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LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

2002 saw a continuation of the difficult trading conditions experienced by many in the United Kingdom's manufacturing and primary production and I must report a group loss for the year of £4,235,000.

The substantial group trading loss for the year includes the impact of restructuring strategic direction and management teams within the group, the benefits of which I am pleased to report are now being felt across the group. The poor trading and losses have impacted the group cash flow, putting pressure on cash particularly during the seasonal cycle associated with aquaculture. We are working closely, and with the continued support of our bankers to reduce gearing through a combination of realisations and improved trading. The group holds substantial reserves of brown field sites, which the Directors have unanimously agreed as having a value not less than £8 million, being £7.47 million in excess of the balance sheet value. These and other assets surplus to trading requirements are in the course of being realised. The Directors have not attempted to value intellectual property derived from the Landcatch salmon breeding programme.

The continued move away from primary production and manufacturing to an added value service and technology business has ensured a firm foundation from which to return the group to profitable cash generation.

Aquaculture

The effect of depressed prices has created very difficult trading conditions for salmon ongrowers. Despite the very tough market for smolts, Landcatch was successful in placing all their smolt production through 2003. This underlines the importance of our family selective breeding programme in Atlantic salmon.

We are at the forefront of this emerging technology and are now delivering tangible genetic benefits to our egg and smolt customers. This, combined with our strong freshwater production infrastructure, has tremendous potential and is able to accelerate the benefit delivery within our products, to create an unassailable market lead in pedigree salmon egg and smolt production.

We continue to concentrate on delivery of additional customer benefit through added value to egg and smolt products, underpinned by a long-term commitment to research and development. The emerging customer awareness and acknowledgement of the differential advantages and benefits of the breeding programme will be enhanced by an increased marketing effort, to deliver increased value in terms of market price and demand.

Landcatch Chile Ltda. has faced difficult market conditions and continues to develop its fresh and sea water infrastructure. The selective breeding programme is now well established, supported by our Scottish based operation.

Investment has continued at The Marine Resource Centre. MRC Energy has benefited from the uplift in price for sustainable electricity. Site infrastructure has been enhanced with a number of important tenants now on site. We have various projects in development for the further utilisation of the unique on-site facilities and location.

McKinlay & Blair has been restructured to take advantage of niche markets.

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT
(continued)

Marine

Buckie Shipyard has continued to benefit from further capital investment in its facilities, with a 1600m^2 specialist repair and paint facility, slipway and mobile boatlift entering service in Autumn 2003. The executive team has been further strengthened during 2003 to broaden expertise in ship repair.

Our strategy to concentrate on commercial and specialist boat repair has been vindicated by the business being largely insulated from the latest fishing cuts and the further decline in the traditional fishing fleet market.

We continue to make investment in plant and skills training, which have improved both productivity and margins, allowing us to remain competitive in a very tough market and to attract a variety of new customers.

Engineering

Prosper Engineering has experienced difficult trading conditions with competitive pressures on pricing, a strong pound and reduced activity in our traditional markets of oil and energy generation. Under a new Chief Executive and Chairman the company has been repositioned away from primary manufacture and towards added value service. This restructuring has been completed, with the rationalising of overhead structures and locations. Excellent progress has been made in outsourcing commodity product from lower cost producers overseas and in establishing additional UK distribution for merchant product. These changes and systems are now bedded in and working well. We have been successful in taking on UK frame agreements with the oil majors, as well as growing business in North America out of our Houston sales office.

The sales and service facility in Macaé, Brazil, has not seen the anticipated development in the Brazilian offshore oil industry, and we now intend to look to other markets to take advantage of further opportunities as they develop.

Lithgows Pty

Capital investment has continued in the farming operation, with the benefits of improved animal health and pasture management beginning to flow through. Work continues to refine the farming operation and infrastructure. Local real estate prices remain strong, supported by the continued expansion of the wine industry and population growth.

Property

The property assets referred to above, continue to be actively managed to maximise shareholder value over the long term. The sites are strategically placed with a number of them in the Edinburgh, Glasgow, Ayr corridor, adjoining the green belt.

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT
(continued)

Outlook

Having come through a very difficult trading period on many fronts, I am confident the steps taken to restructure management and company structure over the last two years are now delivering real benefits to the bottom line. The nonrecurring costs of this restructuring whilst considerable have now been taken, with a substantial reduction in overhead across the group. We are now poised to take advantage of the investment in technology and infrastructure, to deliver real business growth and profit, and to explore new areas of opportunity.

James F. Lithgow

JAMES F. LITHGOW
Chairman

December 15, 2003

LITHGOWS LIMITED

Directors

Mr. J.F. Lithgow * *(Chairman)*

Sir William Lithgow, Bt *+ *(Vice Chairman)*

Mr. H.M. Currie *(Managing Director)*

Mr. F.G. Hogg*+

The Rt. Hon. Lord Lang of Monkton+

Lady Lithgow+

Mr. A.R. Reid *(Company Secretary)*

Mr. A.W.C. Wishart *(Finance Director)*

* Denotes a member of the Audit Committee
+ Denotes non-executive

Registered Office

3 Ardgowan Square
Greenock

LITHGOWS LIMITED

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended December 31, 2002.

Results and dividends

The Group trading loss for the year after taxation amounted to £4,235,000.

The directors do not recommend the payment of a dividend.

Review of the business

The Group's principal operating subsidiaries and their activities during the year are shown on page 28. Comments on the results for the year and on future developments are contained in the Chairman's statement on pages 1 – 3.

Directors and their interests

The directors who served during the year are stated on page 4.

The director who retires from the board by rotation at the next Annual General Meeting is the Rt. Hon. Lord Lang of Monkton who, being eligible, offers himself for re-election.

The following directors had the undernoted interests in the ordinary and preference share capital of Lithgows Limited at December 31, 2002 and at December 31, 2001.

	Ordinary shares				7.5% Preference shares			
	Beneficial interest		Interest as Trustees (non-beneficial)		Beneficial interest		Interest as Trustees (non-beneficial)	
	2002	2001	2002	2001	2002	2001	2002	2001
Sir William Lithgow	1,753	1,753	-	500	-	-	-	-
Lady Lithgow	728	728	-	500	-	-	-	108,000
J.F. Lithgow	2,469	2,469	-	-	*506,000*	*506,000*	-	-

No other director at December 31, 2002 had any interest in the share capital of the company or in any subsidiary during the year.

