LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

There have been major changes in the nature of the Group during 1997; as in the two preceding years old Group activities have been phased out as new ones are developed. Losses on discontinued operations and onerous contracts were provided for in the 1996 Financial Statements and I am pleased to report a profit for 1997 of £2,175,000. This includes some exceptional profit on realisation of assets.

Having disposed of our electronic business in 1995, in 1997 we sold our brick-making business Glasgow Iron & Steel Company to its management but retained the heritable assets which are held in A. Kenneth & Sons, now a direct Lithgows' subsidiary. The Group is focused on four main operating divisions, Aquaculture, Marine, Engineering and Property.

Capital investment in property, plant and equipment during the year amounted to £2,971,000 (last year £2,788,000). The Group remains heavily committed to research and development in all of its operations, and a major project, which received valuable support from both the local enterprise company and European funding, is now well under way within Landcatch.

The Group's business, being principally in U.K. productive industries, has been put under great strain by the rapid appreciation of sterling. Naïve economic policies and the instability of our domestic currency have done immense damage to British productive industry over the last 35 years. Globalisation increasingly constrains domestic policies but xenophobia is too prevalent for Britain's good.

Our juvenile salmon business continues to develop and Landcatch Chile Ltda operations have started. Landcatch is well advanced with a selective breeding programme derived from advanced genetics techniques which for the first time enable the principles of selection used in traditional farming to be applied in salmon farming. This technique will enhance the quality of stock and its performance when ongrown by our customers so strengthening demand for our juveniles. The outlook for salmon farming generally remains cloudy, with over-production in Norway, anti-dumping measures in the United States for Norwegian product, and depressed markets in Asia. The present Government seems more aware of the great damage caused by government indifference to a young and very competent Scottish industry, alas now more than 50% Norwegian owned. It remains to be seen how effective the E.U. will be in operating measures to deal with the Norwegian irregularities they have found, and whether market forces will rationalise the huge overhang in Norwegian capacity. As specialists we are confident in our ability to take advantage of opportunities.

Knapdale Shipping (Campbeltown), 60% Lithgows, 40% J. & A. Gardner & Co. Limited, is up and running with the wellboat M.V. Crear built by Campbeltown Shipyard. Part of her work has been delivering Landcatch smolts to Shetland.

The Marine Division is concentrating on refurbishment and repair of vessels, the new building market being very poor with some owners demanding unreasonable contract terms. We are re-establishing a consultancy service for fishing vessel owners under the name of Kingfisher Marine Services based at Lerwick and Buckie. This will complement a similar service to Aquaculture.

SC101110

Lithgows Limited

Report & Financial Statements 1997

LITHGOWS LIMITED

CHAIRMAN's STATEMENT (continued)

Operating Activities

Aquaculture

Landcatch

Good progress has been made in building new strengths in the team. The market for smolts has been weak but all our 97/98 smolts were sold.

The Marine Resource Centre is developing nicely.

McKinlay & Blair performed well.

Marine

With the appointment of Mike Comerford as a managing director for the marine companies Buckie Shipyard is settling down.

Campbeltown Shipyard is on care and maintenance.

Malakoff & Wm. Moore has had another patchy year.

J. Fleming Engineering (Stornoway) likewise.

Engineering

Prosper Engineering

The creation of joint managing directors with Ian Matthews' appointment reflects the market driven nature of this business today. Tom Ferguson's technical expertise gives this company a formidable double cutting edge. Currency market conditions have resulted in sourcing of raw materials from non UK sources. Government vacillation is seriously affecting UK offshore oil related business.

The Group holds 16% of the shares of Scot-Track, the balance being held by the Lithgow family. This company designs and makes off road vehicles and after comprehensive upgrading is well placed to develop. It has a major US licensee coming on stream.

Property

Steady progress should result in disposal of part of the Group's portfolio of brown field properties.

LITHGOWS LIMITED

CHAIRMAN's STATEMENT (continued)

Other Activities

Lithgows Pty

Boathaugh has been revalued and we have conservatively incorporated part of the resulting surplus in these accounts, so compensating for an unrealised loss due to exchange rate variances. Australian markets are depressed by events in Asia. We are in a prime wine growing district and are establishing grape production.

