing the outstanding balance to £407K. As a result, overall cash balances reduced by £455K in the year.

Most of the Trust's funds are held as bank deposits and are appropriately segregated. Accordingly, the Trustees are satisfied that the Charity's assets attributable to each of its individual funds are available and are adequate to fulfil its obligations in relation to those funds. As a result of the Trustees' policy of holding the funds on bank deposit the Trust has not been affected by the recent fluctuations in stock market valuations.

Future Financial Prospects and Reserves Policy

The Trust has two short-term financial objectives: to generate sufficient income in order to match outgoings and to repay the final instalments of the bank loan due in 2004/05.

Every effort is made to utilise the ships to maximise their revenue earning potential. For example, by continually introducing innovative and different voyage programmes, we increase the number of both first-time and returning young voyagers. The success of this strategy is demonstrated in the statistics given above. We are already planning new and exciting programmes for 2005/06 and 2006/07 and we are working with a growing number of partners both in the UK and internationally to expand our work with young people.

The Fundraising Strategy will continue during 2004/05, building on the experience gained in our first full year and we expect an increase in funds raised as a result. We are also undertaking a feasibility study to review our future fundraising options and we aim to launch a series of new initiatives for 2005/06.

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Future Financial Prospects and Reserves Policy (continued)

As at 29 February 2004, the capital cost of our two ships is paid for with the exception of an outstanding bank loan of £407K. (Since the year end, we have paid a further £250K of this so that the outstanding balance has been reduced to £157K). This is a tremendous achievement given that the brigs have only been in service a few years and that their capital cost was in excess of £11 million.

Cost control and efficiencies are kept under continuous review with the aim of reducing expenditure wherever possible. This has been particularly successful in relation to the head office costs associated with management, administration and finance. However, we acknowledge that at all times our two ships must be kept in safe, seaworthy and attractive condition and be equipped and maintained in accordance with United Kingdom national regulations for large vessels carrying young people.

The Trustees recognise that 2004/05 will be a challenging year. We are currently forecasting an improvement in results compared to the 2003/04 year and results from the first quarter are encouraging.

In the medium term, the Trustees will be looking to build the Trust's reserves to a sufficient amount to protect our charitable mission against, for example, the possible loss of revenues should one or both of the brigs need to be taken temporarily out of service. The reserves policy is therefore to build available assets within the Trust's unrestricted funds to an amount of between six months and a full year of operating costs. We estimate that it will take at least five years to raise this amount but, once achieved, it will give future protection to the charitable work that it has taken nearly half a century for the Trust's supporters to build.

Organisation

The Tall Ships Youth Trust is a charitable company limited by guarantee. The governing documents are its Memorandum and Articles of Association.

For the purposes of Company Law, the Trustees listed on page 1, all of whom served throughout the year except as otherwise stated, are the directors of the company and are elected by resolution of the company in a general meeting. The company is administered under the control of the Trustees sitting as the Council of Management and its members may be regarded as the Trustees of the Trust. The Trustees have the general control of and responsibility for the management of the Trust and its subsidiary companies.

The trading operations of the Trust are devolved upon three wholly owned subsidiary companies of the Trust: Tall Ships Limited, Tall Ships Races Limited and Tall Ships Classics Limited.

As well as appointing directors to the subsidiary companies, the Council establishes other committees to deal with different aspects of the Trust's work as necessary. The day-to-day management of the Trust is delegated to the Chief Executive.

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FOR THE YEAR ENDED 29 FEBRUARY 2004

Investment Powers and Investment Policy

The Articles of Association give the Trustees the power to invest the monies of the Trust not immediately required for its purposes in or upon such investments, securities or other property as may be thought fit, subject nevertheless to such conditions and such consents as may for the time being be imposed by law.

The current investment policy is that, in view of recent stock market conditions, substantially all funds not required for normal day-to-day operations should be held on interest earning bank deposit accounts. However Council has recently agreed to appoint an Investment Manager with whom a review of the investment policy can be considered.

Risk Review

The major risks to which the Trust is exposed, as identified by Council, have been reviewed and systems have been established to mitigate those risks.

Connected Charities

The following charity is connected with the Trust, but is not consolidated within these accounts.

| <u>Name</u> | <u>Address</u> | <u>Nature of Relationship</u> |
|--------------------|------------------------------|-------------------------------|
| Friends of the STA | 37 Jewry Street, London, EC3 | Supporting charity |

Changes in Fixed Assets

The movements in fixed assets are set out in note 10.

Trustees' Responsibilities for the Financial Statements

Company law requires the Trustees to prepare financial statements for each financial year, which give a true and fair view of the financial activities of the charitable company and its subsidiaries during the year and of their financial position at the end of the year. In preparing those financial statements, the Trustees should follow best practice and:

- select suitable accounting policies and then apply them consistently
- make judgments and estimates that are prudent and reasonable
- state whether applicable accounting standards and statements of recommended practice have been followed, subject to any material departures disclosed and explained in the financial statements

TALL SHIPS YOUTH TRUST

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Trustees' Responsibilities for the Financial Statements (continued)

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in operation

The Trustees are responsible for keeping proper accounting records which disclose with reasonable accuracy the financial position of the charitable company and its subsidiaries and which enable them to ascertain their financial position and to ensure that the financial statements comply with the Companies Act 1985, the Charities Act 1993 and regulations there under. They are also responsible for safeguarding the assets of the charitable company and its subsidiaries and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Grant Thornton offer themselves for reappointment as auditors in accordance with Section 385 of the Companies Act 1985.

