Lithgows Limited

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COMPANIES HOUSE

Report and Financial Statements 2011

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT

I am pleased to be able to advise that a profit on ordinary activities before taxation of £295,000 has been reported for the financial year to December 31, 2011. Consolidated shareholders' funds disclosed as at that date were £10,652,000.

We have continued our strategy of moving away from the engineering and aquaculture activities undertaken in previous years, and in their place we have progressed significantly in the establishment of renewable energy schemes which will help meet the demand for clean energy and sustain the Group for many years ahead.

In the course of 2011 we completed the disposals of the interests previously held in Prosper Distribution Limited, Landcatch Chile SA and the salmon farming activities of the Group. The proceeds of these sales have now been obtained, and as a consequence of this we have once again significantly reduced the level of debt within the Group. As at the year end, positive net funds were retained. This has allowed us, via a new subsidiary company Lithgow Energy Limited, to make investments in two renewable energy joint ventures, both of which have secured long term external project funding.

Inver Hydro LLP, a 50:50 partnership with Inver Farmers, has developed and built a hydro generation scheme on Jura, with generation commencing from the new system in June 2012. The scheme is a long lasting asset with a design life of at least 50 years, but will last indefinitely if continuously maintained and refurbished. It has been designed with ease of maintenance and efficiency taking priority over peak generation. It is a full storage scheme rather than the normal run-of-river hydro, and as such represents one of the most efficient forms of electricity generation. It is estimated that the scheme will produce an estimated annual generation of 6.57GWh/year, with a revenue value in excess of £1m, the equivalent of providing electricity to over 1,000 households, and this effectively makes the Isle of Jura fully self sufficient in renewable energy.

Lithgow Energy also holds an investment interest in the Allt Dearg Community Wind Farm to be constructed and operated by Allt Dearg Wind Farmers LLP, a partnership in which Ormsary Farmers has the majority interest, and which is 1/12th owned by the local Ardrishaig Community Trust. As at the time of writing this review, I am pleased to advise that twelve V52 turbines have been successfully erected on site, and initial generation is projected to begin within the next few months. It is anticipated that full electrical connection will be in place during the first quarter of 2013. The capacity of the wind farm will be around 10MW, sufficient to power about 6,500 homes, and from which it is anticipated that annual revenues of close to £4m will be obtained

It is disappointing to report that after over 70 years of service from its yards, Buckie Shipyard is no longer contracted by the RNLI to undertake the regular refit of their vessels. This decision was taken by the RNLI in order to consolidate nationally into three locations the number of yards, previously more geographically strategically placed, undertaking such activity in the belief that this would achieve cost savings. Having been in partnership with the RNLI since the company was established, the loss of this source of work has been significant, but to counter this increased efforts have been expended to source replacement activity. I am pleased to advise that some success has been achieved in this regard as, having previously been engaged as a subcontractor in the construction and outfit of eight aluminium catamarans for use as service vessels in the expanding offshore wind generation sector, the company has recently secured two direct contracts for the full design and build of such vessels. In addition, the yard remains well placed to benefit from a major strategy within the local community to promote Buckie harbour as a base for the renewable energy industry.

LITHGOWS LIMITED

CHAIRMAN'S STATEMENT
(continued)

The operating performance from our activities at The Marine Resource Centre based at Barcaldine, near Oban has once again been satisfactory, with increasing levels of revenue and profitability being achieved. In addition to the well established activities of generating hydro electricity and the servicing of companies in the aquaculture sector, turnover from the leisure industry continues to increase, benefitting from the additional mooring and storage capacity installed complemented by improved facilities. Enhancements to the onsite renewable energy scheme are under consideration.

McKinlay & Blair, our small electrical contracting business, reported a satisfactory performance in 2011, and continues to play an important role in support of the Group's operations, particularly within the renewable energy sector

We continue to actively manage the remaining property assets for long term capital growth. Where possible, we seek to obtain short term income from the rental of these sites pending the next stage of their development.

I am delighted that I can report on the successful implementation of the initial projects at Inver and Allt Dearg, and look forward to further progress in the development of more renewable energy schemes which will generate strong and consistent cash flows for the Group for many years ahead.

James F. Lithgow

JAMES F. LITHGOW
Chairman

September 14, 2012

LITHGOWS LIMITED

Directors

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

Mr. J.A. Lithgow (*Deputy Chairman)*

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

Mr. S.L. Rickman *(Non-Executive)*

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

Registered Office

Netherton
Langbank
Renfrewshire
PA14 6YG

LITHGOWS LIMITED

DIRECTORS' REPORT

The directors submit their report and audited financial statements for the year ended December 31, 2011.

Results and dividends

The Group trading profit for the year before taxation amounted to £295,000.

Dividends of £5,927 were paid during the year, and these have been deducted from reserves.

Review of the business

The Group's principal operating subsidiaries and their activities during the year are shown on page 27. Lithgows Limited is the holding company for the Group. Comments on the results for the year and on future developments are contained in the Chairman's statement on pages 1 and 2.

Directors

The directors as at December 31, 2011 are stated on page 3.

In addition to the directors noted on page 3, Mr H.M. Currie served as a director of the company in 2011 up to the date of his resignation from the board on June 10, 2011.

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

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Directors' responsibilities for the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Group and company 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 that disclose with reasonable accuracy at any time the financial position of the company and of the Group, and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware, there is no relevant information of which the company's auditors are unaware, and the directors have taken all steps they ought to have taken to make themselves aware of any relevant audit information, and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Financial risk management objectives and policies

The company's operations expose it to a variety of financial risks. The Group, of which the company is a member, has a risk management programme that seeks to limit the adverse effects of the financial performance of the Group by monitoring the level of debt finance and the related finance costs. The Group does not use derivative financial instruments to manage interest rate costs and as such, no hedge accounting is applied.