Outlook

1998 will be another very tough year in a hostile economic climate but it has made a reasonable start.

The Board has been joined by the Rt Hon Lord Lang PC, lately President of the Board of Trade and formerly Secretary of State for Scotland. His wealth of experience is much appreciated. Our families have been co-venturers for more than a century. Graeme Hogg, a distinguished partner in Ernst & Young and long associated professionally with Lithgows, has also joined the Board. Maurice Alberge and Donald Macquaker retire from the Board at the A.G.M. For their guidance and wise counsels over many years we are very grateful. I reported Cameron Parker's retirement last year but wish to place on record our delight at his appointment as Lord Lieutenant for Renfrewshire.

We have appointed James Lithgow B.Eng.(Hons) Vice Chairman. He will also have special responsibilities for the engineering companies as deputy on their boards to the Group Managing Director Hugh Currie.

As always may I express appreciation of the hard work of so many.

Chairman

May 8, 1998

Directors

Sir William Lithgow, Bt.*+	(Chairman)
Mr. J.F. Lithgow+	(Vice Chairman)
Mr. H.M. Currie	(Managing Director)
Mr. M.E. Alberge*+	
Mr. F.G. Hogg+	(Appointed February 9, 1998)
The Rt. Hon. Lord Lang of Monkton+	(Appointed December 2, 1997)
Lady Lithgow+	
Mr. D.F. Macquaker, C.B.E.*+	
Mr. C.H. Parker, O.B.E.+	(Retired August 5, 1997)
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

LITHGOWS LIMITED

DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended December 31, 1997.

Results and dividends

The group trading profit for the year, after taxation amounted to £2,174,755.

The directors recommend dividends absorbing £235,372, leaving £1,939,383 retained.

Review of the business

The group's principal operating subsidiaries and their activities during the year are shown on page 25. 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 present directors and those who served during the year are stated on page 4.

The Rt. Hon. Lord Lang of Monkton and Mr. F.G. Hogg having been appointed since the last Annual General Meeting, retire and being eligible offer themselves for re-election.

The directors who retire from the board by rotation at the next Annual General Meeting are Lady Lithgow and Mr. A.R. Reid who, being eligible, offer themselves for re-election.

The following directors had the undernoted interests in the ordinary and preference share capital of Lithgows Limited at December 31, 1997 and at December 31, 1996.

	Ordinary shares				Preferred Ordinary Shares		7.5% Preference shares			
	Beneficial Interest		Interest as Trustees (non-beneficial)		Interest as Trustees (non-beneficial)		Beneficial Interest		Interest as Trustees (non-beneficial)	
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Sir William Lithgow	1,753	1,753	500	500	-	-	-	-	-	-
Lady Lithgow	728	728	1,440	3,909	-	654	-	-	108,000	650,000
J.F. Lithgow	2,469	-	-	-	-	-	506,000	-	-	-
C.H. Parker	-	-	-	1,023	-	512	-	-	-	-

No other director at December 31, 1997 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 regarding Corporate Governance and the Cadbury Code of Practice, the Lithgows group has for some years honoured most of the recommendations in that code. The Board includes 7 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 and three 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. 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.

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Charitable donations

During the year the group made charitable contributions totalling £15,205.

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

A. A. Reid

Secretary

May 8, 1998

REPORT OF THE AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the financial statements on pages 9 to 36 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, 1997 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

