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# Lithgows Limited



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COMPANIES HOUSE

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## Report and Financial Statements 2001

## LITHGOWS LIMITED

### CHAIRMAN'S STATEMENT

2001 saw a continuation of the difficult trading conditions experienced by many in the United Kingdom's manufacturing and primary production and I must report a group loss for the year of £2,636,544.

The September 11<sup>th</sup> attacks in the United States caused widespread disruption within our market places, and heralded more cautious and uncertain times ahead.

As in 1999 and 2000 the relative strength of Sterling made export markets extremely tough, whilst domestic markets remained under continued price pressure from Euro imports.

The substantial group trading loss for the year reflects the impact of restructuring strategic direction and management teams within the group, the benefits of which I am pleased to report are now being felt across the group. The poor trading and losses have impacted the group cash flow, putting pressure on cash during the seasonal cycle associated with aquaculture. We are working closely with our Bankers, and with their continued support, to reduce gearing through a combination of realisations and improved trading. The Group holds substantial reserves of development land, which the Directors have unanimously minuted as having a value not less than £10 million, being £9.27 million in excess of the balance sheet value. These and other assets now surplus to trading requirements are in the course of being realised. The Directors have not attempted to value intellectual property derived from the Landcatch Natural Selection salmon breeding programme.

The continued move away from primary production and manufacturing to added value service and technology business has ensured a firm foundation from which to return the group to profitable cash generation.

#### Aquaculture

The effect of a massive increase in salmon production in Chile, combined with a fall in the market after September 11<sup>th</sup>, created very difficult trading conditions for salmon ongrowers. This undermined demand and prices for smolts, leaving us with unsold smolts.

These difficulties have highlighted the importance of our family selective breeding programme in Atlantic salmon; the team within Landcatch have been further strengthened with additional scientific personnel with a background in selective breeding to improve stock characteristics.

We believe we are at the forefront of this emerging technology and can now deliver real genetic benefits to our egg and smolt customers. This combined with our strong freshwater production infrastructure holds tremendous potential and is able to accelerate the benefit delivery within our products, to create an unassailable market lead.

We continue to concentrate on delivery of customer benefit through added value to egg and smolt products, underpinned by a long term commitment to research and development. The emerging customer awareness and acknowledgement of the differential advantages and benefits of the breeding programme will be enhanced by the increased marketing effort, to deliver increased value in terms of market price and demand. Work is now being undertaken under contract in respect of other fish species grown in world aquaculture.

Landcatch Chile Ltda, performed well in a very difficult market and continues to develop its fresh and seawater infrastructure. The selective breeding programme is now well established, supported by our Scottish based operation.

## LITHGOWS LIMITED

### CHAIRMAN'S STATEMENT

*(continued)*

Investment has continued at The Marine Resource Centre. MRC Energy has benefited from the uplift in price for sustainable electricity. Site infrastructure has been enhanced with a number of important tenants now on site. We hope to secure a contract that will enable us to continue development to take advantage of the unique fresh and seawater resources. With the background of increasing regulatory pressure on unsustainable smolt production based in freshwater lochs, the benefits of land based smolt production are now being appreciated by the wider industry.

McKinlay & Blair has been restructured to take advantage of niche markets, without the overhead cost previously associated with the business.

#### Marine

Buckie Shipyard has continued to benefit from the new slipway; the increased capacity has provided new opportunities in the commercial shipping market.

A new Chief Executive has brought fresh focus and expertise in ship repair to the business. Our strategy to concentrate on commercial and specialist boat repair has been vindicated by the business being largely insulated from the latest fishing cuts and further decline in the traditional fishing fleet market.

With a new 1600m<sup>2</sup> specialist repair and paint facility, slipway and mobile boatlift due to enter service in July 2003, new markets are being explored in high value recreational boat service. We continue to make investment in plant and skills training, which have improved both productivity and margins, allowing us to remain competitive in a very tough market.

Malakoff & Wm. Moore, a 55% : 45% joint venture company between Lithgows Limited and the Aberdeen based, J.W. Holdings Limited, was placed in receivership at the request of the Directors on January 24<sup>th</sup>, 2003. This was a great disappointment to the team particularly given the management efforts to grow shore-based markets and the introduction of a new floating dock.

The background to the Director's decision was the catastrophic decline in the fishing industry, compounded in Shetland by further cutbacks in North Sea oil activity. Regrettably the situation was not improved by bureaucratic dogma, which prevented the floating dock from entering service for six months. The cost of this delay made it extremely difficult to see the company trading out of its position, given the difficulties of the local Shetland market, and the prospect of a further downturn in fishing and North Sea oil.

#### Engineering

Prosper Engineering has experienced difficult trading conditions with competitive pressures on pricing, a strong pound and reduced activity in our traditional markets of oil and energy generation. Under a new Chief Executive the company has now been repositioned away from primary manufacture and towards added value service. This restructuring has involved considerable investment in information technology systems and recruitment of new management and personnel, whilst rationalising overhead structures. Progress has been made in outsourcing commodity product from overseas and in establishing additional UK distribution for merchant product. These changes and systems are now bedded in and working well. We have been successful in taking on UK frame agreements with the oil majors, as well as growing business in North America out of our Houston sales office.

## LITHGOWS LIMITED

### CHAIRMAN'S STATEMENT

(continued)

The recent opening of the sales and service facility in Macaé, Brazil, creates new opportunities as the Brazilian offshore oil industry continues to expand. The ability to support our key customers in locations around the world is of real strategic value and we look to take advantage of further opportunities as they develop.

Prosper is now well placed to take advantage of the pick up in the oil related engineering markets both in the North Sea and Americas.