ON BEHALF OF THE TRUSTEES



Martin Jay CBE DL
Chairman of the Council
3 June 2004

Report of the Independent Auditors to the Members of the

TALL SHIPS YOUTH TRUST

We have audited the financial statements of Tall Ships Youth Trust for the year ended 29 February 2004 which comprise the principal accounting policies, the consolidated statement of financial activities, the consolidated summary income and expenditure account, the balance sheets, the consolidated cash flow statement and notes 1 to 26 on pages 17 to 35. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Charity's Trustees in accordance with Section 43(2) of the Charities Act 1993. Our audit work has been undertaken so that we might state to the Trustees 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 Trustees, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of Directors and Auditors

The Trustees are also the directors of Tall Ships Youth Trust for the purposes of company law. Their responsibilities for preparing the Trustees' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of Trustees' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

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. We also report to you if, in our opinion, the Trustees' report is not consistent with the financial statements, if 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 regarding Trustees' remuneration and transactions with the charitable company is not disclosed.

We are not required to consider whether the statement in the Trustees' report concerning the major risks to which the charity is exposed covers all existing risks and controls, or to form an opinion on the effectiveness of the charity's risk management and control procedures.

We read other information contained in the Trustees' report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of

the significant estimates and judgements made by the Trustees in the preparation of the financial statements, and of whether the accounting policies are appropriate to the charitable 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 of the state of affairs of the company and the group as at 29 February 2004 and of the incoming resources and application of resources, including its income and expenditure for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**Grant Thornton
Registered Auditors
Chartered Accountants
Portsmouth
3 June 2004**

TALL SHIPS YOUTH TRUST

PRINCIPAL ACCOUNTING POLICIES

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable accounting standards, and follow the recommendations in the Statement of Recommended Practice: Accounting by Charities (the SORP) issued in October 2000. They have been prepared under the historical cost convention except that listed investments are valued at market value.

The principal accounting policies of the group have remained unchanged from the previous year and are set out below.

BASIS OF CONSOLIDATION

The group financial statements consolidate those of the charity and of its subsidiary undertakings (see note 11) drawn up to 29 February 2004.

The results of the charity's trading subsidiaries, Tall Ships Limited (formerly STA Tall Ships Limited), Tall Ships Races Limited, Tall Ships 2000 Limited and Tall Ships Classics Limited have been incorporated on a line by line basis. Surpluses or deficits on intra group transactions are eliminated in full.

BRANCHES

The financial statements of the charity incorporate those of all funds and branches which are governed by the terms of the Memorandum and Articles of Association. The branches of the charity prepared accounts to 31 December 2003.

INCOMING RESOURCES

Voyage and Port Fees

Voyage and port fees are accounted for in the year in which the event takes place.

Donations and Gifts

All monetary donations and gifts are included in full in the statement of financial activities when receivable, provided that there are no donor-imposed restrictions as to the timing of the related expenditure, in which case recognition is deferred until the pre-condition has been met.

Legacies to which the charity is entitled are included in the statement of financial activities unless they are incapable of measurement.

Intangible income is valued and included in income to the extent that it represents goods or services which would otherwise be purchased. An equivalent amount is charged as expenditure. Voluntary help is not included as income.

Life subscriptions are counted in full when received.

TALL SHIPS YOUTH TRUST

PRINCIPAL ACCOUNTING POLICIES

Donations and any associated income tax recoveries when donated under gift aid are credited as income when the amounts are received.

Grants Receivable

Revenue grants are credited as incoming resources when they are receivable provided conditions for receipt have been complied with, unless they relate to a specified future period, in which case they are deferred.

Grants for the purchase of fixed assets are initially credited to restricted incoming resources when receivable. On completion of the purchase or construction of the fixed asset towards which the grant was receivable, the amount of grant is transferred from restricted to unrestricted resources.

Investment Income

Investment income, including associated income tax recoveries, is recognised when receivable.

RESOURCES EXPENDED

Expenditure, which is charged on an accruals basis, is allocated between :

- expenditure incurred directly in the fulfilment of the charity's objectives (direct charitable)
- expenditure incurred directly in the effort to raise voluntary contributions (fund-raising and publicity); and
- expenditure incurred in the management and administration of the charity.

FUND ACCOUNTING

Restricted funds are to be used for specified purposes laid down by the donor. Expenditure for those purposes is charged to the fund.

Endowment funds represent those funds which must be held permanently on trust by the charity for the benefit of the charity.

Unrestricted funds are donations and other incoming resources received or generated for expenditure on the general objectives of the charity.

Designated funds are unrestricted funds which have been designated for specific purposes by the Trustees.

TANGIBLE FIXED ASSETS AND DEPRECIATION

Tangible fixed assets are stated at cost or valuation, net of depreciation. The costs of the new ships, including finance costs, insurance, towage, design, port fees, professional fees, shipyard supervision, sea trials and training costs are capitalised. No depreciation is charged during the period of construction.

TALL SHIPS YOUTH TRUST

PRINCIPAL ACCOUNTING POLICIES

Depreciation is calculated on all tangible fixed assets to write down the cost or valuation less estimated residual value by annual instalments over their expected useful lives. The rates generally applicable are:

| | |
|--------------------------------------|----------------------|
| Tall Ships Youth Trust Ships | 25 years |
| Fixtures, fittings and equipment | 100% |
| Motor Vehicles and Display Equipment | 25% reducing balance |
| Computers | 20% straight line |

INVESTMENTS

Assets held for investment purposes are valued at market value at the Balance Sheet date.

