

SC 25130

J. SMART & CO. (CONTRACTORS) PLC

ANNUAL REPORT
AND
STATEMENT OF ACCOUNTS
TO
31st JULY 2007



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

EQUINTI LIMITED,

PO BOX 28448,

FINANCE HOUSE,

ORCHARD BRAE,

EDINBURGH,

EH4 1WQ

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 LLP,

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 *20th December 2007 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 2007
- 2 To receive and consider the Report on Directors' Remuneration for the year ended 31st July 2007
- 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 authorise the Company and its Subsidiaries to make political donations or incur political expenditure up to an aggregate limit of £5,000 for each company until the conclusion of the Annual General Meeting to be held in 2011
- 9 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

20th November 2007

Note The dividend, if approved, will be paid on 24th December 2007 to shareholders on the Register at the close of business on 7th December 2007.

J. Smart & Co. (Contractors) PLC

CHAIRMAN'S REVIEW

ACCOUNTS

As forecast in the last annual report, Group profits for the year before tax were less than last year turning out at £8,144,000 which compares with the figure for last year of £13,760,000. Both of these figures include unrealised gains in revalued property as required by the International Financial Reporting Standards. If the impact of revalued property on the figures is disregarded then a truer reflection of Group Performance emerges in the form of £6,200,000 profit before tax (including £2,129,000 profit from property sales) for the year under review which would compare with a figure for the previous year of £7,005,000 (including £899,000 profit from property sales).

The Board is recommending a Final Dividend of 10 15p nett making a total for the year of 13 15p nett which compares with 12 80p nett for the previous year. After waivers by members holding approximately 51% of the shares, the Dividends will cost the Company £648,000.

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 £92,135,000.

TRADING ACTIVITIES

Group turnover decreased by 24%, own work capitalised increased substantially and other operating income decreased by 14%. Total Group profits decreased by 41%. Underlying Group profits excluding unrealised gains in revalued property decreased by 11%.

Turnover and profits in contracting decreased. Private housing sales declined once more. Sales in precast concrete manufacture increased slightly and a small profit was made.

We completed the second large speculative Industrial Unit at Cardonald Business Park, Glasgow and the large pre let Industrial Unit in Helen Street, Glasgow just after the year end. Helen Street is now occupied. The mixed commercial and residential development in McDonald Road, Edinburgh is proceeding. The refurbishment of our large office development in Links Place, Edinburgh is complete and attracting steady interest.

A1 Industrial Estate, Edinburgh (four phases) and Starlaw Industrial Estate, Livingston (three phases), both joint ventures with EDI (Industrial) Limited, were completed and sold during the year under review.

FUTURE PROSPECTS

Bearing in mind property disposals, rental income is expected to decrease.

We have commenced the second and final phase of our joint venture with Walker Group at Prestonfield Park, Edinburgh, comprising five Industrial Units, three of which are pre let.

Our residential joint venture with Keane Developments Limited at Duff Street, Edinburgh is well underway. Advance sales figures are promising.

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

Bearing in mind the impact on the Income Statement of including unrealised gains/losses in revalued property, it is not possible at this stage to forecast the current year's results with any accuracy.

20th November 2007

J M SMART
Chairman

J. Smart & Co. (Contractors) PLC

DIRECTORS

J M Smart, Chairman and Managing Director Aged 63

Joined the company in 1967

Appointed director in 1978 and appointed Chairman in 1988

K H Hastings Aged 61

Joined the company in 1974

Appointed director in 1985

A D McClure Aged 61

Joined the company in 1964

Appointed director in 1987

L E Glenday Aged 59

Joined the company in 1972

Appointed director in 2001

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

REPORT OF THE DIRECTORS

31st JULY 2007

The Directors submit their Annual Report and Statement of Accounts for the year ended 31st July 2007

RESULTS AND DIVIDENDS

The profits of the Group for the year after charging taxation amount to £6,732,000

The Directors have made the following appropriations

Paying an interim dividend for 2007 of 3 00p per share (2006, 3 00p) after waivers	£147,000	
Paying a final dividend for 2006 of 9 80p per share (2005, 9 50p) after waivers	<u>483,000</u>	
		<u>£630,000</u>

Certain shareholders have waived the interim dividend for 2007 and final dividend for 2006 aggregating £660,000

The Directors recommend a final dividend for the year of 10 15p per share, making a total for the year of 13 15p

The final dividend, if approved, will be paid to all Members on the Share register of the Company at the close of business on 7th December 2007 Dividend warrants will be posted on 21st December 2007

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

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

REPORT OF THE DIRECTORS (contd)