#### Lithgows Pty

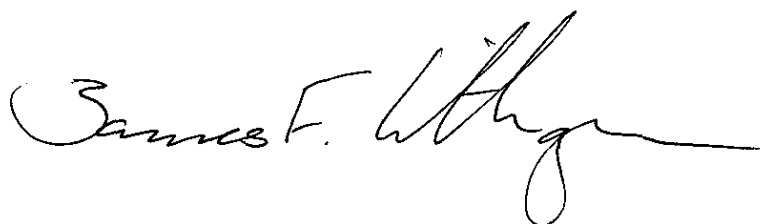
Capital investment has continued in the farming operation, with the benefits of improved animal health and pasture management beginning to flow through. Work continues to refine the farming operation and infrastructure. Local real estate prices remain strong, supported by the continued expansion of the wine industry and population growth.

#### Property

The property assets referred to above, derive from the Group's former brick making business and are actively managed to maximise shareholder value over the long term. The sites are strategically placed in the Edinburgh, Glasgow, Ayr corridor, adjoining the green belt. They have been professionally appraised and a review in February 2003 produced a headline value of £20 million, before remediation and other costs and before a net present value discount that reflects a development programme over five to six years. This uplifted value reflects national policy to utilise brown field sites for housing and commercial development in preference to green fields.

#### Outlook

Having come through a very difficult trading period on many fronts, I am confident the steps taken to restructure management and company structure over the last eighteen months are now delivering real benefits to the bottom line. The nonrecurring costs of this restructuring whilst considerable have now been taken, with a substantial reduction in overhead across the group, we are now poised to take advantage of the investment in technology and infrastructure, to deliver real business growth and profit, and explore new areas of opportunity.



Chairman

February 24, 2003.

**LITHGOWS LIMITED****Directors**

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

Sir William Lithgow, Bt \*\* (*Vice Chairman*)

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

Mr. F.G. Hogg\*\*

The Rt. Hon. Lord Lang of Monkton<sup>+</sup>

Lady Lithgow<sup>+</sup>

Mr. A.R. Reid (*Company Secretary*)

Mr. A.W.C. Wishart (*Finance Director*)

\* Denotes a member of the Audit Committee

<sup>+</sup> Denotes non-executive

**Registered Office**

3 Ardgowan Square  
Greenock

## LITHGOWS LIMITED

### DIRECTORS' REPORT

The directors submit their report and financial statements for the year ended December 31, 2001.

#### Results and dividends

The group trading loss for the year after taxation amounted to £2,636,544.

The directors recommend dividends absorbing £9,156, leaving £2,645,700 to be deducted from reserves.

#### Review of the business

The group's principal operating subsidiaries and their activities during the year are shown on page 26. Comments on the results for the year and on future developments are contained in the Chairman's statement on pages 1 – 3.

#### Directors and their interests

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

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

The following directors had the undernoted interests in the ordinary and preference share capital of Lithgows Limited at December 31, 2001 and at December 31, 2000.

	Ordinary shares				7.5% Preference shares			
	<u>Beneficial interest</u>		<u>Interest as Trustees (non-beneficial)</u>		<u>Beneficial interest</u>		<u>Interest as Trustees (non-beneficial)</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
Sir William Lithgow	1,753	1,753	500	500	-	-	-	-
Lady Lithgow	728	728	500	500	-	-	108,000	108,000
J.F. Lithgow	2,469	2,469	-	-	506,000	506,000	-	-

No other director at December 31, 2001 had any interest in the share capital of the company or in any subsidiary during the year.

## LITHGOWS LIMITED

### DIRECTORS' REPORT

*(continued)*

#### Directors' responsibilities for the financial statements

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 Financial Services Authority, the Lithgows' group places a high degree of importance on corporate governance and has for some years honoured many of the recommendations of the Combined Code. The Board includes 4 non-executive directors and meets on a regular basis to discuss the strategic development of the group, and to monitor the day to day implementation of the group strategy throughout the various subsidiary companies. The remuneration of the executive directors is fixed by a committee of the Chairman, Vice Chairman and a non-executive director. The Board have an Audit Committee who receive reports from both the external auditors and the internal audit function to satisfy themselves as to the effectiveness of the group's financial operating procedures and internal controls. Whilst the concentration has been on financial controls to date, it is intended to extend this to a more comprehensive review of all internal controls and risk assessment within the group. 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 £12,531.

**Political donations**

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

**Auditors**

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

ON BEHALF OF THE BOARD



A.R. REID  
Secretary

February 24, 2003



## REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the financial statements of Lithgows Limited for the year ended December 31, 2001 which comprise the principal accounting policies, the consolidated profit and loss account, the balance sheets, cash flow statement, statement of total recognised gains and losses, statement of group retained reserves and notes 1 to 27. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the directors' report and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

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

### Basis of opinion

We conducted our audit in accordance with United Kingdom 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.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF  
LITHGOWS LIMITED

(continued)

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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made on Page 16 of the financial statements concerning the uncertainty as to the extension and agreement of the group's bank overdraft facility, the uncertainty as to the receipt of third party cash injections to the group and the uncertainty of the group achieving its forecasts. In view of the significance of these uncertainties, we consider that they should be drawn to your attention, but our opinion is not qualified in this respect.

