J. SMART & CO. (CONTRACTORS) PLC

ANNUAL REPORT

AND

STATEMENT OF ACCOUNTS

TO

31st JULY 2006

J Smart & Co. (Contractors) PLC

DIRECTORS
J M Smart, *Chairman and Managing Director*
K H Hastings
A D McClure, *Secretary*
L E Glenday

REGISTERED OFFICE
28 Cramond Road South
Edinburgh,
EH4 6AB

SUBSIDIARY COMPANIES
McGowan & Co (Contractors) Limited
King & Ritchie Limited
Cramond Real Estate Company Limited
D & J McDougall Limited
Thomas Menzies (Builders) Limited
Concrete Products (Kirkcaldy) Limited
C & W Assets Limited

REGISTRARS AND TRANSFER OFFICE
Lloyds TSB Registrars Scotland,
P O Box 28506,
Finance House
Orchard Brae,
Edinburgh,
EH4 1XZ

BANKERS
Bank of Scotland,
38 St Andrew Square,
Edinburgh
EH2 2YR

AUDITORS
French Duncan LLP
Chartered Accountants,
375 West George Street,
Glasgow,
G2 4LW

SOLICITORS
Russel & Aitken
27 Rutland Square,
Edinburgh,
EH1 2BU

Bell & Scott LLP,
16 Hill Street
Edinburgh,
EH2 3LD

J. Smart & Co. (Contractors) PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at the Registered Office, 28 Cramond Road South, Edinburgh on *14th December 2006 at 12 noon*, for the following purposes

1 To receive and consider the Annual Report and Statement of Accounts for the year ended 31st July 2006

2 To receive and consider the Report on Directors' Remuneration for the year ended 31st July 2006

3 To declare a dividend

4 To elect Directors

5 To authorise fees payable to the Directors

6 To re elect the Auditors

7 To authorise the Directors to determine the remuneration of the Auditors

8 To transact any other business of an Annual General Meeting

A member entitled to attend and vote at this Meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of him A proxy need not also be a member Forms of proxy, if used, must be lodged at the Registered Office at least 24 hours before the time fixed for the Meeting

There are no Directors' service contracts in existence

BY ORDER OF THE BOARD,
A D McCLURE, SECRETARY
28 CRAMOND ROAD SOUTH,
EDINBURGH EH4 6AB

14th November 2006

Note The dividend, if approved, will be paid on 18th December 2006 to shareholders on the Register at the close of business on 1st December 2006

J. Smart & Co (Contractors) PLC

CHAIRMAN'S REVIEW

ACCOUNTS

This is the first year in which the accounts have to be prepared in accordance with the International Financial Reporting Standards Group profits for the year before tax turned out at £13 760 000 which compares with the restated figure for the previous year of £15,991,000 Both of these figures include unrealised gains in revalued property as required by the new accounting regime If the impact of revalued property on the figures is disregarded then a truer reflection of Group Performance emerges in the form of £7,005,000 profit before tax (including £899,000 profit from property sales) for the year under review which would compare with a figure for the previous year of £5 514,000 (including £131,000 profit from property sales)

The Board is recommending a Final Dividend of 9 80p nett making a total for the year of 12 80p nett which compares with 12 40p nett for the previous year After waivers by members holding approximately 51% of the shares, the Dividends will cost the Company £630,000

Profit adjusted for pension scheme deficit, dividends paid and fair value reserve when added to opening shareholders' funds brings the total equity of the Group to £84,080,000

TRADING ACTIVITIES

Group turnover increased by 18%, own work capitalised was again negligible and other operating income decreased by 4% Total Group profits decreased by 14% Underlying Group profits excluding unrealised gains in revalued property increased by 27%

Turnover and profits in contracting increased Sales and profits in private housing declined Sales in precast concrete manufacture remained static, however continued pressure on sales and prices slightly increased losses

We have commenced construction of a second large industrial unit at Cardonald Business Park, Glasgow and a large pre let industrial unit in Helen Street, Glasgow Demolition and facade retention are progressing at Bridgeside Works, a mixed commercial and residential development in McDonald Road, Edinburgh The upgrading and refurbishment operation at our large office development in Links Place, Edinburgh referred to in last year's review is in full swing and is attracting favourable tenant and market reaction

The fourth and last phase of our joint venture development with EDI (Industrial) Limited at A1 Industrial Estate, Edinburgh comprising two industrial units, one of which is pre let, is now underway

Phase three of our joint venture development with EDI at Starlaw Industrial Estate, Livingston, is now complete and let Both of the A1 and Starlaw developments are currently being marketed as investment sales

Negotiations are still proceeding for two pre lets at Prestonfield Park, Edinburgh, our joint venture with Walker Group

FUTURE PROSPECTS

We anticipate commencing our second office development for lease/sale at Glenbervie Business Park near Stirling in the next calendar year Rental income is expected to decrease

The amount of contracting work in hand is less than at this time last year As before the majority of this work has been obtained on a negotiated and/or design and construct basis and the balance by traditional competitive tender Turnover in contracting is expected to be down Private house sales are again not expected to be significant this year

Subject to the effect of unrealised gains in revalued property, profit from property sales and unforeseen or exceptional circumstances, it is anticipated that profit for the current year will be less than last year

J M SMART
Chairman

14th November 2006

J. Smart & Co. (Contractors) PLC

DIRECTORS

J M Smart, Chairman and Managing Director Aged 62
Joined the company in 1967
Appointed director in 1978 and appointed Chairman in 1988

K H Hastings Aged 60
Joined the company in 1974
Appointed director in 1985

A D McClure Aged 60
Joined the company in 1964
Appointed director in 1987

L E Glenday Aged 58
Joined the company in 1972
Appointed director in 2001

The Directors submit their Annual Report and Statement of Accounts for the year ended 31st July 2006

RESULTS AND DIVIDENDS

The profits of the Group for the year after charging taxation amount to		£10,629,000
The Directors have made the following appropriations		
Paying an interim dividend for 2006 of 3 00p per share (2005, 2 90p) after waivers	£147,000	
Paying a final dividend for 2005 of 9 50p per share (2004, 9 15p) after waivers	468,000	
		615,000

Certain shareholders have waived the interim dividend for 2006 and final dividend for 2005 aggregating £645,000

The Directors recommend a final dividend for the year of 9 80p per share, making a total for the year of 12 80p

The final dividend, if approved, will be paid to all Members on the Share register of the Company at the close of business on 1st December 2006 Dividend warrants will be posted on 15th December 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 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,
- 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 which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985 and International Financial Reporting Standards (IFRS), as adopted by the European Union They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries are building and public works contracting of all types, building for sale of private houses, carrying out of industrial and commercial developments and redevelopments for sale or lease and the manufacture for sale of concrete building products

The company has interests in Joint Venture Companies as follows

Name of Joint Venture Company	Percentage of interest held	Joint Venture Party
Edinburgh Industrial Estates Limited	50%	EDI (Industrial) Limited
Prestonfield Development Company Limited	50%	Walker Holdings (Scotland) Limited
Northrigg Limited	50%	Fordevelopments Limited
Duff Street Limited	50%	Keane Developments Limited

Full details of the Joint Venture companies are given in note 14 to the accounts

BUSINESS REVIEW

Group operations during the year were as follows

BUILDING

Several housing contracts for housing associations, one contract for 72 flatted dwellings for a national housebuilder and the contract for the large industrial unit comprising phase 3 of Starlaw Industrial Estate Livingston for our joint venture company Edinburgh Industrial Estates Limited

PLUMBING

All plumbing and domestic heating sub contract work in above contracts

CIVIL ENGINEERING

Small to medium sized civil engineering contracts for Local Authorities, Enterprise Companies, private housebuilders, private clients and emergency call out and remedial works for the Coal Authority

PRECAST CONCRETE

Manufacture and sale of hydraulically pressed concrete products (kerbs, paving slabs, etc) Sales to builders merchants, contractors, housebuilders and private individuals

PROPERTY

Income from rent and service charges received from tenants of industrial and commercial properties owned in the Central Belt of Scotland Negligible development work carried out Property sales amounted to £5,200,000

FINANCIAL

Income from interest on cash deposits and dividends and profits from sale of equity investments

JOINT VENTURES

Income from rent and service charges received from tenants of industrial properties owned in Edinburgh and Livingston Edinburgh Industrial Estates Limited commenced development of large industrial unit at Livingston

BUSINESS REVIEW (contd)

SUMMARY

	Revenue £000	Profit £000	Profit excluding unrealised gains in revalued property £000
Construction	26 247	1,717	1 717
Investment	5,819	10.527	4,981
Joint Ventures	—	1 516	307
	32,066	13 760	7,005

Group turnover during the year increased by £3,969,000 rental income excluding Joint Ventures, decreased by £246,000, profit from property sales increased by £768,000 and net gain on valuation of properties decreased by £4,490,000 resulting in an Operating Profit of £11,826,000 The Group's share of profits in Joint Ventures increased by £803 000 and investment income including profit on sale of equity investments increased by £257,000 resulting in Profit before Taxation of £13,760,000 compared with the restated figure of £15 991 000 for the previous year Excluding unrealised gains in revalued property produces a figure of £7,005,000 before tax for the year under review compared with a restated figure of £5,514,000 for the previous year

GROUP FINANCIAL PERFORMANCE INDICATORS

	2006 £000	Movement	*Restated 2005 £000*
Turnover (Revenue)	26 149	18%	*22,180*
Own work capitalised	98	Negligible	*20*
Other operating income (Group rental income including service charges)	5,819	(4%)	*6,065*
Profit before tax	13,760	(14%)	*15,991*
Profit excluding unrealised gains in revalued property	7 005	27%	*5,514*
Profit excluding unrealised gains in revalued property and profit from property sales	6,106	13%	*5,383*
Group investment income including profit/loss on sales of investments	396	185%	*139*
Share of Joint Ventures' profits excluding unrealised gains in revalued property	307	(1%)	*311*
Group balance sheet	84,080	13%	*74,597*

BUSINESS REVIEW (contd)

PRINCIPAL RISK FACTORS

RISK AND IMPACT	MEASURE
Main focus in contracting is on social housing which can be highly competitive putting pressure on turnover and margins	• Genuine 'All Trades" Contractor employing own plant and directly employed operatives to carry out all basic trades • No "labour only" sub contractors • Long serving site supervisory staff promoted through the ranks • Specialist trades sub contracted to pool of tried and tested sub contractors who are paid in full on or ahead of time • Clients receive pre contract design advice to resolve potential technical problems • As property and private residential developers we identify sites unsuitable for private development and offer them to Housing Associations to negotiate package We believe the above measures ensure a high standard of service, quality and progress which permits our clients to employ us on a partnering "best value" basis where price is not the only criterion and repeat business results
Cuts in funding reduce or suspend the social housing programme resulting in reduced contracting workload and substantial redundancies	• Take up slack by diverting staff and workforce to private commercial and residential developments held in reserve • Unlike a pure "contractor ' we can take the portion of affordable housing required by the Planning Authority on a private residential development to a Housing Association resulting in reciprocal business and increased workload • We now have four joint ventures in private development for which we carry out the work and are actively pursuing more
Inability to find tenants for new development space and loss of existing tenants leads to reduction of revenue and capital resources	• By restricting our operations to the Central Belt of Scotland we are only involved in familiar locations we understand • Secure a pre let before commencement of development • Only commence speculative development after a careful assessment of the local market and once we are reasonably certain of securing tenants • Freshen up existing developments from time to time in order to retain and attract tenants and maintain market interest

