LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

1994 has been a year of mixed fortunes for the Group. By the year end the slow recovery in our U.K. markets was being assisted by revival in the European economy. Nevertheless 1994 saw an all-time low in real oil prices with a sharp impact on North Sea sentiment. Profit before tax for the year ending 31st December was £302,421. With a tax charge arising in the year the post-tax profit was £277,657.

Group capital investment in property, plant and equipment during the year amounted to a total of £1,660,610. Research and development was of the order of £250,000. Group gearing at the year end (after accounting for all borrowings, lease and hire purchase commitments) was 10% including secured vendor credit to customers.

Operating Activities

Turnover was £36,384,796.

Primary Production

Lithgows Pty

I have just returned from Australia. The Boathaugh property is in excellent order, development all but complete. A most powerful influence in Australia is the rapid growth of Pacific basin economies. However the whole country has been very seriously affected by abnormal weather conditions, drought in the Eastern States and very bad stock conditions in the South West which led to Boathaugh's outputs having to be sold early and unfinished. A skilful management avoided stock deaths and the outlook for the future looks better as demand for beef remains strong.

Landcatch has performed creditably, recovering from the major dislocation caused by the Braer disaster. Unfortunately the International Oil Pollution Compensation Fund decided against paying compensation to salmon farms disrupted by the disaster which were outwith Shetland, notwithstanding the integration and total inter-dependency of the freshwater raising and seawater ongrowing parts of the production cycle. Three-quarters of so-called Shetland salmon originates as juveniles from mainland Scotland, a major rearer being Landcatch. The Oil Pollution Treaty was drawn up before this form of aquaculture was developed and it is clearly not providing the protection which the Scottish Salmon Growers Association (SSGA) was assured it did. Government officials have been sympathetic and helpful to Landcatch. However, the Government seem unwilling to recognise that the Treaty, as interpreted by the Fund, whilst most helpful to those whom the Fund chooses to compensate, actually made the position of others affected worse than were there no intervention and the salmon industry as a whole reliant on commercial insurance. Despite the diversion of management effort we aim to pursue our claim against IOPCF, being advised that we have good prospects of succeeding in the Scottish courts.

The table fish market throughout the year remained reasonably healthy though the Norwegian industry, the dominant producer, continues to project production increases far in excess of those formally notified by the Norwegian Government. The SSGA have successfully challenged in the EFTA court the freedom of the Norwegian Government to subvent without surveillance fish farming and their supporting bankers. One can only hope that more sensible counsels will prevail in the future. Meanwhile the world market for salmon continues to develop at about 15% per annum. The company has developed its presence in Chile to which it is a leading exporter of salmon eggs. The company now has on charter from the Group's subsidiary Cruive Ltd two floating fish farms stationed in Loch Fyne. These have overcome the operational difficulties of exposed sites.

Scientific

Aquaculture Diagnostics (Joint Venture with Strathclyde University). A considerable effort has been made into both the chemistry of the company's assay and a direct reading technique using advanced physics. Although this has resulted in a delay in the launching of the company's product it has enhanced our understanding in an exciting new field in which we possess novel and protected technology.

CHAIRMAN'S STATEMENT (continued)

Marine

Campbeltown Shipyard, in association with Campbeltown Developments Ltd, is now constructing its third Cruive to complete requirements for the Landcatch operation. The company has an order in hand for a new generation Campbeltown 25.5m fishing vessel. The fishing boat market remains very difficult with Spanish yards intervening at heavily subsidised prices. The E.U. and national Government seem to be unable to cope with such problems and progress with the Common Fishery Policy is painfully slow and uninspired. Since the year end Campbeltown Shipyard has secured orders for barges for the fish farming industry. It is gratifying that the World Food Organisation has now recognised aquaculture as an important global development that should be encouraged.

