Lithgows Limited
SC010170

Lithgows Limited

Report and Financial Statements 2006

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

I am pleased to report another year of recovery and development within the Lithgows Limited group of companies, and for the year ended December 31, 2006 we are presenting a Group Profit and Loss Account which discloses a profit on the bottom line, but more significantly reports a greatly improved operating profit

2006 saw the continued benefits of improved prices for farmed salmon and recovering customer liquidity in our key markets for juvenile salmon, sustained in part by the trade defence measures established by the European Union in 2005. Our fish farming interests returned to operating profit after several very difficult years, and we see good prospects ahead with the key indicator of increased demand for our product being reflected in new sales opportunities opening up, particularly in Norway

The Chilean salmon industry continues its strong growth, and Landcatch Limited's joint venture company, Landcatch Chile SA, reported another commendable performance in 2006 Further expansion is anticipated, and with its new ownership structure now bedded in, we are confident that Landcatch Chile will be able to capitalise on the further significant growth opportunities that will present themselves in the short and medium term

We continue to concentrate on the delivery of additional customer benefits through added value to our juvenile salmon products, underpinned by our long term commitment to selective breeding

Throughout 2006 investment and restructuring continued within the Prosper group of companies, particularly with the creation of Prosper Distribution Limited, a 50/50 joint venture with Midsteel Group, established to create a new sales and service structure to meet the demands of an increasingly competitive international market Prosper's operations in China are now well established, and in partnership with Midsteel Group, are delivering high quality commodity products and services at globally competitive prices This has allowed access into foreign and newly emerging markets, with ambitious growth plans being steadily progressed

Buckie Shipyard had a disappointing year in 2006 with lower than forecast activity levels This is a key performance indicator of the company, and is subject to the continual monitoring of management With the fishing industry's decline having erased our traditional customer base, efforts continue to be focussed on developing alternative markets,

Our property assets continue to be actively managed for long term capital growth, and development opportunities progressed in order to maximise shareholder value in the future

The profitable recovery in 2006 came about through a great deal of hard work throughout the Group and with the assistance of Highlands and Islands Enterprise The foundations laid in the last few years have provided us with a strong base to move forward from, and to capitalise on the opportunities that will present themselves, particularly as the global aquaculture industry continues to grow

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT
(continued)

2006 also saw the retirement from the Board of Directors of Sir William Lithgow after over 50 years continuous service, the greater majority of which were as Chairman This period of service has seen the group change course dramatically from its origins, through the nationalisation of our shipbuilding interests and the decline of heavy industry in the West of Scotland, to a position whereby Lithgows has concentrated on and pioneered the development of Scottish aquaculture, and in particular the production of juvenile salmon and the associated knowledge based technologies Lady Lithgow also retired during 2006 after 20 years service on the Board. We are very grateful for their dedicated and fulsome contribution, which has been at the heart of this family company for a generation.

JAMES F LITHGOW
Chairman

May 18, 2007

<u>LITHGOWS LIMITED</u>

<u>Directors</u>

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

Mr J A Lithgow* (*Deputy Chairman – appointed May 8, 2006)*

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

Mr F.G. Hogg*+

The Rt. Hon Lord Lang of Monkton+

Mr A R Reid *(Company Secretary)*

Mr. S.L Rickman*+ *(appointed December 11, 2006)*

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, 2006

Results and dividends

The Group trading profit the year before taxation amounted to £914,000

Dividends of £783 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 as at December 31, 2006 are stated on page 3

Lady Lithgow retired from the Board on May 8, 2006 and Sir William Lithgow, Bt retired from the Board on August 7, 2006

Having been appointed since the last Annual General Meeting, Mr S L Rickman retires and, being eligible, offers himself for re election

The director who retires from the board by rotation at the next Annual General Meeting is Mr F.G. Hogg 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, 2006 and at December 31, 2005, or date of appointment (*), if later

	Ordinary shares		7 5% Preference shares	
	Beneficial interest		Beneficial interest	
	2006	2005	2006	2005
J F Lithgow	2,469	2,469	506,000	506,000
J A Lithgow (appointed May 8, 2006)	1,440	1,440*	108,000	108,000*

No other director at December 31, 2006 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 regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to 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

In so far as the directors are aware, there is no relevant information of which the company's auditors are unaware, and the directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information

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

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Financial risk management objectives and policies
(continued)

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.

