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15 OCT 1999
GLASGOW

Lithgows Limited

Report and Financial Statements 1998

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COMPANIES HOUSE 15/10/99

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

1998 has been a pretty grim year for us in common with much of U.K. productive industry, and I have to report a loss of £51,000.

None of our production businesses are in sheltered trades and consequently both home and export markets have suffered from the artificial pumping up of sterling with high real interest rates aimed at restraining domestic demand regardless of the long term consequences.

We have been particularly hard hit by the effects of the Government's implementation of regulations for the eradication of a salmon disease, Infectious Salmon Anaemia. This has blighted not only Landcatch, the juvenile salmon producer, but The Marine Resource Centre which we had established at Barcaldine, Knapdale Shipping (60% owned) and the potential for sale or hire of our Cruive offshore fish farms. ISA is a relatively unimportant disease which is endemic to the North Atlantic and successfully controlled at modest cost in Canadian and Norwegian salmon farms. The Government's measures reflect a complete failure to grasp basic commercial principles. By ordering the slaughter of fish to deny the pathogen a host, but without compensation, the Government Order not only cancels the normal mortality insurance policy but may totally extinguish the private property right of the fish farmer where the fish are too small for the table fish market. This is without legal precedent and we are advised by leading European and Scottish Counsels is contrary to law and the law, a view found in the Court of Session in a case which the Government is appealing but which constitutes current case law. The effect on every aspect of the market has been a disastrous blight. At the time of writing however senior officials appear to have grasped the enormity of the error and its financial, economic and social consequences. It is hoped that practical steps will be taken to restore some semblance of sanity. This and other instances have emphasised the pressing need for changes in the law to reflect the emergence of a relatively novel industry. Our team have done very well in the circumstances to sell virtually all the Spring 1999 smolt production.

The collapse in oil prices and uncertainty over the U.K. offshore fiscal regime have greatly depressed activity in the oil sector which our Engineering activities serve. We have been able to contain some costs inflated by the high value of sterling through procurement overseas particularly from Asia.

Our small vessel building and repair business continues to operate in an unhealthy market environment reflecting the lack of a realistic fishery policy. Buckie Shipyard is being rationalised on one site and a new slip installed for larger boats in conjunction with the landlords, The Moray Council.

CHAIRMAN'S STATEMENT (continued)

Operating Activities

Aquaculture

Landcatch production which has on the whole been good is now confined to salmon eggs and juveniles. Ongrowers have been under great pressure. The genetic selection programme is now well established and with excellent staffing and facilities will be of great value. We believe that once ISA is put in proper perspective the Scottish salmon industry will continue to grow in importance whilst we will occupy a strategic position as the leading independent juvenile breeder. Landcatch Chile has turned in a respectable profit in its first year of operation.

McKinlay & Blair performed satisfactorily in difficult trading conditions.

Marine

Buckie Shipyard's boat repair operations have been disrupted by a failure of the slip.

Malakoff & Wm Moore and J. Fleming Engineering (Stornoway) have both had patchy years again.

Engineering

Prosper Engineering has suffered from the severe downturn in the North Sea but is gradually and successfully repositioning in a specialist global market.

Property

During 1998 we sold an area at Carluke for housing at a satisfactory price; we hold a further substantial area there. We have concluded missives for disposal of our interests in the landfill site used for Midlothian Council. Our portfolio is otherwise under active management.

Lithgows Pty

Jim Hedderwick who succeeded the pioneer manager Richard Hancock has been appointed to the Pty board. Rodney Hunt has retired from the position of chairman, having reached 65 and is succeeded by David Stewart who brings wide management experience. The local primary production economy is beginning to recover.

Outlook

Conditions continue to be very tough exacerbated by ill judged political policies of Central Government which as is usual mitigate heavily against production industries. That seems to have been the story throughout most of my working lifetime here in Britain, and is reflected in the country's relative decline. Our company though has always accepted challenge, and we have an excellent team and resources.

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT (continued)

Having reached pensionable age I am very happy to be handing over the chair to James. He is the fourth generation to take the helm in his twenties - he is otherwise well qualified, particularly with the determination which is needed in an unsheltered environment.

Hugh Currie, our Managing Director, is Chairman Designate of CBI Scotland at a time of unprecedented constitutional change.

I should like to express my appreciation to so many for their hard work and their co-operation in this exceptionally tough year and also over the years we have worked together.