RETIREMENT BENEFIT OBLIGATIONS

Note 28 to the accounts gives details of the most recent actuarial review of the Group's defined benefit pension scheme

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Full details of the movements in Property plant and equipment and Investment properties during the year are given in notes 12 and 13 to the accounts

At 31st July 2005 a valuation of the Group's non investment heritable properties was carried out by Mr K H Hastings, F R I C S , a Director of the Holding Company This valuation, which has not been incorporated into these accounts, showed a net surplus over the cost of these properties before depreciation of £1,299 000 In the opinion of the directors there has been no material change in the value of these properties as at 31st July 2006

FUTURE DEVELOPMENTS

It is not anticipated that the activities of the Company and its subsidiaries, as described above, will substantially change in the immediate future

EMPLOYEE INVOLVEMENT

It is Company policy that there should be effective communication with employees at all levels on matters which affect their current jobs or future prospects In achieving this policy, the Directors are aware of the need to take account of the practical and commercial considerations of the Company, and of the needs of employees

DISABLED EMPLOYEES

The policy of the Company with regard to disabled persons is to give full and fair consideration to all applicants for employment and to all employees in relation to promotion Wherever possible, employees who become disabled during their employment are offered suitable alternative employment

POLITICAL AND CHARITABLE CONTRIBUTIONS

Charitable contributions made by the Group amounted to £23,000 There were no political contributions

CREDITOR STATEMENT POLICY

The Group's policy concerning payment of trade creditors is to settle in accordance with accepted best practice in the building industry, i e payment is made by the end of the month following the month of supply or delivery Further information relating to the policy on payment of creditors may be obtained from the Group's registered office The average number of days taken to pay creditors is 16, based on the average daily amount invoiced by suppliers during the year and the creditors balance at the year end

DIRECTORS AND THEIR INTERESTS

(i) The Directors at 31st July 2006 and their beneficial interests in the share capital of the Company were as follows

	1st August 2005 *Ordinary shares of 10p each* *Beneficial holdings*	*31st July 2006* *Ordinary shares of 10p each* *Beneficial holdings*
J M Smart	4 844 700	4 844,700
K H Hastings	63,000	63,000
A D McClure	55,000	55,000
L E Glenday	45,000	45,000

(ii) Mr L E Glenday retires by rotation and, being eligible, offers himself for re election

(iii) There are no Directors' service contracts in existence

(iv) Details of Directors' beneficial interests in any contracts to which the parent company or any subsidiary company was a party are shown in note 31 to the accounts

SUBSTANTIAL SHAREHOLDERS

As far as the Directors are aware, other than the Directors, the Company has been notified that as at 24th October 2006, the following have interests of more than 3% in the Company's issued share capital

	Number	*%*
Mr A J Whitehead	312 542	3 10
Octet Investments Limited	324,480	3 22

CLOSE COMPANY STATUS

On the information available the Directors are of the opinion that the Company is not a Close Company within the provisions of the Income and Corporation Taxes Act 1988, as amended

CORPORATE GOVERNANCE

STATEMENT OF COMPLIANCE

This statement details how your Company has applied the main and supporting principles of corporate governance as set out in Section 1 of the 2003 FRC Combined Code on Corporate Governance and gives reasons for any non compliance The Board is committed to the principles of openness, integrity and accountability in dealing with the Company's affairs and believes it has always acted with probity in the best interests of the Company, its employees and shareholders without recourse to guidance or instruction from others and fully intends to continue to do so in the future The Board recognises that it has not complied, throughout the year, in whole or in part, with the provisions A 1 1 to A 1 4, A 2 1, A 2 2 A 3 1 to A 3 3, A 4 1 to A 4 4, A 4 6, A 6 1, A 7 1, A 7 2, B 1 1, B 1 3, B 1 5, B 2 1 to B 2 3, C 3 1 to C 3 6, D 1 1 and D 2 3 of the Code, details of and explanations for which are given below

THE BOARD

Your Board consists entirely of working Directors who aggregate 147 years' service with the Company, 73 of those as Directors The Board comprises the executive management of the Company, being the Chairman and three Executive Directors, and thus maintains full control of the Company Decisions are accordingly taken quickly and effectively following ad hoc consultation among the Directors concerned when any matter arises Your Board takes the view that this direct and flexible approach is preferable to the more cumbersome procedures prevalent in larger organisations and has made a considerable contribution to your Company s continuing success and ensures that this approach best serves the interests of the Company and its shareholders

The Board held four formal meetings during the year All directors were present at all of these meetings A formal schedule of reserved matters is not required since the Board is the executive management of the Company, takes the decisions on all material matters and thereby exercises full direction and control

The members of the Board have complete freedom to seek independent professional advice, at the Company's expense, when any member feels it appropriate to do so All Directors have access to the advice and services of the Company Secretary, who is also a Director and is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with All Directors express their views and make a valuable contribution to the running of the Company

The Chairman of the Company is also the Managing Director Bearing in mind the size of the Company, the Board sees no value in splitting the role of Chairman and Managing Director, a policy which has served your Company well over very many years

The Board considers that increasing the manning level of the Board by 50% by the appointment of two non executive Directors would increase costs and impose an additional administrative burden for no discernible benefit and, accordingly, would serve no useful purpose As the Board is the executive management of the Company, it ensures that all information is supplied timeously and in a form suitable to enable it to discharge its duties All Directors are properly briefed on all issues arising at Board meetings As a result of the Company not appointing non executive Directors the Company has not established Nomination, Remuneration or Audit Committees

Nominations for appointment of new Directors to the Board are submitted by the Chairman for approval by the other members of the Board As all the Directors of the company were long serving employees of the Company at the time of their appointment, no formal tailored induction upon joining the Board was necessary However, all Directors are free to receive any training they require for the furtherance of their duties, and the Board's policy is to encourage this

The Company's Articles of Association require that new Directors are subject to re election at the first Annual General Meeting after their appointment and that one third of eligible Directors with the exception of the Managing Director seek re election at the AGM each year

CORPORATE GOVERNANCE (contd)

THE BOARD (contd)

There is no formal system of performance evaluation of the Board or its members

As the Company has no Remuneration Committee the Chairman is responsible for fixing the remuneration packages of the Directors based on their performance and the scope of their duties and responsibilities

ACCOUNTABILITY AND AUDIT

The Directors have sole responsibility for preparing the Annual Report and Statement of Accounts, the interim report and other price sensitive public reports in a balanced and understandable manner

GOING CONCERN

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the accounts

INTERNAL CONTROL

The Board is responsible for and annually reviews the Group's system of internal financial control and monitors its effectiveness The Board's system of internal control is designed to manage the risk of failure to achieve business objectives rather than eliminate it By its nature any system of internal control can provide only reasonable and not absolute assurance against material misstatement or loss

The Directors have established an organisational structure with clear lines of responsibility and appropriate reporting procedures, the effectiveness of which is continually reviewed by the Directors The main features of the Group's system of internal financial control are

Contracts, development projects, land purchase and acquisition of fixed assets are proceeded with after due consideration by the Directors

Monthly reports are prepared for every contract and development project for review by the Directors

Monthly subsidiary company reports are also prepared for consideration by the Directors

Treasury operations are carried out in accordance with policies and procedures approved by the Board

During the year under review and up to the approval of the Annual Report and Statement of Accounts there has been, and continues to be, an ongoing process of identification by the Directors of the key areas of risk within the Group and of appropriate action to mitigate and monitor such risk

INTERNAL AUDIT

The Board has considered and for the time being has concluded that an internal audit function is not necessary The Board will continue to review the need for such a function on a regular basis

AUDIT COMMITTEE AND AUDITORS

As stated above the Company has not established an Audit Committee It is the responsibility of the Chairman and Company Secretary on a continuing basis to consider how the financial reporting and internal control principles apply to the Company, to maintain an appropriate relationship with the Company s Auditors and to review the scope and results of the audit and its cost effectiveness The Board is responsible for setting the remuneration of the Auditors In order to ensure the continued independence and objectivity of the Group's External Auditors, the Board has established policies regarding the provision of non audit services by the Auditors In some cases, the nature of the non audit advice may make it more timely and cost effective to select the Group's Auditors, who already have a good understanding of the Group In other circumstances the decisions on the allocation of work are made on the basis of competence and cost effectiveness The Group's Auditors are subject to professional standards which safeguard the integrity of the auditing role performed on behalf of shareholders

CORPORATE GOVERNANCE (contd)

RELATIONS WITH SHAREHOLDERS

The Company has in the past and will in the future continue to enter into dialogue with institutional shareholders wherever possible and the Chairman is responsible for communications with institutional shareholders and to ensure that their views and concerns are communicated to the Board

All shareholders have an opportunity at the AGM to participate in questions and answers with the Board on matters relating to the Company

At the AGM separate resolutions will be proposed on each substantially separate issue and the number of proxy votes received for and against each resolution will be announced

AUDITORS

In accordance with section 385 of the Companies Act 1985 a resolution proposing that French Duncan LLP be reappointed as auditors of the company will be put to the Annual General Meeting

STATEMENT OF DISCLOSURE TO AUDITORS

In the case of each of the Directors who were Directors at the date this Report was approved

So far as the Directors are aware, there was no relevant audit information (as defined in the Companies Act 1985) of which the Company s auditors are unaware, and

Each of the Directors has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

BY ORDER OF THE BOARD,
A D McCLURE,
Secretary

14th November 2006

The Directors' Remuneration Report for the year to 31st July 2006 is set out below, in compliance with current Listing Rules and statutory reporting requirements

The Listing Rules require a Company to include a statement in its Annual Report and Statement of Accounts as to whether or not it has complied with Section B of the Code of Best Practice annexed to the Listing Rules These provisions require the Company to set up a remuneration committee consisting exclusively of non executive Directors to determine the executive Directors' remuneration

For reasons set out under Corporate Governance above, your Board has appointed no non executive Directors and therefore no remuneration committee

REMUNERATION POLICY

The Company's policy on Directors' remuneration for the current and future years is that individual rewards should reflect performance and the scope of their duties and responsibilities

DIRECTORS' REMUNERATION

The following tables show an analysis of the various elements of remuneration receivable by those Directors who served during the year ended 31st July 2006

Directors' Remuneration
(Audited Information)

	Salary and Fees £'000	Taxable Benefits £ 000	Total 2006 £'000	Total 2005 £'000
J M Smart	95	8	103	98
K H Hastings	101	8	109	104
A D McClure	97	8	105	100
L E Glenday	97	8	105	100

Directors' Pension Benefits
(Audited Information)

	Gross Increase in accrued pension £	Total accrued pension at 31/7/06 £	Transfer Value of accrued pension at 31/7/06 £	Transfer Value of accrued pension at 31/7/05 £	Total change in value during period £
K H Hastings	5,168	50 570	775,987	602,485	170,570
A D McClure	4,147	51,912	755 746	606,173	146,811
L E Glenday	4,719	48,367	674,635	532,509	139,314

