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Scottish Sea Farms Limited

Report and Financial Statements

31 December 2006

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COMPANIES HOUSE

Scottish Sea Farms Limited

Registered No 958001

Directors

Ole-Eirik Leroy
Leit-Inge Nordhammer
Helge Singlestad
Gustave Witzoe
Jim F Gallagher
John Rea

Secretary

D Anderson

Auditors

Ernst & Young LLP
George House
50 George Square
Glasgow
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Bankers

DnB Nor Bank ASA
20 St Dunston's Hill
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Solicitors

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47 King William Street
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Directors' report

The directors present their report and the group financial statements for the year ended 31 December 2006

Results and dividends

The profit for the year, after taxation, amounts to £11,184,000 (2005 £6,985,000) and is dealt with as shown in the consolidated profit and loss account. No dividend has been declared during the year.

Principal activity and review of the business

The principal activity of the group continued to be the farming of Scottish Atlantic salmon.

The group has achieved a satisfactory result for the year to 31st December 2006, against a background of an increasingly challenging competitive environment.

During 2006 group turnover increased by £863,000 as a result of improvements in prices that we achieved in the global market. There was a significant reduction in the volume of third party fish sold during 2006 by the group.

Group operating profit before tax increased by £8,785,000 during the year, principally arising from the benefit of improvements in sales prices experienced by salmon farmers.

Management's focus for the year was to continue to exercise control and make the necessary changes in the areas of the business in which we believed would deliver improved performance from 2005. We have implemented these changes and there has been improved performance in most areas of the business. As previously noted the key development in the industry this year has been the increase on prices being realised by farmers and this has helped Scottish Sea Farms to achieve a level of return expected of us by our shareholders.

We are satisfied with the performance and the progress that we have made this year but are mindful of the challenges we face in the competitive global marketplace in the coming years to deliver sustainable and consistent results to the group.

Key financial performance indicators include the monitoring of the management of profitability and working capital.

	<u>2006</u>	<u>2005</u>	<u>Measure</u>
Profit margin	24.5%	11.6%	Profit before tax / turnover
Current ratio	1.38	0.93	Current assets / Current liabilities

Staff development continues to be an aim of the company with focus on training of our employees to be able to meet the demands of the business and, demonstrating our ongoing commitment to this, during 2006 the company obtained full accreditation from 'Investors In People'. Staff morale is high within the business with all of our employees committed to delivering performance which we believe will give consistent and sustainable returns to our shareholders in the future.

The business continues with the belief that the environment in which we operate needs to be protected and enhanced and to this aim we had identified targets and objectives for continuous improvement within 2006. We have operated our Environmental Management System to ISO14001 standards since October 2000. The group places considerable emphasis upon environmental compliance and we conduct our operations to ensure compliance, as a minimum, with relevant legislation.

The directors would like to take this opportunity to thank our employees for their continued hard work and dedication throughout the year.

Directors' report

Financial management objectives and policies

The company's principal financial instruments comprise cash, short and long term deposits and/or borrowings, the main purpose of which is to provide finance for its normal trading operations

Interest is payable on borrowings at normal commercial rates of interest. The company's interest payable can therefore be affected by changes in interest rates. The company does not undertake active hedging of this risk

Other financial assets and liabilities such as trade debtors and trade creditors arise directly from trading operations

The company manages credit risk by continuing to trade with our key customers. The company conducts credit checks on its customers and arranges credit terms accordingly

Directors

The directors during the year were those listed on page 1

Directors' interests

No director had any interest in the share capital of the company or its subsidiaries throughout the year

Disabled employees

The group gives full consideration to applications from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees where appropriate

Employee involvement

During the year, the policy of providing employees with information about the group has been continued through the regular newsletters. Employees have also been encouraged to present their suggestions and views on the group's performance. Regular meetings are held between management and employees to allow a free flow of information and ideas

Creditor payment policy and practice

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with

At 31 December 2006, the company had an average of 50 days purchases outstanding in trade creditors

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Directors' report

Auditors

In accordance with Section 386 of the Companies Act 1985, an elective resolution has been passed to dispense with the obligation to appoint auditors annually

On behalf of the board



J F Gallagher
Director

8/2/07

Statement of directors' responsibilities in respect of 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 the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the group and the company 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and to 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SCOTTISH SEA FARMS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Scottish Sea Farms Limited for the year ended 31 December 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 26. 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 auditors' 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 are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as 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, are properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with the financial statements. The information given in the directors' report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review section of the directors' report.