Traded securities are valued at the mid-point quotation in the Stock Exchange Daily List.

Other investment assets are included at valuers' best estimate of market value.

STOCKS

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

FOREIGN CURRENCIES

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Exchange differences are dealt with in the statement of financial activities.

RETIREMENT BENEFITS

Defined Contribution Scheme

The pension costs charged in the year represent the amount of the contributions payable to the scheme in respect of the accounting period.

LEASED ASSETS

All leases are regarded as operating leases and the payments made under them are charged to the statement of financial activities on a straight line basis over the lease term.

TALL SHIPS YOUTH TRUST

CONSOLIDATED STATEMENT OF FINANCIAL ACTIVITIES

FOR THE YEAR ENDED 29 FEBRUARY 2004

| | Note | Unrestricted Funds £ | Restricted Funds £ | Endowment Funds £ | Total 2004 £ | Total 2003 £ |
|---|-------|-------------------------|-----------------------|----------------------|--------------------------|--------------------|
| Incoming resources | | | | | | |
| Donations, membership & legacies | | 491,513 | 495,660 | - | 987,173 | 721,034 |
| Activities in furtherance of the charity's objectives: | | | | | | |
| Grants received | 1 | 85,848 | - | - | 85,848 | 76,165 |
| Income from subsidiaries | 2 | 1,601,258 | - | - | 1,601,258 | 2,153,841 |
| Income from branches | 3 | 95,015 | - | - | 95,015 | 35,693 |
| Investment income & interest | 4 | 22,720 | 29,555 | 34,190 | 86,465 | 90,302 |
| Total incoming resources | | <u>2,296,354</u> | <u>525,215</u> | <u>34,190</u> | <u>2,855,759</u> | <u>3,077,035</u> |
| Resources expended | | | | | | |
| Costs of generating funds | | | | | | |
| Fundraising (including publicity) | | 107,346 | - | - | 107,346 | 75,223 |
| Charitable expenditure: | | | | | | |
| Direct charitable expenditure | 5 | 2,432,571 | 294,173 | 378 | 2,727,122 | 2,690,493 |
| Management, administration and finance costs | | 339,903 | - | - | 339,903 | 357,111 |
| Total resources expended | 5 | <u>2,879,820</u> | <u>294,173</u> | <u>378</u> | <u>3,174,371</u> | <u>3,122,827</u> |
| Net (outgoing)/incoming resources before transfers | | (583,466) | 231,042 | 33,812 | (318,612) | (45,792) |
| Transfers between funds | 17-19 | <u>72,680</u> | <u>(19,410)</u> | <u>(53,270)</u> | <u>-</u> | <u>-</u> |
| Net (outgoing)/incoming resources for the year | | (510,786) | 211,632 | (19,458) | (318,612) | (45,792) |
| Fund balances brought forward at 1 March 2003 | | <u>10,563,392</u> | <u>1,101,864</u> | <u>956,704</u> | <u>12,621,960</u> | <u>12,667,752</u> |
| Fund balances carried forward at 29 February 2004 | | <u>10,052,606</u> | <u>1,313,496</u> | <u>937,246</u> | <u>12,303,348</u> | <u>12,621,960</u> |

The accompanying accounting policies and notes form an integral part of these financial statements

TALL SHIPS YOUTH TRUST

CONSOLIDATED SUMMARY INCOME AND EXPENDITURE ACCOUNT

FOR THE YEAR ENDED 29 FEBRUARY 2004

| | Note | 2004 £ | 2004 £ | 2003 £ | 2003 £ |
|--|------|------------------|------------------|-----------|-----------|
| Gross income from charity | | | 1,220,311 | | 891,747 |
| Gross income from activities of subsidiaries | | | | | |
| Continuing | | 1,601,258 | | 1,669,217 | |
| Discontinued | | - | | 484,624 | |
| Gross income from activities of subsidiaries | 2 | | 1,601,258 | | 2,153,841 |
| Total income | | | 2,821,569 | | 3,045,588 |
| Total expenditure | | | | | |
| Continuing | | 3,165,607 | | 2,752,255 | |
| Discontinued | | 8,386 | | 370,562 | |
| | | | 3,173,993 | | 3,122,827 |
| Net (outgoings)/income for the year before transfers | | | | | |
| Continuing | | (344,038) | | (191,301) | |
| Discontinued | | (8,386) | | 114,062 | |
| | | | (352,424) | | (77,239) |

Total income comprises £2,296,354 (2003: £2,881,232) for unrestricted funds and £525,215 (2003: £164,356) for restricted funds. A detailed analysis of income by source is provided in the statement of financial activities.

Turnover of trading activities amounted to £1,601,258 (2003: £2,153,841). A detailed analysis of trading results is shown in note 2.

Detailed analysis of expenditure is provided in the statement of financial activities and note 5.

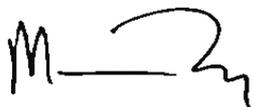
The summary income and expenditure account is derived from the statement of financial activities on page 20 and excludes all income and expenditure on the endowment funds. The statement of financial activities together with the notes on pages 24 to 35, provides full information on the movements during the year on all the funds of the Charity.