Chairman

May 17, 1999

Directors

Sir William Lithgow, Bt.*+	(Chairman)
Mr. J.F. Lithgow*+	(Vice Chairman)
Mr. H.M. Currie	(Managing Director)
Mr. M.E. Alberge	(Retired June 22, 1998)
Mr. F.G. Hogg*+	(Appointed February 9, 1998)
The Rt. Hon. Lord Lang of Monkton+	
Lady Lithgow+	
Mr. D.F. Macquaker, C.B.E.	(Retired June 22, 1998)
Mr. A.R. Reid	(Company Secretary)
Mr. A.W.C. Wishart	(Finance Director)

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

Registered Office

3 Ardgowan Square
Greenock

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended December 31, 1998.

Results and dividends

The group trading loss for the year, after taxation amounted to £50,335.

The directors recommend dividends absorbing £149,689, leaving £200,024 to be deducted from reserves.

Review of the business

The group's principal operating subsidiaries and their activities during the year are shown on page 24. Comments on the results for the year and on future developments are contained in the Chairman's statement on pages 1 - 3.

Directors and their interests

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

The director who retires from the board by rotation at the next Annual General Meeting is Mr. A.W.C. Wishart who, being eligible, offers himself for re-election.

The following directors had the undernoted interests in the ordinary and preference share capital of Lithgows Limited at December 31, 1998 and at December 31, 1997.

	Ordinary shares				7.5% Preference shares			
	Beneficial Interest		Interest as Trustees (non-beneficial)		Beneficial Interest		Interest as Trustees (non-beneficial)	
	1998	1997	1998	1997	1998	1997	1998	1997
Sir William Lithgow	1,753	1,753	500	500	-	-	-	-
Lady Lithgow	728	728	500	1,440	-	-	108,000	108,000
J.F. Lithgow	2,469	2,469	-	-	506,000	506,000	-	-

No other director at December 31, 1998 had any interest in the share capital of the company or in any subsidiary during the year.

DIRECTORS' REPORT
(continued)

Directors' responsibilities for the financial statements

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

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

Corporate governance

Whilst it is under no obligation to meet the requirements of the London Stock Exchange, the Lithgows group places a high degree of importance on corporate governance and has for some years honoured most of the recommendations of the Combined Code. The Board includes 5 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. The internal audit function is unusual in a group of this size but is found to be extremely useful in meeting the responsibilities of the directors.

Disabled employees

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

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.

DIRECTORS' REPORT
(continued)

Year 2000 compliance

None of the products or services supplied by the group contain any form of processor and therefore the compliance strategy has focused on internal systems and those of the group's major trading partners. An impact analysis has been prepared to identify the major risks, and action plans have been developed and implemented to address these in advance of critical dates. The plans give priority to the systems that could have a significant financial or legal impact if they were to fail.

The strategy has covered all local and wide area network hardware and software as well as all office automation applications. Embedded processors in all major items of production equipment and all critical office systems have been tested and shown to be compliant. The group has also requested written assurances from all major customers and suppliers that all of their systems are or will be fully compliant.

The issue is complex and no business can guarantee that there will be no year 2000 problems. However, the Board believes that its plans and the resources allocated are appropriate and adequate to address the issue.

Charitable donations

During the year the group made charitable contributions totalling £14,769.

Political donations

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

Auditors

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

ON BEHALF OF THE BOARD

M. R. Reid

Secretary

May 17, 1999

REPORT OF THE AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the financial statements on pages 9 to 35 which have been prepared under the accounting policies set out on pages 15 to 17.

Respective responsibilities of directors and auditors

As described on page 6 the directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group at December 31, 1998 and of the results of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
Registered Auditors
Chartered Accountants

Glasgow
May 17, 1999

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 1998

	Notes	1998 £'000	1998 £'000	1997 £'000	1997 £'000
Turnover: group and share of joint venture's turnover			21,251		29,489
Less: share of joint venture's turnover			(218)		-
GROUP TURNOVER	1				
Continuing operations		21,033		26,967	
Discontinued operations		-		2,522	
			21,033		29,489
Cost of sales	2		(16,453)		(22,884)
Gross profit			4,580		6,605
Other operating income and charges	2		(5,032)		(5,583)
OPERATING (LOSS)/PROFIT	3				
Continuing operations		(452)		1,491	
Discontinued operations		-		(469)	
			(452)		1,022
Add release of 1996 provision for losses of discontinued operations			-		442
			(452)		1,464
Share of operating profit of joint venture			27		-
EXCEPTIONAL ITEMS					
Profit on disposal of fixed assets in continuing operations		506		883	
Profit on disposal of fixed assets in discontinued operations		-		49	
			506		932
			81		2,396
Net Interest	5		(338)		(273)
(Loss)/profit on ordinary activities before taxation			(257)		2,123
Taxation	6		128		15
(Loss)/profit on ordinary activities after taxation			(129)		2,138
Minority interests	17		78		37
(Loss)/profit for the financial year			(51)		2,175
Dividends - including non equity interests	7		(149)		(235)
Loss/(profit) for year			(200)		1,940

