LITHGOWS LIMITED

REPORT AND FINANCIAL STATEMENTS

DECEMBER 31, 2003

SC 10170

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

2003 saw a continuation of the difficult trading conditions experienced by many in the United Kingdom's manufacturing and primary production sectors, and particularly by those involved in salmon farming

The 2003 Financial Statements do however reflect a further uplift in the value of certain redundant brown field sites, which are suitable for property development. Since the year-end, the Group has successfully sold these sites and the site re-valued in the 2002 Financial Statements, and these transactions have generated funds in excess of £12 million into the Group. From the time of the receipt of these funds, the Group has no longer required a formal bank overdraft facility arrangement. A new 50:50 joint venture property development company, Achadonn Limited, has been formed in partnership with Terrace Hill Group Plc., and through this entity we retain an interest in these sites. Other surplus property assets continue to be actively managed to maximise shareholder value over the long term.

The greatest impact on the Group's trading performance in recent years has been the virtual collapse of the UK and Irish salmon farming industry, precipitated by the oversupply and depressed prices for Atlantic salmon within the EU market. Despite the very tough market for smolts, Landcatch were successful in placing all their smolt production throughout 2003 and 2004, albeit at poorer prices and credit terms than can be sustained in the longer term.

This underlines the importance of our family selective breeding programme in Atlantic salmon. Through our separate trading division, Landcatch Natural Selection, we are at the forefront of this technology, delivering progressive and tangible genetic benefits to our egg and smolt customers. This process has continued to accelerate through 2003 and 2004, as the increasing benefits of our breeding programme become more apparent and are recognised.

We continue to concentrate on the delivery of additional customer benefits through added value to egg and smolt products, underpinned by our long-term commitment to research and development. We are presently engaged with a number of leading scientific research institutions in collaborations to enhance our existing breeding technology. The emerging customer awareness and acknowledgement of the differential advantages and benefits of the breeding programme has been enhanced by an extensive international marketing programme, with its aim being to deliver increased value in terms of market price and demand.

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT
(continued)

Prosper Engineering continued to experience difficult trading conditions in 2003 with competitive pressures on pricing, a strong pound and reduced activity in our traditional markets of oil and energy generation. As part of the new management team's long-term strategy, the company has continued the move away from primary manufacture and towards added value service. This restructuring is well advanced, with a rationalisation of overhead structures and locations being effected. Excellent progress has been made through 2004 to access new markets and competitive sources of supply, with the business now recovering strongly and steps well advanced for further growth.

At Buckie Shipyard our strategy to invest in and 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. However, this has come at a cost, with considerable sums of expenditure being incurred on upgrading and improving facilities, as well as the cost of training personnel in order that they have a sufficiently high skill level to undertake the differing types of work that are now being obtained.

MRC Energy profitability has benefited from the further uplift in price for sustainable electricity in 2004. The company is exploring new opportunities for the development of biomass energy on site at Barcaldine in Argyll.

The continued move away from primary production, manufacturing and aquaculture to added value service and technology business has ensured a firm foundation from which to return the Group to profit and cash generation. Having come through another very difficult trading period on many fronts, I am confident the steps taken to refinance and restructure the Group over the last two years will deliver real benefits to the bottom line in the very near future. The non-recurring costs of this restructuring, whilst considerable, have now been taken, with a substantial reduction in overhead throughout 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 13, 2004

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

Netherton
Langbank
Renfrewshire
PA14 6YG

LITHGOWS LIMITED

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended December 31, 2003.

Results and dividends

The Group trading loss for the year after taxation amounted to £5,315,000.

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 27. Comments on the results for the year and on future developments are contained in the Chairman's statement on pages 1 and 2.

Directors and their interests

The directors who served during the year are stated on page 3.

The director who retires from the board by rotation at the next Annual General Meeting is A.W.C. Wishart 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, 2003 and at December 31, 2002.

	Ordinary shares Beneficial interest		7.5% Preference shares Beneficial interest	
	2003	2002	2003	2002
Sir William Lithgow	1,753	1,753	-	-
Lady Lithgow	728	728	-	-
J.F. Lithgow	2,469	2,469	506,000	506,000

No other director at December 31, 2003 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 15.

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.

