SC 10170

LITHGOWS LIMITED

REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2005

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

Having had for a number of years to report on sizeable Group losses, it is pleasing to be in the position to be able to produce within the financial statements for the year ended December 31, 2005 a Group Profit and Loss Account which discloses a profit on the bottom line

The effect of continued depressed prices for farmed salmon in the early part of 2005 continued to create very difficult trading conditions for salmon growers, and impacted significantly on a number of operations throughout the Group in the period covered by these financial statements

However, with the introduction of the measures taken by the European Union, and in particular the establishment of a minimum import price in the course of 2005, confidence has returned to the sector Demand for product is now in excess of supply, with higher prices and better credit terms being obtained, with ongrowers wishing to enter into long term contracts in order to secure their supply We are confident that we will return to operating profitability within our fish farming companies in 2006, and thereafter make further advances as the industry recovers and recognises the higher potential of the Landcatch product In the meantime, the Group would wish to record its appreciation to the Scottish Executive and the Enterprise Networks for the interim funding support provided whilst the Scottish industry is in a stage of recovery

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 selective breeding

In March 2005, the broodstock breeding business and egg production business, which encompasses this technology, was successfully spun out into a separate entity, Landcatch Natural Selection Limited Landcatch Limited will continue to provide husbandry services under contract to the new company, but its sales will be focused on freshwater product The operating performance of the new entity is included within these financial statements, but with the production process resulting in ova only being ready for sale after the year end, this was a negative contribution However, in early 2006 sales volumes far in excess of those previously achieved were experienced

As required in the Investment Agreement with Scottish Enterprise, the ownership of Landcatch Natural Selection Limited was demerged from the Lithgow Group on December 12, 2005 by way of an *in specie* dividend The assets of Landcatch Natural Selection are therefore excluded from the Group Balance Sheet as at December 31, 2005 and the gains arising on the transfer to the new business are realised

The Chilean salmon industry continues to expand dramatically, and Landcatch Limited's 50% joint venture company, Landcatch Chile Limitada, reported a very strong performance in 2005 On December 22, 2005, Landcatch Natural Selection Limited acquired the other 50% of the equity interest of Landcatch Chile As well as benefiting from the strong production protocols and the well established breeding programme emanating from Scotland, the Chilean company will now benefit hugely from being able to show that it is truly independently owned Further expansion is anticipated, and with the new independent ownership we are confident that Landatch Chile will be able to capitalise on the further significant growth opportunities that will present themselves in the short and medium term

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT
(continued)

I am pleased to advise that Buckie Shipyard returned to profitability in 2005 High levels of competition and pricing pressures have been constant factors experienced throughout the year, and whilst some improvements have been made in production methods and efficiencies, further improvements and controls over costs will be required in order to achieve sustained and acceptable returns Further capital improvements are being made in order to assist in this

Throughout the period under review, the markets in which Prosper Engineering operates were unpredictable in terms of investment pattern, and competitive pricing remained a prominent feature The overcrowded UK market place is being heavily impacted by the importation of cheaper manufactured products from the Far East, and in response to this the Prosper group of companies has established a commodity products manufacturing facility in China The set up phase is now substantially complete, and this new operation will deliver benefits to the Group in the course of 2006

The Marine Resource Centre continued with its strategy to become less reliant on the aquaculture industry, and has successfully moved into other sectors Particular success has been achieved in obtaining leisure related activities, and this has been significant in generating sufficient revenues in order to enable the company to record a profit in 2005 Further projects to build on these leisure related activities will be progressed in the coming year With continuing efficiency improvements and higher rates payable for renewable energy, the performance of MRC Energy continues to improve The development of further renewable energy schemes are well advanced

Having contracted in recent years, the electrical contracting business of McKinlay & Blair continues to operate satisfactorily Following the appointment of a new Farm Manager in late 2004, the farming operation at Boathaugh, Western Australia, has significantly improved The farm and cattle stocks are in excellent condition, and the value of the freehold continues to increase in a very desirable area

There has been little by way of sales activity in our joint venture property company, Achadonn Limited, and therefore with funding costs being incurred, our share of the net assets of the joint venture has reduced, thereby impacting on these financial statements In the meantime, further land acquisitions have been made and development opportunities progressed in order to maximise shareholder value in the future

The financial statements for the year to December 31, 2005 are fully compliant with the requirements of FRS 17 In common with almost all other defined benefit schemes, the Lithgows Limited Pension Scheme is assessed under strict actuarial parameters as having a large pension deficit, which now requires to be shown on our Balance Sheet. This we have done, but this tends to give a misleading impression of the current covenant of our Group, as before incorporation of the pension reserve required by FRS 17, we report a net asset position of £8m In addition, there is a potential uplift in the value of our freehold properties within the Group, not revalued since 1999 This provides us with a strong base to move forward from, and to capitalise on the opportunities that will present themselves particularly as the aquaculture industry grows once again This in turn will assist in generating the profits and cash flows required to meet our annual commitments to the pension scheme