TALL SHIPS YOUTH TRUST

BALANCE SHEETS AT 29 FEBRUARY 2004

| | Note | Trust & Subsidiaries 2004 £ | 2003 £ | Tall Ships Youth Trust 2004 £ | 2003 £ |
|---|------|-----------------------------------|------------|-------------------------------------|------------|
| Fixed assets | | | | | |
| Tangible assets | 10 | 10,132,426 | 10,387,974 | 10,132,426 | 10,386,905 |
| Investments | 11 | - | - | 160,409 | 160,405 |
| | | 10,132,426 | 10,387,974 | 10,292,835 | 10,547,310 |
| Current assets | | | | | |
| Stocks | | 10,180 | 10,592 | 180 | 2,928 |
| Debtors | 12 | 244,543 | 227,656 | 23,391 | 261,733 |
| Investments | 13 | 28,277 | 37,639 | 28,277 | 37,639 |
| Cash at bank and in hand | | 2,840,355 | 3,295,523 | 2,770,451 | 2,943,881 |
| | | 3,123,355 | 3,571,410 | 2,822,299 | 3,246,181 |
| Creditors: amounts falling due within one year | 14 | 952,433 | 930,362 | 792,176 | 580,165 |
| Net current assets | | 2,170,922 | 2,641,048 | 2,030,123 | 2,666,016 |
| Total assets less current liabilities | | 12,303,348 | 13,029,022 | 12,322,958 | 13,213,326 |
| Creditors: amounts falling due after one year | 15 | - | 407,062 | - | 407,062 |
| | | 12,303,348 | 12,621,960 | 12,322,958 | 12,806,264 |
| Capital | 19 | 100,000 | 100,000 | 100,000 | 100,000 |
| Capital funds | | | | | |
| Endowments | 17 | 937,246 | 956,704 | 937,246 | 956,704 |
| Income funds | | | | | |
| Restricted funds | 18 | 1,313,496 | 1,101,864 | 1,313,496 | 1,101,864 |
| Unrestricted funds: | | | | | |
| Designated | 19 | - | 495,720 | - | 495,720 |
| General | 19 | 9,952,606 | 9,967,672 | 9,972,216 | 10,151,976 |
| | | 12,303,348 | 12,621,960 | 12,322,958 | 12,806,264 |

The financial statements were approved by the Trustees on 3 June 2004.



Mr M Jay CBE DL
Chairman of the Council

The accompanying accounting policies and notes form an integral part of these financial statements

TALL SHIPS YOUTH TRUST

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 29 FEBRUARY 2004

| | 2004 | 2003 |
|--|------------------|------------------|
| | £ | £ |
| Net cash (outflow)/inflow from operating activities (see below) | 91,706 | (181,867) |
| Capital expenditure and financial investment | | |
| Purchase of tangible fixed assets | (47,641) | (23,939) |
| Sale of tangible fixed assets | 767 | - |
| Net cash outflow from investing activities | (46,874) | (23,939) |
| Acquisitions and disposals | | |
| Exceptional item | | |
| Payment on disposal of discontinued operations | - | (187,900) |
| Net cash outflow from acquisitions and disposals | - | (187,900) |
| Financing | | |
| Repayment of borrowing | (500,000) | (250,000) |
| Net cash (outflow)/inflow from financing | (500,000) | (250,000) |
| (Decrease)/Increase in cash | (455,168) | (643,706) |
| Net cash (outflow)/inflow from operating activities | | |
| Net (outgoing)/incoming resources | (318,612) | (45,792) |
| Depreciation | 302,422 | 299,551 |
| Loss on disposal of discontinued operations | - | 60,400 |
| (Increase)/decrease in Stocks | 412 | (8,262) |
| (Increase)/decrease in Debtors | (16,887) | (97,622) |
| Increase/(decrease) in Creditors | 115,009 | (390,142) |
| Decrease in investments | 9,362 | - |
| | 91,706 | (181,867) |

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

1 GRANTS

Material grants receivable during the year were as follows:

| | | 2004 £ | 2003 £ |
|-----------------|---|---------------|---------------|
| Category | Source | | |
| Youth Work | Department for Education and Skills | 33,098 | 37,415 |
| Youth Work | Association of Sea Training Organisations | 52,750 | 38,750 |
| | | <u>85,848</u> | <u>76,165</u> |

2 NET INCOME FROM ACTIVITIES OF SUBSIDIARIES

A summary of the results of the subsidiaries is set out below:

| | Tall Ships Ltd £ | Tall Ships Races Ltd & Tall Ships 2000 £ | Tall Ships Classics Ltd £ | Total 2004 £ | Total 2003 £ |
|---|------------------------|--|---------------------------------|--------------------|--------------------|
| Turnover | 1,720,376 | - | - | 1,720,376 | 2,251,829 |
| Less: Income transferred from Trust | (119,118) | - | - | (119,118) | (97,988) |
| | <u>1,601,258</u> | <u>-</u> | <u>-</u> | <u>*1,601,258</u> | <u>*2,153,841</u> |
| Operating charges | | | | | |
| Direct Charitable | (2,012,961) | (8,386) | - | (2,021,347) | (2,055,119) |
| Other income - subvention receipt | 451,174 | - | - | 451,174 | |
| Exceptional Items | | | | | |
| Loss on disposal of discontinued operations | - | - | - | - | (95,706) |
| Operating profit/(loss) | 39,471 | (8,386) | - | 31,085 | 3,016 |
| Interest receivable | 6,164 | 8,321 | - | 14,485 | 22,710 |
| Net (loss)/profit | 45,635 | (65) | - | 45,570 | 25,726 |
| less: Covenanted payment - Trust | - | - | - | - | (128,585) |
| Add: Income transferred from Trust | 119,118 | - | - | 119,118 | 97,988 |
| Retained in subsidiary | <u>164,753</u> | <u>(65)</u> | <u>-</u> | <u>164,688</u> | <u>(4,871)</u> |

* See Income from Subsidiaries shown on the Consolidated Statement of Financial Activities.