The notes on pages 15 to 35 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 1998

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1998 £'000	1997 £'000
(Loss)/profit for the year	(200)	1,940
Unrealised surplus on revaluation of assets	-	469
Write back of revaluation surplus	-	(11)
Exchange differences	-	(444)
Total recognised gains and losses for the year	(200)	1,954

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1998 £'000	1997 £'000
Reported (loss)/profit on ordinary activities before taxation	(257)	2,123
Realisation of revaluation gains of previous years	-	26
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	29	29
Historical cost (loss)/profit on ordinary activities before taxation	(228)	2,178
Historical cost (loss)/profit retained	(171)	1,995

The notes on pages 15 to 35 form part of these financial statements.

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

	Profit and loss account £'000	Revaluation surplus £'000	Other reserves £'000	Capital redemption reserves £'000	Total reserves £'000	Called-up share capital £'000	Total shareholders funds £'000
At January 1, 1997	5,624	2,592	134	325	8,675	1,354	10,029
Movements in 1997:							
Realisation of revaluation surplus	26	(26)	-	-	-	-	-
Amortisation of revaluation surplus	27	(27)	-	-	-	-	-
Capital reserve realised	4	-	(4)	-	-	-	-
Goodwill written off	(111)	-	-	-	(111)	-	(111)
Unrealised surplus on revaluation of assets	-	469	-	-	469	-	469
Write back of revaluation surplus	-	(11)	-	-	(11)	-	(11)
Exchange differences	(116)	(328)	-	-	(444)	-	(444)
Profit for the year	1,940	-	-	-	1,940	-	1,940
At December 31, 1997	7,394	2,669	130	325	10,518	1,354	11,872
Movements in 1998:							
Amortisation of revaluation surplus	27	(27)	-	-	-	-	-
Loss for the year	(200)	-	-	-	(200)	-	(200)
At December 31, 1998	7,221	2,642	130	325	10,318	1,354	11,672

The notes on pages 15 to 35 form part of these financial statements.

LITHGOWS LIMITED

GROUP BALANCE SHEET AT DECEMBER 31, 1998

	Notes		1998	1997
Fixed assets:		£'000	£'000	£'000
Tangible assets	8	12,567		13,104
Investments:	9			
Joint ventures		139		-
Associated undertakings		-		-
Unlisted investments		58		88
			12,764	13,192
Current assets:				
Stocks and work-in-progress	10	5,073		4,966
Debtors	11	3,971		6,398
Cash at bank and in hand		1,046		646
		10,090		12,010
Creditors: amounts falling due within one year	12	(7,821)		(9,567)
Net current assets			2,269	2,443
Total assets less current liabilities			15,033	15,635
Creditors: amounts falling due after more than one year	13		(1,986)	(2,310)
Provision for liabilities and charges	16		(113)	(241)
Minority interests (including non equity interests)	17		(572)	(650)
Accruals and deferred income:				
Deferred grants			(690)	(562)
			11,672	11,872
Capital and reserves:				
Called up share capital	18		1,354	1,354
Reserves			10,318	10,518
			11,672	11,872
Analysis of shareholders' funds:				
Equity			11,022	11,222
Non equity			650	650

) Directors
)

May 17,1999

The notes on pages 15 to 35 form part of these financial statements.