Auditors

On July 1, 2004 the Grant Thornton partnership transferred its business to a limited liability partnership, Grant Thornton UK LLP. Under Section 26 (5) of the Companies Act 1989, the directors consented to extend the audit appointment to Grant Thornton UK LLP from July 1, 2004.

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

ON BEHALF OF THE BOARD

A.R. Reid

A.R. REID
Secretary

December 13, 2004

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, 2003 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.

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, 2003 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 UK LLP

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Glasgow

December 13, 2004

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2003

	Notes	2003 £'000	2003 £'000	2002 £'000	2002 £'000
TURNOVER					
Group and share of joint venture's turnover			13,891		19,547
Less: share of joint venture's turnover			(898)		(1,160)
Continuing operations		12,993		13,798	
Discontinued operations		-		4,589	
GROUP TURNOVER	1		12,993		18,387
Cost of sales	2		(11,552)		(16,421)
GROSS PROFIT			1,441		1,966
Other operating income and charges	2		(6,102)		(5,820)
OPERATING LOSS	3				
Continuing operations		(4,661)		(3,316)	
Discontinued operations		-		(538)	
			(4,661)		(3,854)
Share of operating (loss)/profit of joint venture			(30)		227
			(4,691)		(3,627)
EXCEPTIONAL ITEMS					
Loss on receivership of subsidiary undertaking	26		-		(271)
			(4,691)		(3,898)
Net interest	5		(603)		(565)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(5,294)		(4,463)
Taxation	6		(21)		(37)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION			(5,315)		(4,500)
Minority interests	17		-		265
LOSS FOR THE FINANCIAL YEAR			(5,315)		(4,235)
Dividends – including non equity interests	7		-		-
LOSS FOR YEAR			(5,315)		(4,235)

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, 2003

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2003 £'000	2002 £'000
Loss for the year	(5,315)	(4,235)
Exchange differences	793	(198)
Revaluation of freehold properties	8,050	3,484
Total recognised gains and losses for the year	3,528	(949)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2003 £'000	2002 £'000
Reported loss on ordinary activities before taxation	(5,294)	(4,463)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	11	34
Historical cost loss on ordinary activities before taxation	(5,283)	(4,429)
Historical cost loss retained	(5,304)	(4,201)

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	Capital redemption reserves £'000	Total reserves £'000	Called-up share capital £'000	Total share-holders funds £'000
At January 1, 2002	1,484	3,404	325	5,213	1,354	6,567
Movements in 2002:						
Amortisation of revaluation surplus	27	(27)	-	-	-	-
Unrealised surplus on revaluation of assets	-	3,484	-	3,484	-	3,484
Reclassification	404	(404)	-	-	-	-
Exchange differences						
- joint venture	(173)	-	-	(173)	-	(173)
- other	(7)	(18)	-	(25)	-	(25)
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
Movements in 2003:						
Amortisation of revaluation surplus	4	(4)	-	-	-	-
Unrealised surplus on revaluation of assets	-	8,050	-	8,050	-	8,050
Exchange differences						
- joint venture	128	-	-	128	-	128
- other	157	508	-	665	-	665
Reclassification	162	(162)	-	-	-	-
Loss for the year	(5,315)	-	-	(5,315)	-	(5,315)
At December 31, 2003	(7,364)	14,831	325	7,792	1,354	9,146

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

LITHGOWS LIMITED
GROUP BALANCE SHEET AT DECEMBER 31, 2003

	Notes		2003	2002
Fixed assets:		£'000	£'000	£'000
Tangible assets	8	20,410		14,870
Investments:	9			
Joint venture		1,303		1,197
Unlisted investments		57		58
			21,770	16,125
Current assets:				
Stocks and work-in-progress	10	3,442		3,612
Debtors	11	3,141		3,891
Cash at bank and in hand		240		268
		6,823		7,771
Creditors: amounts falling due within one year	12	(17,877)		(15,168)
Net current liabilities			(11,054)	(7,397)
Total assets less current liabilities			10,716	8,728
Creditors: amounts falling due after *more than one year*	13		(777)	(2,033)
Provisions for liabilities and charges Deferred taxation	16		(29)	-
Minority interests (including non equity interests)	17		(111)	(111)
Accruals and deferred income: Deferred grants			(653)	(966)
			9,146	5,618
Capital and reserves:				
Called up share capital	18		1,354	1,354
Reserves			7,792	4,264
			9,146	5,618
Analysis of shareholders' funds:				
Equity			8,496	4,968
Non equity			650	650