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

Financial risk management objectives and policies
(continued)

Credit Risk

The Group has implemented a policy that requires credit checks on potential customers before sales are made. The amount of exposure to any individual customer is subject to authorisation limits and procedures delegated to company management by the Group board, and is subject to regular review.

Liquidity risk

The Group maintains a mixture of long-term and short-term debt finance that is designed to ensure the Group has sufficient available funds for its operations at an acceptable cost.

The Group has recently prepared trading projections for the three year period through to December 2014. Taking account of the level of facilities currently in place with its main bankers, the projections indicate that there will be adequate funding in place during this period to meet the Group's requirements. On this basis, the directors are satisfied that they can continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Interest rate cash flow risk

The Group has both interest bearing assets and liabilities. The interest bearing assets normally include only cash balances. The Group has a policy of maintaining debt at both fixed and floating rates, thereby enabling the Group to benefit from any reduction in interest rates whilst still maintaining an element of certainty over the future interest cash flows. The Group board will regularly review the appropriateness of this policy.

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.

LITHGOWS LIMITED

DIRECTORS' REPORT
(continued)

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.

Auditors

Grant Thornton UK LLP, having expressed their willingness to continue in office, will be deemed to be reappointed for the next financial year in accordance with Section 487(2) of the Companies Act 2006 unless the company receives notice under section 488(1) of the Companies Act 2006.

ON BEHALF OF THE BOARD

A.R. REID
Director & Company Secretary

September 14, 2012

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LITHGOWS LIMITED

We have audited the financial statements of Lithgows Limited for the year ended December 31, 2011 which comprise the Group profit and loss account, the Group and parent company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses, the Group and parent company reconciliation of movement in shareholders' funds and notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LITHGOWS LIMITED
(continued)

Basis of opinion

In our opinion the financial statements

- give a true and fair view of the state of the Group's and the parent company's affairs as at December 31, 2011 and the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all of the information and explanations we require for our audit.

Grant Thornton UK LLP

Andrew Howie
Senior Statutory Auditor
for and on behalf of GRANT THORNTON UK LLP
Statutory Auditor
Chartered Accountants
Glasgow

September 14, 2012

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2011

	Notes	2011 £'000	2011 £'000		2010 £'000
TURNOVER					
Group and share of joint ventures' turnover			5,747		9,332
Less: share of joint ventures' turnover - continuing		(45)		(44)	
share of joint ventures' turnover – discontinued		-		(1,360)	
GROUP TURNOVER	1				
Continuing operations		3,393		3,778	
Discontinued operations		2,309		4,150	
			5,702		7,928
OPERATING PROFIT/(LOSS)	2				
Continuing operations		102		(1,129)	
Discontinued operations		581		1,282	
			683		153
Share of operating loss of continuing joint ventures	8		(318)		(52)
Share of operating profit of discontinued joint ventures	8		-		7
			365		108
Gain on disposal of discontinued joint venture interests			-		35
Provision for impairment in the value of certain assets in anticipation of disposal			70		(4,511)
Reassessment of FRS 17 liability related to anticipated disposal			-		1,233
			435		(3,135)
Net interest	4		34		(35)
Other finance costs			(174)		(288)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION			295		(3,458)
Taxation credit	5		45		33
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION			340		(3,425)

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

LITHGOWS LIMITED

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 2011

	2011 £'000	2010 £'000
Profit/(loss) for the year	340	(3,425)
Exchange differences	-	17
Unrealised gain on investments	-	-
Impairment of land previously revalued	-	(90)
Impairment of investment in joint venture previously revalued	-	(3,500)
Actuarial loss arising in pension scheme (note 26)	(2,097)	(2,287)
Gain arising on de-recognition of pension scheme deficit	8,328	-
Total recognised losses and gains for the year	6,571	(9,285)

NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2011 £'000	2010 £'000
Reported profit/(loss) on ordinary activities before taxation	295	(3,458)
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	5	5
Realisation of revaluation reserve arising on the sale of joint venture interests	-	2,221
Historical cost profit/(loss) on ordinary activities before taxation	300	(1,232)
Historical cost profit/(loss) retained	345	(1,199)

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

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

	Profit and loss account £'000	Reval-uation surplus £'000	Capital redemption reserves £'000	Total reserves £'000	Called-up share capital £'000	Total share-holders' funds £'000
At January 1, 2010	6,772	5,591	325	12,688	1,354	14,042
Movements in 2010						
Exchange differences - joint venture	17	-	-	17	-	17
Impairments in investments	-	(3,500)	-	(3,500)	-	(3,500)
Impairment in carrying value of land	-	(90)	-	(90)	-	(90)
Realisation of investment in joint venture	2,221	(2,221)	-	-	-	-
Reclassification	(600)	600	-	-	(650)	(650)
Actuarial loss	(2,287)	-	-	(2,287)	-	(2,287)
Dividends paid (note 6)	(20)	-	-	(20)	-	(20)
Loss for the year	(3,425)	-	-	(3,425)	-	(3,425)
At December 31, 2010	2,678	380	325	3,383	704	4,087
Movements in 2011:						
Actuarial loss (note 26)	(2,097)	-	-	(2,097)	-	(2,097)
Gain on de-recognition of Pension Scheme deficit (note 26)	8,328	-	-	8,328	-	8,328
Dividends paid (note 6)	(6)	-	-	(6)	-	(6)
Profit for the year	340	-	-	340	-	340
At December 31, 2011	9,243	380	325	9,948	704	10,652