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 3 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, Deputy Chairman and 2 non-executive directors 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

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

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

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
Director & Company Secretary

May 18, 2007

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the group and parent company financial statements of Lithgows Limited for the year ended December 31, 2006 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

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

We read the Directors' Report and consider the implications for our report if we become aware of any misstatements within it

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, 2006 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985, and that the information given in the Directors' Report is consistent with the financial statements.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
Registered Auditors
Chartered Accountants
Glasgow

May 18, 2007

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Notes	2006 £'000	2006 £'000	2005 £'000
TURNOVER				
Group and share of joint ventures' turnover			19,455	16,780
Less share of joint ventures' turnover			(2,517)	(2,013)
GROUP TURNOVER	1		16,938	14,767
Cost of sales	2		(12,854)	(11,486)
GROSS PROFIT			4,084	3,281
Other operating income and charges	2	(3,632)		(4,071)
Exceptional income	2	805		
Total other operating income and charges			(2,827)	(4,071)
OPERATING PROFIT/(LOSS)	3		1,257	(790)
Profit on disposal of goodwill	5			1,000
Share of operating (loss)/profit of joint ventures	10		(28)	151
			1,229	361
Net interest	6		(138)	(77)
Other finance costs	27		(177)	(348)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION			914	(64)
Taxation	7		(56)	6
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION			858	(58)
Minority interests			-	149
PROFIT FOR THE FINANCIAL YEAR			858	91

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, 2006

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2006 £'000	2005 £'000
Profit for the year	858	91
Exchange differences	(573)	526
Actuarial gain arising in pension scheme	2,239	1,649
Write off of minority interest	(111)	
Total recognised gains and losses for the year	2,635	2,266

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2006 £'000	2005 £'000
Reported profit/(loss) on ordinary activities before taxation	914	(64)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	8	15
Historical cost profit/(loss) on ordinary activities before taxation	922	(49)
Historical cost profit retained	866	106

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, 2005	(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
Movements in 2006						
Exchange differences						
joint venture	(367)			(367)		(367)
other	(44)	(162)		(206)		(206)
Actuarial gain (note 27)	2,239			2,239		2,239
Write off of minority interest	111			111		111
Dividends paid (note 8)	(1)			(1)		(1)
Profit for the year	858			858		858
At December 31, 2006	(1,972)	2,964	325	1,317	1,354	2,671

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

LITHGOWS LIMITED
GROUP BALANCE SHEET AT DECEMBER 31, 2006

	Notes		2006	2005
Fixed assets		£'000	£'000	£'000
Tangible assets	9	6,443		7,277
Investments				
Joint ventures	10b	1,827		2,269
Unlisted investments	10c	52		53
			8,322	9,599
Current assets				
Stocks and work in progress	11	3,355		3,506
Debtors amounts falling due within one year	12	3,682		4,293
Debtors amounts falling due after more than one year	12	1,897		1,448
Cash at bank and in hand		1,195		743
		10,129		9,990
Creditors amounts falling due within one year	13	(8,547)		(8,732)
Net current assets			1,582	1,258
Total assets less current liabilities			9,904	10,857
Creditors amounts falling due after more than one year	14		(1,091)	(2,210)
Accruals and deferred income				
Deferred grants			(301)	(539)
Net assets excluding pension liability			8,512	8,108
Pension liability	27		(5,841)	(7,960)
Net assets including pension liability			2,671	148
Minority interests (including non equity interests)	18			(111)
			2,671	37
Capital and reserves				
Called up share capital	19		1,354	1,354
Reserves			1,317	(1,317)
Total shareholders' funds			2,671	37

The financial statements were approved by the directors on May 18, 2007

J F LITHGOW)
H M CURRIE) Directors

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

LITHGOWS LIMITED
COMPANY BALANCE SHEET AT DECEMBER 31, 2006

	Notes	£'000	2006 £'000	2005 £'000
Fixed assets				
Tangible assets	9	62		67
Investments				
Subsidiary undertakings	10a	5,646		5,234
Joint venture	10b	2		109
Unlisted investments	10c	50		50
			5,760	5,460
Current assets				
Debtors amounts falling due within one year	12	162		131
Debtors. amounts falling due after more than one year	12	859		760
Cash at bank and in hand		201		1,922
		1,222		2,813
Creditors amounts falling due within one year	13	(727)		(634)
Net current assets			495	2,179
Total assets less current liabilities			6,255	7,639
Creditors amounts falling due after more than one year	14		(782)	(1,040)
			5,473	6,599
Capital and reserves				
Called up share capital	19		1,354	1,354
Capital redemption reserve			325	325
Profit and loss account			3,794	4,920
Total shareholders' funds			5,473	6,599