J.F. LITHGOW JF Lithgow)
H.M. CURRIE H M. Currie) Directors
December 13, 2004

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

LITHGOWS LIMITED
COMPANY BALANCE SHEET AT DECEMBER 31, 2003

	Notes		2003	2002
		£'000	£'000	£'000
Fixed assets:				
Tangible assets	8	3,628		90
Investments:	9			
Subsidiary undertakings		3,614		6,935
Unlisted investments		50		50
			7,292	7,075
Current assets:				
Debtors	11	207		369
Cash at bank and in hand		41		41
		248		410
Creditors: amounts falling due within one year	12	(12,134)		(7,376)
Net current liabilities			(11,886)	(6,966)
Total assets less current liabilities			(4,594)	109
Creditors: amounts falling due after more than one year	13		(11)	(28)
			(4,605)	81
Capital and reserves:				
Called up share capital	18		1,354	1,354
Capital redemption reserve			325	325
Profit and loss account			(6,284)	(1,598)
			(4,605)	81
Analysis of shareholders' funds:				
Equity			(5,255)	(569)
Non equity			650	650

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

December 13, 2004

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, 2003

	Notes	2003 £'000	2002 £'000
Net cash outflow from operating activities	19	(2,386)	(1,415)
Returns on investments and servicing of finance			
Interest received		10	42
Interest paid		(497)	(387)
Finance lease interest paid		(15)	(29)
Non equity dividends paid		-	(9)
Loan interest paid		(101)	(191)
Net cash outflow from returns on investment and servicing of finance		(603)	(574)
Tax received		-	1
Capital expenditure and financial investment			
Purchase of fixed assets		(488)	(2,054)
Sale of fixed assets		122	1,621
Receipt of grant		-	123
Net cash outflow from capital expenditure and financial investment		(366)	(310)
Financing			
Repayment of borrowings		(213)	(300)
Capital element of finance lease rentals		(115)	(193)
Inception of loans		75	1,050
Net cash (outflow)/inflow from financing	20	(253)	557
Decrease in cash	21	(3,608)	(1,741)

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.

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 some uncertainties that the directors have had to consider in deciding to prepare the financial statements on this basis, and these are set out below.

Since the year-end, the Group has successfully disposed of a number of redundant brownfield sites. These transactions have generated funds in excess of £12 million into the Group, and from the time of the receipt of these funds, the Group has no longer had a formal overdraft facility arrangement in place with its bankers.

However, to meet its day-to-day working capital requirements, the company and the Group require the ongoing support from the Lithgows Limited shareholders. As at the date of signing these financial statements, the directors of the company recognise that the Group remains dependant on its shareholders continuing to support the Group as a going concern, and the shareholders have indicated that the support currently provided will not be withdrawn in the short-term.

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 transactions with third parties that would result in cash injections to the Group, further reducing the indebtedness of the Group and the level of shareholder support required. Negotiations in respect of these transactions are at an advanced stage, and the directors expect to conclude these negotiations successfully in the near future.

Whilst there can be no certainty that the Group will achieve its forecasts, the directors consider that the Group will continue to have adequate shareholder support to enable it to operate satisfactorily for the foreseeable future. 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.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

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.

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%
Other freehold property - land	-	nil
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.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

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.

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.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

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.

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.

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

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, 2003

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:-

	2003	2002
	£'000	£'000
Marine	2,182	1,889
Engineering	6,707	7,441
Aquaculture	3,901	4,241
Others	203	227
	12,993	13,798
Discontinued activity – Marine (note 26)	-	4,589
	12,993	18,387
Share of joint venture's turnover Aquaculture	898	1,160
	13,891	19,547

Analysis of turnover by geographical area:

	2003	2002
	£'000	£'000
U.K.	10,627	16,042
E.U.	1,052	504
Other Europe	12	3
U.S.A. and Canada	547	611
Asia and Australasia	315	238
South America	286	756
Africa	44	22
Middle East	110	211
	12,993	18,387
Share of joint venture's turnover South America	898	1,160
	13,891	19,547