Campbeltown Developments Ltd have introduced new features into the design of Cruive III and have also successfully developed the "Smart net", a revolutionary type of fish cage designed as an integral feature of the Cruives. With novel designs now well proven in service, there are good prospects that a number of interested parties will wish to use these vessels in their fish farming operations, particularly as the industry continues to expand into more exposed locations.

Cruive Ltd is the owning company for Cruives on long term hire. Cruive I has been financed over a ten year period on satisfactory terms by a leading institution. Cruive II is being financed under the Home Shipowners Credit Guarantee Scheme.

Malakoff & Moore in Shetland, having experienced a poor start to 1994 recovered strongly with volume building up in the last quarter producing a good performance for the year overall.

J. Fleming Engineering (Stornoway) had a poor year.

Manufacturing

Prosper Engineering had a difficult year due to the very tight conditions in the North Sea industry and the shortage of major oil projects. The company's growing spread of specialised services to the engineering industry as a whole were developed in the course of the year and it is anticipated that the benefit of these initiatives will be realised in the future.

Electronics

Lithgow Electronics had a further good year, with success being achieved in winning work from an increasing number of major OEMs.

Contracting

McKinlay & Blair are currently in the process of moving to improved operational headquarters which include a retail outlet and are performing well.

Building Products

Glasgow Iron & Steel Co. has held its own well in a difficult year. Significant improvement has been made in the main production plant, with further capital expenditure committed to take place during 1995 as part of our strategy of continuous improvements to the quality of our products.

Properties

The Group holds a number of properties, mostly redundant industrial land. Good progress is being made with plans for redevelopment of some of these sites. A national builder has taken occupancy of a site in Glasgow. Planning permission has been approved by Edinburgh District Council for a major development at Niddrie which I referred to last year and negotiations in respect of other sites are ongoing.

CHAIRMAN'S STATEMENT (continued)

Outlook

It is disappointing only to be able to report such a modest profit for 1994. In the circumstances though that has been a considerable achievement against the background of very tough trading conditions. The Group has placed great emphasis on the drive for quality in every aspect of its involvement. Considering the Group as we know it today is of recent origin, it is gratifying that high standards are being achieved. But this is a long term strategy that does not produce quick results; it must however be the only sensible one for a manufacturing group. We do however, have a number of developments in the pipeline with particular emphasis on knowledge based innovation.

The quality of our workforce, staff and executives is excellent and I wish to place on record once more appreciation of dedication and a job well done.

Chairman

March 29, 1995

Directors

Sir William J. Lithgow, Bt.*+	(Chairman)
Mr. C.H. Parker, O.B.E.+	(Vice-Chairman)
Mr. H.M. Currie	(Managing Director)
Mr. M.E. Alberge*+	
Lady Lithgow+	
Mr. D.F. Macquaker, C.B.E.*+	
Mr. A.R. Reid	(Company Secretary)
Mr. A.W.C. Wishart	(Finance Director)

* Denotes a member of the Audit Committee

\+ Denotes a non-executive director

Registered Office

3 Ardgowan Square
Greenock

DIRECTORS' REPORT

The directors submit their report and accounts for the year ended December 31, 1994.

Results and dividends

The group trading profit for the year, after taxation amounted to £284,918.

The directors recommend that an ordinary dividend of £184,905 and a preference dividend of £48,750 be paid in respect of the year on the ordinary shares of £100 each and the preference shares of £1 each, respectively, in the company.

This leaves a profit of £51,263 to be transferred to reserves.

Review of the business

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

Directors and their interests

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

The director who retires from the board by rotation at the next Annual General Meeting is Mr. D.F. Macquaker who, being eligible, offers himself for re-election.

The following directors had the undernoted interests in the ordinary and preference share capital of Lithgows Limited at December 31, 1994 and at December 31, 1993.