COMPANY BALANCE SHEET AT DECEMBER 31, 1998

	Notes		1998	1997
		£'000	£'000	£'000
Fixed assets:				
Tangible assets	8	205		196
Investments:	9			
Subsidiary undertakings		11,648		11,108
Associated undertakings		-		-
Unlisted investments		50		80
			11,903	11,384
Current assets:				
Debtors	11	214		131
Cash at bank and in hand		277		271
		491		402
Creditors: amounts falling due within one year	12	(6,506)		(6,126)
Net current liabilities			(6,015)	(5,724)
Total assets less current liabilities			5,888	5,660
Creditors: amounts falling due after more than one year	13		(32)	(10)
			5,856	5,650
Capital and reserves:				
Called up share capital	18		1,354	1,354
Reserves			4,502	4,296
			5,856	5,650
Analysis of shareholders' funds:				
Equity			5,206	5,000
Non equity			650	650

) Directors
)

May 17, 1999

The notes on pages 15 to 35 form part of these financial statements.

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1998

	Notes	1998 £'000	1997 £'000
Net cash inflow/(outflow) from operating activities	19	1,751	(1,411)
Returns on investments and servicing of finance			
Interest received		252	203
Interest paid		(432)	(273)
Finance lease interest paid		(45)	(41)
Non equity dividends paid		(49)	(49)
Loan interest paid		(113)	(162)
Net cash outflow from return on investments and servicing of finance		(387)	(322)
Taxation		62	(13)
Capital expenditure and financial investment			
Purchase of fixed assets		(1,017)	(1,451)
Sale of fixed assets		544	1,119
Receipt of grant		212	175
Capital receipt from finance lease		-	75
Net cash outflow from capital expenditure and financial investment		(261)	(82)
Acquisitions and disposals			
Investment in joint venture		(112)	-
Sale of subsidiary undertaking		-	256
Net cash (outflow)/inflow from acquisitions and disposals		(112)	256
Equity dividends paid		(186)	(186)
Financing			
Repayment of borrowings		(427)	(395)
Capital element of finance lease rentals		(220)	(280)
Net cash outflow from financing	20	(647)	(675)
Increase/(decrease) in cash	21	220	(2,433)

The notes on pages 15 to 35 form part of these financial statements.

ACCOUNTING POLICIES

Basis of preparation

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

The principal accounting policies of the group have remained unchanged from the previous year.

Basis of consolidation

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

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

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

Goodwill

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

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

Depreciation

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

Freehold property	-	2%
Leasehold property	-	shorter of 2½% or over life of lease
Freehold slipways and jetties	-	2% - 2½%
Plant, machinery, fixtures and fittings	-	10% - 20%
Motor vehicles	-	20% or 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.

ACCOUNTING POLICIES
(continued)

Stocks and work-in-progress

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

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

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

Long-term contracts

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

Deferred taxation

Deferred taxation is provided on the liability method on all material timing differences, except for those which are not expected to reverse in the future. Advance corporation tax on dividends, not recoverable against current taxation, is carried forward to the extent that it is anticipated to be recoverable against future mainstream corporation tax liabilities.

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 relate.

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 are dealt with as reserve movements, and other exchange differences are taken to the profit and loss account.

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.

Pensions

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

Research and development

Expenditure is charged to profits in the period in which it is incurred.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

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:-

	1998	1997
	£'000	£'000
Marine	7,083	9,813
Engineering	7,454	8,609
Aquaculture	6,352	8,362
Others	144	183
	21,033	26,967
Discontinued activity - brickmaking	-	2,522
	21,033	29,489
Share of joint venture's turnover		
Aquaculture	218	-
	21,251	29,489

Analysis of turnover by geographical area:

	1998	1997
	£'000	£'000
U.K.	18,753	26,917
E.C.	526	784
Other Europe	182	24
U.S.A. and Canada	221	241
Asia and Australasia	481	617
South America	870	906
	21,033	29,489
Share of joint venture's turnover		
South America	218	-
	21,251	29,489

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

2. Cost of sales/other operating income and charges

	1998 Total £'000	1997 Continuing £'000	1997 Discontinued £'000	1997 Total £'000
Cost of sales	(16,029)	(20,308)	(2,576)	(22,884)
Impairment to fixed asssets	(424)	-	-	-
	(16,453)	(20,308)	(2,576)	(22,884)
Other operating income and charges:				
Distribution costs	(464)	(550)	(134)	(684)
Administrative costs	(4,788)	(4,689)	(296)	(4,985)
Other operating income	220	71	15	86
	(5,032)	(5,168)	(415)	(5,583)

3. Operating (loss)/profit

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

	1998 £'000	1997 £'000
Items charged:		
Auditors' remuneration - audit services	69	78
Auditors' remuneration - non-audit services	23	18
Depreciation of owned assets	1,065	1,169
Depreciation of assets held under finance leases and hire purchase contracts	367	343
Operating lease rentals - plant and machinery	100	205
Operating lease rentals - land and buildings	318	309
Items credited:		
Net rental income	42	5
Release from deferred grants	99	80

(b) Directors' emoluments

	1998 £'000	1997 £'000
Aggregate emoluments	397	416

During the year, 5 directors (1997 - 5 directors) participated in defined benefit pension schemes.