We also 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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's 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 the group's and the parent company's affairs as at 31 December 2006 and of the group's profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Glasgow

9 February 2007

Group profit and loss account

For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	2	66,990	66,127
Cost of sales		(44,004)	(50,983)
Gross profit		22,986	15,144
Distribution costs		(3,371)	(3,699)
Administrative expenses		(1,711)	(1,750)
Group operating profit	3	17,904	9,695
Interest payable	6	(1,491)	(2,077)
Other finance income	7	18	28
Profit on ordinary activities before taxation		16,431	7,646
Tax on profit on ordinary activities	8(a)	(5,247)	(661)
Profit for the financial year	20 & 21	11,184	6,985

Group statement of total recognised gains and losses

for the year ended 31 December 2006

	Note	2006 £000	2005 £000
Profit for the financial year		11,184	6,985
Actuarial gain/(loss)	23	726	(720)
Current tax on actuarial loss		-	40
Deferred tax on actuarial gain/(loss)	8(d)	(218)	176
Total recognised gains and losses relating to the year		11,692	6,481
Prior year adjustment		-	(252)
Total gains and losses against recognised since last annual report		11,692	6,229

Group balance sheet

at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Intangible assets	9	84	152
Tangible assets	10	11,402	9,487
		<u>11,486</u>	<u>9,639</u>
Current assets			
Stocks	12	33,379	23,113
Debtors	13	8,614	7,942
Cash at bank and in hand		27	3,929
		<u>42,020</u>	<u>34,984</u>
Creditors amounts falling due within one year	14	(30,339)	(37,556)
Net current assets/ (liabilities)		<u>11,681</u>	<u>(2,572)</u>
Total assets less current liabilities		<u>23,167</u>	<u>7,067</u>
Creditors amounts falling due after more than one year	15	(7,637)	(3,066)
Provisions for liabilities	8(d)	(171)	-
Accruals and deferred income	17	(465)	(214)
Net assets excluding retirement benefits		<u>14,894</u>	<u>3,787</u>
Retirement benefit liability	23	(77)	(662)
Net assets including retirement benefits		<u>14,817</u>	<u>3,125</u>
Capital and reserves			
Called up share capital	19 & 21	21,400	21,400
Share premium account	21	1,600	1,600
Profit and loss account	20 & 21	(8,183)	(19,875)
Equity shareholders' funds		<u>14,817</u>	<u>3,125</u>

J F Gallagher
Director

J F Gallagher
8/2/07

Company balance sheet

at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Intangible assets	9	60	120
Tangible assets	10	9 885	8 197
Investments	11	1 581	1,581
		<u>11 526</u>	<u>9,898</u>
Current assets			
Stocks	12	28,034	21,058
Debtors	13	16,049	13 801
Cash at bank and in hand		27	3,929
		<u>44,110</u>	<u>38,788</u>
Creditors amounts falling due within one year	14	(28,919)	(36,869)
Net current assets		<u>15,191</u>	<u>1,919</u>
Total assets less current liabilities		<u>26 717</u>	<u>11 817</u>
Creditors amounts falling due after more than one year	15	(7,637)	(3,066)
Accruals and deferred income	17	(465)	(214)
Net assets excluding retirement benefits		<u>18,615</u>	<u>8,537</u>
Retirement benefit liability	23	(77)	(662)
Net assets including retirement benefits		<u>18,538</u>	<u>7,875</u>
Capital and reserves			
Called up share capital	19 & 21	21,400	21,400
Share premium account	21	1,600	1,600
Profit and loss account	20 & 21	(4,462)	(15,125)
Equity shareholders' funds		<u>18,538</u>	<u>7,875</u>

J F Gallagher
8/2/07

J F Gallagher
Director

Notes to the financial statements

at 31 December 2006

1. Accounting policies

Basis of preparation and change in accounting policy

The financial statements are prepared under the historical cost convention. The financial statements are prepared in accordance with applicable accounting standards.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2006.

No profit and loss account is presented for Scottish Sea Farms Limited as permitted by Section 230 of the Companies Act 1985.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and houses, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold buildings	-	30 years
Leasehold property	-	10 years or over the period of the lease if shorter
Machinery and equipment	-	2.5 - 15 years
Motor vehicles	-	3 - 4 years

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

Goodwill

Goodwill is the difference between the amount paid on the acquisition of a business's assets and trade and the fair value of its separable net assets. It has been capitalised and is being written off in equal annual instalments over its expected economic life of 10 years. This goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Stocks

Stocks are valued at the lower of cost and net realisable value. In the case of ongrowing fish, costs include direct labour, feed and direct overheads attributable to fish production.