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

LITHGOWS LIMITED
GROUP BALANCE SHEET AT DECEMBER 31, 2011

	Notes	£'000	2011 £'000	2010 £'000
Fixed assets:				
Tangible assets	7	2,305		3,173
Investments:				
Joint ventures	8b	2,366		499
Unlisted investments	8c	1,776		1,776
			6,447	5,448
Current assets:				
Stocks and work-in-progress	9	112		831
Debtors: amounts falling due within one year	10	1,473		6,023
Debtors: amounts falling due after more than one year	10	2,645		3,861
Cash at bank and in hand		2,155		1,311
		6,385		12,026
Creditors: amounts falling due within one year	11	(2,000)		(5,434)
Net current assets			4,385	6,592
Total assets less current liabilities			10,832	12,040
Creditors: amounts falling due after more than one year	12		(4)	(87)
Accruals and deferred income:				
Deferred grants	16		(176)	(316)
Net assets excluding pension liability			10,652	11,637
Pension liability			-	(7,550)
Net assets including pension liability			10,652	4,087
Capital and reserves:				
Called up share capital	17		704	704
Reserves			9,948	3,383
Total shareholders' funds			10,652	4,087

The financial statements were approved by the directors on September 14, 2012.

J.F. LITHGOW)
)
) Directors
A.W.C. WISHART)

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

Company Registration Number : SC010170

LITHGOWS LIMITED
COMPANY BALANCE SHEET AT DECEMBER 31, 2011

	Notes	£'000	2011 £'000	2010 £'000
Fixed assets:				
Tangible assets	7	57		62
Investments:				
Subsidiary undertakings	8a	4,910		7,570
Joint venture	8b	176		494
Unlisted investments	8c	1,776		1,776
			6,919	9,902
Current assets:				
Debtors: amounts falling due within one year	10	138		72
Debtors: amounts falling due after more than one year	10	2,645		2,388
Cash at bank and in hand		1,706		1,066
		4,489		3,526
Creditors: amounts falling due within one year	11	(1,184)		(3,148)
Net current assets			3,305	378
Total assets less current liabilities			10,224	10,280
Creditors: amounts falling due after more than one year	12		-	-
			10,224	10,280
Capital and reserves:				
Called up share capital	17		704	704
Reserves	18		9,520	9,576
Total shareholders' funds			10,224	10,280

The financial statements were approved by the directors on September 14, 2012.

J.F. LITHGOW)
) Directors
A.W.C. WISHART)

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

Company Registration Number : SC010170

LITHGOWS LIMITED

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2011

	Notes	2011 £'000	2010 £'000
Net cash inflow from operating activities	19	4,474	1,438
Returns on investments and servicing of finance			
Interest received		74	53
Interest paid		(19)	(18)
Finance lease interest paid		(2)	(7)
Loan interest paid		(19)	(63)
Net cash inflow/(outflow) from returns on investment and servicing of finance		34	(35)
Capital expenditure and financial investment			
Purchase of fixed assets		(86)	(259)
Sale of fixed assets		2	-
Disposal of investments		405	2,769
Disposal of business		(197)	-
Purchase of investments		(2,185)	(1,759)
Receipt of grant	16	-	26
Net cash (outflow)/inflow from capital expenditure and financial investment		(2,061)	777
Dividends paid	6	(6)	(20)
Financing			
Inception of new loan	20	-	77
Repayment of borrowings	20	(1,034)	(2,551)
Capital element of finance lease rentals	20	(29)	(74)
Net cash outflow from financing		(1,063)	(2,548)
Increase/(decrease) in cash	21	1,378	(388)

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

LITHGOWS LIMITED

ACCOUNTING POLICIES

Basis of accounting

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 the Companies Act 2006 and applicable United Kingdom accounting standards.

The principal accounting policies of the Group, which are summarised below, have remained unchanged from the previous year with the exception that the Group is now accounting for its contributions to the scheme as if it were a defined contribution scheme in accordance with FRS 17 as it can no longer identify the share of the underlying assets in The Lithgows Limited Pension Scheme that relate to its participating employer companies on a consistent and reasonable basis. This has resulted in a reduction in the charge through the Profit and Loss Account of £4,000. The gain of £8,328,000 that arises from the de-recognition of the pension scheme deficit has been reflected in the Group statement of recognised gains and losses.

In terms of FRS 15, surplus land is considered to be a separate class of assets. The Group values investments under the alternative accounting rules in accordance with the Companies Act 2006, as explained further below.

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.409 of the Companies Act 2006. The loss of the parent company for the year to December 31, 2011 was £50,000 (2010 – loss of £2,938,000).

Going concern

The Group has recently prepared trading projections for the three year period through to December 2014. Taking account of the level of facilities currently in place with its main bankers, the projections indicate that there will be adequate funding in place during this period to meet the Group's requirements. On this basis, the directors are satisfied that they can continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Investments in subsidiary undertakings

Investments in subsidiary undertakings represent the original cost of acquisition plus any group balance outstanding. The parent company makes provision for the diminution in the value of investment in subsidiaries, or where a deficit exists in a subsidiary's net assets.

ACCOUNTING POLICIES
(continued)

Investments in joint ventures

Investments in joint ventures are carried in the balance sheet at directors' valuation reflecting the share of their net assets at the date of acquisition and of their post-acquisition retained profits or losses and any adjustment to the underlying carrying value to reflect revaluations, based on external advice. The investor's share of the results is included within the profit and loss account. The profit and loss account also shows the share of the joint ventures' turnover.