2. Cost of sales/other operating income and charges

	2003 Continuing £'000	2002 Continuing £'000	2002 Discontinued £'000	2002 Total £'000
Cost of sales:				
Cost of sales	10,512	11,399	4,297	15,696
Exceptional losses	1,040	225	-	225
Impairment to fixed assets	-	500	-	500
Total cost of sales	11,552	12,124	4,297	16,421
Other operating income and charges:				
Distribution costs	533	524	-	524
Administrative costs	5,686	4,771	852	5,623
Other operating income	(117)	(305)	(22)	(327)
	6,102	4,990	830	5,820

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:

	2003 £'000	2002 £'000
Items charged:		
Auditors' remuneration – audit services	62	53
Auditors' remuneration – non-audit services	11	22
Depreciation of owned assets	713	956
Depreciation of assets held under finance leases and hire purchase contracts	184	358
Hire of plant	113	92
Operating lease rentals – plant and machinery	54	88
Operating lease rentals – land and buildings	334	337
Items credited:		
Net rental income	9	8
Release from deferred grants	60	100
Gain on disposal of fixed assets	47	218

3. Operating loss *(continued)*

(b) Directors' emoluments

	2003 *£'000*	2002 *£'000*
Aggregate emoluments	349	368

During the year, 4 directors (2002 – 4 directors) participated in defined benefit pension schemes.

The emoluments of the highest paid director were £113,319 (2002 - £116,355). The highest paid director's accrued pension at the year-end was £68,747 (2002 - £65,676).

4. Staff costs

	2003 £'000	2002 £'000
Wages and salaries	4,033	6,564
Social security costs	347	518
Other pensions costs	1,008	583
	5,388	7,665

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

	2003 No.	2002 No.
Marine	61	158
Engineering	102	102
Aquaculture	31	28
Others	18	17
	212	305

Included in the above average weekly number of employees within the Marine sector in 2002 were 100 people who were employed by Malakoff & Wm Moore Limited, which was placed into receivership on January 24, 2003.

5. Net interest

	2003 £'000	2002 £'000
Bank loans and overdrafts	(598)	(578)
Finance charges payable under finance leases and hire purchase contracts	(15)	(29)
	(613)	(607)
Bank deposit interest received	5	21
Other interest receivable	5	21
	(603)	(565)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2003

6. Taxation

	2003 £'000	2002 £'000
The taxation charge for the year represents:		
Deferred tax charge	29	-
Share of tax on joint venture's profits	(8)	37
	21	37

7. Dividends

No dividends were paid or proposed in respect of the current year or the prior year.

8. Tangible fixed assets

Company	Freehold property £'000	Other freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Cost or valuation:				
At January 1, 2003	331	-	296	627
Additions	-	-	2	2
Inter group transfers	-	3,550	-	3,550
Disposals	-	-	(86)	(86)
At December 31, 2003	331	3,550	212	4,093
Depreciation				
At January 1, 2003	265	-	272	537
Charge for the year	1	-	13	14
Disposals	-	-	(86)	(86)
At December 31, 2003	266	-	199	465
Net book value:				
At January 1, 2003	66	-	24	90
At December 31, 2003	65	3,550	13	3,628

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2003

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, 2003	6,832	3,550	328	251	19,002	278	30,241
Additions	49	-	-	1	438	-	488
Disposals	(861)	-	-	(77)	(3,126)	(278)	(4,342)
Exchange difference	574	-	-	-	53	-	627
Reclassification	(1,062)	1,062	-	-	-	-	-
Surplus on revaluation	-	7,538	-	-	-	-	7,538
At December 31, 2003	5,532	12,150	328	175	16,367	-	34,552
Depreciation:							
At January 1, 2003	1,672	-	93	140	13,337	129	15,371
Charge for the year	86	-	22	9	780	-	897
Disposals	(180)	-	-	(31)	(1,189)	(129)	(1,529)
Exchange difference	2	-	-	-	30	-	32
Add-back on revaluation	(629)	-	-	-	-	-	(629)
At December 31, 2003	951	-	115	118	12,958	-	14,142
Net book value:							
At January 1, 2003	5,160	3,550	235	111	5,665	149	14,870
At December 31, 2003	4,581	12,150	213	57	3,409	-	20,410
Cost or valuation at *December 31, 2003*, comprises:							
Cost	1,964	-	328	175	16,367	-	18,834
Valuation in 1984	114	-	-	-	-	-	114
Valuation in 1999	3,454	-	-	-	-	-	3,454
Valuation in 2002	-	3,550	-	-	-	-	3,550
Valuation in 2003	-	8,600	-	-	-	-	8,600
	5,532	12,150	328	175	16,367	-	34,552

8. Tangible fixed assets
(continued)

The other freehold property consists of:-

(a) Twenty acres of former industrial land owned by Lithgows 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 was revalued by the directors at December 31, 2002 taking into account the market value.