The emoluments of the highest paid director were £110,116 (1997 - £111,985). The highest paid director's accrued pension at the year-end was £51,400 (1997 - £47,218).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

4. Staff costs

	1998 £'000	1997 £'000
Wages and salaries	5,888	8,308
Social security costs	528	687
Other pensions costs	302	361
	6,718	9,356

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

	1998 No.	1997 No.
Marine	161	231
Engineering	121	116
Aquaculture	35	36
Others	19	20
	336	403
Discontinued activity - brickmaking	-	87
	336	490

5. Net interest

	1998 £'000	1997 £'000
Bank loans and overdrafts and other loans wholly repayable within five years	(432)	(273)
Finance charges payable under finance leases and hire purchase contracts	(45)	(41)
Loans not wholly repayable within five years	(113)	(162)
	(590)	(476)
Bank deposit interest received	143	115
Finance leases	-	70
Other loans interest received	24	8
Other interest receivable	85	10
	(338)	(273)

6. Taxation on (loss)/profit on ordinary activities

The taxation credit represents:	1998 £'000	1997 £'000
Corporation tax payable	(7)	(5)
Transfer from/(to) deferred taxation	128	(57)
	121	(62)
Corporation tax - over provision in prior years	7	77
	128	15

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

7. Dividends

	1998 £'000	1997 £'000
Equity interests		
Ordinary dividend - interim paid £13.125 per share (1997 - £13.125 per share)	84	84
Preferred ordinary dividend - interim paid £13.125 per share (1997 - £13.125)	8	8
Ordinary dividend - 2nd interim proposed £Nil per share (1997 - £13.125 per share)	-	84
Preferred ordinary dividend - 2nd interim proposed £12.975 per share (1997 - £15.75 per share)	8	10
	100	186
Non equity interests		
Preference dividend - paid	49	49
	149	235

8. Tangible fixed assets

	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Company			
Cost:			
At January 1, 1998	331	327	658
Additions	-	66	66
Group transfers	62	(11)	51
Disposals	(16)	(19)	(35)
At December 31, 1998	377	363	740
Depreciation:			
At January 1, 1998	257	205	462
Charge for the year	4	51	55
Group transfers	37	(9)	28
Disposals	-	(10)	(10)
At December 31, 1998	298	237	535
Net book value:			
At January 1, 1998	74	122	196
At December 31, 1998	79	126	205

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

8. Tangible fixed assets
(continued)

	Freehold property	Long leasehold property	Short leasehold property	Machinery plant vehicles and fittings	Freehold slipways and jetties	Total
Group						
Cost or valuation:						
At January 1, 1998	7,353	195	232	15,347	261	23,388
Additions	175	-	9	1,173	-	1,357
Disposals	(16)	-	-	(284)	-	(300)
Reclassifications	175	-	-	(175)	-	-
At December 31, 1998	7,687	195	241	16,061	261	24,445
Depreciation:						
At January 1, 1998	1,208	84	87	8,832	73	10,284
Charge for the year	150	5	8	1,262	7	1,432
Impairment losses	-	-	-	424	-	424
Disposals	-	-	-	(262)	-	(262)
Reclassifications	25	-	-	(25)	-	-
At December 31, 1998	1,383	89	95	10,231	80	11,878
Net book value:						
At January 1, 1998	6,145	111	145	6,515	188	13,104
At December 31, 1998	6,304	106	146	5,830	181	12,567

In calculating the impairment losses during the year, the group has used a discount rate of 9.25%.