Mr J M Smart has an individual money purchase pension plan and the contribution made by the Company during the year was £26,874

No Director receives fees or bonuses

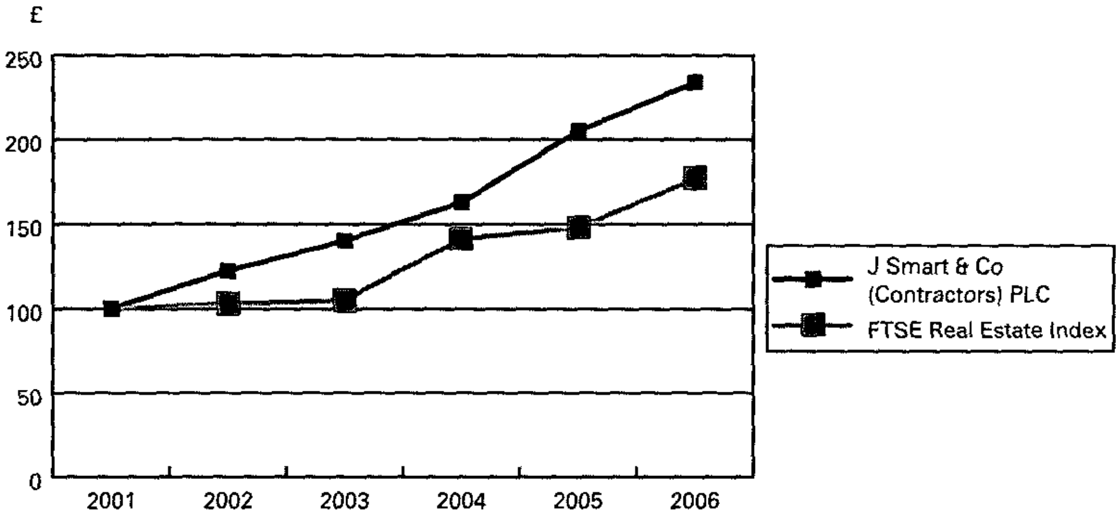
No Director holds share options and there is no scheme in place which could give such an entitlement nor is there any long term incentive scheme

No Director has a service contract with the company and accordingly periods of notice and termination payments would be construed in accordance with Employment Law

PERFORMANCE GRAPH

The graph below shows the total shareholder return performance of the Company's shares in comparison with the FTSE Real Estate Index for the five years to 31st July 2006 For the purposes of the graph, total shareholder return has been calculated as the percentage change during the five year period in the market price of the shares, assuming that dividends are reinvested

Total Shareholder Return over the last five financial years



This graph shows the value of £100 invested in J Smart & Co (Contractors) PLC over the last five financial years compared to £100 invested in the FTSE Real Estate Index which the Directors believe is the most appropriate comparative index

BY ORDER OF THE BOARD,
A D McCLURE
Secretary

14th November 2006

INDEPENDENT REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF J SMART & CO (CONTRACTORS) PLC

We have audited the financial statements on pages 18 to 60 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out on pages 24 to 29 We have also audited the information in the Directors' Remuneration Report that is described as having been audited

This report is made solely to the Company's shareholders, 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 shareholders those matters we are required to state to them in an auditors' report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS

The Directors are responsible for the preparation of the Annual Report and Statement of Accounts As described above this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) adopted for use in the European Union The Directors are also responsible for preparing the Directors' Remuneration Report

Our responsibility is to audit the financial statements and that part of the Directors' Remuneration Report which is to be audited, in accordance with relevant legal and regulatory requirements, International Standards on Auditing (UK and Ireland) and the Listing Rules of the Financial Services Authority

We report to you our opinion as to whether the financial statements and the audited part of the Directors' Remuneration Report, give a true and fair view and are properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation 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 or the Listing Rules regarding Directors remuneration and transactions with the Group is not disclosed

We review whether the statement on pages 11 to 13 reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Financial Services Authority, and we report if it does not We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures

We read the other information contained in the Annual Report, including the Corporate Governance Statement and the unaudited part of the Directors' Remuneration Report, and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the audited financial statements and the audited part of the Directors' Remuneration Report 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 and the audited part of the Directors' Remuneration Report

OPINION

In our opinion

- the Group financial statements give a true and fair view, in accordance with those IFRSs adopted for use in the European Union, of the state of the Group's affairs as at 31st July 2006 and of its profit and cash flows for the year then ended
- the Company financial statements give a true and fair view, in accordance with those IFRSs adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31st July 2006 and of its cash flows for the year then ended,
- the financial statements and that part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation, and
- the information given in the Directors' Report is consistent with the financial statements

French Duncan

375 West George Street,
Glasgow G2 4LW
14th November 2006

FRENCH DUNCAN LLP,
Chartered Accountants and
Registered Auditor

J. Smart & Co. (Contractors) PLC and Subsidiary Companies

CONSOLIDATED INCOME STATEMENT for the year ended 31st JULY 2006

	Notes	2006 £'000	*Restated 2005 £'000*
REVENUE		26,149	*22,180*
Own work capitalised		98	*20*
		26,247	*22,200*
Cost of sales		(21,378)	*(17,915)*
GROSS PROFIT		4,869	*4,285*
Other operating income	3	5,819	*6,065*
Net operating expenses		(5,307)	*(5,289)*
OPERATING PROFIT BEFORE PROFITS ON SALE AND NET REVALUATION GAINS ON INVESTMENT PROPERTIES		5 381	*5,061*
Profit arising on sale of investment properties		899	*131*
Net gain on valuation of investment properties		5,546	*10,036*
OPERATING PROFIT	5	11,826	*15,228*
Share of profits in Joint Ventures	14	1,651	*848*
Income from investments	6	84	*49*
Decrease in amount written off investments		—	*40*
(Loss)/Profit on sale of investments		(40)	*22*
Finance income	7	382	*109*
Finance costs	7	(143)	*(305)*
PROFIT BEFORE TAX		13,760	*15,991*
Taxation	8	(3,131)	*(4,277)*
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS		10,629	*11,714*
EARNINGS PER SHARE – BASIC AND DILUTED	11	105 43p	*116 19p*

All activites in both the current and previous year relate to continuing operations

The notes on pages 24 to 60 form an integral part of these accounts

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31ST JULY 2006

	Notes	2006 £'000	*Restated* *2005* *£'000*
Actuarial loss recognised on defined benefit pension schemes	28	(1,538)	*(1,035)*
Deferred taxation on actuarial loss	22	461	*310*
NET DEFICIT RECOGNISED DIRECTLY IN EQUITY		(1,077)	*(725)*
Profit for the period		10,629	*11,714*
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		9,552	*10,989*
ATTRIBUTABLE TO EQUITY SHAREHOLDERS		9,552	*10,989*

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31ST JULY 2006

	Share Capital £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
As at 1st August 2004	1,008	—	63,193	64,201
Total recognised Income and Expense	—	—	10,989	10,989
Dividends	—	—	(593)	(593)
As at 31st July 2005	1,008	—	73,589	74,597
Adoption of IAS 32 and 39	—	296	73	369
Opening equity restated after adoption of IAS 32 and 39	1,008	296	73,662	74,966
Total recognised Income and Expense	—	—	9,552	9,552
Fair value adjustment net of tax	—	177	—	177
Dividends	—	—	(615)	(615)
As at 31st July 2006	1,008	473	82,599	84,080

The notes on pages 24 to 60 form an integral part of these accounts

CONSOLIDATED BALANCE SHEET as at 31st JULY 2006

	Notes	2006 £'000	*Restated* *2005* *£'000*
NON CURRENT ASSETS			
Property, plant and equipment	12	2,566	*1,428*
Investment properties	13	77,436	*75,985*
Investments in Joint Ventures	14	4,604	*3,172*
Financial assets	15	1,499	—
Other receivables	17	2,796	*1,656*
Deferred tax asset	22	2,531	*2,108*
		91,432	*84,349*
CURRENT ASSETS			
Inventories	16	2,305	*4,924*
Trade and other receivables	17	2,704	*2,766*
Other investments	18	—	*1,038*
Cash and bank		10,251	*2,014*
		15,260	*10,742*
TOTAL ASSETS		106,692	*95,091*
NON CURRENT LIABILITIES			
Retirement benefit obligations	28	8,201	*7,028*
Deferred tax liabilities	22	9,734	*8,876*
		17,935	*15,904*
CURRENT LIABILITIES			
Trade and other payables	20	3,331	*3,917*
Current tax liabilities		1,346	*673*
		4,677	*4,590*
TOTAL LIABILITIES		22,612	*20,494*
NET ASSETS		84,080	*74,597*
EQUITY			
Called up share capital	23	1,008	*1,008*
Fair value reserve	24	473	—
Retained earnings	24	82,599	*73,589*
TOTAL EQUITY		84,080	*74,597*

Approved by the Board on
14th November 2006

J M SMART, *Director*
A D McCLURE *Director*

The notes on pages 24 to 60 form an integral part of these accounts

J. Smart & Co (Contractors) PLC and Subsidiary Companies

COMPANY BALANCE SHEET as at 31st JULY 2006

	Notes	2006 £ 000	*Restated* *2005* *£ 000*
NON CURRENT ASSETS			
Property, plant and equipment	12	735	*574*
Investments in Subsidiaries and Joint Ventures	14	789	*789*
Other receivables	17	2,796	*1,656*
Deferred tax asset	22	2,493	*2,108*
		6,813	*5,127*
CURRENT ASSETS			
Inventories	16	1,761	*4,489*
Trade and other receivables	17	2 567	*2,213*
Current tax assets		492	*538*
Cash and bank		2,819	*1,578*
		7,639	*8,818*
TOTAL ASSETS		14,452	*13,945*
NON CURRENT LIABILITIES			
Retirement benefit obligations	28	8,201	*7,028*
Deferred tax liabilities	22	48	*57*
		8,249	*7,085*
CURRENT LIABILITIES			
Trade and other payables	20	1,958	*2,550*
Current tax liabilities		—	—
		1 958	*2,550*
TOTAL LIABILITIES		10,207	*9,635*
NET ASSETS		4,245	*4,310*
EQUITY			
Called up share capital	23	1,008	*1,008*
Retained earnings	24	3,237	*3,302*
TOTAL EQUITY		4,245	*4,310*

Approved by the Board on
14th November 2006

J M SMART, *Director*
A D McCLURE, *Director*

The notes on pages 24 to 60 form an integral part of these accounts

J. Smart & Co. (Contractors) PLC and Subsidiary Companies

CONSOLIDATED CASH FLOW STATEMENT for the year ended 31st JULY 2006

	Notes	2006 £'000	*Restated 2005 £'000*
CASH FLOWS FROM OPERATING ACTIVITIES	25(a)	5,551	*4,046*
Tax paid on profits		(1,520)	*(1,299)*
NET CASH FLOW FROM OPERATING ACTIVITIES		4,031	*2,747*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(662)	*(386)*
Purchase of investment properties		(27)	*(307)*
Sale of property, plant and equipment		50	*69*
Sale of investment properties		5,119	*386*
Expenditure on own work capitalised		(98)	*(20)*
Purchase of investments		(369)	—
Proceeds of sale of investments		456	—
Interest received		353	*106*
Interest paid		(1)	*(38)*
NET CASH USED IN INVESTING ACTIVITIES		4,821	*(190)*
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(615)	*(593)*
NET CASH USED IN FINANCING ACTIVITIES		(615)	*(593)*
INCREASE IN CASH, CASH EQUIVALENTS AND BANK		8,237	*1,964*
CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF PERIOD	25(b)	2,014	*50*
CASH, CASH EQUIVALENTS AND BANK AT END OF PERIOD	25(b)	10,251	*2,014*