The financial statements were approved by the directors on May 18, 2007

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

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, 2006

	Notes	2006 £'000	2005 £'000
Net cash inflow/(outflow) from operating activities	20	81	(732)
Returns on investments and servicing of finance			
Interest received		143	126
Interest paid		(131)	(57)
Finance lease interest paid		(2)	(3)
Loan interest paid		(148)	(143)
Dividends paid		(1)	(31)
Net cash outflow from returns on investment and servicing of finance		(139)	(108)
Capital expenditure and financial investment			
Purchase of fixed assets		(241)	(309)
Sale of fixed assets		447	6
Investment in joint ventures		7	
Disposal of investments		29	18
Receipt of grant		14	
Net cash inflow/(outflow) from capital expenditure and financial investment		256	(285)
Financing			
Inception of loans	21	3,000	1,375
Repayment of borrowings	21	(552)	(158)
Capital element of finance lease rentals	21	(29)	(41)
Minority interest subscription	5		500
Net cash inflow from financing		2,419	1,676
Increase in cash	22	2,617	551

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 the Companies Act 1985 and applicable United Kingdom accounting standards.

The principal accounting policies of the Group, which are summarised below, have remained unchanged from the previous year

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 The retained loss of the parent company for the year to December 31, 2006 was £1,125,000 (2005 – loss of £52,000)

Investments in joint ventures

Investments in joint ventures are carried in the balance sheet at the share of their net assets at the date of acquisition and of their post acquisition retained profits or losses together with any goodwill arising on the acquisition, net of amortisation The investor's share of the results is included within the profit and loss account. The profit and loss account also shows the share of the joint venture's turnover.

When the share of losses in a joint venture equals or exceeds its interest in the undertaking, the investor continues to recognise those losses until an irrevocable event occurs that marks its irreversible withdrawal from its investee as a joint venture

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

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

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

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, 2006

1 Group turnover

Turnover represents the 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

	2006	2005
	£'000	£'000
Marine	2,453	2,655
Engineering	7,540	7,087
Aquaculture	6,428	4,391
Others	517	634
	16,938	14,767
Share of joint ventures' turnover		
Aquaculture	1,458	1,535
Engineering	1,002	
Property	57	478
	19,455	16,780

Analysis of turnover by geographical area

	2006	2005
	£'000	£'000
U K	15,313	11,905
E U	456	865
Other Europe	148	121
U S A and Canada	315	565
Asia and Australasia	563	639
South America		305
Africa	97	186
Middle East	13	144
Caribbean	33	37
	16,938	14,767
Share of joint ventures' turnover		
South America	1,458	1,535
U K	655	478
E.U	248	
Other Europe	95	
Africa	28	
U S A and Canada	15	
Others	18	
	19,455	16,780

2 Cost of sales/other operating income and charges

	2006 £'000	2005 £'000
Cost of sales		
Cost of sales	12,854	11,130
Exceptional losses		356
Total cost of sales	12,854	11,486

	2006 £'000	2005 £'000
Other operating income and charges		
Distribution costs	424	671
Administrative costs	3,474	3,614
Other operating income	(266)	(214)
Exceptional income	(805)	
	2,827	4,071

The exceptional losses in 2005 are in respect of provisions against the net realisable value of certain stock

The exceptional income in 2006 arises from the waiver of a loan balance from a minority shareholder in a subsidiary company on the buy out of their minority holding

3 Operating profit/(loss)

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

	2006 £'000	2005 £'000
Items charged·		
Fees payable to group auditors for audit of group financial statements	25	26
Fees payable to group auditors for audit of subsidiary companies	39	39
Fees payable to group auditors for non audit services		11
Depreciation of owned assets	506	612
Depreciation of assets held under finance leases and hire purchase contracts	10	10
Hire of plant	88	116
Operating lease rentals – plant and machinery	80	68
Operating lease rentals – land and buildings	410	399
Loss on disposal of fixed assets	25	
Items credited		
Net rental income	9	9
Release from deferred grants	252	57
Gain on disposal of fixed assets		129
Gain on disposal of investments	28	17