Cost or valuation at December 31, 1998, comprises:

	Freehold property	Long leasehold property	Short leasehold property	Machinery plant vehicles and fittings	Freehold slipways and jetties	Total
Cost	4,304	195	241	16,061	96	20,897
Valuation in 1982	82	-	-	-	-	82
Valuation in 1983	279	-	-	-	-	279
Valuation in 1984	308	-	-	-	-	308
Valuation in 1985	305	-	-	-	165	470
Valuation in 1991	63	-	-	-	-	63
Valuation in 1997	2,346	-	-	-	-	2,346
	7,687	195	241	16,061	261	24,445

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

8. Tangible fixed assets
(continued)

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

	Freehold property £'000	Freehold, slipways and jetties £'000	Total £'000
Historical cost:			
At January 1, 1998 and December 31, 1998	613	102	715
Depreciation based on cost:			
At January 1, 1998	123	48	171
Charge for the year	5	2	7
At December 31, 1998	128	50	178
Net historical cost value:			
At January 1, 1998	490	54	544
At December 31, 1998	485	52	537

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, 1998	17	540
At December 31, 1998	62	774

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

9. Investments

(a) Subsidiary undertakings:

Company	1998 £'000	1997 £'000
Investment in subsidiary undertakings comprises:		
Cost	9,364	9,530
Amounts written off	(1,394)	(1,062)
Amounts due by subsidiaries, less provisions	5,968	4,781
Amounts due to subsidiaries	(2,290)	(2,141)
Net book value	11,648	11,108

At December 31, 1998, the company had beneficial interests directly or indirectly (*) in the ordinary share capital of the undernoted principal operating subsidiary undertakings. All are registered in Scotland unless otherwise stated and all are 100% owned with the exception of Malakoff & Wm. Moore Limited which is 55% owned, and Knapdale Shipping (Campbeltown) Limited which is 60% owned. Companies not audited by the parent company auditors are indicated by (†).

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

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

9. Investments
(continued)

(b) Interests in joint ventures

At December 31, 1998 the group had interests in the following joint venture:

Joint Venture	Country of Incorporation	Class of Share Capital Held	Proportion held by Group	Nature of Business
Landcatch Chile Limitada	Chile	Ordinary shares	50%	Fish farming

	Company £'000	Group £'000
At January 1, 1998	-	-
Invested during year	-	112
	-	112
Share of profit retained by joint venture	-	27
At December 31, 1998	-	139

The group's share in its joint venture comprises:

	Company £'000	Group £'000
Fixed assets	-	59
Current assets	-	118
Share of gross assets	-	177
Liabilities due within one year	-	38
Liabilities due after more than one year	-	-
Share of gross liabilities	-	38
Share of net assets	-	139
Turnover	-	218
Profit before and after tax	-	27

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

(c) Associated undertakings

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

	Company	Group
	£'000	£'000
Cost:		
At January 1, 1998 and December 31, 1998	-	75
Amounts written off:		
At January 1, 1998 and December 31, 1998	-	75
Net book value:		
At January 1, 1998 and December 31, 1998	-	-

(d) Unlisted investments

Unlisted investments comprise:

	Company	Group
	£'000	£'000
Cost:		
At January 1, 1998 and December 31, 1998	94	199
Amounts written off:		
At January 1, 1998	14	111
During 1998	30	30
At December 31, 1998	44	141
Net book value:		
At January 1, 1998	80	88
At December 31, 1998	50	58

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

10. Stocks and work-in-progress

	Group 1998 £'000	Group 1997 £'000
Raw materials and consumables	1,360	1,387
Work-in-progress	938	1,130
Work-in-progress payments received on account	(120)	(155)
Finished goods and goods for resale	490	530
Livestock	2,405	2,074
	5,073	4,966

11. Debtors

	Company 1998 £'000	Company 1997 £'000	Group 1998 £'000	Group 1997 £'000
Trade debtors	55	26	2,753	5,103
Other debtors	31	43	786	783
Amounts due from joint venture	-	-	61	-
Prepayments and accrued income	126	57	351	349
Current corporation tax	2	5	20	163
	214	131	3,971	6,398

12. Creditors: amounts falling due within one year

	Company 1998 £'000	Company 1997 £'000	Group 1998 £'000	Group 1997 £'000
Bank overdrafts	5,550	4,787	2,450	2,270
Obligations under finance lease and hire purchase contracts (note 15)	23	4	194	149
Current instalments due on loans (note 14)	-	-	423	426
Trade creditors	26	19	2,301	3,290
Current corporation tax	-	1	7	88
Other taxes and social security costs	22	44	243	293
Other creditors	603	851	899	1,528
Proposed dividend	8	94	8	94
Accruals	274	326	1,296	1,429
	6,506	6,126	7,821	9,567

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

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

	Company		Group	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Loans (note 14)	-	-	1,663	2,072
Obligations under finance leases and hire purchase contracts (note 15)	32	10	291	231
Other creditors	-	-	32	7
	32	10	1,986	2,310