The notes on pages 24 to 60 form an integral part of these accounts

J. Smart & Co. (Contractors) PLC and Subsidiary Companies

COMPANY CASH FLOW STATEMENT for the year ended 31st JULY 2006

	Notes	2006 £'000	*Restated* *2005* *£'000*
CASH FLOWS FROM OPERATING ACTIVITIES	26(a)	2,620	*2,619*
Tax paid on profits		(330)	*(298)*
NET CASH FLOW FROM OPERATING ACTIVITIES		2,290	*2,321*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(461)	*(235)*
Sale of property, plant and equipment		28	*20*
Interest received		—	*3*
Interest paid		(1)	*(26)*
NET CASH USED IN INVESTING ACTIVITIES		(434)	*(238)*
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(615)	*(593)*
NET CASH USED IN FINANCING ACTIVITIES		(615)	*(593)*
INCREASE IN CASH, CASH EQUIVALENTS AND BANK		1,241	*1,490*
CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF PERIOD	26(b)	1,578	*88*
CASH, CASH EQUIVALENTS AND BANK AT END OF PERIOD	26(b)	2 819	*1,578*

The notes on pages 24 to 60 form an integral part of these accounts

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES

STATEMENT OF COMPLIANCE

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS

These are the first IFRS consolidated accounts of the group and IFRS 1 First time Adoption of International Financial Reporting Standards has been applied Explanations of how the transition to IFRS has affected the reported financial position and financial performance of the Group are set out in note 32

The Group has early adopted IAS 19 (revised 2004) Employee Benefits, which allows actuarial gains and losses to be accounted for in full through the Statement of Recognised Income and Expense

At the date of authorisation of these financial statements, a number of new IFRS Standards and Interpretations were in issue but not yet effective, and have not been adopted early by the Group The Directors anticipate that the only significant impact of the adoption of these Standards and Interpretations will relate to the adoption of IFRS 7 Financial Instruments Disclosures, which is effective from 1st January 2007 and introduces improvements to the information about financial instruments, including specifying minimum disclosures on credit risk, liquid risk and market risk

The Group has taken advantage of the exemption available under IFRS 1 and applied IAS 32 Financial Instruments Disclosure and Presentation and IAS 39 Financial Instruments Recognition and Measurement as from 1st August 2005 As a result, financial assets for the year to 31st July 2005 have been accounted for and presented in accordance with UK GAAP

BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention

The accounting policies set out below have been consistently applied to all periods presented in these accounts as well as in the preparation of the opening IFRS Balance Sheet at 1st August 2004 for the purposes of the transition to IFRS

The preparation of financial statements requires management to make estimates and assumptions concerning the future that may affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses Management believes that the estimates and assumptions used in the preparation of these accounts are reasonable However, actual outcomes may differ from those anticipated

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of J Smart & Co (Contractors) PLC and all its subsidiaries made up to 31st July each year Subsidiaries are entities controlled by the Company Control is assumed where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities

Intra group balances and any income or expenses arising from intra group transactions are eliminated in preparing the Group accounts

No income statement is presented for the Holding Company as provided by Section 230 of the Companies Act 1985

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd)

INVESTMENT IN JOINT VENTURES

Joint Ventures are those entities in which the Company has a 50% holding and exercises joint control under a contractual arrangement The results of Joint Venture undertakings are accounted for using the equity method of accounting Under this method the investment is initially recorded at cost and is subsequently adjusted to reflect the Group s share of the net profit or loss in the Joint Venture

The Accounts of the Group's Joint Ventures, have been prepared in accordance with UK GAAP The Group s interest in the assets and liabilities of the Joint Ventures have only been restated in accordance with International Financial Reporting Standards where such restatement is considered material to an understanding of the Group's interest

GOODWILL

Goodwill arising on consolidation is written off to reserves in the year of acquisition

INVESTMENT PROPERTIES

Investment properties are properties owned by the Group which are held for long term rental income or for capital appreciation or both Investment properties are initially recognised at cost and revalued at the balance sheet date to fair value as determined by qualified Group Directors in accordance with the Appraisal and Valuation Manual of the R I C S

Properties under development are stated at cost including attributable overheads

Gains or losses arising from the changes in fair value are included in the Income Statement in the period in which they arise In accordance with IAS 40 Investment Property, as the Group uses the fair value model, no depreciation is provided in respect of investment properties including integral plant

Additions to investment properties consist of costs of a capital nature and, in the case of investment properties under development includes certain internal staff and associated costs directly attributable to the management of the developments under construction

Where the Group redevelops an existing property for continued future use as an investment property, the property remains an investment property measured at fair value through the Income Statement

Cost of construction of new investment properties are accounted for under Property, plant and equipment in accordance with IAS 16 Property, plant and equipment Once the construction is complete the property is transferred into Investment Properties

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment are stated at cost less accumulated depreciation

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of them can be measured reliably All other repairs and maintenance expenditure is charged to the Income Statement as incurred

The Group assesses at each balance sheet date whether there is an indication that an asset may be impaired If any such indication exists, or when annual impairment testing for an asset is required the Group makes an estimate of the asset's recoverable amount Where the carrying value exceeds its recoverable amount the asset is considered impaired and written down accordingly

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd)

DEPRECIATION

Depreciation is provided on all items of property, plant and equipment, other than investment properties including those under construction and freehold land, at rates calculated to write off the cost of each asset over its expected useful life, as follows

Freehold buildings	–	over 40 to 66 years
Plant, machinery and vehicles	–	15% to 33⅓% reducing balance or straight line as appropriate

GRANTS

Grants received in respect of capital expenditure on investment properties have been credited to the related fixed assets on receipt

INVENTORIES AND WORK IN PROGRESS

Inventories are valued at the lower of cost and net realisable value

Land held for development is included at the lower of cost and net realisable value

Work in progress other than long term contract work in progress is valued at the lower of cost and net realisable value

Cost includes materials, on a first in first out basis and direct labour plus attributable overheads based on normal operating activity, where applicable Net realisable value is the estimated selling price less anticipated disposal costs

LONG TERM CONTRACTS

Amounts recoverable on contracts which are included in debtors are stated at cost as defined above plus attributable profit to the extent that this is reasonably certain after making provision for maintenance costs, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments

For any contracts where receipts exceed the book value of work done, the excess is included in creditors as payments on account

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd)

INCOME TAX

The charge for current UK corporation tax is based on results for the year as adjusted for items that are non assessable or disallowed and any adjustments for tax payable in respect of previous years It is calculated using rates that have been enacted or substantially enacted at the Balance Sheet date

DEFERRED TAXATION

Deferred tax is provided using the liability method in respect of temporary differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit Deferred tax is provided on all temporary differences, except in respect of investments in subsidiaries and joint ventures where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled It is recognised in the Income Statement except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised

PENSIONS

The Group operates a defined benefit pension scheme, which was closed to new members during the year to 31st July 2003 and which requires contributions to be made to an administered fund

The obligations of the scheme represent benefits accruing to employees and are measured at discounted present value while scheme assets are measured at their fair value The discount rate used is the yield on AA credit rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations The calculation is performed by a qualified actuary using the projected unit credit method

The operating and financial costs of such plans are recognised separately in the Income Statement, service costs are spread systematically over the working lives of the employees concerned and financing costs are recognised in the periods in which they arise Actuarial gains and losses, arising from either experience differing from previous actuarial assumptions or changes to those assumptions, are recognised immediately in the Statement of Recognised Income and Expense

The Group also operates a defined contribution Group personal pension plan for eligible employees The plan is externally administered and professionally managed Contributions payable are expensed to the Income Statement as incurred

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd)

LEASES

Leases are classified according to the substance of the transaction A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease All other leases are classified as operating leases

GROUP AS A LESSEE

In accordance with IAS 40 leases of investment property are assessed on a property by property basis The Group's investment properties are classified as operating leases and rentals payable are charged to the Income Statement on a straight line basis over the term of the lease

Other leases are classified as operating leases and rentals payable are charged to the Income Statement on a straight line basis over the term of the lease

GROUP AS A LESSOR

Assets leased out under operating leases are included in investment property, with rental income recognised on a straight line basis over the lease term

REVENUE

Revenue, which is stated net of value added tax represents the invoiced value of goods sold, except in the case of long term contracts where revenue represents the sales value of work done in the year

Profits on long term contracts are calculated in accordance with International Financial Reporting Standards and do not relate directly to revenue Profit on current contracts is only taken at a stage near enough to completion for that profit to be reasonably certain after making provision for contingencies, whilst provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion

The value of construction work transferred to investment properties is excluded from revenue

Revenue from investment properties comprises rental income, service charges and other recoveries, and is disclosed as Other Operating Income in the Consolidated financial statements

Rental income from investment property leased out under an operating lease is recognised in the Income Statement on a straight line basis over the term of the lease

Surrender premiums received from tenants vacating the property are deferred and released to revenue over the original lease terms When the unit is re let all deferred amounts are released to revenue at that point

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd)

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognized on the Group s Balance Sheet when the Group becomes a party to the contractual provision of the instrument The principal treasury objective is to provide sufficient liquidity to meet operational cash requirements The Company operates controlled treasury policies which are monitored by the board to ensure that the needs of the Company are met as they arise

FINANCIAL ASSETS HELD FOR SALE

Financial assets held for sale represent investments in quoted shares which are recognised at fair value at the year end The movement in fair value is transferred directly to equity and shown in a separately designated fair value reserve

TRADE AND OTHER RECEIVABLES

Trade and Other Receivables are recognised at invoiced value less provisions for impairment A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the receivables concerned

CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, deposits with banks, other short term highly liquid investments with original maturities of three months or less, net of bank overdrafts

TRADE AND OTHER PAYABLES

Trade and other payables are non interest bearing and are recognised at invoiced amount

DIVIDENDS

Final dividends are recognised as a liability in the period in which they are approved by the Company's shareholders Interim dividends are recognised when they are paid

EXCEPTIONAL ITEMS

Exceptional items are material items which derive from events or transactions which individually or, if of a similar type, in aggregate need to be disclosed by virtue of size or incidence if the financial statements are to give a true and fair view

2 SEGMENTAL INFORMATION

The Group's primary basis of segmentation is by activities all construction work relates to activities in Scotland

	Total Revenue £000	Inter Segment Revenue £000	External Revenue £000	Profit attributable to equity shareholders £000	£000
2006					
Construction activities	26,247	(98)	26,149	1,694	—
Investment activities	5,819	—	5,819	10,132	—
Joint Ventures	—	—	—	1,651	—
	32,066	(98)	31 968	13,477	—
2005					
Construction activities	*22,200*	*(20)*	*22,180*	—	*870*
Investment activities	*6,065*	—	*6,065*	—	*14,358*
Joint Ventures	—	—	—	—	*848*
	28,265	*(20)*	*28,245*	—	*16,076*
RESULT				13,477	*16,076*
Finance income				466	*220*
Finance cost				(183)	*(305)*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX				13,760	*15,991*
Tax on Profit on Ordinary Activities				(3,131)	*(4,277)*
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS				10,629	*11,714*