3. Operatıng profit/(loss)
(contınued)

(b) Dırectors' emoluments

	2006 £'000	2005 £'000
Aggregate emoluments	500	416

Durıng the year, 5 dırectors (2005 – 4 dırectors) partıcıpated ın defined benefit pensıon schemes

The emoluments of the hıghest paıd dırector were £202,182 (2005 £101,461) The hıghest paıd dırector's accrued pensıon at the year end was £75,017 (2005 £73,816)

4 Staff costs

	2006 £'000	2005 £'000
Wages and salarıes	4,166	4,279
Socıal securıty costs	378	377
Other pensıons costs	252	245
	4,796	4,901

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

	2006 No	2005 No
Marıne	66	75
Engıneerıng	87	85
Aquaculture	23	33
Others	19	15
	195	208

5 Dısposal of part of trade and assets

Wıth effect from March 1, 2005 the parent company ıncreased ıts ınvestment ın Landcatch Natural Selectıon Lımıted to £2,000,000 by subscrıbıng at par to a further 1,999,998 ordınary shares at £1 each

Thereafter, Landcatch Lımıted transferred part of ıts salmon broodstock and breedıng trade, and related assets, to Landcatch Natural Selectıon Lımıted at a total cost of £2,645,000 of whıch £2,000,000 was settled ın cash wıth £645,000 remaınıng outstandıng by way of an ınterest bearıng loan account

Arısıng from the asset transfer agreement was a gaın of £1,000,000 on goodwıll transferred, an uplıft of £123,000 on the net book value of tangıble fixed assets transferred and a contrıbutıon of £200,000 towards costs ıncurred ın securıng for Landcatch Natural Selectıon Lımıted 50% of the equıty ınterest ın Landcatch Chıle Lımıtada

5 Disposal of part of trade and assets
(continued)

At the same time, Scottish Enterprise invested in 500,000 £1 'A' 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

	2006 £'000	2005 £'000
Bank loans and overdrafts	(279)	(200)
Finance charges payable under finance leases and hire purchase contracts	(2)	(3)
	(281)	(203)
Bank deposit interest received	37	35
Loan interest receivable	103	43
Other interest receivable	3	48
	(138)	(77)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006

7 Taxation

	2006 £'000	2005 £'000
The taxation charge for the year represents		
Share of tax charge/(credit) on joint ventures' profits	56	(6)
	56	(6)

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

8 Dividends

	2006 £'000	2005 £'000
Preferred ordinary dividend – final dividend of £1 30 (2005 £47 70) per share	1	31
Ordinary dividend – £nil (2005 in specie dividend of £199 60) per share		1,275
Preferred ordinary dividend – £nil (2005 in specie dividend of £199 60) per share		131
	1	1,437

9 Tangible fixed assets

Company	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Cost or valuation:			
At January 1, 2006 and at December 31, 2006	331	162	493
Depreciation			
At January 1, 2006	269	157	426
Charge for the year	1	4	5
At December 31, 2006	270	161	431
Net book value			
At January 1, 2006	62	5	67
At December 31, 2006	61	1	62

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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, 2006	5,569	328	185	13,823	19,905
Additions	12	2	58	271	343
Disposals	(82)			(2,086)	(2,168)
Exchange difference	(185)			(18)	(203)
At December 31, 2006	5,314	330	243	11,990	17,877
Depreciation					
At January 1, 2006	1,043	142	136	11,307	12,628
Charge for the year	50	14	13	439	516
Disposals	(44)			(1,652)	(1,696)
Exchange difference	(1)			(13)	(14)
At December 31, 2006	1,048	156	149	10,081	11,434
Net book value					
At January 1, 2006	4,526	186	49	2,516	7,277
At December 31, 2006	4,266	174	94	1,909	6,443
Cost or valuation at December 31, 2006, comprises					
Cost	1,897	330	243	11,990	14,460
Valuation in 1984	112				112
Valuation in 1999	3,305				3,305
	5,314	330	243	11,990	17,877