	Ordinary shares				7.5% Preference shares	
	Beneficial Interest		Interest as Trustees (non-beneficial)		Interest as Trustees (non-beneficial)	
	1994	1993	1994	1993	1994	1993
Sir William Lithgow	2,254	2,254	-	-	-	-
Lady Lithgow	727	727	4,063	4,063	650,000	650,000
C.H. Parker	-	-	1,535	1,535	-	-

No other director at December 31, 1994 had any interest in the share capital of the company or in any subsidiary during the year.

Directors' responsibilities for the accounts

Company law requires the directors to prepare accounts 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 accounts, 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 accounts, and prepare the accounts 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.

DIRECTORS' REPORT
(continued)

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 5 non-executive directors and meets on a regular basis to discuss the strategic development of the Group, and to monitor the day to day implementation of the Group strategy throughout the various subsidiary companies. The remuneration of the executive directors is fixed by a committee of the Chairman, Vice-Chairman and two 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.

Significant changes in fixed assets

The changes in fixed assets during the year are summarised in note 8 to the accounts.

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.

Charitable donations

During the year the group made charitable contributions totalling £13,280.

Political donations

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

Close company

The directors are advised that the company is a close company within the terms of the Income and Corporation Taxes Act, 1988.

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

Alasdair K Reid

Secretary
March 29, 1995

REPORT OF THE AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the accounts on pages 8 to 30 which have been prepared under the accounting policies set out on pages 14 and 15.

Respective responsibilities of directors and auditors

As described on page 5 the directors are responsible for the preparation of accounts. 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts give a true and fair view of the state of affairs of the company and the group at December 31, 1994 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
March 29, 1995

LITHGOWS LIMITED

GROUP PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 1994

	Notes	1994 £'000	1993 £'000
TURNOVER	1	36,384	32,685
OPERATING PROFIT	2	488	280
Interest	4 & 5	(187)	(112)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1	301	168
Taxation	6	(23)	220
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		278	388
Minority interests		7	2
PROFIT FOR THE FINANCIAL YEAR		285	390
Dividends - including non equity interests	7	(234)	(246)
PROFIT FOR YEAR		51	144
Transfer to reserves:			
Lithgows Limited		(66)	712
Subsidiary undertakings		117	(568)
		51	144

The notes on pages 14 to 30 form part of these accounts.

STATEMENT OF RETAINED RESERVES
AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS
FOR THE YEAR ENDED DECEMBER 31, 1994

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, 1994	7,016	3,868	139	325	11,348	1,354	12,702
Movements in year:							
Amortisation of revaluation surplus	26	(26)	-	-	-	-	-
Unrealised gain on consolidation of overseas subsidiary	108	-	-	-	108	-	108
Profit for the year	51	-	-	-	51	-	51
At December 31, 1994	7,201	3,842	139	325	11,507	1,354	12,861
Attributable to:							
Equity interests							12,211
Non equity interests							650
							12,861

Company	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, 1994	3,563	-	-	325	3,888	1,354	5,242
Movements in year:							
Loss for the year	(66)	-	-	-	(66)	-	(66)
At December 31, 1994	3,497	-	-	325	3,822	1,354	5,176
Attributable to:							
Equity interests							4,526
Non equity interests							650
							5,176

The notes on pages 14 to 30 form part of these accounts.

LITHGOWS LIMITED

GROUP BALANCE SHEET AT DECEMBER 31, 1994

	Notes	£'000	1994 £'000	1993 £'000
Fixed assets:				
Tangible assets	8	10,192		9,773
Investments:	9			
Associated undertakings		-		-
Unlisted investments		103		122
			10,295	9,895
Current assets:				
Stocks and work-in-progress	10	5,835		6,536
Debtors	11	8,025		8,261
Cash at bank and in hand	12	1,136		498
		14,996		15,295
Creditors: amounts falling due within one year	13	(9,937)		(10,536)
Net current assets			5,059	4,759
Total assets less current liabilities			15,354	14,654
Creditors: amounts falling due after more than one year	14		(1,598)	(890)
Provision for liabilities and charges	17		(167)	(87)
Minority interests - equity			(345)	(352)
Accruals and deferred income: Deferred grants			(383)	(623)
			12,861	12,702
Capital and reserves:				
Called up share capital (including non equity interests)	18		1,354	1,354
Reserves			11,507	11,348
			12,861	12,702

Hugh M. Currie) Directors

March 29, 1995

The notes on pages 14 to 30 form part of these accounts.