JAMES F LITHGOW
Chairman

James F. Lithgow

May 8, 2006

<u>LITHGOWS LIMITED</u>

<u>Directors</u>

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

<u>Registered Office</u>

Netherton
Langbank
Renfrewshire
PA14 6YG

LITHGOWS LIMITED

DIRECTORS' REPORT

The directors submit their report and audited financial statements for the year ended December 31, 2005

Results and dividends

The Group trading profit the year after taxation and minority interests amounted to £91,000

Dividends of £1,437,000 were paid during the year, and these have been deducted from reserves

Review of the business

The Group's principal operating subsidiaries and their activities during the year are shown on page 27 Lithgows Limited is the holding company for the Group 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 Mr A R Reid who, being eligible, offers himself for re-election

The following directors had the undemoted interests in the ordinary and preference share capital of Lithgows Limited at December 31, 2005 and at December 31, 2004

	Ordinary shares Beneficial interest		7.5% Preference shares Beneficial interest	
	2005	2004	2005	2004
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, 2005 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

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

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 directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and of the Group, and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Financial risk management objectives and policies

The company's operations expose it to a variety of financial risks The Group of which the company is a member has a risk management programme that seeks to limit the adverse effects of the financial performance of the Group by monitoring the level of debt finance and the related finance costs The Group does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied

Credit Risk

The Group has implemented a policy that requires credit checks on potential customers before sales are made The amount of exposure to any individual customer is subject to authorisation limits and procedures delegated to company management by the Group board, and is subject to regular review

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Financial risk management objectives and policies
(continued)

Liquidity risk

The Group maintains a mixture of long term and short term debt finance that is designed to ensure the Group has sufficient available funds for its operations at an acceptable cost

Interest rate cash flow risk

The Group has both interest bearing assets and liabilities The interest bearing assets normally include only cash balances The Group has a policy of maintaining debt at both fixed and floating rates, thereby enabling the Group to benefit from any reduction in interest rates whilst still maintaining an element of certainty over the future interest cash flows The Group board will regularly review the appropriateness of this policy

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

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

A resolution to reappoint Grant Thornton UK LLP as auditors in accordance with Section 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

May 8, 2006

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, 2005 which comprise the principal accounting policies, the Group profit and loss account, the Group and company balance sheets, the Group cash flow statement, Group 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 (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 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 other transactions 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 statement 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

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and 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.

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

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the parent company and the Group at December 31, 2005 and of the profit 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

19 MAY 2006

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes	2005 £'000	Restated 2004 £'000
TURNOVER			
Group and share of joint ventures' turnover		16,780	15,434
Less share of joint ventures' turnover		(2,013)	(1,884)
GROUP TURNOVER	1	14,767	13,550
Cost of sales	2	(11,486)	(11,145)
GROSS PROFIT		3,281	2,405
Other operating income and charges	2	(4,071)	(3,871)
OPERATING LOSS	3	(790)	(1,466)
Profit on disposal of goodwill	5	1,000	
Share of operating profit of joint ventures	10	151	201
		361	(1,265)
Net interest	6	(77)	(384)
Other finance costs	27	(348)	(274)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(64)	(1,923)
Taxation	7	6	(9)
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(58)	(1,932)
Minority interests	5	149	
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		91	(1,932)

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, 2005

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2005 £'000	Restated 2004 £'000
Profit/(loss) for the year	91	(1,932)
Exchange differences	526	(117)
Write back of other reserves		(5)
Actuarial gain/(loss) arising in pension scheme	1,649	(920)
Total recognised gains and losses for the year	2,266	(2,974)
Prior year adjustments	(7,545)	
Total gains and losses recognised since last financial statements	(5,279)	

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2005 £'000	Restated 2004 £'000
Reported loss on ordinary activities before taxation	(64)	(1,923)
Realisation of revaluation gains of previous years		11,719
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	15	14
Historical cost (loss)/profit on ordinary activities before taxation	(49)	9,810
Historical cost profit retained	106	9,801