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Directors' responsibilities for the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to select suitable accounting policies and then apply them consistently, make judgements and estimates that are reasonable and prudent, state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business. The basis of preparation adopted on the preparation of the financial statements is detailed on page 16.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate governance

Whilst it is under no obligation to meet the requirements of the Financial Services Authority, the Lithgows' Group places a high degree of importance on corporate governance and has for some years honoured many of the recommendations of the Combined Code. The Board includes 4 non-executive directors and meets on a regular basis to discuss the strategic development of the Group, and to monitor the day to day implementation of the Group strategy throughout the various subsidiary companies. The remuneration of the executive directors is fixed by a committee of the Chairman, Vice Chairman and a non-executive director. The Board have an Audit Committee who receive reports from both the external auditors and the internal audit function to satisfy themselves as to the effectiveness of the Group's financial operating procedures and internal controls. Whilst the concentration has been on financial controls to date, it is intended to extend this to a more comprehensive review of all internal controls and risk assessment within the Group. The internal audit function is unusual in a Group of this size but is found to be extremely useful in meeting the responsibilities of the directors.

Disabled employees

Full and fair consideration is given to applications for employment by disabled persons, having regard to their particular aptitudes and abilities, bearing in mind the nature of the position applied for. Opportunities given to a disabled person for the continuance of employment, appropriate training and career development, are in line with those given to any other employee of the Group.

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Employees

Consultative procedures enable management and other employees to discuss matters of mutual interest. Through these procedures and departmental channels employees are able to be kept informed about Group affairs.

Charitable donations

During the year the Group made charitable contributions totalling £269.

Political donations

There were no donations to political parties made during the year.

Auditors

A resolution to reappoint Grant Thornton as auditors in accordance with S.385 of the Companies Act 1985 will be put to the members at the Annual General Meeting.

ON BEHALF OF THE BOARD

A. R. Reid

A.R. REID
Secretary

December 15, 2003

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the financial statements of Lithgows Limited for the year ended December 31, 2002 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, cash flow statement, statement of total recognised gains and losses, statement of Group retained reserves and notes 1 to 27. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' 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 directors' 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 specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the annual report, and consider whether it is consistent with the audited financial statements. This other information comprises only the directors' report and chairman's report. 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 directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED
(continued)

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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made on pages 16 and 17 of the financial statements as to the negotiation of sufficient group bank overdraft facilities, the satisfactory conclusion of arrangements and transactions with third parties and of the uncertainly of the group achieving its forecasts. In view of the significance of these uncertainties, we consider that they should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group at December 31, 2002 and of the loss of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
Registered Auditors
Chartered Accountants
Glasgow

December 15, 2003

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2002

	Notes	2002 £'000	2002 £'000	2001 £'000	2001 £'000
TURNOVER					
Group and share of joint venture's turnover			19,547		23,610
Less: share of joint venture's turnover			(1,160)		(1,047)
Continuing operations		13,798		17,471	
Discontinued operations		4,589		5,092	
GROUP TURNOVER	1		18,387		22,563
Cost of sales	2		(16,421)		(19,550)
GROSS PROFIT			1,966		3,013
Other operating income and charges	2		(5,820)		(5,705)
OPERATING LOSS	3				
Continuing operations		(3,316)		(2,756)	
Discontinued operations		(538)		64	
			(3,854)		(2,692)
Share of operating profit of joint venture			227		555
			(3,627)		(2,137)
EXCEPTIONAL ITEMS					
Loss on receivership of subsidiary undertaking	26		(271)		-
			(3,898)		(2,137)
Net interest	5		(565)		(443)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(4,463)		(2,580)
Taxation	6		(37)		(87)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION			(4,500)		(2,667)
Minority interests	17		265		31
LOSS FOR THE FINANCIAL YEAR			(4,235)		(2,636)
Dividends – including non equity interests	7		-		(9)
LOSS FOR YEAR			(4,235)		(2,645)

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

LITHGOWS LIMITED

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 2002

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2002 £'000	2001 £'000
Loss for the year	(4,235)	(2,645)
Exchange differences	(198)	(433)
Total recognised gains and losses for the year	(4,433)	(3,078)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2002 £'000	2001 £'000
Reported loss on ordinary activities before taxation	(4,463)	(2,580)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	34	30
Historical cost loss on ordinary activities before taxation	(4,429)	(2,550)
Historical cost loss retained	(4,201)	(2,615)

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

LITHGOWS LIMITED

STATEMENT OF GROUP RETAINED RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Profit and loss account £'000	Reval-uation surplus £'000	Other reserves £'000	Capital redemption reserves £'000	Total reserves £'000	Called-up share capital £'000	Total share-holders funds £'000
At January 1, 2001	4,405	3,431	130	325	8,291	1,354	9,645
Movements in 2001:							
Amortisation of revaluation surplus	27	(27)	-	-	-	-	-
Transfer	130	-	(130)	-	-	-	-
Exchange differences							
- joint venture	(40)	-	-	-	(40)	-	(40)
- other	(393)	-	-	-	(393)	-	(393)
Loss for the year	(2,645)	-	-	-	(2,645)	-	(2,645)
At December 31, 2001	1,484	3,404	-	325	5,213	1,354	6,567
Movements in 2002:							
Amortising of revaluation of surplus	27	(27)	-	-	-	-	-
Unrealised surplus on revaluation of assets	-	3,484	-	-	3,484	-	3,484
Exchange differences							
- joint venture	(173)	-	-	-	(173)	-	(173)
- other	(7)	(18)	-	-	(25)	-	(25)
Reclassification	404	(404)	-	-	-	-	-
Loss for the year	(4,235)	-	-	-	(4,235)	-	(4,235)
At December 31, 2002	(2,500)	6,439	-	325	4,264	1,354	5,618