14. Loans

	Group	
	1998	1997
Loans are repayable as follows:	£'000	£'000
Not wholly repayable within five years	1,298	1,428
Wholly repayable within five years	788	1,070
	2,086	2,498
Instalments due:		
After five years	490	738
Between two and five years	816	918
Between one and two years	357	416
	1,663	2,072
Within one year (note 12)	423	426
	2,086	2,498

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

	1998	1997
14. Loans (continued)	£'000	£'000
Details of loans not wholly repayable within five years are as follows:		
10½% loan repayable in quarterly instalments of £15,860, including interest, commencing June 1994, secured by a mortgage on a vessel	253	288
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%	1,045	1,140
	1,298	1,428
Details of loans wholly repayable within five years are as follows:		
7½% loan repayable in six monthly instalments of £34,000 commencing May 1995, secured by a mortgage on a vessel and supplemental Deed of Covenant	170	238
7½% loan repayable in six monthly instalments of £47,429 commencing January 1996, secured by a mortgage on a vessel and supplemental Deed of Covenant	379	474
Variable rate loan repayable in monthly instalments of £5,175, including interest, commencing in November 1996, secured by a bond and floating charge over the whole assets of the recipient subsidiary	155	201
8.075% loan repayable in quarterly instalments of £24,282, including interest, commencing in July 1996, guaranteed by the parent company	70	157
10.3% loan repayable in monthly instalments of £490, including interest, commencing in October 1998	14	-
	2,086	2,498
Analysis of changes in loan financing:		
At January 1	2,498	1,907
New loans	15	1,140
Capital element of repayments	(427)	(395)
Loans transferred on sale of subsidiary undertaking	-	(154)
At December 31	2,086	2,498

The total minority interest share of the above outstanding loans is £494,000 (1997 - £546,000). The above figures represent the full liability of loans which have been advanced to subsidiary companies with sizeable external minority shareholdings. The outstanding loan of £1,045,000 is a liability of Knapdale Shipping (Campbeltown) Limited, in which there is a 40% minority interest, whilst Malakoff & Wm. Moore Limited, in whom there is a 45% minority interest, have loan liabilities totalling £169,000.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

15. Obligations under leases and hire purchase contracts

	Company		Group	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Amounts due within one year	26	5	208	176
Amounts due within two to five years	33	11	335	261
	59	16	543	437
Less finance charges allocated to future periods	(4)	(2)	(58)	(57)
	55	14	485	380
The above shown as:				
Current obligations (note 12)	23	4	194	149
Non-current obligations (note 13)	32	10	291	231
	55	14	485	380
Analysis of changes:				
At January 1			380	306
New contracts			325	381
Capital element of repayments			(220)	(280)
Contracts transferred on sale of subsidiary undertaking			-	(27)
At December 31			485	380

Annual commitments under non cancellable operating leases:

Group	Land and buildings		Other	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Leases which expire:				
Within one year	42	22	13	3
Within the second to fifth years inclusive	29	30	29	19
Over five years	247	230	-	-
	318	282	42	22

16. Provisions for liabilities and charges

Group	Deferred taxation
	£'000
At January 1, 1998	241
Released during the year (note 6)	(128)
At December 31, 1998	113

The potential amounts of deferred taxation, including the amounts for which provision has been made, are as follows:-

	Provision		Potential	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Group				
Accelerated capital allowances	49	59	(58)	144
Other timing differences	64	182	(365)	(350)
	113	241	(423)	(206)

The total potential liability for deferred taxation has been reduced by deferred tax assets of £549,000 (1997 - £447,000) in various group companies which have not been included in the amount provided.

	Provision		Potential	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Company				
Accelerated capital allowances	-	-	(26)	6
Other timing differences	-	-	(233)	(332)
Deferred asset	-	-	(259)	(326)

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

17. Minority interests

	1998 £'000	1997 £'000
At January 1	650	576
Goodwill arising on purchases of minority interest in Aquaculture Diagnostics Limited	-	111
Minority interest share of losses	(78)	(37)
At December 31	572	650
Equity interest	350	455
Non equity interest	222	195
	572	650

The non equity interests subscribed to are in respect of preference shares in a subsidiary company which are non-voting and non-convertible. The only rights to dividends relate to a 12.5% fixed dividend which is cumulative.

The preference shares are due for redemption by the subsidiary company, at par together with a premium of 25p per share, in two equal instalments on December 31, 2001 and December 31, 2003.