	2006 £000	*Restated 2005 £000*	2006 £000	*Restated 2005 £000*
	Segment Assets		Segment Liabilities	
Construction activites	14,952	*14,821*	10,520	*9,643*
Investment activities	87,161	*77,123*	12,092	*10,851*
Investment in Joint Ventures	4,579	*3,147*	—	—
	106,692	*95,091*	22,612	*20,494*
OTHER INFORMATION	Capital Additions		Depreciation	
Construction activites	662	*386*	488	*434*
Investment activities	125	*327*	—	—

3 OTHER OPERATING INCOME

	2006 £000	*Restated 2005 £000*
Rental income	6,068	*5,887*
Less *Joint Ventures' income*	(940)	*(430)*
	5,128	*5,457*
Service charges and insurance receivable	691	*608*
	5,819	*6,065*
Direct property costs	(1,221)	*(956)*
Net rental income	4,598	*5,109*

4 STAFF COSTS AND DIRECTORS' REMUNERATION

Staff costs during the year amounted to

	2006	*Restated* 2005
	£000	*£000*
Wages salaries and short term benefits	8 883	*7,480*
Social security costs	852	*708*
Post employment benefits	679	*835*
	10 414	*9,023*

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

	No	*No*
Construction and related services	341	*266*
Office and management	24	*24*
	365	*290*

Directors' remuneration	£000	*£000*
– Salaries and short term benefits	422	*402*
– Post employment benefits	132	*133*
– fees	—	—
	554	*535*

All of the Directors are members of the Group's defined benefit pension scheme except Mr J M Smart who has an individual money purchase pension plan

Key management is comprised solely of the Directors of the Company

5 OPERATING PROFIT

This is stated after charging/(crediting)		
Cost of inventories recognised as an expense	12 824	*10,382*
Staff costs (per note 4)	10,414	*9,023*
Hire of plant and machinery	649	*809*
Operating leases – Plant & Equipment	25	*24*
Depreciation of owned assets	488	*434*
Profit on disposal of property, plant and equipment	(14)	*(23)*
Auditors' remuneration and expenses – *audit services*	93	*93*
Auditors' remuneration and expenses – non audit services	19	*1*

The auditors' fees for the Holding Company are £40,000 (2005, £40 000)

The auditor s remuneration for non audit services in the year to 31st July 2006 related to fees in relation to IFRS reporting and accounting advice and direct taxation advice

6 INCOME FOR INVESTMENTS

	2006 £000	*Restated 2005 £000*
Financial assets held for sale	84	*49*

7 FINANCE INCOME AND FINANCE COSTS

			2006	*2005*
Receivable	Interest on short term deposits	– Group	353	*105*
	Other interest	– Group	—	*1*
		– Joint Ventures	7	*3*
	Pension scheme		22	—
			382	*109*
Payable	Term loan interest	– Group	—	*(12)*
	Bank interest	– Group	(1)	*(18)*
	Other interest	– Group	—	*(8)*
		– Joint Ventures	(142)	*(99)*
	Pension scheme		—	*(168)*
			(143)	*(305)*

8 TAXATION

	2006	*2005*
UK Corporation Tax		
Current tax on income for the period	2 214	*1,353*
Corporation tax (over)/under provided in previous years	(21)	*43*
Joint Ventures	84	*60*
	2,277	*1,456*
Deferred taxation (note 22)	854	*2,821*
	3,131	*4,277*
Current Tax Reconciliation		
Profit on ordinary activities before tax	13,760	*15,991*
Current tax at 30%	4 128	*4,797*
Effects of		
Differences in effective tax rates of Subsidiaries and Joint Ventures	(23)	*(21)*
Expenses not deductible for tax purposes	(288)	*(7)*
Capital allowances for period in excess of depreciation	6	*(162)*
Difference on revaluation movement	(1,445)	*(3,143)*
Capital and trading losses carried forward	31	—
Other timing differences	(3)	*(51)*
Other timing differences relating to Pension scheme	(109)	—
Adjustments to tax charge in respect of prior periods	(21)	*43*
	2,276	*1,456*

In addition to amounts charged to the Income Statement, a deferred tax credit of £461,000 (2005, £310,000) relating to actuarial losses on defined benefit pension scheme has been recognised directly to equity

Also a deferred tax charge of £42,000 (2005, £54,000) relating to the movement on fair value of financial assets held for sale has been recognised directly to equity

9 PROFIT FOR THE FINANCIAL YEAR

	2006 £000	*Restated 2005 £000*
Dealt with in the accounts of the Holding Company	1,627	*336*
Retained by Subsidiary and Joint Venture Companies	9,002	*11,378*
	10,629	*11,714*

10 DIVIDENDS

Ordinary dividends		
2006 Interim dividend of 3 00p per share	147	—
2005 Final dividend of 9 50p per share	468	—
2005 Interim dividend of 2 90p per share	—	*143*
2004 Final dividend of 9 15p per share	—	*450*
	615	*593*
Proposed 2006 Final dividend of 9 80p per share (2005, 9 50p), after waivers	483	*468*

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements

Certain shareholders have waived dividends as follows

Ordinary dividends		
2006 Interim dividend of 3 00p per share	155	—
2005 Final dividend of 9 50p per share	490	—
2005 Interim dividend of 2 90p per share	—	*148*
2004 Final dividend of 9 15p per share	—	*472*
	645	*620*

11 EARNINGS PER SHARE

	Profit attributable to equity shareholders £000	Basic Earnings Per share
Year to 31st July 2006	10,629	105 43p
Year to 31st July 2005	*11,714*	*116 19p*

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders by the number of ordinary shares in issue, being 10,082,000 shares at the beginning and end of the financial year

There is no difference between basic and diluted earnings per share

12 PROPERTY, PLANT AND EQUIPMENT

(a) GROUP

	Land and buildings Freehold £000	Investment Properties under Construction £000	Plant, equipment and vehicles £000	Total £000
Cost				
At 1st August 2005	738	—	5 736	6,474
Additions	—	1,000	662	1,662
Disposals	—	—	(388)	(388)
At 31st July 2006	738	1,000	6,010	7,748
Depreciation				
At 1st August 2005	364	—	4,682	5,046
Provided during year	18	—	470	488
Disposals	—	—	(352)	(352)
At 31st July 2006	382	—	4,800	5,182
Net book value				
At 31st July 2006	356	1,000	1,210	2 566

As referred to in the Directors Report, the Group's non investment heritable properties were revalued at 31st July 2005 This revaluation has not been incorporated into these accounts

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1st August 2004	738	5,730	6,468
Additions	—	386	386
Disposals	—	(380)	(380)
At 31st July 2005	738	5,736	6,474
Depreciation			
At 1st August 2004	348	4,598	4,946
Provided during year	16	418	434
Disposals	—	(334)	(334)
At 31st July 2005	364	4,682	5,046
Net book value			
At 31st July 2005	374	1,054	1,428

12 PROPERTY, PLANT AND EQUIPMENT (contd.)

(b) COMPANY

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1st August 2005	179	2,778	2,957
Additions	—	461	461
Disposals	—	(244)	(244)
Transfers within Group	—	—	—
At 31st July 2006	179	2 995	3,174
Depreciation			
At 1st August 2005	74	2,309	2,383
Provided during year	3	272	275
Transfer within Group	—	—	—
Disposals	—	(219)	(219)
At 31st July 2006	77	2,362	2,439
Net book value			
At 31st July 2006	102	633	735

As referred to in the Directors Report, the Group's non investment heritable properties were revalued at 31st July 2005 This revaluation has not been incorporated into these accounts

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1st August 2004	179	2,697	2,876
Additions	—	231	231
Transfers within Group	—	(24)	(24)
Disposals	—	(126)	(126)
At 31st July 2005	179	2,778	2,957
Depreciation			
At 1st August 2004	71	2,237	2 308
Provided during year	3	209	212
Transfers within Group	—	(19)	(19)
Disposals	—	(118)	(118)
At 31st July 2005	74	2 309	2,383
Net book value			
At 31st July 2005	105	469	574

13 INVESTMENT PROPERTIES

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Total £000
Cost or valuation			
At 1st August 2005	65,115	10,870	75,985
Additions	70	55	125
Transfers	—	—	—
Disposals	(4,220)	—	(4,220)
Surplus on valuation	4,444	1 102	5,546
At 31st July 2006	65,409	12,027	77,436
Cost or valuation			
At 1st August 2004	56,766	9,111	65,877
Additions	89	238	327
Transfers	(12)	12	—
Disposals	(255)	—	(255)
Surplus on valuation	8,527	1,509	10,036
At 31st July 2005	65,115	10,870	75,985

The Group's completed investment properties were valued on the basis of market value on 31st July 2006 in accordance with the Appraisal and Valuation Manual of the R I C S by Mr J M Smart M R I C S and Mr K H Hastings, F R I C S , both of whom are Directors of the Holding Company Market value represents the estimated amount for which property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction, and does not account for costs of disposals

In accordance with IAS 40 Investment Properties completed investment properties are revalued annually and the aggregate surplus or deficit is taken to the Income Statement and no depreciation is provided in respect of these properties

The Group had obligations of £3,500,000 in respect of development and repair costs at the balance sheet date

14 INVESTMENTS

	Group		*Company*	
		Restated		*Restated*
	2006	*2005*	2006	*2005*
	£000	*£000*	£000	*£000*
Shares in Subsidiaries at Cost	—	—	764	*764*
Joint Ventures	4,604	*3,172*	25	*25*
	4,604	*3,172*	789	*789*

(a) JOINT VENTURES

	Group	
		Restated
	2006	*2005*
	£000	*£000*
Share of Assets		
Share of Non Current Assets	8,699	*6,361*
Share of Current Assets	2,596	*516*
	11,295	*6,877*
Share of Liabilities		
Share of Non Current Liabilities	3,633	*1,781*
Share of Current Liabilities	3 058	*1,924*
	6,691	*3,705*
Share of Net Assets	4,604	*3,172*
Net rental incomes	449	*430*
Net operating expenses	(24)	*(23)*
Net gain on valuation of investment properties	1 209	*441*
Gain on sale of land	17	—
Operating profit	1,651	*848*
Finance income	7	*3*
Finance costs	(142)	*(99)*
Profit before tax	1 516	*752*
Taxation	(84)	*(60)*
	1 432	*692*

The Group s share of retained profits in the Joint Ventures at 31st July 2006 amounted to £4,579,000 (2005, £3,147,000)

Name of Joint Ventures	*Registered in and Principal Country of Operation*	*J Smart & Co (Contractors) PLC Interest in Joint Ventures Capital*
Edinburgh Industrial Estates Limited	Scotland	50%
Prestonfield Development Company Limited	Scotland	50%
Northrigg Limited	Scotland	50%
Duff Street Limited	Scotland	50%

14 INVESTMENTS (contd)

(a) JOINT VENTURES (contd)