When the share of losses in a joint venture equals or exceeds its interest in the undertaking, the investor continues to recognise those losses until an irrevocable event occurs that marks its irreversible withdrawal from its investee as a joint venture.

Investment in unlisted investments

Unlisted investments are carried at market value or any value the directors consider appropriate in the circumstances.

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%
Other freehold property - land	-	nil
Leasehold property	-	shorter of 2½% or over life of lease
Freehold slipways and jetties	-	2% - 2½%
Plant, machinery, fixtures and fittings	-	4% - 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.

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. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the Group an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. 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 substantively 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)

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

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 ventures 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.

Research and development

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

LITHGOWS LIMITED

ACCOUNTING POLICIES
(continued)

Retirement benefits

Defined contribution pension scheme

The pension costs charged against operating profits are the contributions payable to the arrangements in respect of the accounting period.

Defined benefit pension scheme

Lithgows Limited, the parent company, and a number of subsidiary companies, are participating employers in The Lithgows Limited Pension Scheme. Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. Previously, the net surplus or deficit, adjusted for deferred tax, was presented separately from other net assets on the balance sheet. The current service cost and costs from settlements and curtailments were charged against operating profit. Past service costs were spread over the period until the benefit increases vested. Interest on the scheme liabilities and the expected return on scheme assets were included in other finance costs. Actuarial gains and losses were reported in the statement of total recognised gains and losses.

As a result of the restructuring that has taken place within the Group, and a number of new contractual arrangements entered into during 2011, the Group is no longer able to identify the share of the underlying assets and liabilities in the scheme that relate to its participating employer companies on a consistent and reasonable basis as is required by FRS17, and therefore the Group is now accounting for its contributions to the scheme as if it were a defined contribution scheme in accordance with FRS17. The gain that has arisen from the de-recognition of the pension deficit that was estimated at the time of this change in accounting policy has been reflected in the Group Statement of Total Recognised Gains and Losses for the year ended December 31, 2011.

NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2011

1. Group turnover

Turnover represents the 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:-

	2011	2010
	£'000	£'000
Marine	2,913	3,477
Engineering and electrical	151	110
Hydro generation	172	128
Others	157	63
Turnover from continuing activities	3,393	3,778
Turnover from discontinued activity – Aquaculture	2,309	4,150
	5,702	7,928
Share of joint ventures' turnover		
Engineering and electrical – discontinued per note 8	-	1,360
Property development	45	44
	5,747	9,332

Analysis of turnover by geographical area:

	2011	2010
	£'000	£'000
U.K.	5,702	7,802
E.U.	-	126
	5,702	7,928
Share of joint ventures' turnover		
U.K.	45	1,402
Europe	-	2
	5,747	9,332

2. Operating profit/(loss)

(a) Operating profit/(loss) comprises:

	2011	2011	2011	2010	2010	2010
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	3,393	2,309	5,702	3,778	4,150	7,928
Cost of sales	2,779	1,312	4,091	3,219	2,882	6,101
Gross profit	614	997	1,611	559	1,268	1,827
Distribution costs	-	38	38	(1)	(171)	(172)
Administration costs	558	379	937	1,451	162	1,613
Exceptional costs	-	-	-	313	-	313
Other operating income	(46)	(1)	(47)	(75)	(5)	(80)
Operating profit/(loss)	102	581	683	(1,129)	1,282	153

The exceptional costs represent a provision for reorganisation costs.

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

	2011 £'000	2010 £'000
Items charged:		
Fees payable to group auditors for audit of group financial statements	27	28
Fees payable to group auditors for audit of subsidiary companies	18	26
Fees payable to group auditors for non-audit services	9	1
Depreciation of owned assets	263	354
Depreciation of assets held under finance leases and hire purchase contracts	28	47
Hire of plant	22	25
Operating lease rentals – plant and machinery	29	27
Operating lease rentals – land and buildings	235	237
Items credited:		
Net rental income	6	6
Release from deferred grants	33	70
Gain on sale of assets	1	-

(c) Directors' emoluments

	2011 £'000	2010 £'000
Aggregate emoluments	549	454

During the year, 5 directors (2010 – 5 directors) participated in defined benefit pension schemes.

The emoluments of the highest paid director were £284,021 (2010 - £166,259). The highest paid director's accrued pension at the year end was £95,053 (2010 - £93,110).

3. Staff costs

	2011 £'000	2010 £'000
Wages and salaries	2,192	2,461
Social security costs	191	229
Other pensions costs	130	137
	2,513	2,827

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

	2011 No.	2010 No.
Marine	70	78
Engineering and electrical	1	1
Aquaculture	7	10
Others	9	11
	87	100

4. Net interest

	2011 £'000	2010 £'000
Bank loans and overdrafts	(29)	(71)
Finance charges payable under finance leases and hire purchase contracts	(2)	(7)
Other interest payable	(9)	(10)
	(40)	(88)
Bank deposit interest received	5	1
Other interest receivable	69	52
	34	(35)

5. Taxation credit

	2011 £'000	2010 £'000
The taxation credit for the year represents:		
Share of tax charge on joint ventures' profits	-	4
Tax recoverable on disposal of joint venture investment	(45)	(37)
	(45)	(33)

No reconciliation of the current tax charge has been disclosed because of the availability of tax losses within the Group.