31st JULY 2007

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%	William Sanderson
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 and contracts for industrial units for our joint venture companies Edinburgh Industrial Estates Limited and Prestonfield Development Company Limited Housing contract for our joint venture company Duff Street Limited Private housing developments at Elbe Street and McDonald Road, Leith

PLUMBING

All plumbing and domestic heating sub contract work in above projects

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 Property sales amounted to £12,200,000 Carried out refurbishment of our large office development at Links Place, Leith and commenced office development at McDonald Road, Leith Carried out small office development at Loanhead Developed a large pre let industrial unit and a speculative industrial unit in Glasgow – both completed just after year end

FINANCIAL

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

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

REPORT OF THE DIRECTORS (contd.)

31st JULY 2007

BUSINESS REVIEW (contd)

JOINT VENTURES

Income from rent and service charges received from tenants of industrial properties owned in Edinburgh and Livingston Edinburgh Industrial Estates Limited completed Phase 3 of Starlaw Industrial Estate, Livingston and Phase 4 of A1 Industrial Estate, Edinburgh Both Starlaw and A1 Industrial Estates were sold during the year Prestonfield Development Company Limited commenced the second and final phase of five industrial units at Prestonfield Business Park, Edinburgh Duff Street Limited commenced development of flats for sale at Duff Street, Edinburgh

SUMMARY

	Revenue £000	Profit £000	Profit excluding unrealised gains in revalued property £000
Construction	24,556	658	658
Investment	5,024	5,725	3,781
Joint Ventures	—	1,761	1,761
	<u>29,580</u>	<u>8,144</u>	<u>6,200</u>

Group turnover during the year decreased by £6,172,000, rental income excluding Joint Ventures, decreased by £795,000, profit from property sales decreased by £272,000 and net gain on valuation of properties decreased by £3,602,000, resulting in an Operating Profit of £5,654,000 The Group's share of profits in Joint Ventures increased by £149,000 and finance and investment income including profit on sale of equity investments less finance costs increased by £407,000 resulting in Profit before Taxation of £8,144,000 compared with the figure of £13,760,000 for the previous year Excluding unrealised gains in revalued property produces a figure of £6,200,000 before tax for the year under review compared with a figure of £7,005,000 for the previous year

GROUP FINANCIAL PERFORMANCE INDICATORS

	2007 £000	Movement	2006 £000
Turnover (Revenue)	19,977	(24%)	26,149
Own work capitalised	4,579	4572%	98
Other operating income (Group rental income including service charges)	5,024	(14%)	5,819
Profit before tax	8,144	(41%)	13,760
Profit excluding unrealised gains in revalued property	6,200	(11%)	7,005
Profit excluding unrealised gains in revalued property and profit from property sales	4,071	(33%)	6,106
Group investment income including profit/loss on sale of investments	898	127%	396
Share of Joint Ventures' profits excluding unrealised gains in revalued property	1,761	474%	307
Group balance sheet	92,135	10%	84,080

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

REPORT OF THE DIRECTORS (contd)

31st JULY 2007

BUSINESS REVIEW (contd)

PRINCIPAL RISK FACTORS

RISK AND IMPACT

Main focus in contracting is on social housing which can be highly competitive putting pressure on turnover and margins

Cuts in funding reduce or suspend the social housing programme resulting in reduced contracting workload and substantial redundancies

Inability to find tenants for new development space and loss of existing tenants leads to reduction of revenue and capital resources

MEASURE

- 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

- 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
- 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

J Smart & Co (Contractors) PLC and Subsidiary Companies

REPORT OF THE DIRECTORS (contd)

31st JULY 2007

RETIREMENT BENEFIT OBLIGATIONS

Note 27 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 2007

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

CHARITABLE DONATIONS

During the year the Group made total charitable donations amounting to £26,000 (2006, £23,000) Donations to local causes amounted to £18,000 (2006, £16,000) and donations to national charities amounted to £8,000 (2006, £7,000)

POLITICAL DONATIONS

It is the policy of the Group not to make donations for political purposes to EU Political Parties or incur EU Political Expenditure and accordingly neither the Company nor its Subsidiaries made donations or incurred expenditure in the year

Under the provisions of the Political Parties, Elections, and Referendums Act 2000 a wider definition of what constitutes political donations and expenditure is given It includes sponsorship, subscriptions, payments of expenses, paid leave for employees fulfilling public duties and support for bodies representing the community in policy review or reform To enable the Company and its Subsidiaries to continue to support the community and such organisations and avoid breaching the legislation, authority is being sought at the Annual General Meeting to allow the Company and its Subsidiaries to make donations or incur expenditure in the EU up to an aggregate not exceeding £5,000 for each company until the conclusion of the Annual General Meeting to be held in 2011

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 18, based on the average daily amount invoiced by suppliers during the year and the creditors balance at the year end

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

REPORT OF THE DIRECTORS (contd.)