LITHGOWS LIMITED

COMPANY BALANCE SHEET AT DECEMBER 31, 1994

	Notes		1994	1993
		£'000	£'000	£'000
Fixed assets:				
Tangible assets	8	1,365		1,412
Investments:	9			
Subsidiary undertakings		5,378		5,819
Unlisted investments		80		80
			6,823	7,311
Current assets:				
Debtors	11	707		607
Cash at bank and in hand		3		1
		710		608
Creditors: amounts falling due within one year	13	(2,137)		(2,318)
Net current liabilities			(1,427)	(1,710)
Total assets less current liabilities			5,396	5,601
Creditors: amounts falling due after more than one year	14		(220)	(359)
			5,176	5,242
Capital and reserves:				
Called up share capital (including non equity interests)	18		1,354	1,354
Reserves			3,822	3,888
			5,176	5,242

William Hutton
Hugh M. Currie) Directors

March 29, 1995

The notes on pages 14 to 30 form part of these accounts.

LITHGOWS LIMITED

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1994

	Notes	£'000	1994 £'000	1993 £'000
Net cash inflow from operating activities	2(c)		2,968	636
Returns on investments and servicing of finance				
Interest received		101		174
Overdraft interest paid		(129)		(128)
Finance lease interest paid		(137)		(158)
Loan interest paid		(22)		-
Dividends paid		(233)		(282)
Net cash outflow from returns on investments and servicing of finance			(420)	(394)
			2,548	242
Taxation				
U.K. corporation tax recovered/(paid)			279	(21)
			2,827	221
Investing activities				
Purchase of fixed assets		(1,277)		(894)
Sale of fixed assets		224		40
Receipt of grant		24		267
Capital receipt from finance lease		111		97
			(918)	(490)
Net cash inflow/(outflow) before financing			1,909	(269)
Financing				
Net loan receipts	15	989		-
Capital element of finance lease rentals	16	(514)		(446)
Net cash inflow/(outflow) from financing			475	(446)
Increase/(decrease) in cash and cash equivalents	12		2,384	(715)

The notes on pages 14 to 30 form part of these accounts.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 1994

	1994	1993
	£'000	£'000
PROFIT FOR THE FINANCIAL YEAR	285	390
Unrealised surplus on revaluation of properties	-	1,360
Currency translation differences on foreign currency net investments	108	5
TOTAL RECOGNISED GAINS AND LOSSES	393	1,755

NOTE OF HISTORICAL COST PROFITS AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 1994

	1994	1993
	£'000	£'000
REPORTED PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	301	168
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	26	83
HISTORICAL COST PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	327	251
HISTORICAL COST PROFIT RETAINED	77	227

ACCOUNTING POLICIES

Basis of preparation

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

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.

The net excess or deficit of the fair value of the net assets of subsidiaries over the purchase price at the date of acquisition is credited or charged direct to reserves.

Companies, other than subsidiary undertakings, in which the group has an investment comprising not less than 20% in the voting capital and 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.

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%

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.

ACCOUNTING POLICIES
(continued)

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.

Government grants

Government 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 have been credited to reserves and other exchange differences are charged or credited to profit as appropriate.

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 income 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 employee's 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 ACCOUNTS AT DECEMBER 31, 1994

1. Turnover and profit on ordinary activities before taxation

Turnover represents the invoiced amount of goods sold and services provided during the year, stated net of value added tax.