18. Share capital

	1998 £'000	1997 £'000
Authorised:		
Equity interests - 9,346 ordinary shares of £100 each (1997:9,346)	935	935
- 654 preferred ordinary shares of £100 each (1997:654)	65	65
Non equity interests - 1,000,000 7.5% preference shares of £1 each (1997 - 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 (1997:6,390)	639	639
- 654 preferred ordinary shares of £100 each (1997:654)	65	65
Non equity interests - 650,000 7.5% preference shares of £1 each	650	650
	1,354	1,354

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

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

19. Net cash inflow/(outflow) from operating activities

	1998 £'000	1997 £'000
Operating (loss)/profit	(452)	1,491
Depreciation	1,432	1,329
Impairment of assets	424	-
(Increase)/decrease in stocks	(107)	213
Decrease/(increase) in debtors	2,299	(845)
Decrease in creditors	(1,776)	(3,455)
Release from deferred grants	(99)	(64)
Provision against investments	30	-
Net cash inflow/(outflow) from continuing operating activities	1,751	(1,331)
Net cash outflow in respect of discontinued activities	-	(80)
Net cash inflow/(outflow) from operating activities	1,751	(1,411)

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

	1998 £'000	1997 £'000
Increase/(decrease) in cash in the year	220	(2,433)
Cash outflow from loans	427	395
Cash outflow from finance leases	220	280
Change in net debt resulting from cash flows	867	(1,758)
Inception of finance leases	(325)	(381)
New loan contract	(15)	(1,140)
Loans and finance leases transferred on sale of subsidiary undertaking	-	181
Effect of foreign exchange changes	-	(16)
Movement in net debt in the year	527	(3,114)
Net debt at January 1	(4,502)	(1,388)
Net debt at December 31	(3,975)	(4,502)

The share of net debt attributable to minority interests at December 31, 1998 was £667,000 (1997 - £634,000).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

21. Analysis of change in net debt

	At Jan. 1, 1998 £'000	Cash flow £'000	Non cash items £'000	At Dec. 31, 1998 £'000
Cash in hand and at bank	646	400	-	1,046
Overdrafts	(2,270)	(180)	-	(2,450)
	(1,624)	220	-	(1,404)
Debt	(2,498)	427	(15)	(2,086)
Finance leases	(380)	220	(325)	(485)
	(4,502)	867	(340)	(3,975)

22. Related parties

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

Landcatch Limited provided services in the provision of production support and technical know-how to its joint venture entity, Landcatch Chile Limitada. The value of this service supplied during 1998 was outstanding at the balance sheet date.

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

	1998 £'000	1997 £'000
Value of services provided in financial year:		
Provision of electrical contracting services to Ormsary Farmers	34	26
Provision of labour to Ormsary Farmers	15	1
Provision of electrical contracting services to Inver Farmers	5	11
Provision of labour to Ormsary Farmers	2	-
Provision of Services to Landcatch Chile Limitada	61	-
Provision of services by Ormsary Farmers to rear fish stocks	1,437	1,370
Provision of consultancy services by Ormsary Farmers	5	13
Provision of services by Inver Farmers to rear fish stocks	199	177
Amounts outstanding at December 31:		
Due by Ormsary Farmers	29	2
Due by Inver Farmers	1	5
Due by Landcatch Chile Limitada	61	-
Due to Ormsary Farmers	137	116
Due to Inver Farmers	24	7

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1998

23. Capital commitments

	Company		Group	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	-	-	-	162

24. Contingent liabilities

There were no contingent liabilities at either December 31, 1998 or December 31, 1997.

25. Pension commitments

The group operates a defined benefit scheme, The Lithgows Limited Pension Scheme. The assets of the scheme are held separately from those of the group, being managed by independent fund managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of regular valuations, the most recent of which was at April 6, 1998. The valuation used the projected unit method. The principal assumptions used in the valuation were an investment return of 1.75% per annum higher than the rate of increase in pensionable salaries (2.25% for hourly paid members) and 3.75% higher than the rate of dividend growth and future pension increases in accordance with the rules of the scheme.

The most recent actuarial valuation showed that the market value of the scheme's assets was £15,023,505, and that the actuarial value of those assets represented 100% of the benefits that had accrued to members after allowing for expected future increases in pensionable salaries.

On the basis of the contributions paid by the group the pension charge for the year was £302,379 (1997 - £360,562).