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

LITHGOWS LIMITED
GROUP BALANCE SHEET AT DECEMBER 31, 2002

	Notes		2002	2001
Fixed assets:		£'000	£'000	£'000
Tangible assets	8	14,870		12,456
Investments:	9			
Joint venture		1,197		1,180
Unlisted investments		58		58
			16,125	13,694
Current assets:				
Stocks and work-in-progress	10	3,612		3,305
Debtors	11	3,891		4,454
Cash at bank and in hand		268		385
		7,771		8,144
Creditors: amounts falling due within one year	12	(15,168)		(12,677)
Net current liabilities			(7,397)	(4,533)
Total assets less current liabilities			8,728	9,161
Creditors: amounts falling due after more than one year	13		(2,033)	(1,275)
Minority interests (including non equity interests)	17		(111)	(376)
Accruals and deferred income:				
Deferred grants			(966)	(943)
			5,618	6,567
Capital and reserves:				
Called up share capital	18		1,354	1,354
Reserves			4,264	5,213
			5,618	6,567
Analysis of shareholders' funds:				
Equity			4,968	5,917
Non equity			650	650

J.F. LITHGOW) James F. Lithgow
) Directors
H.M. CURRIE) Hugh M. Currie.

December 15, 2003

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

LITHGOWS LIMITED
COMPANY BALANCE SHEET AT DECEMBER 31, 2002

	Notes	£'000	2002 £'000	2001 £'000
Fixed assets:				
Tangible assets	8	90		115
Investments:	9			
Subsidiary undertakings		6,935		10,304
Unlisted investments		50		50
			7,075	10,469
Current assets:				
Debtors	11	369		424
Cash at bank and in hand		41		79
		410		503
Creditors: amounts falling due within one year	12	(7,376)		(7,607)
Net current liabilities			(6,966)	(7,104)
Total assets less current liabilities			109	3,365
Creditors: amounts falling due after more than one year	13		(28)	(5)
			81	3,360
Capital and reserves:				
Called up share capital	18		1,354	1,354
Capital redemption reserve			325	325
Profit and loss account			(1,598)	1,681
			81	3,360
Analysis of shareholders' funds:				
Equity			(569)	2,710
Non equity			650	650

J.F. LITHGOW James F. Lithgow
) Directors
H.M. CURRIE Hugh M. Currie

December 15, 2003

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

LITHGOWS LIMITED

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2002

	Notes	2002 £'000	2001 £'000
Net cash outflow from operating activities	19	(1,415)	(177)
Returns on investments and servicing of finance			
Interest received		42	126
Interest paid		(387)	(403)
Finance lease interest paid		(29)	(39)
Non equity dividends paid		(9)	(14)
Loan interest paid		(191)	(127)
Net cash outflow from returns on investment and servicing of finance		(574)	(457)
Tax received		1	-
Capital expenditure and financial investment			
Purchase of fixed assets		(2,054)	(1,060)
Sale of fixed assets		1,621	71
Receipt of grant		123	9
Investment in joint venture		-	(348)
Net cash outflow from capital expenditure and financial investment		(310)	(1,328)
Financing			
Repayment of borrowings		(300)	(352)
Capital element of finance lease rentals		(193)	(247)
Inception of bank loan		1,050	400
Net cash outflow from financing	20	557	(199)
Decrease in cash	21	(1,741)	(2,161)

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

LITHGOWS LIMITED

ACCOUNTING POLICIES

The financial statements are prepared in accordance with the historical cost convention, modified to include the revaluation of certain tangible fixed assets, and in accordance with applicable accounting standards.

The principal accounting policies of the Group have remained unchanged from the previous year, apart from the Group's compliance with Financial Reporting Standard 19, Deferred Taxation. Under this Standard, Deferred Taxation is provided on a full provision basis whereas previously Deferred Taxation was only provided to the extent that it was probable a liability would crystallise. As a consequence of taxation losses, compliance with this Standard has no impact on the Group's Financial Statements for 2002 or 2001.

Basis of preparation

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue in operational existence for the foreseeable future. There are material uncertainties that the directors have had to consider in deciding to prepare the financial statements on this basis, and these are set out below.

The company meets its day-to-day working capital requirements by participating in an overdraft facility arrangement for the Lithgows Limited Group, and by receipt of ongoing support from the Lithgows Limited shareholders. As at the date of signing these financial statements, the company is in discussions regarding the nature and extent of its ongoing overdraft facility arrangements with its bankers. The overdraft facility is repayable on demand. The company is dependent on the Group's bankers and its shareholders continuing to support the Group as a going concern.

The directors have recently prepared forecasts that show the Group's working capital requirements for the 12 months from the date of their approval of these financial statements, and in outline thereafter. These forecasts include a number of arrangements and transactions with third parties that would result in cash injections to the Group, significantly reducing the indebtedness of the Group. Negotiations in respect of these arrangements and transactions are at an advanced stage, and the directors expect to conclude these negotiations successfully in the near future.

The successful conclusion of these transactions and arrangements will require a further review of the nature and extent of the bank funding provided to the Group. The directors have initiated discussions on this, with a view to agreeing facilities that will be sufficient and appropriately structured to meet the ongoing requirements of the businesses within the Group.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

Basis of preparation
(continued)

Whilst there can be no certainty that the Group will achieve its forecasts, the directors consider that the Group will continue to have bank and shareholder support, and that they will be able to negotiate sufficient banking facilities which will enable the Group to operate satisfactorily. Accordingly, the directors believe that the business is able to meet its liabilities as they fall due, and therefore consider that it is appropriate to prepare the financial statements on a going concern basis.

If the arrangements and transactions with third parties are not satisfactorily concluded, if adequate revised banking facilities are not negotiated or if the shareholders withdraw their support, the going concern basis would no longer be appropriate. The financial statements do not include any adjustments that would result from these revised circumstances.

Basis of consolidation

The Group financial statements incorporate the results for the year, the state of affairs and the cash flow of the company and all its subsidiary undertakings. No profit and loss account is presented for the parent company, Lithgows Limited, as provided by S.230 of the Companies Act 1985.

Entities in which the Group holds an interest on a long term basis and which are jointly controlled by the Group and one or more other venturers under a contractual arrangement are treated as joint ventures. In the Group financial statements, joint ventures are accounted for using the gross equity method.