Research and development

Expenditure on research and development is written off in the year in which it is incurred.

Notes to the financial statements

at 31 December 2006

1. Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more or a right to pay less or to receive more tax, with the exception of deferred tax assets which are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Government grants

Grants are credited to reserves and released to the profit and loss account over the useful life of the assets by equal annual instalments

Grants of a revenue nature are credited to income in the period to which they relate

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives

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

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

Pensions

The group operates both a defined benefit and a defined contribution pension scheme. The assets of the schemes are held separately from those of the group

Defined benefit pension scheme assets are measured using market value. Associated pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability

Any increase in the present value of the liabilities of the group's defined benefit pension scheme expected to arise from employee service in the period, is charged to the operating profit. The expected return on the schemes assets and the increase during the period in the present value of the schemes liabilities arising from the passage of time, are included in other finance income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses

The company also operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All foreign currency exchange differences are dealt with through the profit and loss account

Notes to the financial statements

at 31 December 2006

1 Accounting policies (continued)

Cash flow statement

No cash flow statement has been prepared for the group in accordance with the exemption included in Financial Reporting Standard No 1 for subsidiary undertakings where consolidated financial statements, which include the subsidiary, are publicly available

2. Turnover

Turnover comprises the invoice value of goods and services supplied by the group exclusive of VAT and intra-group transactions

Turnover is attributable to one continuing activity, the farming of salmon

No further analysis of turnover has been disclosed as, in the opinion of the directors, any further analysis would be seriously prejudicial to the interests of the group

3. Group operating profit

This is stated after charging/(crediting)

	2006 £000	2005 £000
Depreciation of owned assets	1,979	1,895
Depreciation of assets held under finance leases and hire purchase contracts	320	277
	<u>2,299</u>	<u>2,172</u>
Directors' remuneration	285	222
Auditors' remuneration		
- audit services	34	34
- non audit services	15	12
Hire of plant and equipment	2,250	2,342
Government grants released	(86)	(50)
Amortisation of goodwill	68	68
Exchange (gains)/losses	(4)	-
Gain on sale of fixed assets	(174)	(21)
	<u></u>	<u></u>

4. Directors' remuneration

	2006 £000	2005 £000
Emoluments	285	222
	<u></u>	<u></u>
	2006 No	2005 No
Members of defined benefit pension schemes	2	2
	<u></u>	<u></u>

The emoluments of the highest paid director for the year ended 31 December 2006 were £167,000 (2005 - £138,000) He was a member of the group's defined benefit pension scheme and his accrued pension at 31 December 2006 was £12,000

Notes to the financial statements

at 31 December 2006

5. Staff costs

	2006 £000	2005 £000
Wages and salaries	6,272	5,770
Social security costs	556	463
Other pension costs	373	268
	<u>7,201</u>	<u>6,501</u>

The average monthly number of persons employed by the group during the year was made up as follows

	2006 <i>No</i>	2005 <i>No</i>
Production	242	221
Administration	22	22
	<u>264</u>	<u>243</u>

6. Interest payable

	2006 £000	2005 £000
Bank loan interest	768	1,131
Bank overdraft interest	723	946
	<u>1,491</u>	<u>2,077</u>

7. Other finance costs

	2006 £000	2005 £000
Interest on pension scheme liabilities	(274)	(214)
Expected return on pension scheme assets	292	242
	<u>18</u>	<u>28</u>

Notes to the financial statements

at 31 December 2006

8. Taxation

(a) Tax on profit on ordinary activities

Group

The tax credit is made up as follows

	<i>Note</i>	2006 £000	2005 £000
UK corporation tax			
UK corporation tax on profits for year		4,608	1,223
Tax overprovided in previous years		(127)	-
		<u>4,481</u>	<u>1,223</u>
Deferred tax	8(b)	4,481	1,223
Originating and reversal of timing differences	8(d)	766	(562)
		<u>5,247</u>	<u>661</u>