(b) Six brownfield sites which are to be cleared and thereafter made available for sale to potential developers. These properties have been revalued by the directors at December 31, 2003 taking into account their market values.

Since the year-end the Group has successfully sold all of the above sites at a value slightly in excess of the carrying value reflected in the Balance Sheet at December 31, 2003.

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.

Within the above total net book value of tangible assets disposed of in the year is the net 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, 2003	629	102	731
Exchange difference	53	-	53
Disposals	(101)	(102)	(203)
At December 31, 2003	581	-	581
Depreciation based on cost:			
At January 1, 2003	134	61	195
Charge for the year	1	-	1
Exchange difference	7	-	7
Disposals	(51)	(61)	(112)
At December 31, 2003	91	-	91
Net historical cost value:			
At January 1, 2003	495	41	536
At December 31, 2003	490	-	490

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, 2003	9	618
At December 31, 2003	-	321

9. Investments

(a) Subsidiary undertakings:

Company

	2003 £'000	2002 £'000
Investment in subsidiary undertakings comprises:		
Cost	8,283	8,283
Amounts written off	(4,910)	(2,631)
Amounts due by subsidiaries, less provisions	2,935	3,977
Amounts due to subsidiaries	(2,694)	(2,694)
Net book value	3,614	6,935

At December 31, 2003, 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 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
Engineering:	Prosper Engineering Limited Prosper Fasteners Inc* (incorporated in USA)= Prosper Fasteners Brasil Limitada* (incorporated in Brazil)=
Aquaculture:	Clachbreck Fish Farms* Cruive 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 Cruive III Limited*
Finance:	Inver Salmon Limited Lithgow Factoring Limited

Since the year-end A. Kenneth & Sons Limited has been renamed Achadonn Limited, and its subsidiary, Cruive III Limited, has been renamed Achadonn Properties Limited. Achadonn Limited is now a 50:50 joint venture company with the Terrace Hill Group Plc.

9. Investments
(continued)

(b) Interest in joint venture

At December 31, 2003 the Group had an interest in the following joint venture through Landcatch Limited:

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, 2003	1,197
Share of loss retained by joint venture	(22)
Exchange difference	128
At December 31, 2003	1,303

The Group's share in its joint venture comprises:

Fixed assets	1,091
Current assets	932
Gross assets	2,023
Liabilities due within one year	614
Liabilities due after more than one year	106
Gross liabilities	720
Net assets	1,303
Turnover	898
Loss before tax	(30)
Taxation	8
Loss after taxation	(22)

9. Investments
(continued)

(c) Associated undertakings

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

	Company	Group
	£'000	£'000
Cost:		
At January 1, 2003 and December 31, 2003	-	75
Amounts written off:		
At January 1, 2003 and December 31, 2003	-	75
Net book value:		
At January 1, 2003 and December 31, 2003	-	-

(d) Unlisted investments

Unlisted investments comprise:	*Company*	*Group*
	£'000	£'000
Cost:		
At January 1, 2003	94	199
Disposals	-	(1)
At December 31, 2003	94	198
Amounts written off:		
At January 1, 2003 and December 31, 2003	44	141
Net book value:		
At January 1, 2003	50	58
At December 31, 2003	50	57

10. Stocks and work-in-progress

	Group	
	2003	2002
	£'000	£'000
Raw material and consumables	703	674
Work-in-progress	413	692
Finished goods and goods for resale	228	233
Livestock	2,098	2,013
	3,442	3,612

11. Debtors

	Company		Group	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Trade debtors	45	23	2,361	2,276
Other debtors	45	214	370	1,176
Prepayments and accrued income	69	69	390	419
Corporation tax	20	20	20	20
Finance lease debtor	28	43	-	-
	207	369	3,141	3,891

The amount of £11,000 (2002 - £28,000) in respect of the Finance Lease debtor is due outwith one year.