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	Revaluation surplus £'000	Capital redemption reserves £'000	Total reserves £'000	Called up share capital £'000	Total shareholders' funds £'000
At January 1, 2004 as previously reported	(7,364)	14,831	325	7,792	1,354	9,146
Prior year adjustments						
Incorporation of FRS 17 reserve	(8,111)			(8,111)		(8,111)
Reversal of SSAP 24 provision	1,147			1,147		1,147
At January 1, 2004 as restated	(14,328)	14,831	325	828	1,354	2,182
Movements in 2004						
Amortisation of revaluation surplus	6	(6)				
Realised surplus on disposal of assets	11,714	(11,719)		(5)		(5)
Exchange differences						
joint venture	17			17		17
other	(31)	(103)		(134)		(134)
Actuarial loss (note 27)	(920)			(920)		(920)
Loss for the year	(1,932)			(1,932)		(1,932)
At December 31, 2004	(5,474)	3,003	325	(2,146)	1,354	(792)
Movements in 2005						
Amortisation of revaluation surplus	7	(7)				
Exchange differences						
joint venture	360			360		360
other	36	130		166		166
Actuarial gain (note 27)	1,649			1,649		1,649
Dividends paid (note 8)	(1,437)			(1,437)		(1,437)
Profit for the year	91			91		91
At December 31, 2005	(4,768)	3,126	325	(1,317)	1,354	37

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

LITHGOWS LIMITED
GROUP BALANCE SHEET AT DECEMBER 31, 2005

	Notes		2005	Restated 2004
		£'000	£'000	£'000
Fixed assets				
Tangible assets	9	7,277		7,510
Investments	10			
Joint venture		2,269		1,752
Unlisted investments		53		54
			9,599	9,316
Current assets				
Stocks and work-in progress	11	3,506		3,677
Debtors	12	5 741		4,864
Cash at bank and in hand		743		224
		9,990		8,765
Creditors amounts falling due within one year	13	(8,732)		(7,608)
Net current assets			1,258	1,157
Total assets less current liabilities			10,857	10,473
Creditors amounts falling due after more than one year	14		(2,210)	(1,259)
Provisions for liabilities and charges				
Deferred taxation	17			
Accruals and deferred income				
Deferred grants			(539)	(596)
Net assets excluding pension liability			8,108	8,618
Pension liability	27		(7 960)	(9,299)
Net assets/(liabilities) including pension liability			148	(681)
Minority interests (including non equity interests)	18		(111)	(111)
			37	(792)
Capital and reserves				
Called up share capital	19		1 354	1,354
Reserves			(1,317)	(2,146)
Total shareholders' funds			37	(792)

J F LITHGOW James F Lithgow)
H M CURRIE Hugh M. Currie) Directors
May 8, 2006

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

LITHGOWS LIMITED
COMPANY BALANCE SHEET AT DECEMBER 31, 2005

	Notes	£'000	2005 £'000	Restated 2004 £'000
Fixed assets				
Tangible assets	9	67		72
Investments	10			
Subsidiary undertakings		5,234		924
Joint venture		109		334
Unlisted investments		50		50
			5,460	1,380
Current assets				
Debtors	12	891		780
Cash at bank and in hand		1,922		5,212
		2,813		5,992
Creditors amounts falling due within one year	13	(634)		(721)
Net current assets			2,179	5,271
Total assets less current liabilities			7,639	6,651
Creditors amounts falling due after more than one year	14		(1,040)	
			6,599	6,651
Capital and reserves				
Called up share capital	19		1,354	1,354
Capital redemption reserve			325	325
Profit and loss account			4,920	4,972
Total shareholders' funds			6,599	6,651

J F LITHGOW James F Lithgow)
) Directors
H M CURRIE Hugh M. Currie
May 8, 2006

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, 2005

	Notes	2005 £'000	2004 £'000
Net cash outflow from operating activities	20	(732)	(3,495)
Returns on investments and servicing of finance			
Interest received		126	76
Interest paid		(57)	(352)
Finance lease interest paid		(3)	(8)
Loan interest paid		(143)	(100)
Dividends paid		(31)	
Net cash outflow from returns on investment and servicing of finance		(108)	(384)
Capital expenditure and financial investment			
Purchase of fixed assets		(309)	(122)
Sale of fixed assets		6	12,541
Investment in joint ventures			(274)
Disposal of investments		18	3
Net cash (outflow)/inflow from capital expenditure and financial investment		(285)	12,148
Financing			
Inception of loans	5	1,375	
Repayment of borrowings	21	(158)	(174)
Capital element of finance lease rentals	21	(41)	(98)
Minority interest subscription	5	500	
Net cash inflow/(outflow) from financing		1,676	(272)
Increase in cash	22	551	7,997

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

LITHGOWS LIMITED

ACCOUNTING POLICIES

Basis of accounting

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 United Kingdom accounting standards