(b) Factors affecting the current tax charge

Group

	<i>Note</i>	2006 £000	2005 £000
Profit on ordinary activities before tax		16,431	7,646
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005 - 30%)		4,929	2,294
Effect of			
Disallowed expenses and non-taxable income		132	54
Fixed asset timing differences		(280)	7
Other timing differences		(47)	71
Tax overprovided in previous years		(127)	-
Utilisation of tax losses		(93)	(1,203)
Pension provision		(33)	-
	8(a)	<u>4,481</u>	<u>1,223</u>

(c) Factors that may affect future tax charges

The group has tax losses, accelerated capital allowances and other timing differences of approximately £569,000 (2005 - £1,873,000) which are available indefinitely for offset against future taxable profits

Notes to the financial statements

at 31 December 2006

8. Taxation (continued)

(d) Deferred tax

The deferred tax included in the balance sheet is as follows

	<i>Group</i>		<i>Company</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Included in debtors				
Accelerated/(Decelerated) capital allowances	313	(397)	113	(466)
Other timing differences	(142)	(151)	(142)	(151)
Tax losses	-	(14)	-	-
	<u>171</u>	<u>(562)</u>	<u>(29)</u>	<u>(617)</u>
Netted off against pension scheme liability				
Pension scheme asset	(33)	(284)	(33)	(284)
	<u>138</u>	<u>(846)</u>	<u>(62)</u>	<u>(901)</u>

	<i>Group</i>	<i>Company</i>
	<i>£000</i>	<i>£000</i>
At 1 January 2006	(846)	(901)
Credit for year	353	208
Adjustment in respect of prior years	413	413
Statement of Total Recognised Gains and Losses	218	218
At 31 December 2006	<u>138</u>	<u>(62)</u>

All the deferred tax balances above are stated at 30%

Notes to the financial statements

at 31 December 2006

9. Intangible fixed assets

	<i>Group goodwill £000</i>	<i>Company goodwill £000</i>
Cost		
At 1 January 2006 and at 31 December 2006	680	600
Amortisation		
At 1 January 2006	528	480
Addition for year	68	60
At 31 December 2006	596	540
Net book value		
At 31 December 2006	84	60
At 1 January 2006	152	120

Goodwill is being written off in equal annual instalments over its estimated economic life of 10 years

Notes to the financial statements

at 31 December 2006

10. Tangible assets

<i>Group</i>	<i>At 1 January 2006 £000</i>	<i>Additions and reclassifications £000</i>	<i>Disposals and transfers £000</i>	<i>At 31 December 2006 £000</i>
At cost				
Freehold land and buildings	2,040	176	-	2,216
Buildings on leasehold land	1,099	-	-	1,099
Machinery and equipment	40,240	3,968	200	44,008
Motor vehicles	716	70	-	786
	<u>44,095</u>	<u>4,214</u>	<u>200</u>	<u>48,109</u>
Depreciation				
Freehold land and buildings	1,152	59	-	1,211
Buildings on leasehold land	1,099	-	-	1,099
Machinery and equipment	31,898	2,102	200	33,800
Motor vehicles	459	138	-	597
	<u>34,608</u>	<u>2,299</u>	<u>200</u>	<u>36,707</u>
Net book value	<u>9,487</u>			<u>11,402</u>

The net book value of machinery and equipment and motor vehicles includes £345,000 (2005 – Nil) and £162,000 (2005 - £173,000) respectively, relating to assets held under finance leases and hire purchase contracts

<i>Company</i>	<i>At 1 January 2006 £000</i>	<i>Additions and reclassifications £000</i>	<i>Disposals and transfers £000</i>	<i>At 31 December 2006 £000</i>
At cost				
Freehold land and buildings	1,957	176	-	2,133
Buildings on leasehold land	1,099	-	-	1,099
Machinery and equipment	34,341	3,632	200	37,773
Motor vehicles	710	70	-	780
	<u>38,107</u>	<u>3,878</u>	<u>200</u>	<u>41,785</u>
Depreciation				
Freehold land and buildings	1,128	59	-	1,187
Buildings on leasehold land	1,099	-	-	1,099
Machinery and equipment	27,230	1,993	200	29,023
Motor vehicles	453	138	-	591
	<u>29,910</u>	<u>2,190</u>	<u>200</u>	<u>31,900</u>
Net book value	<u>8,197</u>			<u>9,885</u>

The net book value of machinery and equipment and motor vehicles includes £345,000 (2005 – Nil) and £162,000 (2005 - £173,000) respectively relating to assets held under finance leases and hire purchase contracts