GRANT THORNTON
Registered Auditors
Chartered Accountants

Glasgow
May 8, 1998

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1997

	Notes	1997 £'000	1997 £'000	1996 £'000	1996 £'000
TURNOVER	1				
Continuing operations		26,967		29,118	
Discontinued operations		2,522		3,483	
			29,489		32,601
Cost of sales	2		(22,884)		(28,058)
Gross profit			6,605		4,543
Other operating income & charges	2		(5,583)		(6,035)
OPERATING PROFIT/(LOSS)	3				
Continuing operations		1,491		(1,038)	
Discontinued operations		(469)		(454)	
Less 1996 provision		442		-	
			1,464		(1,492)
EXCEPTIONAL ITEMS					
Profit on disposal of fixed assets in continuing operations		883		32	
Profit on disposal of fixed assets in discontinued operations		49		2	
Loss on disposal of subsidiary undertaking	22	(746)		-	
Less 1996 provision		746		-	
Provision for loss on operations to be discontinued		-		(1,818)	
			932		(1,784)
			2,396		(3,276)
Net Interest	5		(273)		(149)
Profit/(loss) on ordinary activities before taxation			2,123		(3,425)
Taxation	6		15		(7)
Profit/(loss) on ordinary activities after taxation			2,138		(3,432)
Minority interests			37		9
Profit/(loss) for the financial year			2,175		(3,423)
Dividends - including non equity interests	7		(235)		(235)
Profit/(loss) for year			1,940		(3,658)

The notes on pages 15 to 36 form part of these financial statements.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 1997

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	1997 £'000	1996 £'000
Profit/(loss) for the year	1,940	(3,658)
Unrealised surplus on revaluation of assets	469	-
Write back of revaluation surplus	(11)	-
Exchange differences	(444)	-
Total recognised gains and losses for the year	1,954	(3,658)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	1997 £'000	1996 £'000
Reported profit/(loss) on ordinary activities before taxation	2,123	(3,425)
Realisation of revaluation gains of previous years	26	-
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	29	23
Historical cost profit/(loss) on ordinary activities before taxation	2,178	(3,402)
Historical cost profit/(loss) retained	1,995	(3,635)

The notes on pages 15 to 36 form part of these financial statements.

STATEMENT OF RETAINED RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS FOR THE YEAR ENDED DECEMBER 31, 1997

Group	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 year:							
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
Attributable to:							
Equity interests							11,222
Non equity interests							650
							11,872
Company							
At January 1, 1997	3,918	-	-	325	4,243	1,354	5,597
Movements in year:							
Profit for the year	53	-	-	-	53	-	53
At December 31, 1997	3,971	-	-	325	4,296	1,354	5,650
Attributable to:							
Equity interests							5,000
Non equity interests							650
							5,650

The notes on pages 15 to 36 form part of these financial statements.

LITHGOWS LIMITED

GROUP BALANCE SHEET AT DECEMBER 31, 1997

	Notes	£'000	1997 £'000	1996 £'000
Fixed assets:				
Tangible assets	8	13,104		12,539
Investments:	9			
Associated undertakings		30		30
Unlisted investments		58		58
			13,192	12,627
Current assets:				
Stocks and work-in-progress	10	4,966		6,342
Debtors	11	6,398		6,109
Cash at bank and in hand		646		1,563
		12,010		14,014
Creditors: amounts falling due within one year	12	(9,567)		(13,630)
Net current assets			2,443	384
Total assets less current liabilities			15,635	13,011
Creditors: amounts falling due after more than one year	13		(2,310)	(1,650)
Provision for liabilities and charges	16		(241)	(184)
Minority interests (including non equity interests)	17		(650)	(576)
Accruals and deferred income: Deferred grants			(562)	(572)
			11,872	10,029
Capital and reserves:				
Called up share capital (including non equity interests)	18		1,354	1,354
Reserves			10,518	8,675
			11,872	10,029

) Directors
)

May 8, 1998

The notes on pages 15 to 36 form part of these financial statements.

LITHGOWS LIMITED

COMPANY BALANCE SHEET AT DECEMBER 31, 1997

	Notes	£'000	1997 £'000	1996 £'000
Fixed assets:				
Tangible assets	8	196		191
Investments:	9			
Subsidiary undertakings		11,108		9,647
Associated undertakings		30		30
Unlisted investments		50		50
			11,384	9,918
Current assets:				
Debtors	11	131		199
Cash at bank and in hand		271		256
		402		455
Creditors: amounts falling due within one year	12	(6,126)		(4,776)
Net current liabilities			(5,724)	(4,321)
Total assets less current liabilities			5,660	5,597
Creditors: amounts falling due after more than one year	13		(10)	-
			5,650	5,597
Capital and reserves:				
Called up share capital (including non equity interests)	18		1,354	1,354
Reserves			4,296	4,243
			5,650	5,597

) Directors

May 8, 1998

The notes on pages 15 to 36 form part of these financial statements.