The Group's share of the results of joint ventures is shown in the profit and loss account.

Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable assets.

Goodwill is capitalised and is amortised on a straight line basis over its useful economic life. Goodwill first accounted for in accounting periods ending before December 23, 1998, the implementation date of FRS10, was eliminated from the financial statements by immediate write off against reserves. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

Depreciation

Tangible fixed assets are stated at cost or valuation less depreciation. Depreciation is calculated to write off the cost or valuation of each fixed asset other than land, by equal annual instalments over the estimated useful life. The rates most widely used are:-

Freehold property	-	2%
Leasehold property	-	shorter of 2½% or over life of lease
Freehold slipways and jetties	-	2% - 2½%
Plant, machinery, fixtures and fittings	-	4% - 20%
Motor vehicles	-	20% - 25%
Office equipment	-	15%
Computer hardware	-	25%
Computer software	-	50%

The carrying values of tangible fixed assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks and work-in-progress

Stocks and work-in-progress are valued at the lower of cost and net realisable value. Cost includes materials, labour and, where appropriate, a proportion of production overheads based on normal levels of activity. Net realisable value is defined as the estimated selling price less future costs to completion and expenses of marketing and distribution.

Payments received and receivable to account of work-in-progress are deducted from the cost or net realisable value.

Payments to account in excess of costs to date of work-in-progress are included in creditors.

Long-term contracts

Profit on long-term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year-end, by recording turnover and related costs, as defined in stocks and work-in-progress above, as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance date.

Grants

Grants in respect of capital expenditure are credited to a deferred credit account and released to profit and loss account over the expected useful life of the assets to which they relate. Revenue grants are released to profit over the life of the project to which they related.

Foreign currencies

Transactions in foreign currencies during the year are converted into sterling at the rates ruling at the dates of the transactions. Assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Unrealised gains and losses on translation of the assets, liabilities, profits and reserves of the overseas subsidiaries and joint venture are dealt with as reserve movements, and other exchange differences are taken to the profit and loss account.

Leasing and hire purchase commitments

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease terms and their useful lives.

The interest element of the contractual obligations is charged to profit and loss account over the period of the lease and approximates to a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to profit and loss account on a straight line basis over the terms of the lease.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

Pensions

The company participates in The Lithgows Limited Pension Scheme which requires contributions to be made to a separately administered fund. Contributions to the fund are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The regular cost is attributed to individual years using the projected unit credit method. Variations in pension cost, which are identified as a result of actuarial valuations, are amortised over the average expected working lives of employees in proportion to their expected payroll costs. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet.

Research and development

Expenditure is charged to the profit and loss account in the period in which it is incurred.

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

1. Group turnover

Turnover represents the invoiced amount of goods sold and services provided during the year, stated net of value added tax, together with the value of work completed in respect of long-term contracts in progress at the year end. The turnover is attributable to the following activities:-

	2002	2001
	£'000	£'000
Marine	1,889	3,695
Engineering	7,441	7,583
Aquaculture	4,241	6,044
Others	227	149
	13,798	17,471
Discontinued activity – Marine	4,589	5,092
	18,387	22,563
Share of joint venture's turnover		
Aquaculture	1,160	1,047
	19,547	23,610

Analysis of turnover by geographical area:

	2002	2001
	£'000	£'000
U.K.	16,042	20,826
E.U.	504	703
Other Europe	3	13
U.S.A. and Canada	611	447
Asia and Australasia	238	251
South America	756	271
Africa	22	52
Middle East	211	-
	18,387	22,563
Share of joint venture's turnover		
South America	1,160	1,047
	19,547	23,610

2. Cost of sales/other operating income and charges

	2002 Continuing £'000	2002 Discontinued £'000	2002 Total £'000	2001 Continuing £'000	2001 Discontinued £'000	2001 Total £'000
Cost of sales:						
Cost of sales	11,399	4,297	15,696	13,633	4,417	18,050
Exceptional losses	225	-	225	1,500	-	1,500
Impairment to fixed assets	500	-	500	-	-	-
Total cost of sales	12,124	4,297	16,421	15,133	4,417	19,550
Other operating income and charges:						
Distribution costs	524	-	524	434	-	434
Administrative costs	4,771	852	5,623	4,808	639	5,447
Other operating income	(305)	(22)	(327)	(148)	(28)	(176)
	4,990	830	5,820	5,094	611	5,705

The exceptional losses are in respect of provisions against the net realisable value of certain stock.

3. Operating loss

(a) This is stated after charging and crediting the following items:

	2002 £'000	2001 £'000
Items charged:		
Auditors' remuneration – audit services	53	60
Auditors' remuneration – non-audit services	22	15
Depreciation of owned assets	956	910
Depreciation of assets held under finance leases and hire purchase contracts	358	343
Hire of plant	92	94
Operating lease rentals – plant and machinery	88	50
Operating lease rentals – land and buildings	337	327
Items credited:		
Net rental income	8	8
Release from deferred grants	100	87
Gain on disposal of fixed assets	218	48

3. Operating loss *(continued)*

(b) Directors' emoluments

	2002 £'000	2001 £'000
Aggregate emoluments	368	390

During the year, 4 directors (2001 – 4 directors) participated in defined benefit pension schemes.

The emoluments of the highest paid director were £116,355 (2001 - £116,282). The highest paid director's accrued pension at the year-end was £65,676 (2001 - £62,627).

4. Staff costs

	2002 £'000	2001 £'000
Wages and salaries	6,564	6,614
Social security costs	518	556
Other pensions costs	583	627
	7,665	7,797

The average weekly number of employees during the year was made up as follows:-

	2002 No.	2001 No.
Marine	158	157
Engineering	102	109
Aquaculture	28	28
Others	17	18
	305	312

Included in the above average weekly number of employees within the Marine sector were 100 people (2001 – 97) who were employed by Malakoff & Wm Moore Limited, which was placed into receivership on January 24, 2003.