Notes to the financial statements

at 31 December 2006

11. Investments

Company

	2006 £000	2005 £000
At 1 January and at 31 December	1,581	1,581

Subsidiary undertakings

	<i>Class of shares</i>	<i>Country of incorporation</i>	<i>Proportion held</i>
Kerrera Fisheries Limited	Ordinary £1	Scotland	100%
GSP Farms Limited	Ordinary £1	Scotland	100%
Seafresh Farms Limited	Ordinary £1	Scotland	100%
Seafresh Salmon Limited	Ordinary £1	Scotland	100%
Lismore Salmon Limited	Ordinary £1	Scotland	100%
Scottish Sea Farms Sales Limited	Ordinary £1	Scotland	100%
Stewart Salmon Limited*	Ordinary £1	Scotland	100%
Slett Salmon Farms Limited*	Ordinary £1	Scotland	100%

* Held by a subsidiary undertaking

All of the above companies are dormant except for Kerrera Fisheries Limited whose principal activity is the farming and sale of salmon

12. Stocks

	2006 £000	<i>Group</i> 2005 £000	2006 £000	<i>Company</i> 2005 £000
Materials and feed	947	577	656	401
Ongrowing fish	32,432	22,536	27,378	20,657
	<u>33,379</u>	<u>23,113</u>	<u>28,034</u>	<u>21,058</u>

Notes to the financial statements

at 31 December 2006

13. Debtors

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Trade debtors	5,520	4,896	5,520	4,896
Prepayments and accrued income	289	483	210	475
Amounts owed by group undertakings	2,242	1,738	9,728	7,550
Other debtors	563	263	562	263
Deferred tax (note 8(d))	-	562	29	617
	<u>8,614</u>	<u>7,942</u>	<u>16,049</u>	<u>13,801</u>

Included within amounts owed by group undertakings for the 'company' is an amount of £3,000,000 (2005 - £3,000,000), which is due after one year

14. Creditors: amounts falling due within one year

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Bank loans (note 16)	3,700	11,775	3,700	11,775
Bank overdraft	12,280	12,500	12,280	12,500
Trade creditors	9,230	7,944	8,065	7,467
Social security	391	230	391	230
Corporation tax payable	2,465	1,184	2,166	1,184
Accruals and deferred income	2,040	3,743	1,677	3,533
Obligations under finance leases and hire purchase contracts (note 18)	208	123	208	123
Amounts owed to group companies	25	57	432	57
	<u>30,339</u>	<u>37,556</u>	<u>28,919</u>	<u>36,869</u>

The bank overdraft and bank loans are secured by a fixed and floating charge and standard security over all the assets of the company and its subsidiaries. In addition there is a first priority charge of the company's shares in its subsidiary undertakings.

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

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Bank loans (note 16)	7,375	3,000	7,375	3,000
Obligations under finance leases and hire purchase contracts (note 18)	262	66	262	66
	<u>7,637</u>	<u>3,066</u>	<u>7,637</u>	<u>3,066</u>

Notes to the financial statements

at 31 December 2006

16. Bank loans

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Wholly repayable within five years				
£10 million bank loan at LIBOR plus 1.25% per annum, repayable in twenty quarterly instalments of £500,000 commencing August 2003	3,000	5,000	3,000	5,000
£17million bank loan	8,075	9,775	8,075	9,775
	<u>11,075</u>	<u>14,775</u>	<u>11,075</u>	<u>14,775</u>
Less included in creditors amounts falling due within one year (note 14)	3,700	11,775	3,700	11,775
	<u>7,375</u>	<u>3,000</u>	<u>7,375</u>	<u>3,000</u>
Amounts falling due after one year (note 15)				
Amounts repayable				
In one year or less	3,700	11,775	3,700	11,775
In more than one year but not more than two years	2,700	2,000	2,700	2,000
In more than two years but not more than five years	4,675	1,000	4,675	1,000
	<u>11,075</u>	<u>14,775</u>	<u>11,075</u>	<u>14,775</u>

The bank loans are secured by a fixed and floating charge and standard security over all the assets of the company and its subsidiaries. In addition there is a first priority charge of the company's shares in its subsidiary undertakings.