LITHGOWS LIMITED
GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1997

	Notes	1997 £'000	1996 £'000
Net cash (outflow)/inflow from operating activities	19	(1,411)	2,927
Returns on investments and servicing of finance			
Interest received		203	177
Interest paid		(273)	(180)
Finance lease interest paid		(41)	(44)
Non-equity dividends paid		(49)	(49)
Loan interest paid		(162)	(102)
Net cash outflow from return on investments and servicing of finance		(322)	(198)
Taxation		(13)	(68)
Capital expenditure and financial investment			
Purchase of fixed assets		(1,451)	(2,494)
Sale of fixed assets		1,119	41
Receipt of grant		175	458
Capital receipt from finance lease		75	138
Net cash outflow from capital expenditure and financial investment		(82)	(1,857)
Acquisitions and disposals			
Acquisitions of assets		-	(252)
Investment in associated undertaking		-	(30)
Sale of unlimited investments		-	50
Sale of subsidiary undertaking	22	256	-
Net cash inflow/(outflow) from acquisitions and disposals		256	(232)
Equity dividends paid		(186)	(188)
Financing			
Capital receipt from minority interests		-	240
Receipts from new borrowings		-	500
Repayment of borrowings		(395)	(322)
Capital element of finance lease rentals		(280)	(463)
Net cash (outflow) from financing	20	(675)	(45)
(Decrease)/increase in cash	21	(2,433)	339

The notes on pages 15 to 36 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 profit and loss account, balance sheet and cash flow statement 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.

Companies, other than subsidiary undertakings, in which the group has an investment comprising not less than 20% in the voting capital or over which it exerts significant influence are defined as associated undertakings.

The group share of the results of associated undertakings is shown in the profit and loss account and the group share of the accumulated reserves of these associates is shown in the statement of retained reserves.

Goodwill

Goodwill, being the difference between the amount paid on the acquisition of a business and the aggregate fair value of its separable assets, is written off in the year in which it is incurred.

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%

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 rental 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.

Finance leases

Assets leased to customers on finance leases are excluded from the fixed assets of the company and reported in the balance sheet as a debtor for the amount expected to be received from that lease (net of future period finance charges). Receipts from finance leases contain a capital element which reduces the debtor and an interest charge which is credited to revenue so as to give a constant return on the funds invested in 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.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

1. 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:-

	1997 £'000	1996 £'000
Marine	9,813	11,349
Engineering	8,609	9,521
Aquaculture	8,362	8,048
Others	183	200
	26,967	29,118
Discontinued activity	2,522	3,483
	29,489	32,601

Analysis of turnover by geographical area:

	1997 £'000	1996 £'000
U.K.	26,917	29,618
E.C.	784	877
Other Europe	24	162
U.S.A. and Canada	241	268
Asia and Australasia	617	874
South America	906	802
	29,489	32,601

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

2. Cost of sales/other operating income and charges

	1997 Continuing	1997 Discontinued	1997 Total £'000	1996 Continuing £'000	1996 Discontinued £'000	1996 Total £'000
Cost of sales:						
Cost of sales	(20,308)	(2,576)	(22,884)	(23,501)	(3,153)	(26,654)
Exceptional losses	-	-	-	(1,404)	-	(1,404)
Total cost of sales	(20,308)	(2,576)	(22,884)	(24,905)	(3,153)	(28,058)
Other operating income and charges:						
Distribution costs	(550)	(134)	(684)	(474)	(242)	(716)
Administrative costs	(4,689)	(296)	(4,985)	(5,026)	(543)	(5,569)
Other operating income	71	15	86	249	1	250
	(5,168)	(415)	(5,583)	(5,251)	(784)	(6,035)

The exceptional losses in 1996 arose from losses on onerous newbuild contracts within the marine division.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

3. Operating profit/(loss)

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

	1997 £'000	1996 £'000
Items charged:		
Auditors' remuneration - audit services	78	78
Auditors' remuneration - non-audit services	18	9
Depreciation of owned assets	1,169	1,149
Depreciation of assets held under finance leases and hire purchase contracts	343	328
Operating lease rentals - plant & machinery	205	160
Operating lease rentals - land & buildings	309	336
Items credited:		
Net rental income	5	7
Release from deferred grants	80	176

(b) Directors' emoluments

	1997 £'000	1996 £'000
Aggregate emoluments	416	398

During the year, 5 directors (1996 - 5 directors) participated in defined benefit pension schemes.