The turnover and profit on ordinary activities before taxation is attributable to the following activities:-

	Turnover		Pre-tax profit	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Marine and shipowning	5,479	5,585	38	(31)
Primary production	6,276	3,411	472	26
Manufacturing and contracting	24,629	23,689	(89)	337
Scientific	-	-	(111)	(52)
	36,384	32,685	488	280
Net interest			(187)	(112)
			301	168

Analysis of turnover by geographical area:

	1994	1993
	£'000	£'000
U.K.	32,768	27,108
E.C.	1,141	1,212
Other Europe	205	172
U.S.A. and Canada	1,038	2,421
Asia and Australasia	878	1,394
South America	354	378
	36,384	32,685

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

2. Operating profit

(a) Operating profit comprises:

	1994 Ongoing £'000	1994 Exceptional £'000	1994 Total £'000	1993 Ongoing £'000	1993 Exceptional £'000	1993 Total £'000
Turnover	36,384	-	36,384	32,685	-	32,685
Cost of sales	(29,624)	(60)	(29,684)	(26,828)	(355)	(27,183)
Gross profit	6,760	(60)	6,700	5,857	(355)	5,502
Distribution costs	(492)	-	(492)	(464)	-	(464)
Administration expenses	(6,296)	(42)	(6,338)	(5,756)	(246)	(6,002)
Other operating income	618	-	618	700	544	1,244
Operating profit	590	(102)	488	337	(57)	280

	1994 £'000	1994 £'000	1993 £'000	1993 £'000
Operating profit before exceptional items		590		337
Exceptional items: Closure costs within continuing operations	-		(188)	
Redundancy cost on restructuring	(60)		(167)	
Restructuring consultancy fees	(42)		(246)	
Release of deferred pension fund contribution	-		544	
		(102)		(57)
Operating profit after exceptional items		488		280

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

2. Operating profit
(continued)

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

	1994 £'000	1993 £'000
Items charged:		
Directors' remuneration	451	424
Auditors' remuneration	62	51
Auditors' other remuneration	31	28
Depreciation of owned assets	982	1,177
Depreciation of assets held under finance leases and hire purchase contracts	340	232
Operating lease rentals - plant & machinery	220	247
Operating lease rentals - land & buildings	425	403
Loss on sale of fixed assets	-	1
Research and development	251	201
Exchange loss	-	4
Items credited:		
Net rental income	7	5
Release from government grants deferred credit	264	134
Income from unlisted investments	22	48
Gain on sale of fixed assets	216	30
Exchange gain	-	91

(c) Net cash inflow from operating activities

	1994 £'000	1993 £'000
Operating profit	488	280
Depreciation	1,322	1,409
Gain on sale of fixed assets	(216)	(29)
Decrease/(increase) in stocks	701	(915)
(Increase)/decrease in debtors	(224)	120
Increase in creditors	1,123	429
Release from deferred grants	(264)	(134)
Provision against investments	19	19
Exchange gain	19	1
Release from deferred pension credit	-	(544)
Net cash inflow from operating activities	2,968	636

LITHGOWS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

2. Operating profit
(continued)

(d) Directors' remuneration

	1994 £'000	1993 £'000
Fees	39	37
Other emoluments	412	387
	451	424

Excluding pension contributions, the emoluments of the chairman were £93,113 (1993 - £91,115). The emoluments of the highest paid director (excluding pension contributions) were £101,465 (1993 -£92,272).

Directors' emoluments, excluding pension contributions, fell within the following ranges:

	No.	No.
£5,001 - £10,000	2	2
£10,001 - £15,000	-	1
£20,001 - £25,000	1	2
£55,001 - £60,000	1	-
£60,001 - £65,000	1	1
£65,001 - £70,000	1	1
£90,001 - £95,000	1	2
£100,000 - £105,000	1	-

During the year the chairman passed on to the company a fee of £15,000 (1993 - £15,000) from an outside directorship.