5. Net interest

	2002 £'000	2001 £'000
Bank loans and overdrafts	(578)	(530)
Finance charges payable under finance leases and hire purchase contracts	(29)	(39)
	(607)	(569)
Bank deposit interest received	21	77
Other interest receivable	21	49
	(565)	(443)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

6. Taxation

	2002 £'000	2001 £'000
The taxation charge for the year represents:		
Share of tax on joint venture's profits	37	87

7. Dividends

	2002 £'000	2001 £'000
Equity interests:		
Preferred ordinary dividend – 1st interim proposed £nil per share (2001 - £14)	-	9

8. Tangible fixed assets

Company	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Cost or valuation:			
At January 1, 2002	331	400	731
Additions	-	6	6
Disposals	-	(110)	(110)
At December 31, 2002	331	296	627
Depreciation			
At January 1, 2002	263	353	616
Charge for the year	2	29	31
Disposals	-	(110)	(110)
At December 31, 2002	265	272	537
Net book value:			
At January 1, 2002	68	47	115
At December 31, 2002	66	24	90

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

8. Tangible fixed assets
(continued)

Group	Freehold property £'000	Other freehold property £'000	Long leasehold property £'000	Short leasehold property £'000	Machinery plant vehicles and fittings £'000	Freehold slipways and jetties £'000	Total £'000
Cost or valuation:							
At January 1, 2002	8,242	-	328	249	17,588	261	26,668
Additions	109	-	-	2	2,040	17	2,168
Disposals	(1,437)	-	-	-	(620)	-	(2,057)
Exchange difference	(20)	-	-	-	(2)	-	(22)
Reclassification	(62)	66	-	-	(4)	-	-
Surplus on revaluation	-	3,484	-	-	-	-	3,484
At December 31, 2002	6,832	3,550	328	251	19,002	278	30,241
Depreciation:							
At January 1, 2002	1,761	-	72	128	12,148	103	14,212
Charge for the year	126	-	21	12	1,129	26	1,314
Disposals	(216)	-	-	-	(438)	-	(654)
Impairment losses	-	-	-	-	500	-	500
Exchange difference	-	-	-	-	(1)	-	(1)
Reclassification	1	-	-	-	(1)	-	-
At December 31, 2002	1,672	-	93	140	13,337	129	15,371
Net book value:							
At January 1, 2002	6,481	-	256	121	5,440	158	12,456
At December 31, 2002	5,160	3,550	235	111	5,665	149	14,870
Cost or valuation at December 31, 2002, comprises:							
Cost	2,983	-	328	251	19,002	113	22,677
Valuation in 1983	279	-	-	-	-	-	279
Valuation in 1984	308	-	-	-	-	-	308
Valuation in 1985	305	-	-	-	-	165	470
Valuation in 1991	63	-	-	-	-	-	63
Valuation in 1999	2,894	-	-	-	-	-	2,894
Valuation in 2002	-	3,550	-	-	-	-	3,550
	6,832	3,550	328	251	19,002	278	30,241

8. Tangible fixed assets
(continued)

The other freehold property, which represents 20 acres of former industrial land owned by A. Kenneth & Sons Limited now re-zoned by the Local Authority for residential development, and marketed for resale is now regarded as a separate class of asset. On this basis it has been revalued by the directors at December 31, 2002 taking into account the market value at that time.

The remaining freehold properties continue to be included in the financial statements in terms of the transitional rules of FRS15 reflecting their book values on implementation of this standard.

Included within the above freehold property figures at valuation is a total of £535,000 in respect of other Brownfield sites owned by A. Kenneth & Sons Limited. The directors are of the view that the current market value of these sites is significantly in excess of the above carrying values.

Within the above total net book value of tangible assets is the sum of £2,740,000 in respect of assets held by Malakoff & Wm. Moore Limited (see note 26).

8. Tangible fixed assets
(continued)

The historical cost and net book value for each category included at valuation is:

	Freehold property £'000	Freehold slipways and jetties £'000	Total £'000
Historical cost:			
At January 1, 2002	631	102	733
Exchange difference	(2)	-	(2)
At December 31, 2002	629	102	731
Depreciation based on cost:			
At January 1, 2002	133	58	191
Charge for the year	2	3	5
Exchange difference	(1)	-	(1)
At December 31, 2002	134	61	195
Net historical cost value:			
At January 1, 2002	498	44	542
At December 31, 2002	495	41	536

Included in the amounts for machinery, plant, vehicles and fittings above are the following amounts relating to leased assets and assets acquired under finance leases and hire purchase contracts.

	Company £'000	Group £'000
Net book value:		
At January 1, 2002	5	677
At December 31, 2002	9	618

9. Investments

(a) Subsidiary undertakings:

Company

	2002 £'000	2001 £'000
Investment in subsidiary undertakings comprises:		
Cost	8,283	9,561
Amounts written off	(2,631)	(2,344)
Amounts due by subsidiaries, less provisions	3,977	6,439
Amounts due to subsidiaries	(2,694)	(3,352)
Net book value	6,935	10,304

At December 31, 2002, the company had beneficial interests directly or indirectly (*) in the ordinary share capital of the undernoted principal operating subsidiary undertakings. All are registered in Scotland unless otherwise stated and all are 100% owned with the exception of Malakoff & Wm. Moore Limited which is 55% owned, and Knapdale Shipping (Campbeltown) Limited which is 60% owned. Companies not audited by the parent company auditors are indicated by (†).

Nature of Business	Company
Marine:	Buckie Shipyard Limited Malakoff & Wm. Moore Limited
Engineering:	Prosper Engineering Limited Prosper Fasteners Inc* (incorporated in USA)† Prosper Limitada* (incorporated in Brazil)†
Aquaculture:	Clachbreck Fish Farms* Cruive Limited Cruive III Limited* Inver Lochs Limited* Knapdale Shipping (Campbeltown) Limited Landcatch Limited McKinlay & Blair Limited Ormsary Fish Farms Limited* The Marine Resource Centre Limited MRC Energy Limited*
Primary Production:	Lithgows Pty Limited (incorporated in Australia)
Building Products:	A. Kenneth & Sons Limited
Finance:	Inver Salmon Limited Lithgow Factoring Limited

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

9. Investments
(continued)

(b) Interest in joint venture

At December 31, 2002 the Group had an interest in the following joint venture:

Joint venture	Country of incorporation	Class of share capital held	Proportion held by Group	Nature of business
Landcatch Chile Limitada	Chile	Ordinary shares	50%	Fish farming