The principal accounting policies of the Group, which are summarised below, have remained unchanged from the previous year with the following exceptions Under the terms of the revisions to the Companies Act 1985 to comply with the terms of FRS21, the Group now discloses dividends as a movement in reserves and not on the face of the Profit and Loss Account The Group has also now fully adopted the provisions of FRS17, Retirement Benefits, having previously disclosed the potential impact of this Standard in the notes to the financial statements The adoption of this Standard has resulted in a prior year adjustment being processed in the financial statements and has decreased the profit for the year by £310,000 (2004 decreased the loss by £339,000)

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 As a consequence of the adoption of FRS17, a prior year credit adjustment of £1,147,000 has been processed through the 2004 opening reserves of Lithgows Limited The retained loss of the parent company for the year to December 31, 2005 was £52,000 (2004 restated profit of £10,109,000)

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

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%
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

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 sheet 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

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated so as to produce a constant rate of return on the outstanding liability

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

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

Retirement benefits

Defined contribution pension scheme

The pension costs charged against operating profits are the contributions payable to the arrangements in respect of the accounting period

The company also participates in a defined benefits scheme, The Lithgows Limited Pension Scheme, but is unable to identify its share of the underlying assets and liabilities The pension costs charged against operating profit are the contributions payable to the scheme in respect of the accounting period Details in respect of the current deficit of the scheme are included in note 27 of these financial statements

Defined benefit pension scheme

The Group operates The Lithgows Limited Pension Scheme Scheme assets are measured at fair values Scheme Liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates The net surplus or deficit, adjusted for deferred tax, is presented separately from other net assets on the balance sheet A net surplus is recognised only to the extent that it is recoverable by the Group

The current service cost and costs from settlements and curtailments are charged against operating profit Past service costs are spread over the period until the benefit increases vest Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs Actuarial gains and losses are reported in the statement of total recognised gains and losses

LITHGOWS LIMITED

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

Research and development

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

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

	2005 £'000	2004 £'000
Marine	2,655	2,062
Engineering	7,087	7,355
Aquaculture	4,391	3,640
Others	634	493
	14,767	13,550
Share of joint ventures' turnover		
Aquaculture	1,535	1,082
Property	478	802
	16,780	15,434

Analysis of turnover by geographical area

	2005 £'000	2004 £'000
U K	11,905	10,543
E U	865	1,509
Other Europe	121	19
U S A and Canada	565	550
Asia and Australasia	639	482
South America	305	173
Africa	186	12
Middle East	144	220
Caribbean	37	42
	14,767	13,550
Share of joint ventures' turnover		
South America	1,535	1,082
U K	478	802
	16,780	15,434

2 Cost of sales/other operating income and charges

	2005 £'000	2004 £'000
Cost of sales		
Cost of sales	11,130	10,275
Exceptional losses	356	870
Total cost of sales	11,486	11,145
Other operating income and charges		
Distribution costs	671	592
Administrative costs	3,614	3,750
Other operating income	(214)	(471)
	4,071	3,871

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

	2005 £'000	2004 £'000
Items charged		
Auditors' remuneration audit services	63	61
Auditors' remuneration non audit services	12	12
Depreciation of owned assets	612	663
Depreciation of assets held under finance leases and hire purchase contracts	10	25
Hire of plant	116	108
Operating lease rentals plant and machinery	68	51
Operating lease rentals land and buildings	399	387
Items credited		
Net rental income	9	8
Release from deferred grants	57	57
Gain on disposal of fixed assets	129	295
Gain on disposal of investments	17	

3 Operating loss
(continued)

(b) Directors' emoluments

	2005 £'000	2004 £'000
Aggregate emoluments	416	384

During the year, 4 directors (2004 4 directors) participated in defined benefit pension schemes

The emoluments of the highest paid director were £101,461 (2004 £98,356) The highest paid director's accrued pension at the year end was £73,816 (2004 £73,670)

4 Staff costs

	2005 £'000	2004 £'000
Wages and salaries	4,279	4,078
Social security costs	377	364
Other pensions costs	245	269
	4,901	4,711

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

	2005 No	2004 No
Marine	75	65
Engineering	85	88
Aquaculture	33	32
Others	15	15
	208	200

5 Disposal of part of trade and assets

With effect from March 1, 2005 the parent company increased its investment in Landcatch Natural Selection Limited to £2,000,000 by subscribing at par to a further 1,999,998 ordinary shares at £1 each

Thereafter, Landcatch Limited transferred part of its salmon broodstock and breeding trade, and related assets, to Landcatch Natural Selection Limited at a total cost of £2,645,000 of which £2,000,000 was settled in cash with £645,000 remaining outstanding by way of an interest bearing loan account