12. Creditors: amounts falling due within one year

	Company		Group	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Bank overdrafts	10,142	6,312	11,272	8,438
Current instalments due on loans (note 14)	-	-	202	239
Obligations under finance lease and hire purchase contracts (notes 15)	17	20	87	160
Trade creditors	52	111	2,677	3,344
Other taxes and social security costs	20	23	169	286
Other creditors	279	329	893	1,013
Pension contributions	1,162	440	1,162	470
Accruals	462	141	1,415	1,161
Payments to account	-	-	-	57
	12,134	7,376	17,877	15,168

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

	Company		Group	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Loans (note 14)	-	-	741	1,892
Obligations under finance leases and hire purchase contracts (note 15)	11	28	36	141
	11	28	777	2,033

14. Loans

	Group 2003 £'000	Group 2002 £'000
Loans are repayable as follows:		
Not wholly repayable within five years	670	2,058
Wholly repayable within five years	273	73
	943	2,131
Instalments due:		
After five years	134	743
Between two and five years	449	850
Between one and two years	158	299
	741	1,892
Within one year (note 12)	202	239
	943	2,131
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%	599	694
Loan repayable in monthly instalments of £871, commencing April 2003, secured by a second ranking floating charge over the whole of the assets *of the subsidiary company to whom the loan has been provided.* Interest is charged at the rate of 7.5% per annum	72	-
	671	1,744
Details of loans wholly repayable within five years as follows:		
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	257	314
10½% loan repayable in quarterly instalments of £15,860, including interest, commencing June 1994, secured by a mortgage on a vessel	15	73
	943	2,131

14. Loans *(continued)*	2003 £'000	2002 £'000
Analysis of changes in loan financing:		
At January 1	2,131	1,381
New contracts	75	1,050
Capital element of repayments	(213)	(300)
Written off on receivership of subsidiary	(1,050)	-
At December 31	943	2,131

The above figures include the full liability of loans which have been advanced to subsidiary companies with sizeable external minority shareholdings. As at December 31, 2003, there is an outstanding loan of £598,500 which is a liability of Knapdale Shipping (Campbeltown) Limited, in which there is a 40% minority interest and therefore the total minority interest share of the above outstanding loan is £239,400 (2002 - £750,000).

15. Obligations under leases and hire purchase contracts

	Company		Group	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts due within one year	19	24	93	182
Amounts due within two to five years	11	30	38	145
	30	54	131	327
Less finance charges allocated to future periods	(2)	(6)	(8)	(26)
	28	48	123	301
The above shown as:				
Current obligations (note 12)	17	20	87	160
Non-current obligations (note 13)	11	28	36	141
	28	48	123	301

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

	Group	
	2003	2002
	£'000	£'000
Analysis of changes:		
At January 1	301	380
New contracts	-	114
Capital element of repayments	(115)	(193)
Written off on receivership of subsidiary	(63)	-
At December 31	123	301

Annual commitments under non cancellable operating leases:

	Land and buildings		Other	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Leases which expire:				
Within one year	29	50	35	22
Within the second to fifth years inclusive	-	28	17	43
Over five years	374	265	-	-
	403	343	52	65

16. Deferred taxation

	Group	
	2003	2002
	£'000	£'000
At January 1	-	-
Charge in the year – other timing differences	29	-
At December 31	29	-

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

	2003 £'000	2002 £'000
At January 1	111	376
Minority interest share of losses	-	(265)
At December 31 – equity interest	111	111

18. Share capital

	2003 £'000	2002 £'000
Authorised:		
Equity interests		
9,346 ordinary shares of £100 each (2002:9,346)	935	935
654 preferred ordinary shares of £100 each (2002:654)	65	65
Non equity interests		
1,000,000 7.5% preference shares of £1 each (2002:1,000,000)	1,000	1,000
	2,000	2,000
Allotted, issued and fully paid:		
Equity interests		
6,390 ordinary shares of £100 each (2002:6,390)	639	639
654 preferred ordinary shares of £100 each (2002:654)	65	65
Non equity interests		
650,000 7.5% preference shares of £1 each (2002: 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