	Group £'000
At January 1, 2002	1,180
Share of profit retained by joint venture	190
Exchange difference	(173)
At December 31, 2002	1,197
The Group's share in its joint venture comprises:	
Fixed assets	1,020
Current assets	860
Gross assets	1,880
Liabilities due within one year	537
Liabilities due after more than one year	146
Gross liabilities	683
Net assets	1,197
Turnover	1,160
Profit before tax	227
Taxation	(37)
Profit after taxation	190

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

9. Investments
(continued)

(c) Associated undertakings

The investment in associated undertakings, all of which are unlisted, comprises:

	Company £'000	Group £'000
Cost:		
At January 1, 2002 and December 31, 2002	-	75
Amounts written off:		
At January 1, 2002 and December 31, 2002	-	75
Net book value:		
At January 1, 2002 and December 31, 2002	-	-

(d) Unlisted investments

Unlisted investments comprise:	Company £'000	Group £'000
Cost:		
At January 1, 2002 and December 31, 2002	94	199
Amounts written off:		
At January 1, 2002 and December 31, 2002	44	141
Net book value:		
At January 1, 2002 and December 31, 2002	50	58

10. Stocks and work-in-progress

	Group	
	2002 £'000	2001 £'000
Raw material and consumables	674	906
Work-in-progress	692	615
Work-in-progress payments received on account	-	(27)
Finished goods and goods for resale	233	468
Livestock	2,013	1,343
	3,612	3,305

11. Debtors

	Company		Group	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Trade debtors	23	41	2,276	2,923
Other debtors	214	152	1,176	970
Prepayments and accrued income	69	211	419	540
Corporation tax	20	20	20	21
Finance lease debtor	43	-	-	-
	369	424	3,891	4,454

The amount of £28,000 in respect of the Finance Lease debtor is due outwith one year.

12. Creditors: amounts falling due within one year

	Company		Group	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Bank overdrafts	6,312	6,855	8,438	6,814
Current instalments due on loans (note 14)	-	-	239	328
Obligations under finance lease and hire purchase contracts (notes 15)	20	8	160	158
Trade creditors	111	106	3,344	2,578
Other taxes and social security costs	23	25	286	343
Other creditors	329	247	1,013	684
Pension contributions	440	47	470	297
Proposed dividend	-	9	-	9
Accruals	141	310	1,161	1,354
Payments to account	-	-	57	112
	7,376	7,607	15,168	12,677

13. Creditors: amounts falling due after more than one year

	Company		Group	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Loans (note 14)	-	-	1,892	1,053
Obligations under finance leases and hire purchase contracts (note 15)	28	5	141	222
	28	5	2,033	1,275

14. Loans

	Group 2002 £'000	Group 2001 £'000
Loans are repayable as follows:		
Not wholly repayable within five years	2,058	1,161
Wholly repayable within five years	73	220
	2,131	1,381
Instalments due:		
After five years	743	276
Between two and five years	850	552
Between one and two years	299	225
	1,892	1,053
Within one year (note 12)	239	328
	2,131	1,381
Details of loans not wholly repayable within five years are as follows:-		
Loan repayable in monthly instalments of £7,812.50 commencing January 2004, secured by a mortgage on a vessel and a second ranking floating charge over the assets of the subsidiary to whom the loan has been provided. Interest fixed at 7.5%	750	-
Loan repayable in monthly instalments of £3,125 commencing February 2004, secured by a second ranking mortgage on a vessel and a third ranking floating charge over the assets of the subsidiary to whom the loan has been provided. Interest is 1.5% above the Bank's base rate	300	-
Loan repayable in six monthly instalments of £47,500 commencing April 1998, secured by a mortgage on a vessel and supplemental Deed of Covenant. Interest is 7.5% for the period to April 2005 and thereafter at 8.08%	694	789
Loan repayable in monthly instalments of £4,762 commencing June 2001, secured by a floating charge over the whole assets the recipient subsidiary. Interest is 1.75% above the Bank's base rate	314	372
	2,058	1,161
Details of loans wholly repayable within five years as follows:		
10½% loan repayable in quarterly instalments of £15,860, including interest, commencing June 1994, secured by a mortgage on a vessel	73	125
7½% loan repayable in six monthly instalments of £47,429 commencing January 1996, secured by a mortgage on a vessel and supplemental Deed of Covenant	-	95
	2,131	1,381

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

14. Loans *(continued)*	2002 £'000	2001 £'000
Analysis of changes in loan financing:		
At January 1	1,381	1,333
New contracts	1,050	400
Capital element of repayments	(300)	(352)
At December 31	2,131	1,381

The above figures include the full liability of loans which have been advanced to subsidiary companies with sizeable external minority shareholdings. There is an outstanding loan of £693,500 which is a liability of Knapdale Shipping (Campbeltown) Limited, in which there is a 40% minority interest, and further outstanding loans totalling £1,050,000 which are liabilities of Malakoff & Wm. Moore, in which there is a 45% minority interest. The total minority interest share of the above outstanding loans is £750,000 (2001 - £316,000).

15. Obligations under leases and hire purchase contracts

	Company		Group	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Amounts due within one year	24	9	182	183
Amounts due within two to five years	30	5	145	240
	54	14	327	423
Less finance charges allocated to future periods	(6)	(1)	(26)	(43)
	48	13	301	380
The above shown as:				
Current obligations (note 12)	20	8	160	158
Non-current obligations (note 13)	28	5	141	222
	48	13	301	380

15. Obligations under leases and hire purchase contracts
(continued)

	Group	
	2002	2001
	£'000	£'000
Analysis of changes:		
At January 1	380	425
New contracts	114	202
Capital element of repayments	(193)	(247)
At December 31	301	380

Annual commitments under non cancellable operating leases:

	Land and buildings		Other	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Leases which expire:				
Within one year	50	53	22	29
Within the second to fifth years inclusive	28	28	43	21
Over five years	265	246	-	-
	343	327	65	50

16. Deferred taxation

There are potential deferred tax assets within both the Group and Company as a consequence of accelerated capital allowances, other timing differences and taxation losses carried forward.