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, 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



GRANT THORNTON  
Registered Auditors  
Chartered Accountants  
Glasgow

February 24, 2003

**GROUP PROFIT AND LOSS ACCOUNT**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Notes</u>	£'000	<u>2001</u> £'000	<u>2000</u> £'000
Turnover: group and share of joint venture's turnover			23,540	19,606
Less: share of joint venture's turnover			(1,047)	(451)
			<hr/>	<hr/>
GROUP TURNOVER	1		22,493	19,155
Cost of sales - ongoing	2	(18,050)		(15,477)
- exceptional: provision against net realisable value of stock		(1,500)		-
		<hr/>	<hr/>	<hr/>
			(19,550)	(15,477)
			<hr/>	<hr/>
GROSS PROFIT			2,943	3,678
Other operating income and charges	2		(5,635)	(5,094)
			<hr/>	<hr/>
OPERATING LOSS	3		(2,692)	(1,416)
Share of operating profit of joint venture			555	112
			<hr/>	<hr/>
Net interest	5		(2,137) (443)	(1,304) (426)
			<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(2,580)	(1,730)
Taxation	6		(87)	54
			<hr/>	<hr/>
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION			(2,667)	(1,676)
Minority interests	17		31	82
			<hr/>	<hr/>
LOSS FOR THE FINANCIAL YEAR			(2,636)	(1,594)
Dividends – including non equity interests	7		(9)	(14)
			<hr/>	<hr/>
LOSS FOR YEAR			(2,645)	(1,608)
			<hr/>	<hr/>

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

**LITHGOWS LIMITED****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED DECEMBER 31, 2001****STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	<u>2001</u> £'000	<u>2000</u> £'000
Loss for the year	(2,645)	(1,608)
Unrealised surplus on revaluation of assets	-	-
Exchange differences	(433)	15
	<hr/>	<hr/>
Total recognised gains and losses for the year	(3,078)	(1,593)
	<hr/>	<hr/>

**NOTE OF HISTORICAL COST PROFITS AND LOSSES**

	<u>2001</u> £'000	<u>2000</u> £'000
Reported loss on ordinary activities before taxation	(2,580)	(1,730)
Realisation of revaluation gain of previous years	-	1,000
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	30	31
	<hr/>	<hr/>
Historical cost loss on ordinary activities before taxation	(2,550)	(699)
	<hr/>	<hr/>
Historical cost loss retained	(2,615)	(577)
	<hr/>	<hr/>

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

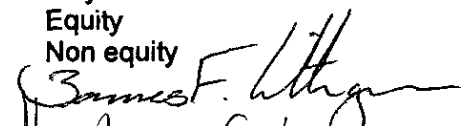
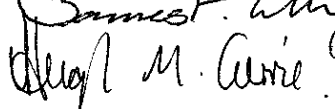
**LITHGOWS LIMITED****STATEMENT OF GROUP RETAINED RESERVES AND  
RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS**

	<u>Profit and loss account</u> £'000	<u>Reval- uation surplus</u> £'000	<u>Other reserves</u> £'000	<u>Capital redemption reserves</u> £'000	<u>Total reserves</u> £'000	<u>Called-up share capital</u> £'000	<u>Total share- holders funds</u> £'000
At January 1, 2000	4,971	4,458	130	325	9,884	1,354	11,238
Movements in 2000:							
Amortisation of revaluation surplus	27	(27)	-	-	-	-	-
Realisation of revaluation revenue	1,000	(1,000)	-	-	-	-	-
Exchange differences - joint venture	15	-	-	-	15	-	15
Loss for the year	(1,608)	-	-	-	(1,608)	-	(1,608)
At December 31, 2000	4,405	3,431	130	325	8,291	1,354	9,645
Movements in 2001:							
Amortising of revaluation of surplus	27	(27)	-	-	-	-	-
Exchange differences - joint venture	(40)	-	-	-	(40)	-	(40)
- other	(393)	-	-	-	(393)	-	(393)
Transfer	130	-	(130)	-	-	-	-
Loss for the year	(2,645)	-	-	-	(2,645)	-	(2,645)
At December 31, 2001	1,484	3,404	-	325	5,213	1,354	6,567

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

**LITHGOWS LIMITED**  
**GROUP BALANCE SHEET AT DECEMBER 31, 2001**

	<u>Notes</u>	<u>£'000</u>	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Fixed assets:				
Tangible assets	8	12,456		12,812
Investments:	9			
Joint venture		1,180		404
Unlisted investments		58		58
			13,694	13,274
Current assets:				
Stocks and work-in-progress	10	3,305		4,907
Debtors	11	4,454		4,048
Cash at bank and in hand		385		512
		8,144		9,467
Creditors: amounts falling due within one year	12	(12,677)		(10,473)
Net current liabilities			(4,533)	(1,006)
Total assets less current liabilities			9,161	12,268
Creditors: amounts falling due after more than one year	13		(1,275)	(1,195)
Minority interests (including non equity interests)	17		(376)	(407)
Accruals and deferred income:				
Deferred grants			(943)	(1,021)
			6,567	9,645
Capital and reserves:				
Called up share capital	18		1,354	1,354
Reserves			5,213	8,291
			6,567	9,645
Analysis of shareholders' funds:				
Equity			5,917	8,995
Non equity			650	650


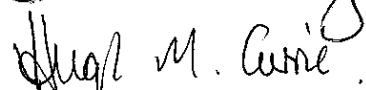
} Directors

February 24, 2003

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

**LITHGOWS LIMITED**  
**COMPANY BALANCE SHEET AT DECEMBER 31, 2001**

	Notes	£'000	<u>2001</u> £'000	<u>2000</u> £'000
Fixed assets:				
Tangible assets	8	115		146
Investments:	9			
Subsidiary undertakings		10,304		12,685
Unlisted investments		50		50
			10,469	12,881
Current assets:				
Debtors	11	424		269
Cash at bank and in hand		79		158
		503		427
Creditors: amounts falling due within one year	12	(7,607)		(6,680)
Net current liabilities			(7,104)	(6,253)
Total assets less current liabilities			3,365	6,628
Creditors: amounts falling due after more than one year	13		(5)	(11)
			3,360	6,617
Capital and reserves:				
Called up share capital	18		1,354	1,354
Capital redemption reserve			325	325
Profit and loss account			1,681	4,938
			3,360	6,617
Analysis of shareholders' funds:				
Equity			2,710	5,967
Non equity			650	650