Name of Joint Ventures	*Jointly managed with*	*Issued Share capital*	*Issued shares held by J Smart & Co (Contractors) PLC*
Edinburgh Industrial Estates Limited	EDI (Industrial) Limited	50,000 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	25,000 B Shares
Prestonfield Development Company Limited	Walker Holdings (Scotland) Limited	2 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	1 B Share
Northrigg Limited	Fordevelopments Limited	100 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	50 A Shares
Duff Street Limited	Keane Developments Limited	1,000 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	500 A Shares

Edinburgh Industrial Estates Limited has granted Standard Securities in favour of the Bank of Scotland and Lothian and Edinburgh Enterprise Limited over certain of its properties

Duff Street Limited has granted Standard Securities in favour of the Bank of Scotland over its property

All of the Joint Venture companies were established for the purposes of property development and all have accounting periods ending on 31st July

(b) SUBSIDIARIES

At 31st July 2006 the Company held the entire issued share capital of the following companies all of which are registered in and operate in Scotland

	Nature of business
McGowan & Co (Contractors) Limited	Plumbing contractors
King & Ritchie Limited	Dormant
Cramond Real Estate Company Limited	Investment holding
D & J McDougall Limited	Dormant
Thomas Menzies (Builders) Limited	Civil Engineering contractors
Concrete Products (Kirkcaldy) Limited	Manufacture of concrete building products
C & W Assets Limited	Property company

15 FINANCIAL ASSETS – AVAILABLE FOR SALE

	Group 2006 £000	Group *Restated 2005 £000*
Listed investments	1,499	—

Fair value movement, before tax amounted to £219,000 (2005, £369,000)

16 INVENTORIES

	Group 2006 £000	Group *Restated 2005 £000*	Company 2006 £000	Company *Restated 2005 £000*
Long term contract balances	449	*1,647*	113	*1,472*
Land held for development	1,615	*2 968*	1,615	*2,968*
Raw materials and consumables	107	*119*	33	*49*
Finished goods	134	*190*	—	—
	2,305	*4,924*	1,761	*4,489*

17 TRADE AND OTHER RECEIVABLES

NON CURRENT ASSETS

	Group 2006 £000	Group *Restated 2005 £000*	Company 2006 £000	Company *Restated 2005 £000*
Loans to Joint Venture companies	2,796	*1,656*	2,796	*1,656*

The loans to Joint Venture companies (note 14(a)) are interest free and have no fixed date for repayment

CURRENT ASSETS

	Group 2006 £000	Group *Restated 2005 £000*	Company 2006 £000	Company *Restated 2005 £000*
Trade debtors	1,766	*1,229*	624	*266*
Amounts owed by subsidiaries	—	—	1,354	*1,043*
Other receivables	304	*114*	10	*91*
Prepayments and accrued income	439	*399*	384	*342*
Amounts recoverable on contracts	195	*1,024*	195	*471*
	2,704	*2,766*	2,567	*2,213*

18 INVESTMENTS

	Group 2006 £000	Group *Restated 2005 £000*
Listed	—	*1,038*
Market value of listed investments	—	*1,407*

The listed investments were stated at the lower of cost and market value

Under IFRS, investments are now accounted for as Financial Assets held for sale as per note 15

19 BANK

The bank has been granted guarantees and letters of offset by each member of the Group in favour of the bank on account of all other members of the Group as a continuing security for all monies, obligations and liabilities owing or incurred to the bank

20 TRADE AND OTHER PAYABLES

	Group		Company	
		Restated		*Restated*
	2006	*2005*	2006	*2005*
	£000	*£000*	£000	*£000*
CURRENT LIABILITIES				
Payments received on account	232	*677*	232	*512*
Trade creditors	1,109	*1,010*	685	*656*
Amounts owed to subsidiaries	—	*—*	227	*190*
Other taxes and social security costs	311	*264*	156	*149*
Other creditors and accruals	1,679	*1,966*	658	*1,043*
	3,331	*3,917*	1,958	*2,550*

The Group had a Revolving Credit Facility with the Bank of Scotland This facility was repaid and cancelled in the year

The bank has been granted guarantees and letters of offset by each member of the Group in favour of the bank on account of all other members of the Group as a continuing security for all monies, obligations and liabilities owing or incurred to the bank

The Company and certain members of the Group have granted Standard Securities over certain investment properties and areas of development land in respect of grants received, or sums due or to become due or in respect of contractual agreements over the number of properties to be built

21. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise bank balances and cash, trade receivables and trade payables The amounts presented in relation to trade receivables are net of allowances for doubtful receivables

The carrying amount of these assets approximates to their fair value

CREDIT RISK

In relation to the Group's financial assets, the Group has no significant concentration of credit risk, as exposure is spread over a large number of counterparties and customers

22 DEFERRED TAXATION

DEFERRED TAX LIABILITIES
GROUP

	Accelerated Capital Allowances £000	Fair Value Reserve £000	Valuation Surplus on Investment Properties £000	Other Timing Differences £000	Total £000
As at 1st August 2005	2,810	73	5,892	101	8 876
Charged/(credited) to Income Statement	164	—	676	(24)	816
Charged to Equity	—	42	—	—	42
As at 31st July 2006	2,974	115	6,568	77	9,734

COMPANY

	Other Timing Differences £000
As at 1st August 2005	57
Credited to Income Statement	(9)
As at 31st July 2006	48

DEFERRED TAX ASSETS
GROUP

	Retirement Benefit Obligations £000	Other £000	Total £000
As at 1st August 2005	2,108	—	2,108
(Charged)/credited to Income Statement	(109)	71	(38)
Credited to Equity	461	—	461
As at 31st July 2006	2 460	71	2,531

COMPANY

	Retirement Benefit Obligations £000	Other £000	Total £000
As at 1st August 2005	2 108	—	2,108
(Charged)/credited to Income Statement	(109)	33	(76)
Credited to Equity	461	—	461
As at 31st July 2006	2,460	33	2,493

23 SHARE CAPITAL

	2006 Authorised £	2006 Allotted and fully paid £	*2005 Authorised £*	*2005 Allotted and fully paid £*
Ordinary shares of 10p each	1 200 000	1,008,200	*1,200,000*	*1,008,200*

24 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

GROUP

	Share Capital £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
At 1st August 2004	1,008	—	63,193	64,201
Total recognised Income and Expense	—	—	10,989	10,989
Dividends	—	—	(593)	(593)
At 31st July 2005	1,008	—	73,589	74,597
Adoption of IAS 32 and 39	—	296	73	369
Opening equity restated after adoption of IAS 32 and 39	1,008	296	73 662	74,966
Total recognised Income and Expense	—	—	9,552	9,552
Fair value adjustment net of tax	—	177	—	177
Dividends	—	—	(615)	(615)
At 31st July 2006	1,008	473	82 599	84,080

COMPANY

	Share Capital £000	Retained Earnings £000	Total £000
At 1st August 2004	1,008	4,285	5,293
Total recognised Income and Expense	—	(390)	(390)
Dividends	—	(593)	(593)
At 31st July 2005	1,008	3,302	4,310
Total recognised Income and Expense	-	550	550
Dividends	-	(615)	(615)
At 31st July 2006	1,008	3,237	4,245

	Notes	
Profit for financial year	9	1,627
Actuarial loss on defined benefit pension scheme	28	(1,538)
Deferred taxation on actuarial loss	22	461
Total recognised Income and Expense		550

25 NOTES TO THE CASH FLOW STATEMENT

GROUP

(a) RECONCILIATION OF OPERATING PROFIT TO CASH FLOWS FROM OPERATING ACTIVITIES

	2006 £000	*Restated* *2005* *£000*
Profit before tax	13,760	*15,991*
Share of profits from Joint Ventures	(1,651)	*(848)*
Depreciation	488	*434*
Unrealised revaluation gains on investment properties	(5,546)	*(10,036)*
Gain on sale of property, plant and equipment	(14)	*(23)*
Gain on sale of investment properties	(899)	*(131)*
Loss/(Gain) on sale of investments	40	*(22)*
Amounts written back to investments	—	*(40)*
Change in retirement benefits	(365)	*(56)*
Interest received	(353)	*(106)*
Interest received by Joint Ventures	(7)	*(3)*
Interest paid	1	*38*
Interest paid by Joint Ventures	142	*99*
Proceeds of sale of investments	—	*114*
Purchase of investments	—	*(250)*
Change in inventories	1,619	*(359)*
Change in receivables – current	62	*(690)*
Change in receivables – non current	(1,140)	*(176)*
Change in payables	(586)	*110*
NET CASH GENERATED FROM OPERATIONS	5,551	*4,046*

Change in inventories excludes £1,000,000 transfer from Land held for development to Investment properties under construction

(b) CASH AND CASH EQUIVALENTS FOR THE CASH FLOW STATEMENT

	2006	*2005*
Cash and cash equivalents	10 364	*6,349*
Bank overdraft	(113)	*(4,335)*
Net position	10,251	*2,014*

(c) ANALYSIS OF NET FUNDS

	At 1st August 2005 £000	Cash Flow £000	Other £000	At 31st July 2006 £000
Cash and cash equivalents	6,349	4,015	—	10,364
Bank overdraft	(4,335)	4,222	—	(113)
Net funds	2,014	8 237	—	10,251

26 NOTES TO THE CASH FLOW STATEMENT

COMPANY

(a) RECONCILIATION OF OPERATING PROFIT TO CASH FLOWS FROM OPERATING ACTIVITIES

	2006 £000	*Restated* *2005* *£000*
Profit before tax	2 071	*492*
Depreciation	275	*212*
Gain on sale of property, plant and equipment	(3)	*(3)*
Change in retirement benefits	(365)	*(56)*
Interest received	—	*(3)*
Interest paid	1	*26*
Change in inventories	2,728	*(407)*
Change in receivables – current	(354)	*2,091*
Change in receivables – non current	(1,140)	*(176)*
Change in payables	(593)	*443*
NET CASH GENERATED FROM OPERATIONS	2,620	*2,619*

(b) CASH AND CASH EQUIVALENTS FOR THE CASH FLOW STATEMENT

	2006	2005
Cash and cash equivalents	2,819	*1,578*

(c) ANALYSIS OF NET FUNDS

	At 1st August 2005 £000	Cash Flow £000	Other £000	At 31st July 2006 £000
Cash and cash equivalents	1,578	1 241	—	2,819

27 FUTURE CAPITAL EXPENDITURE

The Group's share of Capital Expenditure contracted for by its Joint Ventures as at 31st July 2006 amounted £489,000 (2005, £nil)

There were no other amounts of Capital Expenditure relating to Property, plant and equipment contracted for at 31st July 2006 or 31st July 2005

28 RETIREMENT BENEFIT OBLIGATIONS

The Group operates a defined benefit scheme for its employees which was closed to new members during the year to 31st July 2003. The scheme's assets are held separately from the assets of the Group and are administered and managed professionally. The last triennial valuation of the scheme was made at 1st November 2003 by an independently qualified actuary. This valuation, on the minimum funding requirement basis, revealed a deficit of £2,151,000, representing a funding level of 78.8%. Following the results of the valuation it was agreed with the scheme trustees that the employer contributions would remain at 37% of pensionable salaries and employee contributions would remain at 3%. These rates will continue to be paid until advised otherwise by the actuary. The total net pension charge for the period was £576,000. The actuarial valuation has been updated to take account of the requirements of IAS 19 Employee Benefits in order to assess the assets and liabilities of the scheme at 31st July 2006.