	2003 £'000	2002 £'000
Operating loss	(4,661)	(4,125)
Gain on disposal of fixed assets	(47)	(218)
Depreciation	897	1,314
Impairment of assets	-	500
Increase in stocks	(177)	(308)
Decrease in debtors	250	562
Increase in creditors	1,368	963
Release from deferred grants	(60)	(100)
Exchange rate movement	44	(3)
Net cash outflow from operating activities	(2,386)	(1,415)

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

	2003 £'000	2002 £'000
Decrease in cash in the year	(3,652)	(1,738)
Inception of loan	-	(1,050)
Cash outflow from loans	138	300
Cash outflow from finance leases	115	193
Change in net debt resulting from cash flows	(3,399)	(2,295)
Inception of finance leases	-	(114)
Exchange difference	44	(3)
Write off of finance leases on receivership of subsidiary	63	-
Write off of overdraft on receivership of subsidiary	746	-
Write off of loans on receivership of subsidiary	1,050	-
Movement in net debt in the year	(1,496)	(2,412)
Net debt at January 1	(10,602)	(8,190)
Net debt at December 31	(12,098)	(10,602)

The share of net debt attributable to minority interests at December 31, 2003 was £239,000 (2002 - £1,114,000).

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2003

21. *Analysis of change in net debt*

	At Jan 1 2003 £'000	Cash flow £'000	Non cash items £'000	Exchange difference £'000	At Dec 31 2003 £'000
Cash in hand and at bank	268	(72)	-	44	240
Overdrafts	(8,438)	(3,580)	746	-	(11,272)
	(8,170)	(3,652)	746	44	(11,032)
Debt	(2,131)	138	1,050	-	(943)
Finance leases	(301)	115	63	-	(123)
	(10,602)	(3,399)	1,859	44	(12,098)

The non cash items relate to the receivership of Malakoff & Wm. Moore Limited as detailed in note 26.

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:-

	2003 £'000	2002 £'000
Value of services provided in financial year:		
Provision of electrical contracting services to Ormsary Farmers	19	9
Provision of labour to Ormsary Farmers	-	1
Provision of electrical contracting services to Inver Farmers	4	14
Provision of services to Landcatch Chile Limitada	277	342
Provision of services by Ormsary Farmers to rear fish stocks	1,575	1,746
Provision of consultancy services by Ormsary Farmers	4	5
Provision of services by Inver Farmers to rear fish stocks	114	208
Amounts outstanding at December 31:		
Due by Ormsary Farmers	2	4
Due by Inver Farmers	2	2
Due by Landcatch Chile Limitada	17	-
Due to Ormsary Farmers	279	250
Due to Inver Farmers	44	58

During 2002, 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.

In 2003, further freehold property was sold to Inver Farmers for a consideration of £3,000 which was in line with external valuations. A gain on sale of £3,000 was recorded on this transaction.

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2003

23. Capital commitments

	Company		Group	
	2003	2002	2003	2002
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	-	-	-	81

24. Contingent liabilities

There were no contingent liabilities at either December 31, 2003 or December 31, 2002.

25. Guarantees and financial commitments

The company participates in an overdraft facility arrangement for the Lithgows Limited Group. In addition to the provision of shareholders' personal guarantees and monies held on deposit in a pledge account, a floating charge and cross guarantees over the company's assets have been provided as security in respect of these group bank facilities. At December 31, 2003 borrowings in respect of this group facility amounted to £11,272,000 (2002 - £7,690,000).

The Parent Company has also provided a guarantee in respect of loans advanced to two subsidiary companies. As at December 31, 2003 the loans covered by these guarantees totalled £329,000 (2002 - £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 was reflected within the financial statements for the period to December 31, 2002 and were 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 were separately disclosed as an Exceptional Item in the Profit and Loss Account in 2002. The losses were 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 were deemed to be irrecoverable. An analysis of the total charge was 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

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2003

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, 2003. The valuation used the projected unit method. The principal assumptions used in the valuation were an investment return of 2.75% per annum higher than the rate of increase in pensionable salaries (3.25% for hourly paid members).

The most recent actuarial valuation showed that the market value of the scheme's assets was £13,602,000, and that the actuarial value of those assets represented 63% of the benefits that had accrued to members after allowing for expected future increases in pensionable salaries.

The pension charge for the year was £1,008,112 (2002 - £579,921), including a further charge of £719,000 (2002 - £178,000) as a result of the amortisation of the deficiency. For this deficiency to be eliminated by April 2016, the actuary has recommended that the current contribution rates be amended from 18.5% to 24.9% of pensionable salaries for staff members and from 14.5% to 21.4% for hourly paid members.