 ) Directors

February 24, 2003

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

**LITHGOWS LIMITED****GROUP CASH FLOW STATEMENT**  
**FOR THE YEAR ENDED DECEMBER 31, 2001**

	<u>Notes</u>	<u>2001</u> <u>£'000</u>	<u>2000</u> <u>£'000</u>
Net cash outflow from operating activities	19	(177)	(468)
Returns on investments and servicing of finance			
Interest received		126	111
Interest paid		(403)	(407)
Finance lease interest paid		(39)	(43)
Non equity dividends paid		(14)	(8)
Loan interest paid		(127)	(87)
Net cash outflow from returns on investment and servicing of finance		(457)	(434)
Capital expenditure and financial investment			
Purchase of fixed assets		(1,060)	(1,038)
Sale of fixed assets		71	1,030
Receipt of grant		9	362
Investment in joint venture		(348)	-
Net cash (outflow)/inflow from capital expenditure and financial investment		(1,328)	354
Financing			
Repayment of borrowings		(352)	(376)
Capital element of finance lease rentals		(247)	(275)
Inception of bank loan		400	-
Net cash outflow from financing	20	(199)	(651)
Decrease in cash	21	(2,161)	(1,199)

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



## LITHGOWS LIMITED

### ACCOUNTING POLICIES

#### Basis of preparation

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

The financial statements have been prepared on the going concern basis, which assumes that the group will continue in operational existence for the foreseeable future. There are material uncertainties which the directors have had to consider in deciding to prepare the financial statements on this basis, and these are set out below.

The company meets its day to day working capital requirements by participating in an overdraft facility arrangement for the Lithgows Limited group. As at the date of signing these financial statements, there is no formal overdraft facility agreement in place. The overdraft facility is repayable on demand. The company is dependent on the group's bankers continuing to support the group as a going concern.

The directors have recently prepared forecasts which show the group's working capital requirements for the 12 months from the date of their approval of these financial statements, and in outline thereafter. These projections show a cash requirement in excess of the current group overdraft.

To address this shortfall, the directors are in discussion with the group's bankers and third parties. The directors are at an advanced stage of discussing their projections with the group's bankers with a view to agreeing an increase in the group overdraft facility, which will address part of the forecasted cash shortfall. They are also discussing several business arrangements with third parties which would result in cash injections to the group which would address the remainder of the forecasted cash shortfall. The directors consider that they will conclude these negotiations successfully in the near future. In addition, whilst there can be no certainty that the group will achieve its forecasts, the directors consider that the group will be able to operate within its increased banking facilities and will continue to have the support of its bankers. Accordingly, the directors believe that the business is able to meet its liabilities as they fall due and therefore consider that it is appropriate to prepare the financial statements on a going concern basis.

If the group's bankers were to withdraw their support, including the required increase in the group overdraft facility, or if the required cash injections from third parties are not achieved, the going concern basis would no longer be appropriate. The financial statements do not include any adjustments that would result from this.

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

## **LITHGOWS LIMITED**

### **ACCOUNTING POLICIES**

*(continued)*

#### **Basis of consolidation**

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

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

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

#### **Goodwill**

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

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

#### **Depreciation**

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

Freehold property	- 2%
Leasehold property	- shorter of 2½% or over life of lease
Freehold slipways and jetties	- 2% - 2½%
Plant, machinery, fixtures and fittings	- 10% - 20%
Motor vehicles	- 20% - 25%
Office equipment	- 15%
Computer hardware	- 25%
Computer software	- 50%

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

**LITHGOWS LIMITED****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 includes materials, labour and, where appropriate, a proportion of production overheads based on normal levels of activity. Net realisable value is defined as the estimated selling price less future costs to completion and expenses of marketing and distribution.

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

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

**Long-term contracts**

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

**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. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantially enacted by the balance sheet date.

**Grants**

Grants in respect of capital expenditure are credited to a deferred credit account and released to profit and loss account over the expected useful life of the assets to which they relate. Revenue grants are released to profit over the life of the project to which they related.

**LITHGOWS LIMITED****ACCOUNTING POLICIES***(continued)***Foreign currencies**

Transactions in foreign currencies during the year are converted into sterling at the rates ruling at the dates of the transactions. Assets and liabilities in foreign currencies at the balance sheet date are translated at the rates ruling at that date. Unrealised gains and losses on translation of the assets, liabilities, profits and reserves of the overseas subsidiaries and joint venture are dealt with as reserve movements, and other exchange differences are taken to the profit and loss account.

**Leasing and hire purchase commitments**

Assets obtained under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of the lease terms and their useful lives.

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

Rentals paid under operating leases are charged to profit and loss account on a straight line basis over the terms of the lease.

**Pensions**

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

**Research and development**

Expenditure is charged to the profit and loss account in the period in which it is incurred.

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****1. Group turnover**

Turnover represents the invoiced amount of goods sold and services provided during the year, stated net of value added tax, together with the value of work completed in respect of long-term contracts in progress at the year end. The turnover is attributable to the following activities:-

	<u>2001</u> £'000	<u>2000</u> £'000
Marine	8,787	7,061
Engineering	7,583	5,602
Aquaculture	5,974	6,291
Others	149	201
	<hr/>	<hr/>
	22,493	19,155
Share of joint venture's turnover Aquaculture	1,047	451
	<hr/>	<hr/>
	23,540	19,606
	<hr/> <hr/>	<hr/> <hr/>
Analysis of turnover by geographical area:		
	<u>2001</u> £'000	<u>2000</u> £'000
U.K.	20,826	17,100
E.U.	703	634
Other Europe	13	20
U.S.A. and Canada	447	306
Asia and Australasia	251	352
South America	201	734
Africa	52	9
	<hr/>	<hr/>
	22,493	19,155
Share of joint venture's turnover South America	1,047	451
	<hr/>	<hr/>
	23,540	19,606
	<hr/> <hr/>	<hr/> <hr/>

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****2. Cost of sales/other operating income and charges**