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, 2006	464	464
Exchange difference	(17)	(17)
At December 31, 2006	447	447
Depreciation based on cost:		
At January 1, 2006	77	77
Charge for the year	1	1
Exchange difference	(3)	(3)
At December 31, 2006	75	75
Net historical cost value.		
At January 1, 2006	387	387
At December 31, 2006	372	372

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, 2006		33
At December 31, 2006		110

10 Investments

(a) Subsidiary undertakings

Company

	2006 £'000	2005 £'000
Investment in subsidiary undertakings comprises		
Cost	12,068	12,067
Amounts written off	(5,690)	(5,347)
Amounts due by subsidiaries, less provisions	2,191	1,437
Amounts due to subsidiaries	(2,923)	(2,923)
Net book value	5,646	5,234

At December 31, 2006, 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

Nature of Business	Company
Marine:	Buckie Shipyard Limited
Engineering:	Prosper Group Limited Prosper Engineering Limited*
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, 2006

10 Investments
(continued)

(b) Interest in joint ventures

Joint venture	Country of incorporation	Class of share capital held	Proportion held by Group	Nature of business
Landcatch Chile SA (through Landcatch Limited)	Chile	Ordinary shares	50%	Fish Farming
Achadonn Limited (through Lithgows Limited)	Scotland	Ordinary shares	50%	Property Development
Prosper Distribution Limited (through Prosper Group Limited)	England	Ordinary Shares	50%	Engineering
Prosper Group Hong Kong Ltd (through Prosper Group Limited)	Hong Kong	Ordinary Shares	50%	Engineering

	Company Property Development £'000	Engineering £'000	Fish Farming £'000	Group £'000
At January 1, 2006	109		2,160	2,269
Investment in joint ventures		12		12
Share of retained losses acquired in joint ventures		(19)		(19)
Share of (loss)/profit retained by joint ventures	(107)	(260)	283	(84)
Exchange differences			(351)	(351)
At December 31, 2006	**2**	**(267)**	**2,092**	**1,827**

The Group's share in its joint ventures as at December 31, 2006 comprises

	Company Property Development £'000	Engineering £'000	Fish Farming £'000	Group £'000
Fixed assets		86	1,610	1,696
Current assets	5,354	1,691	1,013	8,058
Gross assets	5,354	1,777	2,623	9,754
Liabilities due within one year	4,458	1,743	336	6,537
Liabilities due after more than one year	894	301	195	1,390
Gross liabilities	5,352	2,044	531	7,927
Net assets/(liabilities)	**2**	**(267)**	**2,092**	**1,827**
Turnover	**57**	**1,002**	**1,458**	**2,517**
(Loss)/profit before taxation	**(107)**	**(260)**	**339**	**(28)**
Taxation			(56)	(56)
(Loss)/profit after taxation	**(107)**	**(260)**	**283**	**(84)**

10 Investments
(continued)

(b) Interest in joint ventures (continued)

The Group's share in its joint ventures as at December 31, 2005 comprises

	Company Property Development £'000	Engineering £'000	Fish Farming £'000	Group £'000
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/(liabilities)	**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**

(c) Unlisted investments

Unlisted investments comprise	Company £'000	Group £'000
Cost		
At January 1, 2006	94	194
Disposals		(1)
At December 31, 2006	94	193
Amounts written off		
At January 1, 2006 and December 31, 2006	44	141
Net book value		
At January 1, 2006	50	53
At December 31, 2006	50	52

11 Stocks and work in progress

	Group	
	2006	2005
	£'000	£'000
Raw material and consumables	740	692
Work in progress	510	414
Finished goods and goods for resale	560	482
Livestock	1,545	1,918
	3,355	3,506

12 Debtors

	Company		Group	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Amounts falling due within one year				
Trade debtors	23	25	2,424	3,202
Amounts due from joint ventures			131	
Other debtors	40	37	696	728
Prepayments and accrued income	79	49	411	343
Corporation tax	20	20	20	20
	162	131	3,682	4,293
Amounts falling due after more than one year				
Amounts due from joint ventures	859	760	1,157	760
Other debtors			740	688
	859	760	1,897	1,448