For the year 2004 Tall Ships Youth Trust agreed a subvention to Tall Ships Limited of £451,174, as a consequence the reserves for Tall Ships Limited were nil.

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

2 NET INCOME FROM ACTIVITIES OF SUBSIDIARIES (CONTINUED)

The net assets and liabilities of the subsidiaries were:

| | Tall Ships Ltd £ | Tall Ships Races Ltd & Tall Ships 2000 £ | Tall Ships Classics Ltd £ | Total 2004 £ | Total 2003 £ |
|---|------------------------|--|---------------------------------|-------------------------|--------------------|
| Fixed and Current assets | 395,074 | 192,507 | 1,000 | 588,581 | 671,141 |
| Creditors: amounts falling due within one year | <u>(395,074)</u> | <u>(54,861)</u> | <u>-</u> | <u>(449,935)</u> | <u>(697,189)</u> |
| Total net (liabilities)/assets | <u>-</u> | <u>137,646</u> | <u>1,000</u> | <u>138,646</u> | <u>(26,048)</u> |
| Aggregate of share capital and reserves | <u>-</u> | <u>137,646</u> | <u>1,000</u> | <u>138,646</u> | <u>(26,048)</u> |

3 BRANCHES

The financial results of the branches of Tall Ships Youth Trust are consolidated into these accounts on the basis of returns submitted by each branch. Of the total amount raised by branches £429,688 (2003: £546,559) is recorded in the statement of financial activities as voyage fees with the amount of £95,015 (2003: £35,693) being income not directly expended on voyage fees in the year.

4 INVESTMENT INCOME

| | 2004 £ | 2003 £ |
|--|----------------------|---------------|
| Investment income comprises income from: | | |
| Listed investments | 676 | 736 |
| Bank deposits | <u>85,789</u> | <u>89,566</u> |
| | <u>86,465</u> | <u>90,302</u> |

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

5 ANALYSIS OF RESOURCES EXPENDED

| | 2004 £ | 2003 £ |
|--|------------------|------------------|
| Cost of generating funds | | |
| Fundraising | 107,346 | 75,223 |
| Charitable Expenditure | | |
| Direct Charitable Expenditure | | |
| Subsidiaries' operating costs and youth work | 2,021,347 | 2,181,828 |
| Depreciation of Ships | 285,380 | 283,732 |
| Branch expenses including grants to voyage crew | 125,844 | 92,390 |
| Voyage Fees and Other Costs paid from restricted and endowment funds | 294,551 | 132,543 |
| Management, Administration & Finance Costs | | |
| Charity overhead expenses | 314,698 | 320,742 |
| Net interest payable on bank loan | 25,205 | 36,369 |
| Total Resources Expended | <u>3,174,371</u> | <u>3,122,827</u> |
| Total resources expended include: | | |
| Auditors remuneration | | |
| Audit services | 19,200 | 20,725 |
| Non-Audit services | 2,250 | 5,122 |
| Depreciation and amortisation | | |
| Tangible fixed assets, owned | 302,422 | 299,551 |
| Operating lease rental | <u>22,044</u> | <u>25,218</u> |

6 EMPLOYEES

Employee costs during the year were as follows:

| | 2004 £ | 2003 £ |
|-----------------------|----------------|----------------|
| Wages and salaries | 304,237 | 357,479 |
| Social security costs | 31,792 | 34,174 |
| Other pension costs | 23,642 | 24,885 |
| | <u>359,671</u> | <u>416,538</u> |

The average number of employees during the year were as follows:

| | 2004 | 2003 |
|---|-----------|-----------|
| Tall Ships Youth Trust and Tall Ships Limited | 11 | 13 |
| Tall Ships Races | - | 3 |
| Total | <u>11</u> | <u>16</u> |

The emoluments of one employee fell within the range £50,000 to £60,000 during both years.

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

7 PAYMENTS TO TRUSTEES AND CONNECTED PERSONS

No Trustee or person with a family or business connection with a Trustee received remuneration in the year, directly or indirectly, from either the charity or an institution or company controlled by the charity.

Expense reimbursements paid to 5 (2003: 9) Trustees during the year in total amounted to £2,249 (2003: £3,844) and can be analysed as follows:

| | 2004 £ | 2003 £ |
|------------------------|--------------|--------------|
| Travel and Subsistence | <u>2,249</u> | <u>3,844</u> |

8 CHANGES IN RESOURCES AVAILABLE FOR CHARITY USE

| | Unrestricte d funds £ | Restricted funds £ | Endowment funds £ | Total 2004 £ | Total 2003 £ |
|---|-----------------------------|--------------------------|-------------------------|-------------------------|--------------------|
| Net increase/(decrease) in funds for the year | (510,786) | 211,632 | (19,458) | (318,612) | (45,792) |
| Net increase/(decrease) in tangible fixed assets | <u>(255,548)</u> | <u>-</u> | <u>-</u> | <u>(255,548)</u> | <u>(275,612)</u> |
| Net movement in funds available for future activities | <u>(766,334)</u> | <u>211,632</u> | <u>(19,458)</u> | <u>(574,160)</u> | <u>(321,404)</u> |

9 DEFICIT OF INCOME OVER EXPENDITURE

The charity has taken advantage of Section 230 of the Companies Act 1985 and has not included its own income and expenditure account in these financial statements. The deficit of income over expenditure for the year includes £483,306 (2003: £45,108 surplus) that is dealt with in the financial statements of the charity. This is stated after the subvention payment of £451,174 to its subsidiary Tall Ships Limited.