	<u>2001</u> £'000	<u>2000</u> £'000
Cost of sales	18,050	15,477
Other operating income and charges		
Distribution costs	434	465
Administrative costs	5,447	4,912
Other operating income	(246)	(283)
	<u>5,635</u>	<u>5,094</u>

**3. Operating loss**

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

	<u>2001</u> £'000	<u>2000</u> £'000
Items charged:		
Auditors' remuneration – audit services	60	63
Auditors' remuneration – non-audit services	15	19
Depreciation of owned assets	910	907
Depreciation of assets held under finance leases and hire purchase contracts	343	346
Hire of plant	94	62
Operating lease rentals – plant and machinery	50	48
Operating lease rentals – land and buildings	327	328
Items credited:		
Net rental income	8	32
Release from deferred grants	87	157
Gain on disposal of fixed assets	48	18

**(b) Directors' emoluments**

	<u>2001</u> £'000	<u>2000</u> £'000
Aggregate emoluments	390	420

During the year, 4 directors (2000 – 4 directors) participated in defined benefit pension schemes.

The emoluments of the highest paid director were £116,282 (2000 - £113,444). The highest paid director's accrued pension at the year-end was £62,627 (2000 - £58,370).

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001

4. <u>Staff costs</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000
Wages and salaries	6,614	6,176
Social security costs	556	535
Other pensions costs	627	343
	<hr/>	<hr/>
	7,797	7,054
	<hr/>	<hr/>

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

	<u>2001</u>	<u>2000</u>
	No.	No.
Marine	157	188
Engineering	109	100
Aquaculture	28	26
Others	18	18
	<hr/>	<hr/>
	312	332
	<hr/>	<hr/>

5. <u>Net interest</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000
Bank loans and overdrafts	(530)	(494)
Finance charges payable under finance leases and hire purchase contracts	(39)	(43)
	<hr/>	<hr/>
	(569)	(537)
Bank deposit interest received	77	105
Other loans interest received	-	4
Other interest receivable	49	2
	<hr/>	<hr/>
	(443)	(426)
	<hr/>	<hr/>

6. <u>Taxation</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000
The taxation charge/(credit) for the year represents:		
Transfer from deferred taxation	-	(67)
Share of tax on joint venture's profits	87	(4)
	<hr/>	<hr/>
	87	(50)
Corporation tax – over provision in prior years	-	(4)
	<hr/>	<hr/>
	87	(54)
	<hr/>	<hr/>

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001**

<b>7. <u>Dividends</u></b>	<b><u>2001</u></b>	<b><u>2000</u></b>
	<b>£'000</b>	<b>£'000</b>

## Equity interests:

Preferred ordinary dividend – 1st interim proposed £14 per share (2000 - £21.416)	9	14
Preferred ordinary dividend – 2nd interim proposed £nil per share (2000 - £nil per share)	-	-
	<hr/>	<hr/>
	9	14
	<hr/>	<hr/>

**8. Tangible fixed assets**

<u>Company</u>	<u>Freehold property £'000</u>	<u>Machinery, plant, vehicles and fittings £'000</u>	<u>Total £'000</u>
Cost or valuation:			
At January 1, 2001	331	381	712
Additions	-	2	2
Group transfer	-	17	17
	<hr/>	<hr/>	<hr/>
At December 31, 2001	331	400	731
	<hr/>	<hr/>	<hr/>
Depreciation			
At January 1, 2001	262	304	566
Charge for the year	1	42	43
Group transfer	-	7	7
	<hr/>	<hr/>	<hr/>
At December 31, 2001	263	353	616
	<hr/>	<hr/>	<hr/>
Net book value:			
At January 1, 2001	69	77	146
	<hr/>	<hr/>	<hr/>
At December 31, 2001	68	47	115
	<hr/>	<hr/>	<hr/>



**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****8. Tangible fixed assets**  
*(continued)*

<u>Group</u>	<u>Freehold property £'000</u>	<u>Long leasehold property £'000</u>	<u>Short leasehold property £'000</u>	<u>Machinery plant vehicles and fittings £'000</u>	<u>Freehold slipways and jetties £'000</u>	<u>Total £'000</u>
Cost or valuation:						
At January 1, 2001	8,561	390	246	17,050	261	26,508
Additions	16	12	3	1,231	-	1,262
Disposals	-	(74)	-	(668)	-	(742)
Exchange difference	(335)	-	-	(25)	-	(360)
At December 31, 2001	8,242	328	249	17,588	261	26,668
Depreciation:						
At January 1, 2001	1,625	123	117	11,738	93	13,696
Charge for the year	136	22	11	1,074	10	1,253
Disposals	-	(73)	-	(646)	-	(719)
Exchange difference	-	-	-	(18)	-	(18)
At December 31, 2001	1,761	72	128	12,148	103	14,212
Net book value:						
At January 1, 2001	6,936	267	129	5,312	168	12,812
At December 31, 2001	6,481	256	121	5,440	158	12,456

Cost or valuation at December 31, 2001, comprises:

Cost	4,291	328	249	17,588	96	22,552
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 1999	2,914	-	-	-	-	2,914
	8,242	328	249	17,588	261	26,668

Included within the above freehold property figures at valuation is a total of £732,000 in respect of Brownfield Development sites owned by A. Kenneth & Sons Limited. The directors are of the view that the current market value of these sites is significantly in excess of the above carrying values.

Within the above total net book value of tangible assets is the sum of £1,437,000 in respect of assets held by Malakoff & Wm. Moore Limited.