13 Creditors amounts falling due within one year

	Company		Group	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Bank facilities			1,409	3,574
Current instalments due on loans (note 15)	173		2,032	187
Obligations under finance lease and hire purchase contracts (note 16)			26	12
Trade creditors	30	126	3,176	2,396
Amounts due to joint ventures			9	
Other taxes and social security costs	20	18	117	116
Other creditors	312	203	1,012	720
Pension contributions	30	25	30	25
Accruals	162	262	736	1,702
	727	634	8,547	8,732

14 Creditors amounts falling due after more than one year

	Company		Group	
	2006	2005	2006	2005
	£'000	£'000	£'000	£'000
Loans (note 15)	782		1,027	424
Obligations under finance leases and hire purchase contracts (note 16)			64	5
Other creditors		1,040		1,781
	782	1,040	1,091	2,210

15 Loans

	Company		Group	
	2006	2005	2006	2005
Loans are repayable as follows	£'000	£'000	£'000	£'000
Not wholly repayable within five years			53	60
Wholly repayable within five years	955		3,006	551
	955		3,059	611
Instalments due				
After five years			14	22
Between two and five years	594		744	243
Between one and two years	188		269	159
	782		1,027	424
Within one year (note 13)	173		2,032	187
	955		3,059	611

Details of loans not wholly repayable within five years are as follows	Group 2006 £'000	Group 2005 £'000
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	53	60
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
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	86	143
Loan repayable in two instalments each of £875,000 in June and July 2007, secured by a parent company guarantee Interest is charged at 7 5% per annum	1,750	
Loan repayable in 60 monthly instalments commencing October 2006, secured by a bond and floating charge over the assets of the parent company, and guarantees totalling £967,000 from subsidiary companies Interest is charged at 1 5% above the bank's base rate	955	
Loan repayable in 60 monthly instalments commencing October 2006, secured by a first standard security over heritable property of the relevant subsidiary, a bond and floating charge over the assets of the relevant subsidiary and a guarantee of £328,000 provided by a subsidiary Interest is charged at 1 5% above the bank's base rate	215	
	3,059	611

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006

15 Loans (continued)	2006 £'000	2005 £'000
Analysis of changes in loan financing		
At January 1	611	769
Inception of new loans	3,000	
Capital element of repayments	(552)	(158)
At December 31	3,059	611

16 Obligations under leases and hire purchase contracts

	Group 2006 £'000	2005 £'000
Amounts due within one year	32	13
Amounts due within two to five years	73	5
	105	18
Less finance charges allocated to future periods	(15)	(1)
	90	17
The above shown as:		
Current obligations (note 13)	26	12
Non current obligations (note 14)	64	5
	90	17

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

	Group 2006 £'000	Group 2005 £'000
Analysis of changes		
At January 1	17	58
New contracts	102	
Capital element of repayments	(29)	(41)
At December 31	90	17

Annual commitments under non cancellable operating leases:

	Land and buildings 2006 £'000	Land and buildings 2005 £'000	Other 2006 £'000	Other 2005 £'000
Leases which expire:				
Within one year	1	8	13	23
Within the second to fifth years inclusive			78	75
Over five years	385	385	-	
	386	393	91	98

17 Deferred taxation

There is no deferred taxation liability as at December 31, 2006 or December 31, 2005

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

	2006 £'000	2005 £'000
At January 1 equity interest	111	111
Amount written off during the year	(111)	
At December 31 equity interest		111

19 Share capital

	2006 £'000	2005 £'000
Authorised		
Equity interests		
9,346 ordinary shares of £100 each (2005 9,346)	935	935
654 preferred ordinary shares of £100 each (2005 654)	65	65
1,000,000 7 5% preference shares of £1 each (2005 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 (2005 6,390)	639	639
654 preferred ordinary shares of £100 each (2005 654)	65	65
650,000 7.5% preference shares of £1 each (2005 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, 2006, 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 inflow/(outflow) from operating activities

	2006	2005
	£'000	£'000
Operating profit/(loss)	1,257	(790)
Loss/(gain) on disposal of fixed assets	25	(129)
Depreciation	516	622
Decrease/(increase) in stocks	142	(1,884)
Decrease/(increase) in debtors	146	(717)
(Decrease)/increase in creditors	(1,716)	2,232
Release from deferred grants	(252)	(57)
Exchange rate movement	(9)	8
Gain on disposal of investments	(28)	(17)
Net cash inflow/(outflow) from operating activities	81	(732)