6. Dividends

	2011 £'000	2010 £'000
Preferred ordinary dividend – interim dividend of £9 (2010 - £31) per share	6	20

7. Tangible fixed assets

Company	Freehold property £'000	Machinery, plant, vehicles and fittings £'000	Total £'000
Cost or valuation:			
At January 1, 2011	331	73	404
Additions	-	-	-
Disposals	-	-	-
At December 31, 2011	331	73	404
Depreciation			
At January 1, 2011	274	68	342
Charge for the year	3	2	5
Disposals	-	-	-
At December 31, 2011	277	70	347
Net book value:			
At January 1, 2011	57	5	62
At December 31, 2011	54	3	57

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2011

7. Tangible fixed assets
(continued)

	Freehold property £'000	Surplus land £'000	Leasehold property £'000	Machinery plant vehicles and fittings £'000	Total £'000
Group					
Cost or valuation:					
At January 1, 2011	1,804	410	499	8,597	11,310
Additions	3	-	4	79	86
Disposals	(421)	-	(60)	(6,015)	(6,496)
At December 31, 2011	1,386	410	443	2,661	4,900
Depreciation:					
At January 1, 2011	1,040	-	310	6,787	8,137
Charge for the year	19	-	45	227	291
Disposals	(309)	-	(60)	(5,464)	(5,833)
At December 31, 2011	750	-	295	1,550	2,595
Net book value:					
At January 1, 2011	764	410	189	1,810	3,173
At December 31, 2011	636	410	148	1,111	2,305
Cost or valuation at December 31, 2011, comprises:					
Cost	1,094	-	443	2,661	4,198
Valuation in 1984	112	-	-	-	112
Valuation in 1999	180	-	-	-	180
Valuation in 2010	-	410	-	-	410
	1,386	410	443	2,661	4,900

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2011

7. Tangible fixed assets
(continued)

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

	Surplus land £'000	Freehold property £'000	Total £'000
Historical cost:			
At January 1, 2011	30	151	181
Disposal	-	-	-
At December 31, 2011	30	151	181
Depreciation based on cost:			
At January 1, 2011	-	24	24
Disposal	-	-	-
At December 31, 2011	-	24	24
Net historical cost value:			
At January 1, 2011	30	127	157
At December 31, 2011	30	127	157

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

	Company £'000	Group £'000
Net book value:		
At January 1, 2011	-	258
At December 31, 2011	-	-

8. Investments

(a) Subsidiary undertakings:

Company

	2011 £'000	2010 £'000
Investment in subsidiary undertakings comprises:		
Cost	13,901	12,401
Amounts written off	(5,519)	(2,941)
Amounts due by subsidiaries, less provisions	4,166	2,825
Amounts due to subsidiaries	(7,638)	(4,715)
Net book value	4,910	7,570

Group

A provision of £4,511,000 for impairment in the value of certain assets within the Group's aquaculture businesses was incorporated as at December 31, 2010 in anticipation of their disposal during 2011.

In the previous year, in light of these disposals consideration was given to the nature of the FRS17 liability, and where the FRS17 liability ultimately rested in relation to non-Group members. To reflect the fact that an element of the liability to the pension scheme fell on participating employers outwith the Group, a reassessment of the extent on the Group's FRS17 liability of £1,233,000 was reflected in the comparative figures.

In the current year as a result of the restructuring that has taken place, and a number of new contractual arrangements entered into during the year, as disclosed in note 26 the Group is no longer able to identify the share of underlying assets and liabilities in the scheme that relate to participating employer companies on a consistent and reasonable basis as required by FRS 17, and therefore the defined benefit pension liability previously disclosed has been de-recognised.

At December 31, 2011, 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 and all are 100% owned.

Nature of Business	Company
Marine:	Buckie Shipyard Limited Knapdale Shipping (Campbeltown) Limited The Marine Resource Centre Limited
Engineering and electrical:	Buckie Fabrications Limited* McKinlay & Blair Limited Prosper Group Limited
Aquaculture:	Ormsary Scallops Limited
Hydro generation:	MRC Energy Limited* Lithgow Energy Limited
Finance:	Lithgow Factoring Limited

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2011

8. Investments
   (continued)

(b) Interest in joint ventures

Joint venture	Country of incorporation	Class of share capital held	Proportion held by Group	Nature of business
Achadonn Limited (through Lithgows Limited)	Scotland	Ordinary shares	50%	Property Development
Prosper Distribution Limited (through Prosper Group Limited)	England	Ordinary Shares	50%	Engineering
Prosper Group Hong Kong Ltd (through Prosper Group Limited)	Hong Kong	Ordinary Shares	33.33%	Engineering
Inver Hydro LLP (through Lithgow Energy Limited)	Scotland	Limited Liability Partnership	50%	Renewable Energy
Allt Dearg Wind Farmers LLP (through Lithgow Energy Limited)	Scotland	Limited Liability Partnership	5%	Renewable Energy

The interests in Prosper Distribution Limited and Prosper Group Hong Kong Limited were sold in March 2010.