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****8. Tangible fixed assets**  
*(continued)*

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

	<u>Freehold property</u> £'000	<u>Freehold slipways and jetties</u> £'000	<u>Total</u> £'000
Historical cost:			
At January 1, 2001	678	102	780
Exchange difference	(33)	-	(33)
	<hr/>	<hr/>	<hr/>
At December 31, 2001	645	102	747
	<hr/>	<hr/>	<hr/>
Depreciation based on cost:			
At January 1, 2001	135	56	191
Charge for the year	3	2	5
Exchange difference	(5)	-	(5)
	<hr/>	<hr/>	<hr/>
At December 31, 2001	133	58	191
	<hr/>	<hr/>	<hr/>
Net historical cost value:			
At January 1, 2001	543	46	589
	<hr/>	<hr/>	<hr/>
At December 31, 2001	512	44	556
	<hr/>	<hr/>	<hr/>

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

	<u>Company</u> £'000	<u>Group</u> £'000
Net book value:		
At January 1, 2001	69	713
	<hr/>	<hr/>
At December 31, 2001	27	635
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 20019. Investments

(a) Subsidiary undertakings:	<u>2001</u>	<u>2000</u>
	£'000	£'000
<u>Company</u>		
Investment in subsidiary undertakings comprises:		
Cost	9,561	9,561
Amounts written off	(2,344)	(1,584)
Amounts due by subsidiaries, less provisions	6,439	6,987
Amounts due to subsidiaries	(3,352)	(2,279)
	<hr/>	<hr/>
Net book value	10,304	12,685
	<hr/>	<hr/>

At December 31, 2001, the company had beneficial interests directly or indirectly (\*) in the ordinary share capital of the undemoted principal operating subsidiary undertakings. All are registered in Scotland unless otherwise stated and all are 100% owned with the exception of Malakoff & Wm. Moore Limited which is 55% owned, and Knapdale Shipping (Campbeltown) Limited which is 60% owned. Companies not audited by the parent company auditors are indicated by (†).

<u>Nature of Business</u>	<u>Company</u>
<b>Marine:</b>	Buckie Shipyard Limited Malakoff & Wm. Moore Limited
<b>Engineering:</b>	Prosper Engineering Limited Prosper Fasteners Inc* (incorporated in USA)†
<b>Aquaculture:</b>	Clachbreck Fish Farms* Cruive Limited Cruive III Limited* Inver Lochs Limited* Knapdale Shipping (Campbeltown) Limited Landcatch Limited McKinlay & Blair Limited Ormsary Fish Farms Limited* The Marine Resource Centre Limited MRC Energy Limited*
<b>Primary Production:</b>	Lithgows Pty Limited (incorporated in Australia)
<b>Building Products:</b>	A. Kenneth & Sons Limited
<b>Finance:</b>	Inver Salmon Limited Lithgow Factoring Limited

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001**9. Investments  
(continued)

## (b) Interest in joint venture

At December 31, 2001 the group had an interest in the following joint venture:

<u>Joint venture</u>	<u>Country of incorporation</u>	<u>Class of share capital held</u>	<u>Proportion held by group</u>	<u>Nature of business</u>
Landcatch Chile Limitada	Chile	Ordinary shares	50%	Fish farming
				<u>Group £'000</u>
At January 1, 2001				404
Additions				348
Share of profit retained by joint venture				468
Exchange difference				(40)
				<hr/>
At December 31, 2001				1,180
				<hr/>
The group's share in its joint venture comprises:				
Fixed assets				944
Current assets				1,473
				<hr/>
Gross assets				2,417
				<hr/>
Liabilities due within one year				749
Liabilities due after more than one year				488
				<hr/>
Gross liabilities				1,237
				<hr/>
Net assets				1,180
				<hr/>
Turnover				1,047
				<hr/>
Profit before tax				555
Taxation				(87)
				<hr/>
Profit after taxation				468
				<hr/>

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****9. Investments**  
*(continued)***(c) Associated undertakings**

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

	<u>Company</u> £'000	<u>Group</u> £'000
Cost:		
At January 1, 2001 and December 31, 2001	-	75
Amounts written off:		
At January 1, 2001 and December 31, 2001	-	75
Net book value:		
At January 1, 2001 and December 31, 2001	-	-

**(d) Unlisted investments**

Unlisted investments comprise:

	<u>Company</u> £'000	<u>Group</u> £'000
Cost:		
At January 1, 2001 and December 31, 2001	94	199
Amounts written off:		
At January 1, 2001 and December 31, 2001	44	141
Net book value:		
At January 1, 2001 and December 31, 2001	50	58

**10. Stocks and work-in-progress**

	<u>2001</u> £'000	<u>Group</u> <u>2000</u> £'000
Raw material and consumables	906	1,210
Work-in-progress	615	1,594
Work-in-progress payments received on account	(27)	(751)
Finished goods and goods for resale	468	390
Livestock	1,343	2,464
	<u>3,305</u>	<u>4,907</u>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****11. Debtors**

	<u>Company</u>		<u>Group</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Trade debtors	41	23	2,923	3,144
Other debtors	152	41	970	403
Prepayments and accrued income	211	185	540	480
Corporation tax	20	20	21	21
	<hr/>	<hr/>	<hr/>	<hr/>
	424	269	4,454	4,048
	<hr/>	<hr/>	<hr/>	<hr/>

**12. Creditors: amounts falling due within one year**

	<u>Company</u>		<u>Group</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Bank overdrafts	6,855	5,958	6,814	4,780
Current instalments due on loans (note 14)	-	-	328	352
Obligations under finance lease and hire purchase contracts (notes 15)	8	21	158	211
Trade creditors	106	75	2,578	2,785
Other taxes and social security costs	25	20	343	257
Other creditors	247	260	684	662
Pension contributions	47	47	297	47
Proposed dividend	9	14	9	14
Accruals	310	285	1,354	1,295
Payments to account	-	-	112	70
	<hr/>	<hr/>	<hr/>	<hr/>
	7,607	6,680	12,677	10,473
	<hr/>	<hr/>	<hr/>	<hr/>

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

	<u>Company</u>		<u>Group</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Loans (note 14)	-	-	1,053	981
Obligations under finance leases and hire purchase contracts (note 15)	5	11	222	214
	<hr/>	<hr/>	<hr/>	<hr/>
	5	11	1,275	1,195
	<hr/>	<hr/>	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****14. Loans**