Arising from the asset transfer agreement was a gain of £1,000,000 on goodwill transferred, an uplift of £123,000 on the net book value of tangible fixed assets transferred and a contribution of £200,000 towards costs incurred in securing for Landcatch Natural Selection Limited 50% of the equity interest in Landcatch Chile Limitada

5 Disposal of part of trade and assets
(continued)

At the same time, Scottish Enterprise invested in 500,000 £1 ordinary shares in Landcatch Natural Selection Limited at par, and provided a loan of £1,375,000

On December 12, 2005, Lithgows Limited undertook a S213 reconstruction whereby the ordinary share capital it held in Landcatch Natural Selection Limited was transferred to a new company, LNS Holdings Limited, in consideration for which LNS Holdings allotted Ordinary Shares and Preferred Ordinary Shares to the Lithgows Limited shareholders in the same proportion and classes as the shares already held by the shareholders in Lithgows Limited

The pro-forma balance sheet of Landcatch Natural Selection Limited as at December 12, 2005 indicated the following net asset position

	£'000
Tangible fixed assets	194
Intangible assets	1,000
Investment in joint venture	200
Stocks	2,063
Debtors	286
Cash at bank	347
Creditors	(313)
Loan from Scottish Enterprise	(1,375)
Loan from Landcatch Limited	(645)
	1,757

The value of the minority interest at that time was £351,000, therefore the net figure of £1,406,000 represents the value of the in specie dividend reflected within these financial statements

6 Net interest	2005 £'000	2004 £'000
Bank loans and overdrafts	(200)	(452)
Finance charges payable under finance leases and hire purchase contracts	(3)	(8)
	(203)	(460)
Bank deposit interest received	35	9
Loan interest receivable	43	22
Other interest receivable	48	45
	(77)	(384)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

7 Taxation

	2005 £'000	2004 £'000
The taxation charge for the year represents		
Deferred tax credit		(29)
Share of tax (credit)/charge on joint ventures' profits	(6)	38
	(6)	9

No reconciliation of the current tax charge has been disclosed because of the availability of tax losses within the Group

8 Dividends

		2005 £'000	2004 £'000
Preferred ordinary dividend	final dividend of £47 70 per share	31	
Ordinary dividend	in specie dividend of £199 60 per share	1,275	
Preferred ordinary dividend	in specie dividend of £199 60 per share	131	
		1,437	

9 Tangible fixed assets

Company	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Cost or valuation			
At January 1, 2005	331	212	543
Additions		2	2
Disposals		(52)	(52)
At December 31, 2005	331	162	493
Depreciation			
At January 1, 2005	267	204	471
Charge for the year	2	5	7
Disposals		(52)	(52)
At December 31, 2005	269	157	426
Net book value			
At January 1, 2005	64	8	72
At December 31, 2005	62	5	67

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

9 Tangible fixed assets
(continued)

	Freehold property £'000	Long leasehold property £'000	Short leasehold property £'000	Machinery plant vehicles and fittings £'000	Total £'000
Group					
Cost or valuation					
At January 1, 2005	5,385	328	175	16,371	22,259
Addition	36		10	263	309
Disposals				(2,825)	(2,825)
Exchange difference	148			14	162
At December 31, 2005	5,569	328	185	13,823	19,905
Depreciation					
At January 1, 2005	993	130	127	13,499	14,749
Charge for the year	49	12	9	552	622
Disposals				(2,754)	(2,754)
Exchange difference	1			10	11
At December 31, 2005	1,043	142	136	11,307	12,628
Net book value					
At January 1, 2005	4,392	198	48	2,872	7,510
At December 31, 2005	4,526	186	49	2,516	7,277
Cost or valuation at December 31, 2005, comprises					
Cost	1,973	328	185	13,823	16,309
Valuation in 1984	112				112
Valuation in 1999	3,484				3,484
	5,569	328	185	13,823	19,905

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

9 Tangible fixed assets
(continued)

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

	Freehold property £'000	Total £'000
Historical cost		
At January 1, 2005	450	450
Exchange difference	14	14
At December 31, 2005	464	464
Depreciation based on cost		
At January 1, 2005	73	73
Charge for the year	1	1
Exchange difference	3	3
At December 31, 2005	77	77
Net historical cost value		
At January 1, 2005	377	377
At December 31, 2005	387	387

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, 2005		44
At December 31, 2005		33

10 Investments

(a) Subsidiary undertakings

Company

	2005 £'000	2004 £'000
Investment in subsidiary undertakings comprises		
Cost	12,067	7,733
Amounts written off	(5,347)	(2,502)
Amounts due by subsidiaries, less provisions	1,437	401
Amounts due to subsidiaries	(2,923)	(4,708)
Net book value	5,234	924