The emoluments of the highest paid director were £111,985 (1996 - £93,843). The highest paid director's accrued pension at the year-end was £47,218.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

4. Staff costs

	1997 £'000	1996 £'000
Wages and salaries	8,308	8,816
Social security costs	687	760
Other pensions costs	361	349
	9,356	9,925

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

	1997 No.	1996 No.
Directors	4	4
Office and management	121	131
Other	382	432
	507	567

5. Net interest

	1997 £'000	1996 £'000
Bank loans and overdrafts and other loans wholly repayable within five years	(273)	(180)
Finance charges payable under finance leases and hire purchase contracts	(41)	(44)
Loans not wholly repayable within five years	(162)	(102)
	(476)	(326)
Bank deposit interest received	115	95
Finance leases	70	42
Other loans interest received	8	40
Other interest receivable	10	-
	(273)	(149)

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

The taxation credit/(charge) represents:	1997 £'000	1996 £'000
Corporation tax payable at 31.5% (1996 - 33%)	(5)	(15)
Transfer to deferred taxation	(57)	(69)
	(62)	(84)
Other items:		
Corporation tax - over provision in prior years	77	77
	15	(7)

Taxation on profit in 1997 has been affected by the release of provisions disallowed in prior years, the utilisation of capital allowances disclaimed in prior years and the rollover of a capital gain.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

7. Dividends

	1997 £'000	1996 £'000
Equity interests		
Ordinary dividend - interim paid £13.125 per share (1996 - £13.125 per share)	84	84
Preferred ordinary dividend - interim paid £13.125 per share (1996 - £13.125)	8	8
Ordinary dividend - 2nd interim proposed £13.125 per share (1996 - £13.125 per share)	84	84
Preferred ordinary dividend - 2nd interim proposed £15.75 per share (1996 - £15.75 per share)	10	10
	186	186
Non equity interests		
Preference dividend - paid	49	49
	235	235

8. Tangible fixed assets

	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Company			
Cost:			
At January 1, 1997	351	271	622
Additions	-	60	60
Group transfers	-	23	23
Disposals	(20)	(27)	(47)
At December 31, 1997	331	327	658
Depreciation:			
At January 1, 1997	256	175	431
Charge for the year	1	43	44
Group transfers	-	14	14
Disposals	-	(27)	(27)
At December 31, 1997	257	205	462
Net book value:			
At January 1, 1997	95	96	191
At December 31, 1997	74	122	196

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

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, 1997	6,972	195	285	16,069	261	23,782
Additions	364	-	12	2,595	-	2,971
Disposals	(62)	-	(65)	(3,279)	-	(3,406)
Exchange difference	(381)	-	-	(38)	-	(419)
Surplus on revaluation	460	-	-	-	-	460
At December 31, 1997	7,353	195	232	15,347	261	23,388
Depreciation:						
At January 1, 1997	1,087	79	87	9,923	67	11,243
Charge for the year	131	5	15	1,355	6	1,512
Disposals	-	-	(15)	(2,423)	-	(2,438)
Exchange difference	(1)	-	-	(23)	-	(24)
Written back on revaluation	(9)	-	-	-	-	(9)
At December 31, 1997	1,208	84	87	8,832	73	10,284
Net book value:						
At January 1, 1997	5,885	116	198	6,146	194	12,539
At December 31, 1997	6,145	111	145	6,515	188	13,104
Cost or valuation at December 31, 1997, comprises:						
Cost	3,970	195	232	15,347	96	19,840
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
	7,353	195	232	15,347	261	23,388

The freehold land and buildings of Lithgows Pty Limited were revalued at December 31, 1997 by the directors taking into account the market values at that date.