	<b>Group</b>	
	<b>2001</b>	<b>2000</b>
	<b>£'000</b>	<b>£'000</b>
Loans are repayable as follows:		
Not wholly repayable within five years	1,161	884
Wholly repayable within five years	220	449
	<hr/>	<hr/>
	1,381	1,333
	<hr/>	<hr/>
Instalments due:		
After five years	276	285
Between two and five years	552	425
Between one and two years	225	271
	<hr/>	<hr/>
	1,053	981
Within one year (note 12)	328	352
	<hr/>	<hr/>
	1,381	1,333
	<hr/>	<hr/>
Details of loans not wholly repayable within five years are as follows:-		
Loan repayable in six monthly instalments of £47,500 commencing April 1998, secured by a mortgage on a vessel and supplemental Deed of Covenant. Interest is 7.5% for the period to April 2005, and thereafter at 8.08%	789	884
Loan repayable in monthly instalments of £4,762 commencing June 2001, secured by a floating charge over the whole assets of the recipient subsidiary. Interest is 1.75% above the Bank's base rate	372	-
	<hr/>	<hr/>
	1,161	884
Details of loans wholly repayable within five years as follows:		
10½% loan repayable in quarterly instalments of £15,860, including interest, commencing June 1994, secured by a mortgage on a vessel	125	173
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	95	190
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	-	34
Variable rate loan repayable in monthly instalments of £5,175, including interest, commencing in November 1996, secured by a bond and floating charge over the whole assets of the recipient subsidiary	-	52
	<hr/>	<hr/>
	1,381	1,333

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001**

14. <u>Loans</u>	<u>2001</u>	<u>2000</u>
(continued)	£'000	£'000
Analysis of changes in loan financing:		
At January 1	1,333	1,709
New contract	400	-
Capital element of repayments	(352)	(376)
	<hr/>	<hr/>
At December 31	1,381	1,333
	<hr/>	<hr/>

The total minority interest share of the above outstanding loans is £316,000 (2000 - £377,000). 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 £789,000 is a liability of Knapdale Shipping (Campbeltown) Limited, in which there is a 40% minority interest.

15. Obligations under leases and hire purchase contracts

	<u>Company</u>		<u>Group</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Amounts due within one year	9	22	183	236
Amounts due within two to five years	5	13	240	235
	<hr/>	<hr/>	<hr/>	<hr/>
	14	35	423	471
Less finance charges allocated to future periods	(1)	(3)	(43)	(46)
	<hr/>	<hr/>	<hr/>	<hr/>
	13	32	380	425
	<hr/>	<hr/>	<hr/>	<hr/>
The above shown as:				
Current obligations (note 12)	8	21	158	211
Non-current obligations (note 13)	5	11	222	214
	<hr/>	<hr/>	<hr/>	<hr/>
	13	32	380	425
	<hr/>	<hr/>	<hr/>	<hr/>



**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****15. Obligations under leases and hire purchase contracts**  
*(continued)*

	<u>2001</u>	<u>Group</u> <u>2000</u>
	<u>£'000</u>	<u>£'000</u>
Analysis of changes:		
At January 1	425	451
New contracts	202	249
Capital element of repayments	(247)	(275)
	<hr/>	<hr/>
At December 31	380	425
	<hr/>	<hr/>

## Annual commitments under non cancellable operating leases:

	<u>Land and buildings</u>		<u>Other</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>	<u>£'000</u>
Leases which expire:				
Within one year	53	82	29	17
Within the second to fifth years inclusive	28	-	21	28
Over five years	246	246	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	327	328	50	45
	<hr/>	<hr/>	<hr/>	<hr/>

**16. Deferred taxation**

There are potential deferred tax assets within both the Group and Company as a consequence of accelerated capital allowances, other timing differences and taxation losses carried forward.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 200117. Minority interests

	<u>2001</u> £'000	<u>2000</u> £'000
At January 1	407	489
Minority interest share of losses	(31)	(82)
	<hr/>	<hr/>
At December 31 – equity interest	376	407
	<hr/>	<hr/>

18. Share capital

	<u>2001</u> £'000	<u>2000</u> £'000
Authorised:		
Equity interests		
9,346 ordinary shares of £100 each (2000:9,346)	935	935
654 preferred ordinary shares of £100 each (2000:654)	65	65
Non equity interests		
1,000,000 7.5% preference shares of £1 each (2000:1,000,000)	1,000	1,000
	<hr/>	<hr/>
	2,000	2,000
	<hr/>	<hr/>
Allotted, issued and fully paid:		
Equity interests		
6,390 ordinary shares of £100 each (2000:6,390)	639	639
654 preferred ordinary shares of £100 each (2000:654)	65	65
Non equity interests		
650,000 7.5% preference shares of £1 each (2000: 650,000)	650	650
	<hr/>	<hr/>
	1,354	1,354
	<hr/>	<hr/>

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, 2001

19. <u>Net cash outflow from operating activities</u>	<u>2001</u> £'000	<u>2000</u> £'000
Operating loss	(2,692)	(1,416)
Gain on disposal of fixed assets	(48)	(18)
Depreciation	1,253	1,253
Decrease/(increase) in stocks	1,586	(528)
Increase in debtors	(408)	(438)
Decrease in creditors	253	836
Release from deferred grants	(87)	(157)
Exchange rate movement	(34)	-
	<hr/>	<hr/>
Net cash outflow from operating activities	(177)	(468)
	<hr/>	<hr/>
20. <u>Reconciliation of net cash flow to movement in net debt</u>	<u>2001</u> £'000	<u>2000</u> £'000
Decrease in cash in the year	(2,127)	(1,199)
Inception of loan	(400)	-
Cash outflow from loans	352	376
Cash outflow from finance leases	247	275
	<hr/>	<hr/>
Change in net debt resulting from cash flows	(1,928)	(548)
Inception of finance leases	(202)	(249)
Exchange difference	(34)	-
	<hr/>	<hr/>
Movement in net debt in the year	(2,164)	(797)
Net debt at January 1	(6,026)	(5,229)
	<hr/>	<hr/>
Net debt at December 31	(8,190)	(6,026)
	<hr/>	<hr/>

The share of net debt attributable to minority interests at December 31, 2001 was £622,000 (2000 - £730,000).