3. Staff costs

	1994 £'000	1993 £'000
Wages and salaries	11,312	9,780
Social security costs	930	762
Other pensions costs	404	375
	12,646	10,917

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

	No.	No.
Directors	8	7
Office and management	155	149
Other	798	687
	961	843

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

4. Interest receivable

	1994 £'000	1993 £'000
On bank deposits	26	24
On other loans	33	93
On finance leases	42	57
	101	174

5. Interest payable

	1994 £'000	1993 £'000
Bank overdrafts	(129)	(128)
Finance charges payable under finance leases and hire purchase contracts	(137)	(158)
Loans not wholly repayable within five years	(22)	-
	(288)	(286)

6. Taxation on profit on ordinary activities

	1994 £'000	1993 £'000
Based on the profit for the year:		
Corporation tax recoverable at 30% (1993 - 30%)	33	144
Transfer to deferred taxation	(79)	25
Tax on franked investment income	(4)	(11)
	(50)	158
Other items:		
Corporation tax - over provision in prior years	28	65
Deferred taxation - under provision in prior years	(1)	(3)
	(23)	220

7. Dividends

	1994 £'000	1993 £'000
Equity interests		
Ordinary dividend - interim paid £13.125 per share (1993 - £13.125 per share)	92	93
Ordinary dividend - final proposed £13.125 per share (1993 - £13.125 per share)	93	92
	185	185
Non equity interests		
Preference dividend - paid	49	61
	234	246

LITHGOWS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

8. Tangible fixed assets

	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Company			
Cost or valuation:			
At January 1, 1994	1,551	339	1,890
Additions	-	19	19
Group transfers	-	(9)	(9)
Disposals	-	(26)	(26)
At December 31, 1994	1,551	323	1,874
Depreciation:			
At January 1, 1994	240	238	478
Charge for the year	14	47	61
Group transfers	-	(4)	(4)
Disposals	-	(26)	(26)
At December 31, 1994	254	255	509
Net book value:			
At January 1, 1994	1,311	101	1,412
At December 31, 1994	1,297	68	1,365
Cost or valuation at December 31, 1994 comprises:			
Cost	361	323	684
Valuation in 1982	161	-	161
Valuation in 1991	529	-	529
Valuation in 1992	500	-	500
	1,551	323	1,874

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

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, 1994	5,774	75	157	13,865	261	20,132
Additions	281	-	19	1,360	-	1,660
Disposals	(13)	-	-	(305)	-	(318)
Exchange difference	87	-	-	6	-	93
At December 31, 1994	6,129	75	176	14,926	261	21,567
Depreciation:						
At January 1, 1994	805	61	64	9,381	48	10,359
Charge for the year	90	4	7	1,214	7	1,322
Disposals	(13)	-	-	(297)	-	(310)
Exchange difference	-	-	-	4	-	4
At December 31, 1994	882	65	71	10,302	55	11,375
Net book value:						
At January 1, 1994	4,969	14	93	4,484	213	9,773
At December 31, 1994	5,247	10	105	4,624	206	10,192
Cost or valuation at December 31, 1994, comprises:						
Cost	1,604	75	176	14,926	96	16,877
Valuation in 1982	91	-	-	-	-	91
Valuation in 1983	279	-	-	-	-	279
Valuation in 1984	610	-	-	-	-	610
Valuation in 1985	305	-	-	-	165	470
Valuation in 1991	599	-	-	-	-	599
Valuation in 1992	500	-	-	-	-	500
Valuation in 1993	2,141	-	-	-	-	2,141
	6,129	75	176	14,926	261	21,567

LITHGOWS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

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, 1994	767	102	869
Additions	5	-	5
Disposals	(9)	-	(9)
Exchange difference	16	-	16
At December 31, 1994	779	102	881
Depreciation based on cost:			
At January 1, 1994	101	38	139
Charge for the year	7	2	9
Exchange difference	(2)	-	(2)
At December 31, 1994	106	40	146
Net historical cost value:			
At January 1, 1994	666	64	730
At December 31, 1993	673	62	735