Details of the results of the trading subsidiaries are set out in note 2.

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

10 TANGIBLE FIXED ASSETS

| Trust & Subsidiaries | Ships | Computers, Motor Vehicles and Display Equipment | Total |
|-------------------------------------|--------------------------|--|--------------------------|
| | £ | £ | £ |
| Cost or valuation | | | |
| At 1 March 2003 | 11,077,524 | 94,936 | 11,172,460 |
| Additions | 5,674 | 41,967 | 47,641 |
| Disposals | - | (11,165) | (11,165) |
| | <u>11,083,198</u> | <u>125,738</u> | <u>11,208,936</u> |
| At 29 February 2004 | 11,083,198 | 125,738 | 11,208,936 |
| Depreciation | | | |
| At 1 March 2003 | 711,574 | 72,912 | 784,486 |
| Provided in the year | 285,380 | 17,042 | 302,422 |
| On disposal | - | (10,398) | (10,398) |
| | <u>996,954</u> | <u>79,556</u> | <u>1,076,510</u> |
| At 29 February 2004 | 996,954 | 79,556 | 1,076,510 |
| Net book amount at 29 February 2004 | <u>10,086,244</u> | <u>46,182</u> | <u>10,132,426</u> |
| Net book amount at 28 February 2003 | <u>10,365,950</u> | <u>22,024</u> | <u>10,387,974</u> |

| Tall Ships Youth Trust | Ships | Computers & Display Equipment | Total |
|-------------------------------------|--------------------------|--|--------------------------|
| | £ | £ | £ |
| Cost or valuation | | | |
| At 1 March 2003 | 11,077,524 | 83,769 | 11,161,293 |
| Additions | 5,674 | 41,969 | 47,643 |
| At 29 February 2004 | <u>11,083,198</u> | <u>125,738</u> | <u>11,208,936</u> |
| Depreciation | | | |
| At 1 March 2003 | 711,574 | 62,814 | 774,388 |
| Provided in the year | 285,380 | 16,742 | 302,122 |
| At 29 February 2004 | <u>996,954</u> | <u>79,556</u> | <u>1,076,510</u> |
| Net book amount at 29 February 2004 | <u>10,086,244</u> | <u>46,182</u> | <u>10,132,426</u> |
| Net book amount at 28 February 2003 | <u>10,365,950</u> | <u>20,955</u> | <u>10,386,905</u> |

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

The Ships' net book amount consists of:

| | 2004 £ | 2003 £ |
|---------------------------|------------------|------------------|
| Stavros S Niarchos (Brig) | 5,080,521 | 5,220,700 |
| Prince William (Brig) | <u>5,005,723</u> | <u>5,145,250</u> |

Included in the Ships category is £111,754 of capitalised interest, expended up to the year 2001/02.

11 FIXED ASSET INVESTMENTS

| | Trust & Subsidiaries | | Tall Ships Youth Trust | |
|---------------------------------------|----------------------|-----------|------------------------|----------------|
| | 2004 £ | 2003 £ | 2004 £ | 2003 £ |
| Investment in Subsidiary undertakings | - | - | <u>160,409</u> | <u>160,405</u> |

At 29 February 2004 the charity had interests in the following associated undertakings:

| Name of subsidiary undertaking | Country of incorporation | Class of share capital held | Proportion held by the charity | Nature of business |
|--------------------------------|--------------------------|-----------------------------|--------------------------------|--|
| Tall Ships Limited | England & Wales | Ordinary | 100% | Tall Ships Operation |
| Tall Ships Races Limited | England & Wales | Ordinary | 100% | Development and promotion of sail training internationally |
| Tall Ships 2000 Limited | England & Wales | Ordinary | 100% | Development and promotion of sail training internationally |
| Tall Ships Classics Limited | England & Wales | Ordinary | 100% | Merchandise operation |
| Tall Ships Events Limited | England & Wales | Ordinary | 100% | Dormant |
| STA Tall Ships Limited | England & Wales | Ordinary | 100% | Dormant |
| International STA Limited | England & Wales | Ordinary | 100% | Dormant |
| Tall Ships Youth Limited | England & Wales | Ordinary | 100% | Dormant |
| Tall Ships Crew Limited | England & Wales | Ordinary | 100% | Dormant |
| Tall Ships Adventures Limited | England & Wales | Ordinary | 100% | Dormant |
| The Sail Training Association | England & Wales | Ordinary | 100% | Dormant |

All of the subsidiary undertakings have been consolidated in these financial statements.

The dormant companies are being retained in order to protect potential trading names.

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

12 DEBTORS

| | Trust & Subsidiaries | | Tall Ships Youth Trust | |
|------------------------------------|----------------------|----------------|------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Trade Debtors | 48,421 | 43,363 | - | - |
| Amounts owed by group undertakings | - | - | 14 | 254,417 |
| Other debtors | 190,234 | 177,677 | 17,489 | 2,458 |
| Prepayments | 5,888 | 6,616 | 5,888 | 4,858 |
| | 244,543 | 227,656 | 23,391 | 261,733 |

13 CURRENT ASSET INVESTMENTS

| | Trust & Subsidiaries | | Tall Ships Youth Trust | |
|----------------------|----------------------|---------------|------------------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Listed investments | 13,498 | 13,237 | 13,498 | 13,237 |
| Unlisted investments | 14,779 | 24,402 | 14,779 | 24,402 |
| | 28,277 | 37,639 | 28,277 | 37,639 |

Listed investments are stated at their mid market value as at the balance sheet date.