17. Minority interests

	2002 £'000	2001 £'000
At January 1	376	407
Minority interest share of losses	(265)	(31)
At December 31 – equity interest	111	376

18. Share capital

	2002 £'000	2001 £'000
Authorised:		
Equity interests		
9,346 ordinary shares of £100 each (2001:9,346)	935	935
654 preferred ordinary shares of £100 each (2001:654)	65	65
Non equity interests		
1,000,000 7.5% preference shares of £1 each (2001:1,000,000)	1,000	1,000
	2,000	2,000
Allotted, issued and fully paid:		
Equity interests		
6,390 ordinary shares of £100 each (2001:6,390)	639	639
654 preferred ordinary shares of £100 each (2001:654)	65	65
Non equity interests		
650,000 7.5% preference shares of £1 each (2001: 650,000)	650	650
	1,354	1,354

The preferred ordinary shares are non-voting shares, but have rights to be paid out of the distributable profits of each financial year in preference to any dividend on the ordinary shares of the company, but after payment of the dividend on the preference shares. In the event of a winding up, the holders of the ordinary shares and the holders of the preferred ordinary shares shall rank *pari passu*.

The preference shares are non-voting and non-convertible and have no rights to share in dividends other than the fixed 7.5% dividend which is non-cumulative. The shares are redeemable at the option of the holder at any time, subject to the holder providing the company one month's notice in writing of his intention to redeem. In the event of a winding up, the holders of the preference shares shall rank ahead of the holders of the ordinary shares and the preferred ordinary shares, but only to the extent of being repaid at par.

19. Net cash outflow from operating activities

	2002 £'000	2001 £'000
Operating loss	(4,125)	(2,692)
Gain on disposal of fixed assets	(218)	(48)
Depreciation	1,314	1,253
Impairment of assets	*500*	-
(Increase)decrease in stocks	(308)	1,586
Decrease/(increase) in debtors	562	(408)
Increase in creditors	963	253
Release from deferred grants	(100)	(87)
Exchange rate movement	(3)	(34)
Net cash outflow from operating activities	(1,415)	(177)

20. Reconciliation of net cash flow to movement in net debt

	2002 £'000	2001 £'000
Decrease in cash in the year	(1,738)	(2,127)
Inception of loan	(1,050)	(400)
Cash outflow from loans	300	352
Cash outflow from finance leases	193	247
Change in net debt resulting from cash flows	(2,295)	(1,928)
Inception of finance leases	(114)	(202)
Exchange difference	(3)	(34)
Movement in net debt in the year	(2,412)	(2,164)
Net debt at January 1	(8,190)	(6,026)
Net debt at December 31	(10,602)	(8,190)

The share of net debt attributable to minority interests at December 31, 2002 was £1,114,000 (2001 - £622,000).

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

21. Analysis of change in net debt

	At Jan 1 2002 £'000	Cash flow £'000	Non cash items £'000	Exchange difference £'000	At Dec 31 2002 £'000
Cash in hand and at bank	385	(114)	-	(3)	268
Overdrafts	(6,814)	(1,624)	-	-	(8,438)
	(6,429)	(1,738)	-	(3)	(8,170)
Debt	(1,381)	(750)	-	-	(2,131)
Finance leases	(380)	193	(114)	-	(301)
	(8,190)	(2,295)	(114)	(3)	(10,602)

22. Related parties

During the year companies within the Group were involved in contracts with Ormsary Farmers and Inver Farmers. Sir William Lithgow, a shareholder and director of the parent company, holds an interest in both these partnerships and James Lithgow, also a shareholder and director of the parent company, holds an interest in the Ormsary Farmers partnership. These contracts were on an arm's length basis and were in respect of the provision of services by Ormsary Farmers and Inver Farmers to rear fish stocks at Ormsary, Argyll, the provision by Ormsary Farmers of consultancy services, and the provision of electrical contracting and labour to Ormsary Farmers and Inver Farmers.

Landcatch Limited provided services in the provision of production support and technical know-how to its joint venture entity, Landcatch Chile Limitada.

Details of the values of these services supplied during the financial year and the balances outstanding at the balance sheet date are shown below:-

	2002	2001
	£'000	£'000
Value of services provided in financial year:		
Provision of electrical contracting services to Ormsary Farmers	9	10
Provision of labour to Ormsary Farmers	1	8
Provision of electrical contracting services to Inver Farmers	14	6
Provision of services to Landcatch Chile Limitada	342	70
Provision of services by Ormsary Farmers to rear fish stocks	1,746	1,917
Provision of consultancy services by Ormsary Farmers	5	7
Provision of services by Inver Farmers to rear fish stocks	208	248
Amounts outstanding at December 31:		
Due by Ormsary Farmers	4	-
Due by Inver Farmers	2	-
Due to Ormsary Farmers	250	257
Due to Inver Farmers	58	60

During the year, feu dispositions were entered into with Ormsary Farmers and Inver Farmers, whereby sites, buildings and fixed plant were transferred by Group companies. Proceeds of these disposals totalled £1,593,000, and were in line with suitable independent external valuations. A gain on sale of £194,000 was recorded on these transfers.

23. Capital commitments

	Company		Group	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	-	-	81	887

24. Contingent liabilities

There were no contingent liabilities at either December 31, 2002 or December 31, 2001.

25. Guarantees and financial commitments

Arrangements were effected in the course of 2002 whereby the company's bank overdraft is secured by a floating charge over certain assets of the Group. In addition, cross guarantees exist between the various companies within the Lithgows Limited Group in respect of bank facilities. At December 31, 2002 borrowings in respect of these charges and cross guarantees amounted to £7,690,000.

The Parent Company has also provided a guarantee in respect of loans advanced to a subsidiary company. As at December 31, 2002 the loan covered by this guarantee was £314,000.

26. Malakoff & Wm. Moore Limited (in receivership)

In January 2003, following further disappointing trading, Malakoff & Wm. Moore Limited, in which the Group held a 55% shareholding, went into receivership. The full impact of the trading losses up until the date of receivership has been reflected within these financial statements and has been separately disclosed as pertaining to a discontinued activity.