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, 2003
Rate of increase in salaries	
Staff/executives	3.75%
Hourly-paid members	3.25%
Rate in increase in deferred pensions	2.25%
Rate of increase in pensions in payment	
Staff/executives*	3.00%
Hourly-paid members*	2.25%
Discount rate	
Pre retirement	6.50%
Post retirement	5.00%
Inflation	2.25%

* 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, 2003, updated to December 31, 2003. The major assumptions used by the actuary were:

	December 31 2003	December 31 2002	December 31 2001
Rate of increase in salaries			
Staff/executives	4.30%	3.75%	4.00%
Hourly-paid members	3.80%	3.25%	3.50%
Rate of increase of pensions in payment			
Staff/executives (future service)	3.30%	3.00%	3.25%
Hourly-paid members (future service)	2.80%	2.25%	2.50%
Discount rate	5.40%	5.50%	5.75%
Inflation assumption	2.80%	2.25%	2.50%

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

	Dec 31 2003	Dec 31 2003 £'000	Dec 31 2002	Dec 31 2002 £'000	Dec 31 2001	Dec 31 2001 £'000
Equities	7.3%	10,982	7.0%	9,334	7.5%	10,713
Bonds	4.1%	4,050	4.0%	3,834	4.5%	4,797
Property	7.3%	538	7.0%	524	7.5%	479
Total market value of assets		15,570		13,692		15,989
Actuarial value of liability		(23,681)		(20,983)		(19,555)
Deficit in the scheme		(8,111)		(7,291)		(3,566)
Related deferred tax asset		-		-		-
Net pension liability		(8,111)		(7,291)		(3,566)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2003

27. Pension commitments (continued)

Movement in deficit during the year

	December 31 2003 £'000	December 31 2002 £'000
Deficit in scheme at beginning of year	(7,291)	(3,566)
Movement in year:		
Current service cost	(264)	(482)
Contributions	347	476
Past service costs	-	-
Net return on assets/(interest cost)	(308)	(69)
Actuarial loss	(595)	(3,650)
Deficit in scheme at end of year	(8,111)	(7,291)

The actuarial valuation at December 31, 2003 showed an increase in the deficit from £7,291,000 to £8,111,000. There were no improvements in benefits made in 2003. Company contributions were £347,000 (equivalent to 14.4% of pensionable pay). It has been agreed with the trustees that contributions would be increased by 2% of pensionable pay from January 1, 2004.

History of experience gains and losses

	Year to December 31 2003	Year to December 2002
Difference between expected and actual return on scheme assets:		
Amount	£1,054,000	(£3,424,000)
Percentage of scheme assets	7%	-25%
Experience gains and losses on scheme liabilities:		
Amount	£537,000	£237,000
Percentage of scheme liabilities	2%	1%
Total amount recognised in statement *of total recognised gains and losses:*		
Amount	(£595,000)	(£3,650,000)
Percentage of scheme liabilities	-3%	-17%

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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

	2003 £'000	2002 £'000
Net assets excluding pension liability	9,146	5,618
Pension liability	(8,111)	(7,291)
Net assets/(liabilities) including pension liability	1,035	(1,673)

(b) Reserves note

	2003 £'000	2002 £'000
Profit & loss reserve excluding pension liability	(7,364)	(2,500)
Pension reserve	(8,111)	(7,291)
Profit & loss reserve	(15,475)	(9,791)

(c) Analysis of the amount charged to operating profit

	2003 £'000	2002 £'000
Service cost	264	482
Past service cost	-	-
Total operating charge	264	482

(d) Analysis of amounts charged to finance costs

	2003 £'000	2002 £'000
Expected return on pension scheme assets	843	1,058
Interest on pension liabilities	(1,151)	(1,127)
Net return	(308)	(69)

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27. Pension commitments (continued)

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

	2003 £'000	2002 £'000
Actual return less expected return on assets	1,054	(3,424)
Experience gains and losses on liabilities	537	237
Changes in assumptions	(2,186)	(463)
Actuarial loss recognised in STRGL	(595)	(3,650)
Adjustment due to surplus cap	-	-
Net loss recognised	(595)	(3,650)