The financial assumptions used to calculate scheme liabilities under IAS 19 are:

	2006	*2005*	*2004*
Valuation method	Projected Unit	*Projected Unit*	*Projected Unit*
Discount rate	*5.1%*	*5.0%*	*5.9%*
Inflation rate	*3.1%*	*2.7%*	*3.0%*
Salary increases	*4.6%*	*4.2%*	*4.5%*
Pension increases	2.0%–3.3%	*1.9%–3.4%*	*2.5%–3.5%*

The assets of the scheme are invested in insurance policies. The analysis of the underlying investments in these policies, the expected rates of return and reconciliation of scheme assets and liabilities to the balance sheet were:

	Long term rate of return expected at 31st July 2006	Value at 31st July 2006	*Long term rate of return expected at 31st July 2005*	*Value at 31st July 2005*	*Long term rate of return expected at 31st July 2004*	*Value at 31st July 2004*
Equities	8.3%	10,534	*8.3%*	*10,354*	*8.3%*	*7,156*
Bonds	5.1%	712	*5.0%*	*299*	*5.9%*	*955*
Other	4.5%	1,239	*4.8%*	*245*	*4.5%*	*338*
Market value of assets		12,485		10,898		8,449
Present value of scheme liabilities		(20,686)		(17,926)		(14,498)
Scheme deficit		(8,201)		(7,028)		(6,049)
Related deferred tax		2,460		2,108		1,815
Net pension liability		(5,741)		(4,920)		(4,234)

28 RETIREMENT BENEFIT OBLIGATIONS (contd)

The following amounts are incorporated into the financial statements

	2006 £000	*Restated* *2005* *£000*
Amounts included in operating profit		
Current service cost	(570)	*(527)*
Past service cost	—	*(75)*
Total included within operating profit	(570)	*(602)*
Amounts included in other finance costs		
Expected return on assets	905	*682*
Interest cost	(883)	*(850)*
Total included as net finance income/(charge)	22	*(168)*
Amounts included in Consolidated Statement of Recognised Income and Expense		
Actual return less assumed return on assets	219	*1,331*
Experience gains and losses arising on scheme liabilities	(708)	*12*
Changes in assumptions underlying the valuation of liabilities	(1,049)	*(2,378)*
Total actuarial loss	(1 538)	*(1,035)*

History of experience gains and losses	2006	*2005*	*2004*	*2003*	*2002*
Difference between actual return and assumed return on assets					
Amount (£000)	219	*1,331*	*51*	*(1,358)*	*(1,088)*
Percentage of market value of scheme assets	1 8%	*12 2%*	*0 6%*	*19 0%*	*15 3%*
Experience gains and losses arising on scheme liabilities					
Amount (£000)	(708)	*12*	*108*	*(546)*	*(1,531)*
Percentage of market value of scheme liabilities	3 4%	*0 1%*	*0 7%*	*3 7%*	*13 8%*
Total amounts included in Consolidated Statement of Recognised Income and Expense					
Amount (£000)	(1,538)	*(1,035)*	*1,093*	*(3,909)*	*(2,795)*
Percentage of market value of scheme liabilities	7 4%	*5 8%*	*7 5%*	*26 7%*	*25 2%*

28 RETIREMENT BENEFIT OBLIGATIONS (contd)

Analysis of movement in scheme deficit

	2006	*Restated 2005*
	£000	*£000*
As at 1st August 2005	(7,028)	*(6,049)*
Current service cost	(570)	*(527)*
Past service cost	—	*(75)*
Contributions	913	*826*
Other finance income/(charges)	22	*(168)*
Actuarial loss	(1 538)	*(1,035)*
As at 31st July 2006	(8,201)	*(7,028)*

Investments are in a mixed management fund, split being 84% equity investments and 16% bonds and cash

In the year to 31st July 2003 the Group commenced operation of a defined contribution Group personal pension plan for eligible employees The plan is externally administered and managed professionally by Scottish Equitable plc The net contribution to the plan for the year was £55,000 (2005, £31,000)

29 OPERATING LEASE ARRANGEMENTS

GROUP – AS LESSEE

Future minimum lease payments payable under non cancellable operating leases

Within one year	100	*100*
In two – five years exclusively	333	*357*
After five years	220	*296*
	653	*753*

GROUP – AS LESSOR

Gross property rental income earned in the year amounted to £6,068,000 (2005 £5,887,000) At the balance sheet date, the Group had contracted with its tenants for the following future minimum lease payments

Within one year	4,573	*4,941*
In two – five years exclusively	14,771	*16,341*
After five years	12,368	*15,371*
	31,712	*36,653*

30 CONTINGENT LIABILITIES

(a) The Company and certain of its subsidiaries have in the normal course of business entered into counter indemnities in respect of performance bonds relating to their contracts

(b) The Company has received grants from Communities Scotland in respect of expenditure incurred in construction of housing The Company has granted a Standard Security with relevant Deed of Variations of Conditions over the housing

(c) Grants received by a subsidiary in respect of capital expenditure are repayable in the event of the receivership, administration, liquidation, dissolution or cessation of trade of that subsidiary

(d) A subsidiary has received grants amounting to £370,000 from Scottish Enterprise Fife Limited to assist with a development Under the terms of the grants, all or part of these grants may become repayable, if the subsidiary sells the development or rents out any part of the development at a price in excess of a stated maximum

(e) The same subsidiary has received grants amounting to £215 000 from Scottish Enterprise Tayside Limited which are subject to the same terms as given above in (d)

31 RELATED PARTY TRANSACTIONS

(a) SUBSIDIARIES

Transactions between the company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation Details of transactions between the company and subsidiaries are as follows

SUBSIDIARY	Sale of goods and services 2006 £000	2005 £000	Purchases of goods and services 2006 £000	2005 £000
McGowan & Co (Contractors) Limited	27	*30*	1,546	*1,150*
King & Ritchie Limited	—	—	—	—
Cramond Real Estate Company Limited	—	—	—	—
D & J McDougall Limited	—	—	—	—
Thomas Menzies (Builders) Limited	10	*59*	2	*2*
Concrete Products (Kirkcaldy) Limited	1	*3*	44	*17*
C & W Assets Limited	299	*74*	—	—

SUBSIDIARY	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
McGowan & Co (Contractors) Limited	—	—	227	*190*
King & Ritchie Limited	—	—	—	—
Cramond Real Estate Company Limited	—	—	—	—
D & J McDougall Limited	—	—	—	—
Thomas Menzies (Builders) Limited	6	*16*	—	—
Concrete Products (Kirkcaldy) Limited	—	*5*	—	—
C & W Assets Limited	1,348	*1,022*	—	—

The amounts outstanding are unsecured and will be settled for cash No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by subsidiaries

31 RELATED PARTY TRANSACTIONS (contd)

(b) JOINT VENTURE COMPANIES

During the year to 31st July 2006, the Group carried out the following transactions with related parties

Name of Joint Venture	Nature of transaction	Amount £000	Amount owed by Joint Venture Company £000
Edinburgh Industrial Estates Limited	Working Capital Loan	—	6[illegible]0
	Construction Costs	2,686	337
Prestonfield Development Company Limited	Working Capital Loan	740	1,600
Northrigg Limited	Working Capital Loan	400	576

The amounts outstanding are unsecured and will be settled for cash No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by Joint Ventures

The Company has granted to the Bank of Scotland a 3rd Party Fixed Sum Guarantee on behalf of the Joint Venture Company Duff Street Limited

Since the year end the Directors of Edinburgh Industrial Estates Limited have approved a plan to market for sale that company's investment properties

(c) DIRECTORS' INTEREST IN CONTRACTS

Mr J M Smart throughout the year had material beneficial interests in several companies, which have interests in continuing contracts for the purchase of materials from and for the sale of materials and supply of services to the Group, all of which transactions were at normal commercial rates

During the year ended 31st July 2006 the Group purchased materials amounting to £623,000 (2005, £735,000) and materials and services supplied amounting to £29,000 (2005, £21,000)

As at 31st July 2006 the Group owed these companies £33,000 (2005, £57 000) and was owed £29,000 (2005, £12,000)

(d) DIRECTORS' REMUNERATION

The remuneration of the Directors, who are the only key management in the Company is set out in note 4 to the accounts with further information contained in the audited part of the Directors' Remuneration Report

32 RECONCILIATION OF UK GAAP TO IFRS

As noted in note 1, this is the first year that the Group has presented financial statements under IFRS The accounting policies as set out in note 1 have been applied in the preparation of the financial statements for the years ended 31st July 2006 and 31st July 2005, and in the preparation of opening IFRS Balance Sheets at 1st August 2004 (date of transition)

In preparing the IFRS comparative information included in these financial statements, the Group and Company has adjusted amounts previously reported in financial statements prepared in accordance with UK GAAP An explanation of how the transition from UK GAAP to IFRS has affected the financial performance and position is set out in the tables below and the accompanying notes

GROUP RECONCILIATION OF INCOME STATEMENT - YEAR TO 31ST JULY 2005

	Notes	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
REVENUE		22,180	—	22,180
Own work capitalised		20	—	20
		22,200	—	22 200
Cost of sales		(17,915)	—	(17,915)
GROSS PROFIT		4,285	—	4,285
Other operating income		6,065	—	6,065
Net operating expenses	32(c)	(5,513)	224	(5,289)
OPERATING PROFIT BEFORE PROFITS AND NET REVALUATION GAINS ON INVESTMENT PROPERTIES		4,837	224	5,061
Profit arising on sale of investment properties		131	—	131
Net gain on valuation of investment properties	32(e)	—	10,036	10,036
OPERATING PROFIT		4,968	10,260	15,228
Share of profits in Joint Ventures	32(e)	407	441	848
Income from investments		49	—	49
Decrease in amount written off investments		40	—	40
Profit on sale of investments		22	—	22
Finance income		109	—	109
Finance costs	32(c)	(137)	(168)	(305)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		5 458	10,533	15,991
Tax on profit on ordinary activities	32(b)(c)	(1,449)	(2,828)	(4 277)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS		4,009	7,705	11,714

32 RECONCILIATION OF UK GAAP TO IFRS (contd.)

GROUP RECONCILIATION OF EQUITY AT 31ST JULY 2005

	Notes	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
NON CURRENT ASSETS				
Intangible assets		1	(1)	—
Property, plant and equipment		1,428	—	1 428
Investment properties		75,985	—	75,985
Investments in Joint Ventures		3,172	—	3,172
Other receivables	32(f)	—	1 656	1,656
Deferred tax asset	32(b)(c)	—	2 108	2,108
		80,586	3 763	84,349
CURRENT ASSETS				
Inventories		4 924	—	4,924
Trade and other receivables	32(f)	4 421	(1,655)	2,766
Other investments		1,038	—	1 038
Cash and bank		2,014	—	2,014
		12,397	(1,655)	10,742
TOTAL ASSETS		92,983	2 108	95,091
NON CURRENT LIABILITIES				
Retirement benefit obligations	32(c)	—	7,028	7,028
Deferred tax liabilities	32(b)(c)	141	8,735	8,876
		141	15,763	15,904
CURRENT LIABILITIES				
Trade and other payables	32(a)	4,385	(468)	3,917
Current tax		673	—	673
		5 058	(468)	4,590
TOTAL LIABILITIES		5,199	15,295	20,494
NET ASSETS		87,784	(13 187)	74,597
EQUITY				
Called up share capital		1,008	—	1,008
Revaluation reserve	32(e)	37,157	(37,157)	—
Retained earnings		49,619	23,970	73,589
TOTAL EQUITY		87,784	(13,187)	74 597