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001**21. Analysis of change in net debt

	<u>At Jan 1</u> <u>2001</u> £'000	<u>Cash flow</u> £'000	<u>Non cash</u> <u>items</u> £'000	<u>Exchange</u> <u>difference</u> £'000	<u>At Dec 31</u> <u>2001</u> £'000
Cash in hand and at bank	512	(93)	-	(34)	385
Overdrafts	(4,780)	(2,034)	-	-	(6,814)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(4,268)	(2,127)	-	(34)	(6,429)
Debt	(1,333)	(48)	-	-	(1,381)
Finance leases	(425)	247	(202)	-	(380)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(6,026)	(1,928)	(202)	(34)	(8,190)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****22. Related parties**

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

Landcatch Limited provided services in the provision of production support and technical know-how to its joint venture entity, Landcatch Chile Limitada.

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

	<u>2001</u> £'000	<u>2000</u> £'000
Value of services provided in financial year:		
Provision of electrical contracting services to Ormsary Farmers	10	51
Provision of labour to Ormsary Farmers	8	2
Provision of electrical contracting services to Inver Farmers	6	7
Provision of services to Landcatch Chile Limitada	70	68
Provision of services by Ormsary Farmers to rear fish stocks	1,917	1,623
Provision of consultancy services by Ormsary Farmers	7	5
Provision of services by Inver Farmers to rear fish stocks	248	207
Amounts outstanding at December 31:		
Due by Ormsary Farmers	-	21
Due by Inver Farmers	-	3
Due to Ormsary Farmers	257	119
Due to Inver Farmers	60	29

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****23. Capital commitments**

	<u>Company</u>		<u>Group</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	-	-	887	-

**24. Contingent liabilities**

There were no contingent liabilities at either December 31, 2001 or December 31, 2000.

**25. Guarantees and financial commitments**

Arrangements were effected in the course of 2002 whereby the company's bank overdraft is secured by a floating charge over certain assets of the group. In addition, cross guarantees exist between the various companies within the Lithgows Limited group in respect of bank facilities.

**26. Post balance sheet event**

In January 2003, following further disappointing trading, the group's trading subsidiary company, Malakoff & Wm. Moore Limited, went into receivership. This will have an adverse impact of approximately £625,000 in the group's 2002 Financial Statements, reflecting the losses incurred prior to the date of receivership and losses arising as a consequence of the receivership.

**27. Pension commitments**

The group operates a defined benefit scheme, The Lithgows Limited Pension Scheme. The assets of the scheme are held separately from those of the group, being managed by independent fund managers. Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of regular valuations, the most recent of which was at April 5, 2001. The valuation used the projected unit method. The principal assumptions used in the valuation were an investment return of 2.5% per annum higher than the rate of increase in pensionable salaries (3% for hourly paid members) and 1.7% higher than the rate of dividend growth.

The most recent actuarial valuation showed that the market value of the scheme's assets was £16,148,000, and that the actuarial value of those assets represented 90% of the benefits that had accrued to members after allowing for expected future increases in pensionable salaries.

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001****27. Pension commitments (continued)**

The pension charge for the year was £627,340 (2000 - £342,900), including a provision of £250,000 as a result of the amortisation of the deficiency. This deficiency is being eliminated by April 2016 by amending the current contribution rates from 18.5% to 23% of pensionable salaries for staff members and from 14.5% to 19.5% for hourly paid members, in line with the recommendations of the scheme's actuary.

The pension cost figures used in these financial statements comply with the current pension cost accounting standard SSAP24. A new pension cost accounting standard, FRS17, must be used for the figures that will be shown in the financial statements at December 31, 2005 and subsequent years. Under transitional arrangements the group is required to disclose the following information about the scheme and the figures that would have been shown under FRS17 in the current balance sheet.

The directors have obtained the information required under FRS17 from the scheme's actuary based on the full actuarial valuation carried out at April 5, 2001, updated to December 31, 2001. The major assumptions used by the actuary were:-

**At December 31, 2001**

Rate of increase in salaries	
Staff/executives	4.0%
Hourly-paid members	3.5%
Rate in increase in deferred pensions	2.5%
Rate of increase in pensions in payment	
Staff/executives*	3.25%
Hourly-paid members*	2.5%
Discount rate	5.75%
Inflation	2.5%

\* Post April 6, 1997 pensions

**LITHGOWS LIMITED****NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2001**27. Pension commitments (continued)

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

	<u>Long-term rate of return expected at December 31, 2001</u>	<u>Value at December 31, 2001</u> £'000
Equities	7.5%	10,713
Bonds	4.5%	4,797
Other	7.5%	479
		<hr/>
Total market value of scheme assets		15,989
Present value of scheme liabilities		(19,555)
		<hr/>
Deficit in the scheme		(3,566)
		<hr/> <hr/>

This deficit makes no allowances for deferred taxation.

If the above pension liability was recognised in the financial statements, the group's net assets and profit and loss reserve would be as follows:

	<u>At December 31, 2001</u> £'000
Net assets excluding pension liability	6,567
Pension liability	(3,565)
	<hr/>
Net assets including pension liability	3,002
	<hr/>
	<u>At December 31, 2001</u> £'000
Profit and loss reserve excluding pension liability	1,484
Pension liability	(3,566)
	<hr/>
Profit and loss reserve	(2,082)
	<hr/>