At December 31, 2005, 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 Group Limited Prosper Engineering Limited* Prosper Fasteners Inc* (incorporated in USA)† Prosper Fasteners Brasil Limitada* (incorporated in Brazil) † Prosper Group Hong Kong Limited* (incorporated in Hong Kong)† Prosper Bolts Engineering (Shanghai) Limited* (incorporated in China)†
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)
Finance:	Inver Salmon Limited Lithgow Factoring Limited

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

10 Investments
(continued)

(b) Interest in joint venture

At December 31, 2005 the Group had interests in a joint venture in Landcatch Chile Limitada through Landcatch Limited, and in a joint venture in Achadonn Limited through the parent company

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
Achadonn Limited	Scotland	Ordinary shares	50%	Property Development

	Company Property Development	Fish Farming	Group
	£'000	£'000	£'000
At January 1, 2005	334	1,418	1,752
Share of (loss)/profit retained by joint ventures	(225)	382	157
Exchange difference		360	360
At December 31, 2005	109	2,160	2,269
The Group's share in its joint ventures comprises			
Fixed assets		1,219	1,219
Current assets	4,983	1,475	6,458
Gross assets	4,983	2,694	7,677
Liabilities due within one year	4,092	450	4,542
Liabilities due after more than one year	782	84	866
Gross liabilities	4,874	534	5,408
Net assets	109	2,160	2,269
Turnover	478	1,535	2,013
(Loss)/profit before taxation	(225)	376	151
Taxation		6	6
(Loss)/profit after taxation	(225)	382	157

10 Investments
(continued)

(c) Associated undertakings

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

	Company £'000	Group £'000
Cost		
At January 1, 2005 and December 31, 2005		75
Amounts written off		
At January 1, 2005 and December 31, 2005		75
Net book value		
At January 1, 2005 and December 31, 2005		

(d) Unlisted investments

Unlisted investments comprise	Company £'000	Group £'000
Cost		
At January 1, 2005	94	195
Disposals		1
At December 31, 2005	94	194
Amounts written off		
At January 1, 2005 and December 31, 2005	44	141
Net book value		
At January 1, 2005	50	54
At December 31, 2005	50	53

11 Stocks and work in progress

	Group 2005 £'000	Group 2004 £'000
Raw material and consumables	692	578
Work in progress	414	305
Finished goods and goods for resale	482	398
Livestock	1,918	2,396
	3,506	3,677

12 Debtors

	Company		Group	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Trade debtors	25	25	3,202	3,273
Amounts due from joint ventures	760	672	760	742
Other debtors	37	25	1,416	458
Prepayments and accrued income	49	27	343	371
Corporation tax	20	20	20	20
Finance lease debtor		11		
	891	780	5,741	4,864

The amounts due from joint ventures are all due outwith one year Included within other debtors are a loan of £645,000 and accrued interest of £43,000, both of which fall due outwith one year

13 Creditors amounts falling due within one year

	Company		Group	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Bank facilities			3,574	3,259
Current instalments due on loans (note 15)			187	187
Obligations under finance lease and hire purchase contracts (note 16)		11	12	41
Trade creditors	126	36	2,396	2,066
Other taxes and social security costs	18	22	116	122
Other creditors	203	262	720	539
Pension contributions	25	31	25	31
Accruals	262	359	1,702	1,363
	634	721	8,732	7,608

14 Creditors amounts falling due after more than one year

	Company		Group	
				Restated
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Loans (note 15)			424	582
Obligations under finance leases and hire purchase contracts (note 16)			5	17
Other creditors	1,040		1,781	660
	1,040		2,210	1,259

15 Loans

	Group 2005	Group 2004
Loans are repayable as follows	£'000	£'000
Not wholly repayable within five years	60	66
Wholly repayable within five years	551	703
	611	769
Instalments due		
After five years	22	31
Between two and five years	243	393
Between one and two years	159	158
	424	582
Within one year (note 13)	187	187
	611	769
Details of loans not wholly repayable within five years are as follows		
Loan repayable in monthly instalments of £871, commencing April 2004, 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	60	66
Details of loans wholly repayable within five years as follows		
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%	408	503
Loan repayable in monthly instalments of £4,762 commencing June 2001, secured by a floating charge over the whole assets of the recipient subsidiary Interest is 1 75% above the Bank's base rate	143	200
	611	769

15 Loans *(continued)*

	2005 £'000	2004 £'000
Analysis of changes in loan financing		
At January 1	769	943
Capital element of repayments	(158)	(174)
At December 31	611	769