17. Accruals and deferred income

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Deferred government grants				
At 1 January	214	165	214	165
Received in year	337	99	337	99
Released in year	(86)	(50)	(86)	(50)
	<u>465</u>	<u>214</u>	<u>465</u>	<u>214</u>
At 31 December				

Notes to the financial statements

at 31 December 2006

18. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts payable				
Within one year	223	133	223	133
In two to five years	281	71	281	71
	<u>504</u>	<u>204</u>	<u>504</u>	<u>204</u>
Less finance charges allocated to future periods	(34)	(15)	(34)	(15)
	<u>470</u>	<u>189</u>	<u>470</u>	<u>189</u>

Finance leases and hire purchase contracts are analysed as follows

	<i>Group</i>		<i>Company</i>	
	2006	2005	2006	2005
	£000	£000	£000	£000
Current obligations (note 14)	208	123	208	123
Non-current obligations (note 15)	262	66	262	66
	<u>470</u>	<u>189</u>	<u>470</u>	<u>189</u>

19. Called up share capital

	<i>Authorised</i>		<i>Allotted, called up and fully paid</i>	
	2006	2005	2006	2005
	No	No	£000	£000
Ordinary shares of £1 each	21,400,000	21,400,000	21,400	21,400

20. Profit and loss account

	<i>Group</i>	<i>Company</i>	<i>Subsidiaries</i>
	£000	£000	£000
As at 1 January 2006	(19,875)	(15,125)	(4,750)
Profit for the year	11,184	10,155	1,029
Actuarial gain net of tax thereon	508	508	-
As at 31 December 2006	<u>(8,183)</u>	<u>(4,462)</u>	<u>(3,721)</u>

The company has not presented its own profit and loss account for the year ended 31 December 2006. Of the group profit for the financial year, a profit of £10,155,000 (2005 – profit of £5,772,000) has been dealt with in the financial statements of the company.

Notes to the financial statements

at 31 December 2006

21. Reconciliation of equity shareholders' funds and movements on reserves

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
<i>Group</i>				
At 1 January 2005				
As previously reported	21,400	1,600	(26,104)	(3,104)
Prior year adjustment	-	-	(252)	(252)
As restated	21,400	1,600	(26,356)	(3,356)
Profit for the year	-	-	6,985	6,985
Actuarial loss net of tax thereon	-	-	(504)	(504)
At 1 January 2006	21,400	1,600	(19,875)	3,125
Profit for the year	-	-	11,184	11,184
Actuarial gain net of tax thereon	-	-	508	508
At 31 December 2006	21,400	1,600	(8,183)	14,817

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Profit and loss account £000</i>	<i>Total £000</i>
<i>Company</i>				
At 1 January 2005				
As previously reported	21,400	1,600	(20,141)	2,859
Prior year adjustment	-	-	(252)	(252)
As restated	21,400	1,600	(20,393)	2,607
Profit for the year	-	-	5,772	5,772
Actuarial loss net of tax thereon	-	-	(504)	(504)
At 1 January 2006	21,400	1,600	(15,125)	7,875
Profit for the year	-	-	10,155	10,155
Actuarial gain net of tax thereon	-	-	508	508
At 31 December 2006	21,400	1,600	(4,462)	18,538

22. Capital commitments

Amounts contracted for but not provided in the financial statements amounted to £173,000 (2005 - £582,000) for the group and the company

Notes to the financial statements

at 31 December 2006

23. Pension scheme

The disclosures required by FRS17 are detailed below

A formal valuation of the Scheme was carried out at 31 December 2005, although this is yet to be finalised. A valuation has been carried out by a qualified independent actuary, based on the FRS 17 assumptions at 31 December 2006. Scheme assets are stated at their market value at 31 December 2006.

The major financial assumptions used by the actuary for the purposes of FRS 17 were

	31 December 2006	31 December 2005	31 December 2004
Rate of increase in salaries	3.00%	3.00%	2.75%
Rates of increase to pensions in payment			
Pension accrued pre 1 March 2002	3.00%	3.00%	3.00%
Pension accrued post 1 March 2002	3.00%	3.00%	2.75%
Discount rate	5.00%	4.90%	5.50%
Inflation assumption	3.00%	3.00%	2.75%