Unlisted investments have been valued at cost.

14 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

| | Trust & Subsidiaries | | Tall Ships Youth Trust | |
|------------------------------------|----------------------|----------------|------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Bank loan | 407,062 | 500,000 | 407,062 | 500,000 |
| Payments on account | 208,699 | 151,621 | - | - |
| Trade creditors | 132,334 | 26,381 | 29,349 | 6,319 |
| Amounts owed to group undertakings | - | - | 289,664 | 1,003 |
| Social Security and other taxes | 4,572 | 13,080 | (5,086) | 2,141 |
| Pension contributions | - | - | - | - |
| Other creditors and accruals | 199,766 | 239,280 | 71,187 | 70,702 |
| | 952,433 | 930,362 | 792,176 | 580,165 |

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

15 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

| | Trust & Subsidiaries | | Tall Ships Youth Trust | |
|-----------|----------------------|---------|------------------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Bank loan | - | 407,062 | - | 407,062 |

The bank loan is secured by a fixed charge over the second brig - Prince William, following its delivery on 16 March 2001, and a floating charge over the assets of the company. The fixed charge over Stavros S Niarchos was released in June 2001. The loan is repayable in £250,000 instalments commencing in September 2002, with a final instalment being only £157,062.

16 BORROWINGS

Borrowings are repayable as follows:

| | Trust & Subsidiaries | | Tall Ships Youth Trust | |
|---------------------------------|----------------------|----------------|------------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | £ | £ | £ | £ |
| Within one year | | | | |
| Bank and other borrowings | 407,062 | 500,000 | 407,062 | 500,000 |
| After one and within two years | | | | |
| Bank and other borrowings | - | 407,062 | - | 407,062 |
| After two and within five years | | | | |
| Bank and other borrowings | - | - | - | - |
| | 407,062 | 907,062 | 407,062 | 907,062 |

17 ENDOWMENTS

| | Andrew Salvesen | Michael Crocker | Nova Scotia | Lord Burnham | McRobert Trust | Peacock Trust | Total |
|---------------------|-----------------|-----------------|--------------|---------------|----------------|---------------|----------------|
| At 1 March 2003 | 900,000 | 8,374 | 8,150 | 15,180 | 20,000 | 5,000 | 956,704 |
| Incoming resources | 32,371 | 205 | 378 | 337 | 719 | 180 | 34,190 |
| | | | | | | | (378) |
| Outgoing resources | - | - | (378) | - | - | - | |
| Transfers | (32,371) | - | - | - | (20,719) | (180) | (53,270) |
| At 29 February 2004 | 900,000 | 8,579 | 8,150 | 15,517 | - | 5,000 | 937,246 |

The Andrew Salvesen fund was established in November 1999 with a donation from the Andrew Salvesen Charitable Trust. In March 2004 a Trust Deed was established to create the Andrew Salvesen Endowment Trust whose initial asset is this capital sum of £900,000. The object of this Trust is to generate income to enhance the personal development of young people through crewing tall ships. Tall Ships Youth Trust is the sole trustee of the Andrew Salvesen Endowment Trust which has been registered as a subsidiary of Tall Ships Youth Trust with the Charity Commission.

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

The Michael Crocker fund was set up in memory of a yachtsman murdered in February 1982. The income is for contributions to voyage fees for pupils of Henley College.

The Nova Scotia fund was set up in memory of trainees who died on the sailing ship "Marques" which sank off Bermuda during the 1984 American Tall Ships race. The income is shared with the American Sail Training Association and is to support a voyage berth.

The Lord Burnham fund was set up in his memory following his death in June 1993. Income is for contributions to Voyage fees aboard the Trust's ships for trainees ideally but not exclusively from Eastern Europe.

The McRobert Trust fund was donated in order that the income be used for bursaries to benefit young people on Tall Ships Youth Trust voyages. The donor has nominated that this fund may be fully expended for bursaries and therefore this endowment has been transferred into restricted funds.

The Peacock Trust fund was donated to provide a new bursary scheme to benefit young people.

18 RESTRICTED FUNDS

| | Specific Funds £ | International Fund £ | Total £ |
|---------------------|------------------------|----------------------------|-------------------------|
| At 1 March 2003 | 182,989 | 918,875 | 1,101,864 |
| Incoming resources | 499,155 | 26,060 | 525,215 |
| Expenditure | (277,401) | (16,772) | (294,173) |
| Transfers | (16,187) | (3,223) | (19,410) |
| | <u>388,556</u> | <u>924,940</u> | <u>1,313,496</u> |
| At 29 February 2004 | <u>388,556</u> | <u>924,940</u> | <u>1,313,496</u> |

The Specific Funds are donations made to the Trust to be used for specified purposes. During the year, £250,000 was received from the Foundation for Sport and the Arts towards bursaries for young people and £132,469 from the Lundy Charitable Trust towards repayment of the bank loan. At 29 February 2004 there were 28 (2003: 44) separate funds.

The International Fund is restricted within the accounts of the charity for international sail training activities. Expenditure during the year relates mainly to grants made under a new grant scheme to support the personal development of young people through sail training on tall ships and that have an international dimension. The Fund also continued to fund a race entry rebate scheme for ships participating in the Cutty Sark Tall Ships Race 2003.