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, 2005, there is an outstanding loan of £408,500 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 £163,400 (2004 £201,400)

16 Obligations under leases and hire purchase contracts

	Company		Group	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts due within one year		11	13	43
Amounts due within two to five years			5	18
		11	18	61
Less finance charges allocated to future periods			(1)	(3)
		11	17	58
The above shown as				
Current obligations (note 13)		11	12	41
Non-current obligations (note 14)			5	17
		11	17	58

16 Obligations under leases and hire purchase contracts
(continued)

	Group	
	2005	2004
	£'000	£'000
Analysis of changes		
At January 1	58	123
New contracts	-	33
Capital element of repayments	(41)	(98)
At December 31	17	58

Annual commitments under non cancellable operating leases

	Land and buildings		Other	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Leases which expire				
Within one year	8	1	23	4
Within the second to fifth years inclusive			75	39
Over five years	385	380		
	393	381	98	43

17 Deferred taxation

	Group	
	2005	2004
	£'000	£'000
At January 1		29
Credit in the year other timing differences		(29)
At December 31		

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

18 Minority interests

	2005 £'000	2004 £'000
At January 1 and December 31 equity interest	111	111

19 Share capital

	2005 £'000	2004 £'000
Authorised		
Equity interests		
9,346 ordinary shares of £100 each (2004 9,346)	935	935
654 preferred ordinary shares of £100 each (2004 654)	65	65
1,000,000 7 5% preference shares of £1 each (2004 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 (2004 6,390)	639	639
654 preferred ordinary shares of £100 each (2004 654)	65	65
650,000 7 5% preference shares of £1 each (2004 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 and is payable at the discretion of the directors As at December 31, 2005, the holders of the preference shares have put aside their option to redeem all or any of the fully paid up preference shares 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

20 Net cash outflow from operating activities

	2005	2004
	£'000	£'000
Operating loss	(790)	(1,466)
Gain on disposal of fixed assets	(129)	(241)
Depreciation	622	688
Increase in stocks	(1,884)	(242)
Increase in debtors	(717)	(1,723)
Increase/(decrease) in creditors	2,232	(447)
Release from deferred grants	(57)	(57)
Exchange rate movement	8	(7)
Gain on disposal of investments	(17)	
Net cash outflow from operating activities	(732)	(3,495)

21 Reconciliation of net cash flow to movement in net debt

	2005	2004
	£'000	£'000
Increase in cash in the year (note 22)	543	8,004
Cash (inflow)/outflow from loans	(1,217)	174
Cash outflow from finance leases	41	98
Change in net debt resulting from cash flows	(633)	8,276
Arising on disposal of subsidiary	1,028	
Inception of finance leases		(33)
Exchange difference	8	(7)
Movement in net debt in the year	403	8,236
Net debt at January 1	(3,862)	(12,098)
Net debt at December 31	(3,459)	(3,862)

The share of net debt attributable to minority interests at December 31, 2005 was £163,000 (2004 £201,000)

22 Analysis of change in net debt

	At Jan 1 2005	Cash flow	Non cash items	Exchange difference	At Dec 31 2005
	£'000	£'000	£'000	£'000	£'000
Cash in hand and at bank	224	858	(347)	8	743
Bank facilities	(3,259)	(315)			(3,574)
	(3,035)	543	(347)	8	(2,831)
Debt (note 15)	(769)	(1,217)	1,375		(611)
Finance leases (note 16)	(58)	41			(17)
	(3,862)	(633)	1,028	8	(3,459)

23 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 salmon ova, production support and technical know how to its joint venture entity, Landcatch Chile Limitada

Following the disposal of part of its trade to Landcatch Natural Selection Limited, the Group provided certain husbandry and management services under contract to Landcatch Natural Selection Limited Also, the Group receives under contract from Landcatch Natural Selection Limited, the supply of salmon ova and parr, as well as the provision of a veterinary health service

As detailed in note 5, as part of the settlement in respect of the asset transfer agreement, the Group provided a loan to Landcatch Natural Selection Limited This loan is interest bearing, with a deferment in terms of both capital and interest repayment

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

23 Related parties
(continued)

During 2005, loans were advanced to the parent company by J F Lithgow and J A Lithgow, both shareholders of the company, and these remain outstanding at December 31, 2005