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

	2006	2005
	£'000	£'000
Increase in cash in the year (note 22)	2,626	543
Net cash inflow from loans	(2,448)	(1,217)
Cash outflow from finance leases	29	41
Change in net debt resulting from cash flows	207	(633)
Arising on disposal of subsidiary		1,028
Inception of finance leases	(102)	
Exchange difference	(9)	8
Movement in net debt in the year	96	403
Net debt at January 1	(3,459)	(3,862)
Net debt at December 31	(3,363)	(3,459)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006

22 Analysis of change in net debt

	At Jan 1 2006 £'000	Cash flow £'000	Non cash items £'000	Exchange difference £'000	At Dec 31 2006 £'000
Cash in hand and at bank	743	461		(9)	1,195
Bank facilities	(3,574)	2,165			(1,409)
	(2,831)	2,626		(9)	(214)
Debt (note 15)	(611)	(2,448)			(3,059)
Finance leases (note 16)	(17)	29	(102)		(90)
	(3,459)	207	(102)	(9)	(3,363)

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 of the parent company, holds an interest in both these partnerships, James Lithgow, a shareholder and director of the parent company, holds an interest in the Ormsary Farmers partnership and John Lithgow, also a shareholder and director of the parent company, holds an interest in the Inver 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

Following the disposal of part of its trade to Landcatch Natural Selection Limited, of whom 80% of the share capital is owned by a company whose shareholding is the same as that of Lithgows 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

During 2006 the parent company continued to provide management services to Achadonn Properties Limited, a subsidiary company of its joint venture, Achadonn Limited. An interest bearing loan balance due from Achadonn Properties Limited remains outstanding at the year end

In the course of 2006, through Prosper Group Limited, interests were established in two joint venture companies, Prosper Distribution Limited and Prosper Group Hong Kong Limited On the formation of Prosper Distribution Limited, a loan was provided by Prosper Group Limited and some fixed assets were transferred at book value. In addition to the sale and purchase of some product, there have been recharges of management costs from the Prosper Group to Prosper Distribution Limited

The separate joint venture in Prosper Group Hong Kong Limited was established to invest in an overseas subsidiary in China, Prosper Bolts Engineering (Shanghai) Limited. The Prosper Group of companies have provided a loan and recharged management costs to the Prosper Group Hong Kong companies, and have received some product from China in the course of 2006

During 2005, loans were advanced to the parent company by J F Lithgow and J A Lithgow, both shareholders and directors of the company, and there are balances which remain outstanding at December 31, 2006.

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

23. Related parties
(continued)

Details of the values of these services supplied during the financial years to December 31, 2006 and December 31, 2005 are shown below.

	2006 £'000	2005 £'000
Provision of services to Landcatch Natural Selection Limited	1,486	1,451
Interest arising on loan to Landcatch Natural Selection Limited	52	43
Provision of electrical contracting services to Ormsary Farmers	6	15
Provision of electrical contracting services to Inver Farmers	4	4
Provision of services to Achadonn Properties Limited	50	50
Interest arising on loan to Achadonn Properties Limited	52	43
Supply of material product to Prosper Distribution Limited	516	
Provision of services to Prosper Distribution Limited	84	
Sale of tangible fixed assets to Prosper Distribution Limited	4	
Provision of services to Prosper Group Hong Kong Limited, and subsidiary company	279	-
Provision of services by Ormsary Farmers to rear fish stocks	1,215	1,170
Provision of services by Inver Farmers to rear fish stocks	213	168
Supply of salmon ova and parr by Landcatch Natural Selection Limited	432	337
Provision of veterinary services by Landcatch Natural Selection Limited	18	15
Supply of material product by Prosper Distribution Limited	144	
Supply of material product by Prosper Bolts Engineering (Shanghai) Limited	130	

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

23 Related parties
(continued)

Details of the balances outstanding at the balance sheet dates are shown below.