31st JULY 2007

DIRECTORS AND THEIR INTERESTS

- (i) The Directors at 31st July 2007 and their beneficial interests in the share capital of the Company were as follows

	<i>1st August 2006</i>	<i>31st July 2007</i>
	<i>Ordinary shares of 10p each</i>	<i>Ordinary shares of 10p each</i>
	<i>Beneficial holdings</i>	<i>Beneficial holdings</i>
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 K H Hastings retires by rotation and, being eligible, offers himself for re election
- (iii) There are no Directors' service contracts in existence
- (iv) There have been no changes in the Directors' beneficial interest between 31st July 2007 and 26th October 2007
- (v) Details of Directors' beneficial interests in any contracts to which the parent company or any subsidiary company was a party are shown in note 30 to the accounts

SUBSTANTIAL SHAREHOLDERS

As far as the Directors are aware, other than the Directors the Company has been notified that as at 26th October 2007, the following have interests of more than 3% in the Company's issued share capital

	<i>Number</i>	<i>%</i>
Octet Investments Limited	324,480	3.22
Mr A J Whitehead	312,542	3.10

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

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

REPORT OF THE DIRECTORS (contd.)

31st JULY 2007

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 5 1, 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 151 years' service with the Company, 77 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 three 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 Annual General Meeting each year.

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

REPORT OF THE DIRECTORS (contd.)

31st JULY 2007

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 to 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 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.

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

REPORT OF THE DIRECTORS (contd)

31st JULY 2007

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

As no Non Executive Directors are appointed to the Board there is no opportunity for shareholders to meet these Directors

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

At the Annual General Meeting 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

20th November 2007

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

REPORT ON DIRECTORS' REMUNERATION

31st JULY 2007

The Directors' Remuneration Report for the year to 31st July 2007 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 2007

Directors' Remuneration (Audited Information)

	Salary and Fees £000	Taxable Benefits £000	Total 2007 £000	Total 2006 £000
J M Smart	100	8	108	103
K H Hastings	105	8	113	109
A D McClure	101	8	109	105
L E Glenday	101	8	109	105

Directors' Pension Benefits (Audited Information)

	Gross Increase in accrued pension £	Total accrued pension at 31/7/07 £	Transfer Value of accrued pension at 31/7/07 £	Transfer Value of accrued pension at 31/7/06 £	Total change in value during period £
K H Hastings	5,536	56,106	823,705	775,987	44,647
A D McClure	4,413	56,325	784,457	755,746	25,760
L E Glenday	4,664	53,031	707,640	674,635	30,054

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

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

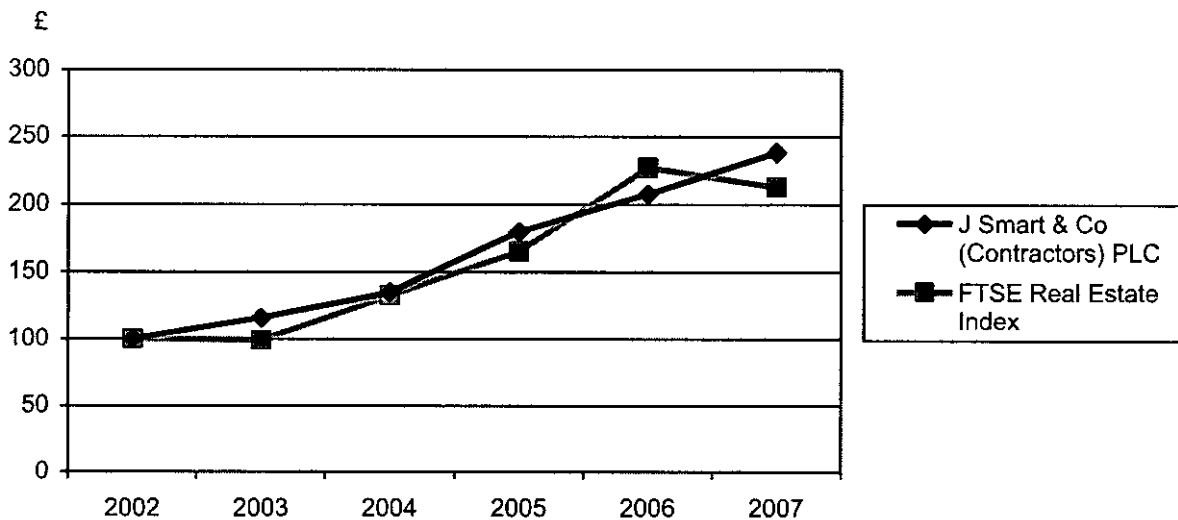
REPORT ON DIRECTORS' REMUNERATION (contd)

31st JULY 2007

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 2007. 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.