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, 1997 and December 31, 1997	634	102	736
Disposals	(6)	-	(6)
Exchange difference	(52)	-	(52)
At December 31, 1997	576	102	678
Depreciation based on cost:			
At January 1, 1997	127	45	172
Charge for the year	4	3	7
Exchange difference	(8)	-	(8)
At December 31, 1997	123	48	171
Net historical cost value:			
At January 1, 1997	507	57	564
At December 31, 1997	453	54	507

Included in the amounts for machinery, plant, vehicles and fittings above are the following amounts relating to leased assets and assets acquired under hire purchase contracts.

	Company £'000	Group £'000
Net book value:		
At January 1, 1997	4	375
At December 31, 1997	17	540

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

9. Investments

(a) Subsidiary undertakings:

Company	1997 £'000	1996 £'000
Investment in subsidiary undertakings comprises:		
Cost	9,530	9,192
Amounts written off	(1,062)	(1,880)
Amounts due by subsidiaries, less provisions	4,781	6,112
Amounts due to subsidiaries	(2,141)	(3,777)
Net book value	11,108	9,647

At December 31, 1997, 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. During the year the company purchased the 24.9% minority shares in Aquaculture Diagnostics Limited. 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† Malakoff & Wm. Moore Limited
Engineering:	Prosper Engineering Limited
Aquaculture:	Argyll Salmon Limited Barony Seafoods Limited Campbeltown Developments Limited 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
Primary Production:	Lithgows Pty Limited (incorporated in Australia)†
Building Products:	A. Kenneth & Sons Limited
Finance:	Inver Salmon Limited Lithgow Factoring Limited
Scientific:	Aquaculture Diagnostics Limited

9. Investments
(continued)

(b) Associated undertakings

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

	Company £'000	Group £'000
Cost:		
At January 1, 1997 and December 31, 1997	30	105
Amounts written off:		
At January 1, 1997 and December 31, 1997	-	75
Net book value:		
At January 1, 1997 and December 31, 1997	30	30

(c) Unlisted investments

Unlisted investments comprise:

	Company £'000	Group £'000
Cost:		
At January 1, 1997 and December 31, 1997	64	169
Amounts written off:		
At January 1, 1997 and December 31, 1997	14	111
Net book value:		
At January 1, 1997 and December 31, 1997	50	58

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

10. Stocks and work-in-progress

	Group	
	1997	1996
	£'000	£'000
Raw materials and consumables	1,387	1,448
Work-in-progress	1,130	1,217
Work-in-progress payments received on account	(155)	(212)
Finished goods and goods for resale	530	1,369
Livestock	2,074	2,520
	4,966	6,342

11. Debtors

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Trade debtors	26	18	5,103	4,816
Other debtors	43	22	783	615
Prepayments and accrued income	57	84	349	518
Current corporation tax	5	-	163	85
Amounts due from finance leases	-	75	-	75
	131	199	6,398	6,109

12. Creditors: amounts falling due within one year

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Bank overdrafts	4,787	3,246	2,270	738
Finance lease and hire purchase creditor (note 15)	4	74	149	199
Current instalments due on loans (note 14)	-	-	426	437
Trade creditors	19	20	3,290	4,291
Current corporation tax	1	3	88	93
Other taxes and social security costs	44	53	293	375
Other creditors	297	481	753	3,327
Accruals	326	182	1,429	1,789
Group development and relocation provisions	554	623	775	858
Payments to account	-	-	-	1,429
Proposed dividend	94	94	94	94
	6,126	4,776	9,567	13,630

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

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

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Loans (note 14)	-	-	2,072	1,470
Obligations under finance leases and hire purchase contracts (note 15)	10	-	231	107
Other creditors	-	-	7	73
	10	-	2,310	1,650

14. Loans

	Group	
	1997	1996
Loans are repayable as follows:	£'000	£'000
Not wholly repayable within five years	1,428	1,194
Wholly repayable within five years	1,070	713
	2,498	1,907
Instalments due:		
after five years	738	221
between two and five years	918	805
between one and two years	416	444
	2,072	1,470
within one year (note 12)	426	437
	2,498	1,907