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

GROUP RECONCILIATION OF EQUITY AT 1ST AUGUST 2004

	Notes	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
NON CURRENT ASSETS				
Intangible assets		1	(1)	—
Property, plant and equipment		1 522	—	1,522
Investment properties		65,877	—	65 877
Investments in Joint Ventures		2,478	—	2,478
Other receivables	32(f)	—	1,480	1 480
Deferred tax asset	32(b)(c)	—	1,815	1,815
		69,878	3,294	73,172
CURRENT ASSETS				
Inventories		4,565	—	4,565
Trade and other receivables	32(f)	3 555	(1,479)	2,076
Other investments		840	—	840
Cash and bank		50	—	50
		9,010	(1,479)	7,531
TOTAL ASSETS		78,888	1,815	80,703
NON CURRENT LIABILITIES				
Retirement benefit obligations	32(c)	—	6,049	6,049
Deferred tax liabilities	32(b)(c)	148	5,924	6,072
		148	11,973	12,121
CURRENT LIABILITIES				
Trade and other payables	32(a)	4,255	(450)	3,805
Current tax		576	—	576
		4,831	(450)	4,381
TOTAL LIABILITIES		4,979	11,523	16,502
NET ASSETS		73,909	(9,708)	64,201
EQUITY				
Called up share capital		1,008	—	1,008
Revaluation reserves	32(e)	26,751	(26,751)	—
Retained earnings		46,150	17,043	63,193
TOTAL EQUITY		73,909	(9,708)	64,201

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

COMPANY RECONCILIATION OF INCOME STATEMENT – YEAR TO 31ST JULY 2005

	Notes	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
REVENUE		15,416	—	15,416
Cost of sales		(12,447)	—	(12,447)
GROSS PROFIT		2,969	—	2 969
Net operating expenses	32(a)(c)	(2,009)	(276)	(2,285)
OPERATING PROFIT		960	(276)	684
Finance income		3	—	3
Finance costs	32(c)	(26)	(168)	(194)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		937	(444)	493
Tax on profit on ordinary activities	32(b)(c)	(139)	(17)	(156)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS		798	(461)	337

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

COMPANY RECONCILIATION OF EQUITY AT 31ST JULY 2005

	Notes	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
NON CURRENT ASSETS				
Property, plant and equipment		574	—	574
Investments in Subsidiaries and Joint Ventures		789	—	789
Other receivables	32(f)	—	1,656	1,656
Deferred tax asset	32(b)(c)	—	2,108	2,108
		1,363	3,764	5 127
CURRENT ASSETS				
Inventories		4,489	—	4,489
Trade and other receivables	32(a)(f)	4,369	(2,156)	2,213
Current tax asset		538	—	538
Cash and bank		1,578	—	1,578
		10,974	(2,156)	8 818
TOTAL ASSETS		12,337	1,608	13,945
NON CURRENT LIABILITIES				
Retirement benefit obligations	32(c)	—	7,028	7,028
Deferred tax liabilities		57	—	57
		57	7,028	7,085
CURRENT LIABILITIES				
Trade and other payables	32(a)	3,018	(468)	2,550
Current tax		—	—	—
		3,018	(468)	2,550
TOTAL LIABILITIES		3,075	6,560	9,635
NET ASSETS		9,262	(4,952)	4,310
EQUITY				
Called up share capital		1 008	—	1,008
Retained earnings		8 254	(4,952)	3 302
TOTAL EQUITY		9,262	(4,952)	4,310

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

COMPANY RECONCILIATION OF EQUITY AT 1ST AUGUST 2004

	Notes	UK GAAP £000	Effect of transition to IFRS £000	IFRS £000
NON CURRENT ASSETS				
Property, plant and equipment		568	—	568
Investments in Subsidiaries and Joint Ventures		789	—	789
Other receivables	32(f)	—	1,480	1,480
Deferred tax asset	32(b)(c)	—	1,815	1,815
		1,357	3,295	4,652
CURRENT ASSETS				
Inventories		4,082	—	4,082
Trade and other receivables	32(f)	5 784	(1,480)	4,304
Current tax asset		382	—	382
Cash and bank		88	—	88
		10 336	(1,480)	8,856
TOTAL ASSETS		11,693	1,815	13,508
NON CURRENT LIABILITIES				
Retirement benefit obligations	32(c)	—	6,049	6,049
Deferred tax liabilities		60	—	60
		60	6,049	6,109
CURRENT LIABILITIES				
Trade and other payables	32(a)	2,557	(450)	2,107
Current tax		—	—	—
		2 557	(450)	2,107
TOTAL LIABILITIES		2 617	5,599	8 216
NET ASSETS		9,076	(3 784)	5,292
EQUITY				
Called up share capital		1 008	—	1,008
Retained earnings		8 068	(3,784)	4,284
TOTAL EQUITY		9,076	(3,784)	5,292

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

NOTES TO THE RECONCILIATIONS FROM UK GAAP TO IFRS

a) IAS 10 – Events after the Balance Sheet Date

Under UK GAAP proposed dividends were accrued into the accounts for the period to which they related Under IFRS the proposed dividend can only be accounted for when it has been declared and approved at the Annual General Meeting Thus the proposed dividend at the end of each financial period has been derecognised, which has resulted in a decrease in Trade and other payables and an increase in Retained earnings for the Group and Company Interim dividends are recognised when paid

The effect on the Balance Sheet of applying IAS 10 is

GROUP AND COMPANY

	As at 31st July 2005 £000	As at 1st August 2004 £000
Decrease in Trade and other payables	468	450
Increase in Retained earnings	468	450

Additionally IFRS requires dividends to be presented differently from UK GAAP Under IFRS dividends are not considered to be an expense and therefore are not included in the Income Statement, but charged against Retained earnings

Under UK GAAP, the company accrued a proposed dividend receivable, in the year to 31st July 2005, from one of its subsidiaries of £500,000 Under IFRS this dividend receivable cannot be accounted for in the accounts to 31st July 2005

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

NOTES TO THE RECONCILIATION FROM UK GAAP TO IFRS (contd)

b) IAS 12 – Income Tax

Under UK GAAP the contingent capital gains tax that would be payable if all investment properties were sold at their valuation on the Balance Sheet date was disclosed as a note to the Group accounts but not recognised in the Balance Sheet Under IFRS a provision for the deferred tax liability based on the tax which may arise on the sale of the investment properties is recognised in the Group Balance Sheet and movements from year to year are recognised in the tax charge in the Group Income Statement

Under UK GAAP deferred tax is calculated by reference to temporary timing differences arising on the Income Statement Under IFRS a Balance Sheet approach is adopted by applying the appropriate tax rate to the temporary differences arising between the carrying values of assets and liabilities and their tax base

The effect on the Balance Sheet of applying IAS 12 is

GROUP

	As at 31st July 2005 £000	As at 1st August 2004 £000
Deferred tax liability arising on revaluation of investment properties	(8,649)	(5,892)
Deferred tax liability arising on temporary differences	(86)	(32)
Decrease in Retained earnings	(8,735)	(5,924)
To reconcile to IFRS adjustment to deferred tax liability		
Retirement benefits deferred tax asset (Note 32(c))	2,108	1,815
	(6,627)	(4 109)

The effect on the Income Statement of applying IAS 12 is

GROUP

Increase in deferred tax liability arising on revaluation of investment properties	(2,757)	—
Increase in deferred tax liability arising on temporary differences	(54)	—
Increased tax charge on pension scheme service costs (Note 32(c))	(17)	—
	(2,828)	—

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

NOTES TO THE RECONCILIATION FROM UK GAAP TO IFRS (contd)

b) IAS 12 – Income Tax

The effect on the Balance Sheet of applying IAS 12 is

COMPANY

	As at 31st July 2005 £000	As at 1st August 2004 £000
Deferred tax liability arising on temporary differences	(86)	(32)
To reconcile to IFRS adjustment to deferred tax liability Retirement benefits deferred tax asset (Note 32(c))	2,108	1,815

The effect on the Income Statement of applying IAS 12 is

COMPANY

Increased tax charge on pension scheme service costs (Note 32(c))	(17)	—

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

NOTES TO THE RECONCILIATION FROM UK GAAP TO IFRS (contd)

c) IAS 19 – Employee Benefits

Under UK GAAP the net deficit in the defined benefit pension scheme and the related deferred tax asset were not required to be recognised in the Balance Sheet Under IFRS the deficit in the scheme and the related deferred tax asset are recognised on the face of the Balance Sheet for the Group and Company

IAS 19 allows several alternative options for the accounting for actuarial gains and losses The Group and Company has elected to recognise all actuarial gains and losses in full in the period in which they occur in the Statement of Recognised Income and Expense This option has been selected as it is consistent with the requirements under UK GAAP treatment under FRS 17, that had previously been disclosed by way of a note in the Group's and Company's financial statements

The effect on the Balance Sheet of applying IAS 19 is

GROUP AND COMPANY

	As at 31st July 2005 £000	As at 1st August 2004 £000
Retirement benefit obligations recognised	(7 028)	(6,049)
Deferred tax asset on retirement benefit deficit (Included within deferred taxation Note 32(b))	2,108	1,815
Decrease in Retained earnings	(4,920)	(4,234)

The effect on the Income Statement of applying IAS 19 is

Decrease in pension costs within Net operating expenses	224	—
Increase in pension finance costs	(168)	—
Increased tax charge arising on above	(17)	—

32 RECONCILIATION OF UK GAAP TO IFRS (contd)

NOTES TO THE RECONCILIATION FROM UK GAAP TO IFRS (contd)

d) IAS 31 – Interest in Joint Ventures

Under UK GAAP, the Group recognised its share of Joint Ventures' operating profit before interest and its share of interest with the Group figures on the face of the Profit and Loss Account In the Balance Sheet the Group's share of the Joint Ventures' gross assets and liabilities were separately shown

IAS 31 allows the Company to make a one off decision as to whether Joint Ventures are to be accounted for under the equity method or by proportional consolidation The Company has chosen to apply the equity method

e) IAS 40 – Investment Properties

Under UK GAAP revaluation surpluses or deficits on investment properties were taken directly to reserves Under IFRS these surpluses and deficits are recognised in the Group Income Statement As a result the revaluation reserve is no longer reported separately as a component of equity in the Group Balance Sheet At the date of transition the accumulated revaluation reserve has been reallocated to retained earnings This treatment does not have any effect on the distributable profits of the Group as these will continue to be determined by the application of the Companies Act 1985

Revaluation of investment properties in Joint Venture companies have been treated in line with the Group policy

f) Reclassifications

Under IFRS other receivables not recoverable within one year are shown under Non current assets for the Group and Company

Printed by Inglis Allen, Kirkcaldy