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

	Long term rate of return expected at 31 December 2006 %	Value at 31 December 2006 £000	Long term rate of return expected at 31 December 2005 %	Value at 31 December 2005 £000	Long term rate of return expected at 31 December 2004 %	Value at 31 December 2004 £000
Equities	6.80	4,526	6.50	3,627	7.00	2,868
Corporate bonds	5.00	782	4.90	640	5.25	506
Other	5.00	162	4.50	195	4.75	33
Total market value of assets		5,470		4,462		3,407
Present value of scheme liabilities		(5,580)		(5,408)		(3,767)
Deficit in the scheme		(110)		(946)		(360)
Related deferred tax asset		33		284		108
Net pension liability		(77)		(662)		(252)

Notes to the financial statements

at 31 December 2006

23. Pension scheme (continued)

Analysis of amount charged to operating profit

	<i>31 December</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Current service cost	355	268

Analysis of amount credited to other finance income

	<i>31 December</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Expected return on pension scheme assets	292	242
Interest on pension scheme liabilities	(274)	(214)
Net return	18	28

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)

	<i>31 December</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Actual return less expected return on pension scheme assets	198	381
Experienced gains/(losses) arising on the scheme liabilities	188	164
Changes in assumptions underlying the present value of the scheme liabilities	340	(1,265)
Actuarial gain/(loss) recognised in STRGL	726	(720)

Notes to the financial statements

at 31 December 2006

23. Pension scheme (continued)

Movements in the surplus during the period

	<i>31 December</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Deficit in scheme at the beginning of the period	(946)	(360)
Movements in the year		
Current service cost	(355)	(268)
Contributions	447	374
Other financial income	18	28
Actuarial gain/ (loss)	726	(720)
Deficit in scheme at the end of the year	(110)	(946)

The company contributed to the Scheme at a rate of 16 1% of pensionable salaries over the year plus an extra contribution of £150,000 at the end of December 2006. The current contribution rate will be amended when the formal valuation dated 31 December 2005 is finalised.

New members are only admitted to the Scheme at the Company's discretion. As such, the current service cost, as a percentage of pensionable salary, will increase as members approach retirement.

History of experience gains and losses

	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>	<i>31 December</i>
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Difference between expected and actual return on the scheme assets				
Amount (£000)	198	381	142	247
Percentage of scheme assets	4%	9%	4%	9%
Experience gains/(losses) on scheme liabilities				
Amount (£000)	188	164	(68)	24
Percentage of the present value of scheme liabilities	3%	3%	(2%)	1%
Total amount recognised in statement of total recognised gains and losses				
Amount (£000)	726	(720)	(355)	107
Percentage of the present value of scheme liabilities	13%	(13%)	(9%)	4%

Notes to the financial statements

at 31 December 2006

24. Other financial commitments

At 31 December 2006 the group had annual commitments under non-cancellable operating leases as set out below

<i>Group</i>	<i>2006</i>	<i>Other</i>
	<i>£000</i>	<i>2005</i>
		<i>£000</i>
Operating leases which expire		
Within one year	640	-
In two to five years	1,039	1,691

25. Related parties

- i) During the year, the group bought and sold fish in the normal course of business from/to Leroy Hallvard AS, one of its ultimate parent undertakings. The price charged was the normal market price in the case of each individual purchase/sale. Included in the profit and loss account are the following amounts relating to transactions with Leroy Hallvard AS

	<i>2006</i>	<i>2005</i>
	<i>£000</i>	<i>£000</i>
Turnover	19,061	21,732
Cost of sales	674	817

At the balance sheet date the amount due from Leroy Hallvard AS was £2,242,000 (2005 - £1,737,000) and an amount due to Hallvard Leroy AS of £16,000 (2005 - £47,000)

- ii) During the year, the group paid a management charge of £150,000 in the normal course of business to Salmar AS, one of its ultimate parent undertakings. The price charged was on an arm's length basis. The amount is included within administrative expenses. At the balance sheet date, the amount due to Salmar AS was £9,000 (2005 - £9,000)
- iii) There have been other intra group transactions but these have not been disclosed due to the exemption for 90% subsidiaries contained in Financial Reporting Statement No 8

26. Parent undertakings and controlling parties

In the opinion of the directors, the company's immediate parent undertaking is Norskott Havbruk AS, incorporated in Norway. It will include the company in its group financial statements, copies of which will be available from its registered office Bontelabo 2, 5020 Bergen, Norway

In the opinion of the directors, the company's ultimate parent undertakings and controlling parties are Leroy Seafood Group ASA and Salmar AS, both companies incorporated in Norway. Copies of their group financial statements, which include the company, are available from PO Box 7600, N-5020 Bergen, Norway, and N-216 Kverva, Norway, respectively