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

	1997 £'000	1996 £'000
14. Loans (continued)		
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	288	319
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 8.05%	1,140	-
	1,428	319
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	238	306
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	474	569
Variable rate loan repayable in monthly instalments of £4,980, including interest, commencing in November 1996, secured by a bond and floating charge over the whole assets of the recipient subsidiary	201	243
8.075% loan repayable in quarterly instalments of £24,282, including interest, commencing in July 1996, guaranteed by the parent company	157	238
Variable rate loan repayable in monthly instalments of £11,039, including interest, commencing in December 1995	-	232
	2,498	1,907
Analysis of changes in loan financing:		
At January 1	1,907	1,729
New loans	1,140	500
Capital element of repayments	(395)	(322)
Loans transferred on sale of subsidiary undertaking	(154)	-
At December 31	2,498	1,907

The total minority interest share of the above outstanding loans is £546,000 (1996 - £109,000). 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 £1,140,000 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 the loan liability of £201,000.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

15. Obligations under leases and hire purchase contracts

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Amounts due within one year	5	77	176	219
Amounts due within two to five years	11	-	261	114
	16	77	437	333
Less finance charges allocated to future periods	(2)	(3)	(57)	(27)
	14	74	380	306
The above shown as:				
Current obligations (note 12)	4	74	149	199
Non-current obligations (note 13)	10	-	231	107
	14	74	380	306
Analysis of changes:				
At January 1			306	695
New contracts			381	74
Capital element of repayments			(280)	(463)
Contracts transferred on sale of subsidiary undertaking			(27)	-
At December 31			380	306

Annual commitments under non cancellable operating leases:

Group	Land & Buildings		Other	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Leases which expire:				
Within one year	22	43	3	20
Within the second to fifth years inclusive	30	26	19	102
Over five years	230	259	-	-
	282	328	22	122

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

16. Provisions for liabilities and charges

Group	Deferred Taxation
	£'000
At January 1, 1997	184
Arising during the year (note 6)	57
At December 31, 1997	241

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

	Provision		Potential	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Group				
Accelerated capital allowances	59	202	144	238
Other timing differences	182	(18)	(350)	(427)
	241	184	(206)	(189)

The total potential liability for deferred taxation has been reduced by deferred tax assets of £447,000 (1996 - £373,000) in various group companies which have not been included in the amount provided.

	Provision		Potential	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Company				
Accelerated capital allowances	-	-	6	(38)
Other timing differences	-	-	(332)	(175)
Deferred asset	-	-	(326)	(213)

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

17. Minority interests

	1997 £'000	1996 £'000
At January 1	576	345
Minority interest share of losses	(37)	(9)
Goodwill arising on purchase of minority interest in Aquaculture Diagnostics Limited	111	-
Shares subscribed by minority interests - equity	-	80
Shares subscribed by minority interests - non equity	-	160
At December 31	650	576
Equity interest	455	407
Non equity interest	195	169
	650	576

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

	1997 £'000	1996 £'000
Authorised:		
Equity interests - 9,346 ordinary shares of £100 each (1996:9,346)	935	935
- 654 preferred ordinary shares of £100 each (1996:654)	65	65
Non equity interests - 1,000,000 7.5% preference shares of £1 each (1996 - 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 (1996:6,390)	639	639
- 654 preferred ordinary shares of £100 each (1996:654)	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.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

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

	1997 £'000	1996 £'000
Operating profit/(loss)	1,491	(1,038)
Depreciation	1,329	1,184
Decrease in stocks	213	1,307
Increase in debtors	(845)	(627)
(Decrease)/increase in creditors	(3,455)	2,632
Release from deferred grants	(64)	(110)
Net cash (outflow)/inflow from continuing operating activities	(1,331)	3,348
Net cash (outflow) in respect of discontinued activities	(80)	(421)
Net cash (outflow)/inflow from operating activities	(1,411)	2,927