8. Investments
(continued)

(b) Interest in joint ventures (continued)

	Company			Group
	Property Development	Engineering	Renewable Energy	
	£'000	£'000	£'000	£'000
At January 1, 2011	494	-	5	499
Capital contribution	-	-	2,185	2,185
Share of loss retained by joint ventures	(318)	-	-	(318)
At December 31, 2011	**176**	**-**	**2,190**	**2,366**

The Group's share in its joint ventures as at December 31, 2011 comprises:

Fixed assets	-	-	-	-
Current assets	7,306	-	2,190	9,496
Gross assets	7,306	-	2,190	9,496
Liabilities due within one year	4,108	-	-	4,108
Liabilities due after more than one year	3,022	-	-	3,022
Gross liabilities	7,130	-	-	7,130
Net assets	**176**	**-**	**2,190**	**2,366**
Turnover	**45**	**-**	**-**	**45**
Loss before taxation	**(318)**	**-**	**-**	**(318)**
Taxation	-	-	-	-
Loss after taxation	**(318)**	**-**	**-**	**(318)**

8. Investments
(continued)

(b) Interest in joint ventures (continued)

The Group's share in its joint ventures as at December 31, 2010 comprises:

	Company Property Development £'000	Engineering £'000	Renewable Energy £'000	Group £'000
Fixed assets	-	-	-	-
Current assets	7,368	-	5	7,373
Gross assets	7,368	-	5	7,373
Liabilities due within one year	4,097	-	-	4,097
Liabilities due after more than one year	2,777	-	-	2,777
Gross liabilities	6,874	-	-	6,874
Net assets	**494**	**-**	**5**	**499**
Turnover	**44**	**1,360**	**-**	**1,404**
(Loss)/profit before taxation	**(52)**	**7**	**-**	**(45)**
Taxation	(139)	(4)	-	(143)
(Loss)/profit after taxation	**(191)**	**3**	**-**	**(188)**

(c) Unlisted investments

Unlisted investments comprise:	Company £'000	Group £'000
Cost:		
At January 1, 2011	1,820	1,917
Additions	-	-
At December 31, 2011	1,820	1,917
Amounts written off:		
At January 1, 2011 and December 31, 2011	44	141
Net book value:		
At January 1, 2011	1,776	1,776
At December 31, 2011	1,776	1,776

The directors are satisfied that the unlisted investments are properly included in the financial statements at cost.

9. Stocks and work-in-progress

	Group	
	2011	2010
	£'000	£'000
Raw material and consumables	24	135
Work-in-progress	80	(6)
Livestock	8	702
	112	831

10. Debtors

	Company		Group	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Trade debtors	19	8	328	781
Amounts due from joint ventures	-	-	-	2
Amounts due from related party	-	-	-	1,243
Other debtors	74	11	916	3,678
Prepayments and accrued income	25	33	209	299
Corporation tax	20	20	20	20
	138	72	1,473	6,023
Amounts falling due after more than one year:				
Amounts due from joint ventures	2,645	2,388	2,645	2,388
Other debtors	-	-	-	1,473
	2,645	2,388	2,645	3,861

11. Creditors: amounts falling due within one year

	Company		Group	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Bank facilities	-	-	-	534
Current instalments due on loans (note 13)	-	1,000	27	1,035
Obligations under finance lease and hire purchase contracts (note 14)	-	-	-	63
Trade creditors	55	18	293	882
Other taxes and social security costs	26	14	66	72
Other creditors	270	1,019	454	1,497
Preference shares (note13)	650	650	650	650
Pension contributions	14	32	14	32
Accruals	169	415	496	669
	1,184	3,148	2,000	5,434

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

	Company		Group	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Loans (note 13)	-	-	4	30
Obligations under finance leases and hire purchase contracts (note 14)	-	-	-	57
	-	-	4	87

13. Loans and borrowings

	Company		Group	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
(a) Loans are repayable as follows				
Wholly repayable within five years	-	1,000	31	1,065
Instalments due:				
Between two and five years	-	-	-	3
Between one and two years	-	-	4	27
	-	-	4	30
Within one year (note 11)	-	1,000	27	1,035
	-	1,000	31	1,065

Details of loans wholly repayable within five years as follows:

	2011	2010
Loan repayable in monthly instalments of £871, commencing April 2004, secured by a second ranking floating charge over the whole of the assets of the subsidiary company to whom the loan has been provided. Interest is charged at the rate of 7.5% per annum	14	22
Loan repayable by way of three agreed capital repayments, the last of which was paid in June 2011, secured by a floating charge over the whole assets of the recipient company. Interest was charged at 3% above LIBOR	-	1,000
Interest free loan advanced in April 2010, and repayable over 29 instalments.	17	43
	31	1,065

13. Loans and borrowings
(continued)

	Company		Group	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
(b) Preference shares	650	650	650	650

As the preference shares are redeemable at the option of the shareholder, and there is no confirmation from the shareholders that they will put aside this option, the preference shares have been reclassified as a debt of the company under the terms of FRS25.

	2011	2010
	£'000	£'000
(c) Analysis of changes in loan financing:		
At January 1	1,715	3,539
Inception of new loans	-	77
Reclassification	-	650
Capital element of repayments	(1,034)	(2,551)
At December 31	681	1,715

14. Obligations under leases and hire purchase contracts

	Group	
	2011	2010
	£'000	£'000
Amounts due within one year	-	61
Amounts due within two to five years	-	63
	-	124
Less finance charges allocated to future periods	-	(4)
	-	120
The above shown as:		
Current obligations (note 11)	-	63
Non-current obligations (note 12)	-	57
	-	120

14. Obligations under leases and hire purchase contracts
(continued)

	Group 2011 £'000	Group 2010 £'000
Analysis of changes:		
At January 1	120	194
New contracts	-	-
Capital element of repayments	(29)	(74)
Transferred on sale of business	(91)	-
At December 31	-	120

Annual commitments under non cancellable operating leases:

	Land and buildings 2011 £'000	Land and buildings 2010 £'000	Other 2011 £'000	Other 2010 £'000
Leases which expire:				
Within one year	1	1	11	6
Within the second to fifth years inclusive	77	77	15	21
Over five years	159	158	-	-
	237	236	26	27

15. Deferred taxation

There is no deferred taxation liability as at December 31, 2011 or December 31, 2010.