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, 1994	70	1,094
At December 31, 1994	52	1,156

LITHGOWS LIMITED

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

9. Investments

(a) Subsidiary undertakings:

Company

Investment in subsidiary undertakings comprises:

	1994 £'000	1993 £'000
Cost	3,808	3,808
Amounts written off	(254)	(254)
Amounts due by subsidiaries, less provisions	3,480	3,521
Amounts due to subsidiaries	(1,656)	(1,256)
Net book value	5,378	5,819

At December 31, 1994, 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 Aquaculture Diagnostics which is 75.1% owned. Companies not audited by the parent company auditors are indicated by (+).

Nature of Business	Company
Primary Production:	Lithgows Pty Limited+ (incorporated in Australia) Landcatch Limited
Marine and Shipowning:	Campbeltown Shipyard Limited Campbeltown Developments Limited Cruive Limited J. Fleming Engineering (Stornoway) Limited+ Malakoff & Wm. Moore Limited
Manufacturing & Contracting:	
Engineering	Prosper Engineering Limited
Electronics	Lithgow Electronics Limited
Electrical Contracting	McKinlay & Blair Limited
Building Products	The Glasgow Iron & Steel Company Limited A. Kenneth & Sons Limited*
Scientific:	Aquaculture Diagnostics Limited
Finance:	Inver Salmon Limited

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

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, 1994 and December 31, 1994	-	75
Amounts written off:		
At January 1, 1994 and December 31, 1994	-	75
Net book value:		
At January 1, 1994 and December 31, 1994	-	-

(c) Unlisted investments

Unlisted investments comprise:

	Company £'000	Group £'000
Cost:		
At January 1, 1994 and December 31, 1994	94	195
Amounts written off:		
At January 1, 1994	14	73
During the year	-	19
At December 31, 1994	14	92
Net book value:		
At January 1, 1994	80	122
At December 31, 1994	80	103

10. Stocks and work-in-progress

	Group 1994 £'000	Group 1993 £'000
Raw materials and consumables	1,945	1,658
Work-in-progress	813	930
Work-in-progress payments received on account	(95)	(65)
Finished goods and goods for resale	524	766
Livestock	2,648	3,247
	5,835	6,536

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

11. Debtors

	Company		Group	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Trade debtors	28	25	6,147	6,009
Other debtors	43	1	513	734
Prepayments and accrued income	197	107	853	546
Current corporation tax	101	25	174	523
Amounts due from finance leases	338	449	338	449
	707	607	8,025	8,261

Included in the above figure of amounts due from finance leases is an amount of £213,000 (1993 - £338,000) which is due after more than one year.

12. Cash and cash equivalents

	1994	1993	1992	Change in 1994	Change in 1993
	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	1,136	498	310	638	188
Bank overdrafts	(196)	(1,942)	(1,039)	1,746	(903)
	940	(1,444)	(729)	2,384	(715)

13. Creditors: amounts falling due within one year

	Company		Group	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Bank overdrafts	1,279	1,545	196	1,942
Finance lease and hire purchase creditor (note 16)	153	149	511	450
Trade creditors	12	18	5,179	4,489
Current corporation tax	62	23	250	377
Other taxes and social security costs	47	46	868	722
Other creditors	98	39	565	623
Accruals	195	155	1,693	1,369
Group development and relocation provisions	198	251	471	472
Proposed dividend	93	92	93	92
Current instalments due on loans (note 15)	-	-	111	-
	2,137	2,318	9,937	10,536

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

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

	Company		Group	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Loans (note 15)	-	-	878	-
Obligations under finance leases and hire purchase contracts (note 16)	220	359	679	871
Other	-	-	41	19
	220	359	1,598	890