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

19 UNRESTRICTED FUNDS

| | Capital Funds £ | Designate d Funds £ | General £ | Total £ |
|---------------------------------|-----------------------|---------------------------|------------------|--------------------------|
| Trust & Subsidiaries | | | | |
| At 1 March 2003 | 100,000 | 495,720 | 9,967,672 | 10,563,392 |
| Incoming resources | - | 95,015 | 2,201,339 | 2,296,354 |
| Expenditure | - | (125,837) | (2,753,983) | (2,879,820) |
| Transfers | - | (464,898) | 537,578 | 72,680 |
| | <u>100,000</u> | <u>-</u> | <u>9,952,606</u> | <u>10,052,606</u> |
| | | | | |
| | Capital Funds £ | Designate d Funds £ | General £ | Total £ |
| Tall Ships Youth Trust | | | | |
| At 1 March 2003 | 100,000 | 495,720 | 10,151,976 | 10,747,696 |
| Incoming resources | - | 95,015 | 585,590 | 680,605 |
| Expenditure | - | (125,837) | (1,302,928) | (1,428,765) |
| Transfers | - | (464,898) | 537,578 | 72,680 |
| | <u>100,000</u> | <u>-</u> | <u>9,972,216</u> | <u>10,072,216</u> |

Designated Funds were those raised and managed by the volunteer branch network, which were separately identified as designated. In the year the branch designated funds were transferred into general funds on the basis that the branches were to operate a credit scheme for voyages rather than operate individual profit and loss accounts. The designated income and expenditure figures are shown net of voyage fee related transactions expended largely on voyage fees for young trainees, with branches also having fund-raising and administrative expenditure.

The transfers between funds represent the amounts transferred from the Endowment Funds and Restricted Funds (see notes 17 and 18) into Unrestricted Funds and the transfer of the Designated Funds to General Funds in the year.

20 ANALYSIS OF NET ASSETS BETWEEN FUNDS

| | Unrestricted Funds £ | Designated Funds £ | Restricted Funds £ | Endowment Funds £ | Total £ |
|---------------------------------|----------------------------|--------------------------|--------------------------|-------------------------|--------------------------|
| Trust & Subsidiaries | | | | | |
| Tangible fixed assets | 10,132,426 | - | - | - | 10,132,426 |
| Current assets | 872,613 | - | 1,313,496 | 937,246 | 3,123,355 |
| Current liabilities | (952,433) | - | - | - | (952,433) |
| | <u>10,052,606</u> | <u>-</u> | <u>1,313,496</u> | <u>937,246</u> | <u>12,303,348</u> |

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

| | Unrestricted Funds £ | Designated Funds £ | Restricted Funds £ | Endowment Funds £ | Total £ |
|-------------------------------|----------------------------|--------------------------|--------------------------|-------------------------|--------------------------|
| Tall Ships Youth Trust | | | | | |
| Tangible fixed assets | 10,132,426 | - | - | - | 10,132,426 |
| Investments | 160,409 | - | - | - | 160,409 |
| Current assets | 571,557 | - | 1,313,496 | 937,246 | 2,822,299 |
| Current liabilities | (792,176) | - | - | - | (792,176) |
| | <u>10,072,216</u> | <u>-</u> | <u>1,313,496</u> | <u>937,246</u> | <u>12,322,958</u> |

21 ANALYSIS OF CHANGES IN NET DEBT

| | At 1 March 2003 £ | Cash Flows £ | Other changes £ | At 29 February 2004 £ |
|------------------------|-------------------------|-----------------|-----------------------|-----------------------------|
| Net Debt | | | | |
| Cash at bank, in hand | 3,295,523 | (455,168) | - | 2,840,355 |
| Debt due within 1 year | (500,000) | 500,000 | (407,062) | (407,062) |
| Debt due after 1 year | (407,062) | - | 407,062 | - |
| Total | <u>2,388,461</u> | <u>44,832</u> | <u>-</u> | <u>2,433,293</u> |

22 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | 2004 £ | 2003 £ |
|---|-------------------------|------------------|
| (Decrease)/Increase in cash in the period | (455,168) | (643,706) |
| Repayment of loan | 500,000 | 250,000 |
| Receipt of loan | - | - |
| Change in net debt | 44,832 | (393,706) |
| Net debt at 1 March 2003 | <u>2,388,461</u> | <u>2,782,167</u> |
| Net funds at 29 February 2004 | <u>2,433,293</u> | <u>2,388,461</u> |

TALL SHIPS YOUTH TRUST

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 29 FEBRUARY 2004

23 CAPITAL COMMITMENTS

There were no capital commitments at 29 February 2004 or 28 February 2003. No amounts were authorised but not yet contracted for.

24 CONTINGENT LIABILITIES

Neither the Tall Ships Youth Trust nor its subsidiary companies had any contingent liabilities at 29 February 2004 or 28 February 2003.

25 PENSIONS

Defined contribution scheme

The group makes contributions towards individual pension schemes for the benefit of certain employees. The assets of these schemes are administered by Trustees in funds independent from those of the Tall Ships Youth Trust or its subsidiary companies.

26 LEASING COMMITMENTS

Operating lease payments amounting to £20,362 (2003: £26,156) are due within one year. The leases to which these amounts relate expire as follows:

| | 2004 | | 2003 | |
|----------------------------|-----------------------|--------------|-----------------------|--------------|
| | Land & buildings £ | Other £ | Land & buildings £ | Other £ |
| In one year or less | 16,250 | - | - | 2,544 |
| Between one and five years | - | 4,112 | 19,500 | 4,112 |
| | <u>16,250</u> | <u>4,112</u> | <u>19,500</u> | <u>6,656</u> |