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.

16. Deferred grants

	Group	
	2011	2010
	£'000	£'000
At January 1	316	360
Received in year	-	26
Released in year	(33)	(70)
Transferred on sale of business	(107)	-
At December 31	176	316

17. Share capital

	2011	2010
	£'000	£'000
Authorised:		
Equity interests		
9,346 ordinary shares of £100 each (2010:9,346)	935	935
654 preferred ordinary shares of £100 each (2010:654)	65	65
	1,000	1,000
Allotted, issued and fully paid:		
Equity interests		
6,390 ordinary shares of £100 each (2010:6,390)	639	639
654 preferred ordinary shares of £100 each (2010:654)	65	65
	704	704

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 and is payable at the discretion of the directors. 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.

18. Company reserves and reconciliation of movements in shareholders' funds

	Capital redemption reserve £'000	Profit and loss account £'000	Total reserves £'000	Called up share capital £'000	Total £'000
At January 1, 2011	325	9,251	9,576	704	10,280
Loss for year	-	(50)	(50)	-	(50)
Dividends	-	(6)	(6)	-	(6)
At December 31, 2011	325	9,195	9,520	704	10,224

19. Net cash inflow from operating activities

	2011 £'000	2010 £'000
Operating profit/(loss)	102	(1,129)
Depreciation	238	256
(Increase)/decrease in stocks	(79)	25
Decrease/(increase) in debtors	6,698	(1,991)
(Decrease)/increase in creditors	(2,642)	5,225
Release from deferred grants	(23)	(24)
Net cash inflow from continuing operating activities	4,294	2,362
Net cash inflow/(outflow) in respect of discontinued activities	180	(924)
Net cash inflow from operating activities	4,474	1,438

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2011

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

	2011 £'000	2010 £'000
Increase/(decrease) in cash in the year (note 21)	1,378	(388)
Net cash outflow from loans	1,034	2,474
Cash outflow from finance leases	29	74
Change in net debt resulting from cash flows	2,441	2,160
Finance leases transferred on sale of business	91	-
Reclassification	-	(650)
Movement in net debt in the year	2,532	1,510
Net debt at January 1	(1,058)	(2,568)
Net funds/(debt) at December 31	1,474	(1,058)

21. Analysis of change in net debt

	At Jan 1 2011 £'000	Cash flow £'000	Non cash items £'000	Exchange difference £'000	At Dec 31 2011 £'000
Cash in hand and at bank	1,311	844	-	-	2,155
Bank facilities	(534)	534	-	-	-
	777	1,378	-	-	2,155
Debt (note 13)	(1,715)	1,034	-	-	(681)
Finance leases (note 14)	(120)	29	91	-	-
	(1,058)	2,441	91	-	1,474

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 of the parent company, holds an interest in both these partnerships, James Lithgow, a shareholder and director of the parent company, holds an interest in the Ormsary Farmers partnership and John Lithgow, also a shareholder and director of the parent company, holds an interest in the Inver 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.

Through Lithgow Energy Limited, the Group has made a capital contribution to Inver Hydro LLP, a joint venture between Lithgow Energy Limited and Inver Farmers. The Group has provided electrical contracting services to the joint venture during the construction of its hydro scheme, and some balances under these contracts remained outstanding at the year end.

Through Lithgow Energy Limited, the Group has made a capital contribution to Allt Dearg Wind Farmers LLP, a partnership which also includes Ormsary Farmers.

During 2011, Ormsary Scallops Limited acquired a scallop farming business and related assets from Loch Caolisport Scallops Limited, a company in which James Lithgow is the sole shareholder. The payment in respect of this acquisition remains outstanding at December 31, 2011.

The parent company provides management services to Achadonn Properties Limited, a subsidiary company of its joint venture, Achadonn Limited. A loan balance due from Achadonn Properties Limited remains outstanding at the year end.

22. Related parties
(continued)

Details of the values of these services supplied during the financial years to December 31, 2011 and December 31, 2010 are shown below:-

	2011 £'000	2010 £'000
Provision of electrical contracting services to Ormsary Farmers	36	35
Provision of electrical contracting services to Inver Farmers	4	2
Provision of electrical contracting services to Inver Hydro LLP	5	2
Provision of services to Achadonn Properties Limited	40	40
Interest arising on loan to Achadonn Properties Limited	51	51
Provision of services by Ormsary Farmers to rear fish stocks	221	607
Provision of services by Inver Farmers to rear fish stocks	43	56
Supply of scallops stock by Loch Caolisport Scallops Limited	8	-

Details of the balances outstanding at the balance sheet dates are shown below:-

	2011 £'000	2010 £'000
Loan balance due by Achadonn Properties Limited	2,577	2,372
Due by Achadonn Properties Limited	69	16
Capital and loan contribution in Inver Hydro LLP	982	5
Capital and loan contribution in Allt Dearg Wind Farmers LLP	1,208	-
Due by Ormsary Farmers	375	14
Due by Inver Farmers	9	-
Due by Inver Hydro LLP	5	2
Due to Ormsary Farmers	1	86
Due to Inver Farmers	-	3
Due to Loch Caolisport Scallops Limited	8	-

23. Capital commitments

	Company		Group	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
Contracted for but not provided in these financial statements	-	-	-	-

24. Contingent liabilities

There were no contingent liabilities at either December 31, 2011 or December 31, 2010.