	2006 £'000	2005 £'000
Loan balance due by Landcatch Natural Selection Limited	645	645
Accrued interest due by Landcatch Natural Selection Limited	95	43
Loan balance due by Achadonn Properties Limited	859	760
Loan balance due by Prosper Distribution Limited	50	
Loan balance due by Prosper Group Hong Kong Limited	260	
Due by Ormsary Farmers	5	3
Due by Inver Farmers	4	4
Due by Landcatch Natural Selection Limited	55	
Due by Prosper Distribution Limited	160	
Due by Prosper Bolts Engineering (Shanghai) Limited	151	
Loan balance due to J F Lithgow	54	790
Loan balance due to J A Lithgow	29	250
Due to Ormsary Farmers	542	630
Due to Inver Farmers	186	95
Due to Landcatch Natural Selection Limited	26	274
Due to Prosper Distribution Limited	208	
Due to Prosper Bolts Engineering (Shanghai) Limited	20	

24 Capital commitments

	Company		Group	
	2006	2005	2006	2005
	£'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, 2006 or December 31, 2005

26 Guarantees and financial commitments

The company has an overdraft facility arrangement which is secured by a bond and floating charge over the assets of the company and a guarantee provided by the shareholders At December 31, 2006 there were no borrowings in respect of this facility

The parent company has also provided guarantees to joint venture partners and subsidiary companies in respect of loans advanced. As at December 31, 2006 the amount covered by these guarantees totalled £2,303,000 (2005 £621,000)

Bank facilities have been provided to certain subsidiary companies which are secured by the provision of a bond and floating charge over the assets of the specific subsidiary company As at December 31, 2006 the amount covered by these charges totalled £1,409,000 (2005 - £1,404,000)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006

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 Cost and liabilities are based on actuarial valuations 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, and updated to December 31, 2006 The valuation used the projected unit method The major assumptions used by the actuary were

	December 31 2006	December 31 2005	December 31 2004
Rate of increase in salaries			
Staff/executives	3 50%	3 30%	4 30%
Hourly paid members	3.00%	2 80%	3 80%
Rate of increase of pensions in payment			
Staff/executives (future service)	2 50%	2 50%	2 70%
Hourly paid members (future service)	2 50%	2 50%	2 60%
Discount rate	5 10%	4 70%	5 30%
Inflation assumption	3 00%	2 80%	2 80%

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

	Dec 31 2006	Dec 31 2006 £'000	Dec 31 2005	Dec 31 2005 £'000	Dec 31 2004	Dec 31 2004 £'000
Equities	7 0%	14,633	6 6%	13,591	7 0%	11,796
Bonds	3 8%	4,999	3 4%	5,557	3 9%	4,537
Property	7 0%	1,275	6 6%	592	7 0%	507
Total market value of assets		20,907		19,740		16,840
Actuarial value of liability		(26,748)		(27,700)		(26,139)
Net pension liability		(5,841)		(7,960)		(9,299)

27 Pension commitments
(continued)

Analysis of the amount charged to operating profit

	2006 £'000	2005 £'000
Service cost	267	290
Total operating charge	267	290

Analysis of amounts charged to finance costs

	2006 £'000	2005 £'000
Expected return on pension scheme assets	1,118	1,028
Interest on pension liabilities	(1,295)	(1,376)
Net cost	(177)	(348)

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

	2006 £'000	2005 £'000
Actual return less expected return on assets	297	2,195
Experience gains and losses on liabilities	342	(45)
Changes in assumptions	1,600	(501)
Actuarial gain recognised in STRGL	2,239	1,649

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2006

27 Pension commitments
(continued)

History of experience gains and losses

	Year to December 31 2006	Year to December 31 2005
Difference between expected and actual return on scheme assets		
Amount	£297,000	£2,195,000
Percentage of scheme assets	1%	11%
Experience gains and losses on scheme liabilities		
Amount	£342,000	(£45,000)
Percentage of scheme liabilities	1%	0%
Total amount recognised in statement of total recognised gains and losses		
Amount	£2,239,000	£1,649,000
Percentage of scheme liabilities	8%	6%

Movement in deficit during the year

	December 31 2006 £'000	December 31 2005 £'000
Deficit in scheme at beginning of year	(7,960)	(9,299)
Movement in year		
Current service cost	(267)	(290)
Contributions	324	328
Net return on assets/(interest cost)	(177)	(348)
Actuarial gain	2,239	1,649
Deficit in scheme at end of year	(5,841)	(7,960)

The actuarial valuation at December 31, 2006 showed a decrease in the deficit from £7,960,000 to £5,841,000. Company contributions were £324,000 (equivalent to 17 2% of pensionable pay) The company agreed with the trustees that the contributions would remain at their current levels during 2006 while an actuarial valuation as at April 6, 2006 was carried out