In addition to these trading losses, the Group has suffered further losses as a consequence of the receivership, and these losses have been separately disclosed as an Exceptional Item in the Profit and Loss Account. The losses are in respect of the write off of the net asset value of Malakoff & Wm. Moore Limited and sums due to the parent company by Malakoff & Wm. Moore Limited which are deemed to be irrecoverable. An analysis of the total charge is as follows:-

	£'000
Net assets written off:	
Tangible fixed assets	2,740
Cash	1
Debtors	437
Stocks and work in progress	377
Bank overdraft	(747)
Creditors	(1,271)
H.P. instalments	(63)
Loans	(1,050)
Deferred grants	(253)
	171
Provision against irrecoverable debts	100
Total exceptional charge	271

27. *Pension commitments*

The Group operates a defined benefit scheme, The Lithgows Limited Pension Scheme. The assets of the scheme are held separately from those of the Group, being managed by independent fund managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the Group. The contributions are determined by a qualified actuary on the basis of regular valuations, the most recent of which was at April 5, 2001. The valuation used the projected unit method. The principal assumptions used in the valuation were an investment return of 2.5% per annum higher than the rate of increase in pensionable salaries (3% for hourly paid members) and 1.7% higher than the rate of dividend growth.

The most recent actuarial valuation showed that the market value of the scheme's assets was £16,148,000, and that the actuarial value of those assets represented 90% of the benefits that had accrued to members after allowing for expected future increases in pensionable salaries.

The pension charge for the year was £579,921 (2001 - £627,340), including a further charge of £178,000 as a result of the amortisation of the deficiency. This deficiency is being eliminated by April 2016 by amending the current contribution rates from 18.5% to 23% of pensionable salaries for staff members and from 14.5% to 19.5% for hourly paid members, in line with the recommendations of the scheme's actuary.

The pension cost figures used in these financial statements comply with the current pension cost accounting standard SSAP24. The major assumptions used by the actuary were:-

	At December 31, 2002
Rate of increase in salaries	
Staff/executives	4.0%
Hourly-paid members	3.5%
Rate in increase in deferred pensions	2.5%
Rate of increase in pensions in payment	
Staff/executives*	3.25%
Hourly-paid members*	2.5%
Discount rate	
Pre retirement	6.5%
Post retirement	5.5%
Inflation	2.5%

* Post April 6, 1997 pensions

A new pension cost accounting standard, FRS17, must be used for the figures that will be shown in the financial statements at December 31, 2005 and subsequent years. Under transitional arrangements the Group is required to disclose for illustrative purposes the following information about the scheme and the figures that would have been shown under FRS17 in the current balance sheet. These figures do not impact on the Financial Statements.

27. Pension commitments (continued)

The directors have obtained the information required under FRS17 from the scheme's actuary based on the full actuarial valuation carried out at April 5, 2001, updated to December 31, 2002. The major assumptions used by the actuary were:

	December 31 2002	December 31 2001
Rate of increase in salaries		
Staff/executives	3.75%	4.00%
Hourly-paid members	3.25%	3.50%
Rate of increase of pensions in payment		
Staff/executives (future service)	3.00%	3.25%
Hourly-paid members (future service)	2.25%	2.50%
Discount rate	5.50%	5.75%
Inflation assumption	2.25%	2.50%

The assets in the scheme and the expected rate of return were:

	December 31 2002	December 31 2002 £'000	December 31 2001	December 31 2001 £'000
Equities	7.0%	9,334	7.5%	10,713
Bonds	4.0%	3,834	4.5%	4,797
Property	7.0%	524	7.5%	479
Total market value of assets		13,692		15,989
Actuarial value of liability		(20,983)		(19,555)
Deficit in the scheme		(7,291)		(3,566)
Related deferred tax asset		-		-
Net pension liability		(7,291)		(3,566)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

27. Pension commitments (continued)

Movement in deficit during the year

	December 31 2002 £'000
Deficit in scheme at beginning of year	(3,566)
Movement in year:	
Current service cost	(482)
Contributions	476
Past service costs	-
Net return on assets/(interest cost)	(69)
Actuarial	(3,650)
Deficit in scheme at end of year	(7,291)

The actuarial valuation at December 31, 2002 showed an increase in the deficit from £3,566,000 to £7,291,000. There were no improvements in benefits made in 2002. Company contributions were £476,000 (equivalent to 12.3% of pensionable pay). It has been agreed with the trustees that contributions will be paid at the rates of 15% (staff/executives) and 12.5% (hourly-paid members) of pensionable salaries during 2003.

History of experience gains and losses	Year to December 31 2002
Difference between expected and actual return on scheme assets:	
Amount	(£3,424,000)
Percentage of scheme assets	-25%
Experience gains and losses on scheme liabilities:	
Amount	£237,000
Percentage of scheme liabilities	1%
Total amount recognised in statement of total recognised gains and losses:	
Amount	(£3,650,000)
Percentage of scheme liabilities	-17%

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2002

27. Pension commitments (continued)

On full implementation of the provisions of FRS17, this information will be reflected in the Financial Statements as follows:

(a) Balance sheet presentation

	2002 £'000	2001 £'000
Net assets excluding pension liability	5,618	6,567
Pension liability	(7,291)	(3,566)
Net (liabilities)/assets including pension liability	(1,673)	3,001

(b) Reserves note

	2002 £'000	2001 £'000
Profit & loss reserve excluding pension liability	(2,500)	1,484
Pension reserve	(7,291)	(3,566)
Profit & loss reserve	(9,791)	(2,082)

(c) Analysis of the amount charged to operating profit

	December 31 2002 £'000
Service cost	482
Past service cost	-
Total operating charge	482

(d) Analysis of amounts charged to finance costs

	December 31 2002 £'000
Expected return on pension scheme assets	1,058
Interest on pension liabilities	(1,127)
Net return	(69)

27. Pension commitments (continued)

(e) Analysis of amount recognised in statement of total recognised gains and losses (STRGL)

	December 31 2002 £'000
Actual return less expected return on assets	(3,424)
Experience gains and losses on liabilities	237
Changes in assumptions	(463)
Actuarial loss recognised in STRGL	(3,650)
Adjustment due to surplus cap	-
Net loss recognised	(3,650)