25. Guarantees and financial commitments

The company has overdraft and bank loan facility arrangements which are secured by a bond and floating charge over the assets of the company and a guarantee provided by the shareholders. At December 31, 2011 there were borrowings of £nil (2010 - £1,000,000) in respect of these facilities.

The parent company has also provided guarantees to joint venture partners and subsidiary companies in respect of loans advanced. As at December 31, 2011 the amount covered by these guarantees totalled £13,000 (2010 - £22,000).

Bank facilities have been provided to certain subsidiary companies which are secured by the provision of a bond and floating charge over the assets of the specific subsidiary company. As at December 31, 2011 the amount covered by these charges totalled £nil (2010 - £409,000).

26. Pension commitments

The Group is a member of a defined contribution stakeholder pension scheme for the benefit of employees. The assets of the scheme are administered externally to the Group in funds independent from the Group.

In addition, Lithgows Limited, the parent company, and a number of subsidiary companies are participating employer companies within a multi-employer defined benefit scheme, The Lithgows Limited Pension Scheme, as well as entities which are not members of the Group. As a result of the restructuring that has taken place within the Group, and a number of new contractual arrangements entered into during 2011, the Group is no longer able to identify the share of the underlying assets and liabilities in the scheme that relate to its participating employer companies on a consistent and reasonable basis as is required by FRS17, and therefore the Group is now accounting for its contributions to the scheme as if it were a defined contribution scheme in accordance with FRS17. The gain that has arisen from the de-recognition of the pension deficit that was estimated at the time of this change in accounting policy has been reflected in the Group statement of total recognised gains and losses for the year ended December 31, 2011.

	£'000
Pension scheme liability brought forward	7,550
Interest cost incurred in period prior to change in accounting policy	108
Service cost incurred in period prior to change in accounting policy	50
Payments in period prior to change in accounting policy	(1,477)
Actuarial loss	2,097
Gain arising on de-recognition of pension scheme liability	(8,328)
Pension scheme liability carried forward	-

The assets of the defined benefit scheme are held separately from those of the Group, being managed by independent fund managers. Cost and liabilities are based on actuarial valuations. The scheme actuary has estimated that the overall scheme deficit at the year end was as follows. The participating employers with the scheme, including the parent company and a number of subsidiary companies, have entered into a schedule of contributions with the scheme which will result in deficit recovery payments being made to address this position.

26. Pension commitments
(continued)

Change in benefit obligations

	2011 £'000	2010 £'000
As at January 1	29,148	25,301
Current service cost	86	70
Interest cost	1,584	1,438
Scheme participants' contributions	191	134
Actuarial losses	3,691	3,291
Benefits paid	(1,032)	(1,086)
As at December 31	33,668	29,148

Change in scheme assets

Fair value of scheme assets at beginning of year	20,365	18,770
Expected return on scheme assets	1,236	1,150
Actuarial (losses)/gains	(3,075)	1,004
Employer contribution	1,654	393
Member contributions	116	134
Benefits paid	(1,032)	(1,086)
Fair value of scheme assets at end of year	19,264	20,365
Net fund deficit	(14,404)	(8,783)

LITHGOWS LIMITED
NOTES TO THE FINANCIAL STATEMENTS AT DECEMBER 31, 2011

26. Pension commitments
(continued)

Components of pension cost

	2010 £'000
Current service cost	70
Recognition of past service cost	-
Interest cost	1,438
Expected return on scheme assets	(1,150)
Total pension cost recognised in profit and loss account	358
Actuarial losses recognised	2,287
Total pension cost recognised in the STRGL	2,287
Cumulative amount of actuarial losses recognised	5,312

The components of the 2011 pension cost reflected in the consolidated financial statements are shown on page 42.

Scheme assets

The weighted-average asset allocations were as follows:

	2011	2010
Equity securities	65%	67%
Debt securities	12%	26%
Property	8%	7%
Other	15%	-
	100%	100%

To develop the expected long-term rate of return on assets assumption, the company considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.96% assumption for the year ended December 31, 2011.

26. Pension commitments
(continued)

Weighted average assumptions used to determine benefit obligations

	2011	2010
Discount rate	4.7%	5.5%
Rate of salary increase	1.0%	3.4%
Rate of pension increases (future service)	2.0%	2.3%
Inflation	2.9%	3.4%

Weighted average assumptions used to determine net pension cost

	2011	2010
Discount rate	5.5%	5.8%
Expected long-term return on scheme assets	5.9%	6.2%
Rate of salary increase	3.4%	3.2%
Rate of pension increase (future service)	2.3%	2.3%
Inflation	3.4%	3.2%

Weighted average life expectancy for mortality tables used to determine benefit obligations

	2011	2010
Member age 65 (current life expectancy)	20	20
Member age 45 (life expectancy at age 65)	22	22

26. Pension commitments
(continued)

Five year history

Financial year to	Dec 31 2011 £'000	Dec 31 2010 £'000	Dec 31 2009 £'000	Dec 31 2008 £'000	Dec 31 2007 £'000
Benefit obligation at end of year	33,668	29,148	25,301	22,099	26,171
Fair value of scheme assets at and of year	19,264	20,365	18,770	18,399	20,904
Deficit	(14,404)	(8,783)	(6,531)	(5,700)	(5,267)

Difference between actual and expected return on scheme assets

Amount (£'000)	(3,075)	1,004	1,867	(6,610)	(995)
Percentage of scheme assets	-16%	5%	10%	-40%	-5%

Experience gains and (losses) on scheme liabilities

Amount (£'000)	(10)	(499)	(29)	(11)	235
Percentage of scheme liabilities	0%	(2)%	0%	0%	1%