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

	2005 £'000	2004 £'000
Value of services provided in financial year		
Provision of management services to Landcatch Natural Selection Limited	1,460	-
Interest arising on loan to Landcatch Natural Selection Limited	43	-
Provision of electrical contracting services to Ormsary Farmers	15	10
Provision of electrical contracting services to Inver Farmers	4	9
Provision of services to Landcatch Chile Limitada		103
Provision of services by Ormsary Farmers to rear fish stocks	1,570	1,044
Provision of consultancy services by Ormsary Farmers		7
Provision of services by Inver Farmers to rear fish stocks	168	205
Supply of salmon ova and parr by Landcatch Natural Selection Limited	367	
Provision of veterinary services by Landcatch Natural Selection Limited	15	-
Amounts outstanding at December 31		
Loan balance due by Landcatch Natural Selection Limited	645	-
Accrued interest due by Landcatch Natural Selection Limited	43	
Due by Ormsary Farmers	2	105
Due by Inver Farmers		-
Due by Landcatch Chile Limitada		70
Loan balance due to J F Lithgow	790	
Loan balance due to J A Lithgow	250	
Due to Ormsary Farmers	630	1
Due to Inver Farmers	95	251
Due to Landcatch Natural Selection Limited	212	

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

24 Capital commitments

	Company		Group	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements				-

25 Contingent liabilities

There were no contingent liabilities at either December 31, 2005 or December 31, 2004

26 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, 2005 borrowings in respect of this group facility amounted to £2,170,000 (2004 £3,259,000)

The Parent Company has also provided guarantees to joint venture partners and subsidiary companies in respect of loans advanced As at December 31, 2005 the amount covered by these guarantees totalled £621,000 (2004 £766,000)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

27 Pension commitments

The Group operates a defined contribution stakeholder pension scheme for the benefit of employees The assets of the scheme are administered externally to the Group in funds independent from the Group

The Group also 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 major assumptions used by the actuary were

	December 31 2005	December 31 2004	December 31 2003
Rate of increase in salaries			
Staff/executives	3 30%	4 30%	4 30%
Hourly paid members	2 80%	3 80%	3 80%
Rate of increase of pensions in payment			
Staff/executives (future service)	2 50%	2 70%	3 30%
Hourly paid members (future service)	2 50%	2 60%	2 80%
Discount rate	4 70%	5 30%	5 40%
Inflation assumption	2 80%	2 80%	2 80%

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

	Dec 31 2005	Dec 31 2005 £'000	Dec 31 2004	Dec 31 2004 £'000	Dec 31 2003	Dec 31 2003 £'000
Equities	6 6%	13,591	7 0%	11,796	7 3%	10,982
Bonds	3 4%	5,557	3 9%	4,537	4 1%	4,050
Property	6 6%	592	7 0%	507	7 3%	538
Total market value of assets		19,740		16,840		15,570
Actuarial value of liability		(27,700)		(26,139)		(23,681)
Net pension liability		(7,960)		(9,299)		(8,111)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

27 Pension commitments
(continued)

Analysis of the amount charged to operating profit

	2005 £'000	2004 £'000
Service cost	290	340
Past service cost		
Total operating charge	290	340

Analysis of amounts charged to finance costs

	2005 £'000	2004 £'000
Expected return on pension scheme assets	1,028	996
Interest on pension liabilities	(1,376)	(1,270)
Net return	(348)	(274)

Analysis of amount recognised in statement of total recognised gains and losses

	2005 £'000	2004 £'000
Actual return less expected return on assets	2,195	602
Experience gains and losses on liabilities	(45)	(963)
Changes in assumptions	(501)	(559)
Actuarial gain/(loss) recognised in STRGL	1,649	(920)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2005

27 Pension commitments
(continued)

History of experience gains and losses

	Year to December 31 2005	Year to December 2004
Difference between expected and actual return on scheme assets		
Amount	£2,195,000	£602,000
Percentage of scheme assets	11%	4%
Experience gains and losses on scheme liabilities		
Amount	(£45,000)	(£963,000)
Percentage of scheme liabilities	0%	(4%)
Total amount recognised in statement of total recognised gains and losses		
Amount	£1,649,000	(£920,000)
Percentage of scheme liabilities	6%	(4%)

Movement in deficit during the year

	December 31 2005 £'000	December 31 2004 £'000
Deficit in scheme at beginning of year	(9,299)	(8,111)
Movement in year		
Current service cost	(290)	(340)
Contributions	328	346
Past service costs		
Net return on assets/(interest cost)	(348)	(274)
Actuarial gain/(loss)	1,649	(920)
Deficit in scheme at end of year	(7,960)	(9,299)

The actuarial valuation at December 31, 2005 showed a decrease in the deficit from £9,299,000 to £7,960,000 Pension escalation was altered in respect of service from April 6, 2005 Company contributions were £328,000 (equivalent to 17 2% of pensionable pay) The company has agreed with the trustees that the contributions will remain at their current levels during 2006 while an actuarial valuation as at April 6, 2006 is being carried out