15. Loans

	Group	
	1994	1993
	£'000	£'000
Not wholly repayable within five years	989	-
Instalments due:		
after five years	404	-
between two and five years	360	-
between one and two years	114	-
	878	-
within one year	111	-
	989	-

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	372	-
10¼% loan repayable in quarterly instalments of £4,375 commencing January 1996, secured by a standard security over one of the group's properties	175	-
7½% loan repayable in six monthly instalments of £34,000 commencing May 1996, secured by a mortgage on a vessel and supplemental Deed of Covenant	442	-
	989	-

Analysis of changes in loan financing:		
New loans	1,017	-
Capital element of repayments	(28)	-
At December 31, 1994	989	-

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

16. Obligations under leases and hire purchase contracts

	Company		Group	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Amounts due within one year	185	192	603	568
Amounts due within two to five years	240	405	740	970
	425	597	1,343	1,538
Less finance charges allocated to future periods	(52)	(89)	(153)	(217)
	373	508	1,190	1,321
The above shown as:				
Current obligations	153	149	511	450
Non-current obligations	220	359	679	871
	373	508	1,190	1,321
Analysis of changes:				
At January 1, 1994			1,321	1,391
New contracts			383	376
Capital element of repayments			(514)	(446)
At December 31, 1994			1,190	1,321

Annual commitments under non cancellable operating leases:

Group	Land & Buildings		Other	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Leases which expire:				
Within one year	64	35	21	27
Within the second to fifth years inclusive	110	337	79	8
Over five years	264	31	5	-
	438	403	105	35

17. Provisions for liabilities and charges

Group	Deferred Taxation
	£'000
At January 1, 1994	87
Arising during the year	80
At December 31, 1994	167

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

17. Provisions for liabilities and charges (continued)

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

	Provision		Potential	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Group				
Accelerated capital allowances	145	144	350	257
Other timing differences	22	(57)	(167)	(154)
	167	87	183	103

The total potential liability for deferred taxation has been reduced by deferred tax assets of £86,000 (1993 - £97,000) in various group companies.

	Provision		Potential	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Company				
Accelerated capital allowances	-	11	-	11
Other timing differences	-	(11)	(65)	(83)
Deferred asset	-	-	(65)	(72)

18. Share capital

	1994	1993
	£'000	£'000
Authorised:		
Equity interests - 10,000 ordinary shares of £100 each	1,000	1,000
Non equity interests - 1,000,000 7.5% preference shares of £1 each	1,000	1,000
	2,000	2,000
Allotted, issued and fully paid:		
Equity interests - 7,044 ordinary shares of £100 each	704	704
Non equity interests - 650,000 7.5% preference shares of £1 each	650	650
	1,354	1,354

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 due for redemption by the company on January 21, 1996. In the event of a winding up, the holders of the preference shares shall rank ahead of the holders of the ordinary shares, but only to the extent of being repaid at par.

NOTES TO THE ACCOUNTS AT DECEMBER 31, 1994

19. Capital commitments

	Company		Group	
	1994	1993	1994	1993
	£'000	£'000	£'000	£'000
Contracted	-	-	295	175
Authorised by the directors but not contracted	-	-	624	16

In arriving at the above amounts government grants have not been taken into account.

20. Contingent liabilities

There were no contingent liabilities at either December 31, 1994 or December 31, 1993.

21. 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 invested in insurance company managed funds. 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, 1992. 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 £6,569,186, and that the actuarial value of those assets represented 109% of the benefits that had accrued to members after allowing for expected future increases in pensionable salaries. The contributions of the group have been based on varying contribution rates up to 18% including members' contributions.

The next actuarial valuation of the Lithgows Limited Pension Scheme will be undertaken as at April 5, 1995, and it was agreed that until that valuation is completed the funding of the scheme will remain unchanged. On the basis of the contributions paid by the group the pension charge for the year was £403,786 (1993 - £374,767).