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

	1997 £'000	1996 £'000
(Decrease)/increase in cash in the year	(2,433)	339
Cash outflow from loans	395	322
Cash outflow from finance leases	280	463
Change in net debt resulting from cash flows	(1,758)	1,124
Inception of finance leases	(381)	(74)
New loan contract	(1,140)	(500)
Loans and finance leases transferred on sale of subsidiary undertaking	181	-
Effect of foreign exchange changes	(16)	-
Movement in net debt in the year	(3,114)	550
Net debt at January 1	(1,388)	(1,938)
Net debt at December 31	(4,502)	(1,388)

The share of net debt attributable to minority interests at December 31, 1997 was £634,000 (1996 - £219,000).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

21. Analysis of change in net debt

	At Jan. 1, 1997 £'000	Cash Flow £'000	Disposals £'000	Non Cash items £'000	Exchange movement £'000	At Dec. 31, 1997 £'000
Cash in hand and at bank	1,563	(901)	-	-	(16)	646
Overdrafts	(738)	(1,532)	-	-	-	(2,270)
	825	(2,433)	-	-	(16)	(1,624)
Debt	(1,907)	395	154	(1,140)	-	(2,498)
Finance leases	(306)	280	27	(381)	-	(380)
	(1,388)	(1,758)	181	(1,521)	(16)	(4,502)

22. Disposals

During the year the group disposed of The Glasgow Iron & Steel Company Limited, its brickmaking subsidiary. An operating loss of £469,000, a gain on sale of fixed assets of £49,000 and interest costs of £22,000, all previously provided, were incurred by the subsidiary up to its date of disposal on September 10, 1997.

Net assets disposed of:	£'000
Tangible fixed assets	770
Stocks and work-in-progress	594
Debtors	863
Bank and cash	(231)
Creditors	(939)
Finance lease liabilities	(27)
Deferred grants	(105)
Loan	(154)
	771
Settled by cash	25
Charged against provision	746
	771

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 1997

22. Disposals
(continued)

Analysis of net cash inflow of cash and cash equivalents in respect of disposals during the year:

	1996
	£'000
Cash consideration	25
Bank overdraft transferred	231
	256

The subsidiary sold during the year was responsible for £80,000 of the group's net cash outflow from operating activities, and £22,000 of servicing of finance, utilised £1,000 for capital expenditure, was the source of £73,000 from the sale of fixed assets and £25,000 of grant income and was responsible for the outflow of £87,000 from financing.

23. Related parties

During the year companies within the group were involved in contracts with Ormsary Farmers and Inver Farmers. These are partnerships in which Sir William Lithgow, a shareholder and director of the parent company, holds an interest. In addition, there are trusts which are members of these partnerships in which Sir William Lithgow and Lady Lithgow are trustees for James Lithgow, also a shareholder and director of the parent company, who was a beneficiary. 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.

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

	1997	1996
	£'000	£'000
Value of services provided in financial year:		
Provision of services by Ormsary Farmers to rear fish stocks	1,370	1,416
Provision of consultancy services by Ormsary Farmers	13	-
Provision of services by Inver Farmers to rear fish stocks	177	121
Provision of electrical contracting services to Ormsary Farmers	26	78
Provision of labour to Ormsary Farmers	1	-
Provision of electrical contracting services to Inver Farmers	11	1
Amounts outstanding at December 31:		
Due by Ormsary Farmers	2	12
Due by Inver Farmers	5	-
Due to Ormsary Farmers	116	57
Due to Inver Farmers	7	7

During the year a feu disposition was entered into with Sir William Lithgow whereby a site, buildings and fixed plant were transferred to Clachbreck Fish Farms Limited for £200,000 which was in line with independent external valuation provided by a suitably qualified firm of chartered surveyors.

24. Capital commitments

	Company		Group	
	1997	1996	1997	1996
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	-	-	162	1,633

25. Contingent liabilities

There were no contingent liabilities at either December 31, 1997 or December 31, 1996.

26. 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 were at April 6, 1995. These valuations used the projected unit method. The principal assumptions used in these valuations were an investment return of 2% per annum higher than the rate of increase in pensionable salaries and 5% higher than the rate of dividend growth and future pension increases in accordance with the rules of the scheme.

The most recent actuarial valuations showed that the market value of the scheme's assets was £10,252,320, and that the actuarial value of those assets represented 103% 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 £360,562 (1996 - £349,435).