20th November 2007


BY ORDER OF THE BOARD,
A D McCLURE,
Secretary

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

INDEPENDENT REPORT OF THE AUDITORS

31st JULY 2007

INDEPENDENT REPORT OF THE AUDITORS

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

We have audited the financial statements on pages 18 to 49 which have been prepared under the historical cost convention as modified by the revaluation of certain non current assets and the accounting policies set out on pages 24 to 29 We have also audited the information in the Report on Directors' Remuneration 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 Report on Directors' Remuneration

Our responsibility is to audit the financial statements and that part of the Report on Directors' Remuneration 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 Report on Directors' Remuneration, 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 Report of the Directors 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 Report on Directors' Remuneration, 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

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

INDEPENDENT REPORT OF THE AUDITORS (contd.)

31st JULY 2007

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 Report on Directors' Remuneration 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 Report on Directors' Remuneration.

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 2007 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 2007 and of its cash flows for the year then ended,
- the financial statements and that part of the Report on Directors' Remuneration 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 Report of the Directors is consistent with the financial statements



FRENCH DUNCAN LLP,
Chartered Accountants and
Registered Auditor

375 WEST GEORGE STREET,
GLASGOW G2 4LW
20th November 2007

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

CONSOLIDATED INCOME STATEMENT for the year ended 31st JULY 2007

	Notes	2007 £000	2006 £000
REVENUE		19,977	26,149
Own work capitalised		4,579	98
		<u>24,556</u>	<u>26,247</u>
Cost of sales		(21,464)	(21,378)
GROSS PROFIT		3,092	4,869
Other operating income	3	5,024	5,819
Net operating expenses		(5,033)	(5,307)
OPERATING PROFIT BEFORE PROFITS ON SALE AND NET REVALUATION GAINS ON INVESTMENT PROPERTIES		3,083	5,381
Profit arising on sale of investment properties		627	899
Net gain on valuation of investment properties		1,944	5,546
OPERATING PROFIT	5	5,654	11,826
Share of profits in Joint Ventures	14	1,800	1,651
Income from investments	6	63	84
Profit/(Loss) on sale of investments		95	(40)
Finance income	7	851	382
Finance costs	7	(319)	(143)
PROFIT BEFORE TAX		8,144	13,760
Taxation	8	(1,412)	(3,131)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS		6,732	10,629
EARNINGS PER SHARE – BASIC AND DILUTED	11	66 77p	105 43p

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

The notes on pages 24 to 49 form an integral part of these accounts

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

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE AND CHANGES IN SHAREHOLDERS' EQUITY

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR ENDED 31ST JULY 2007

	Notes	2007 £000	2006 £000
Actuarial gain/(loss) recognised on defined benefit pension scheme	27	2,755	(1,538)
Deferred taxation on actuarial (gain)/loss	21	(826)	461
NET SURPLUS/(DEFICIT) RECOGNISED DIRECTLY IN EQUITY		<u>1,929</u>	<u>(1,077)</u>
Profit for the period		<u>6,732</u>	<u>10,629</u>
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE PERIOD		<u>8,661</u>	<u>9,552</u>
ATTRIBUTABLE TO EQUITY SHAREHOLDERS		<u>8,661</u>	<u>9,552</u>

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31ST JULY 2007

	Share Capital £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
As at 1st August 2005	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	<u>1,008</u>	<u>473</u>	<u>82,599</u>	<u>84,080</u>
Transfer between reserves	—	(125)	125	—
Total recognised Income and Expense	—	—	8,661	8,661
Fair value adjustment net of tax	—	24	—	24
Dividends	—	—	(630)	(630)
As at 31st July 2007	<u>1,008</u>	<u>372</u>	<u>90,755</u>	<u>92,135</u>

The notes on pages 24 to 49 form an integral part of these accounts

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

CONSOLIDATED BALANCE SHEET as at 31st JULY 2007

	Notes	2007 £000	2006 £000
NON CURRENT ASSETS			
Property, plant and equipment	12	2,537	2,566
Investment properties	13	72,545	77,436
Investments in Joint Ventures	14	1,996	4,604
Financial assets	15	1,695	1,499
Trade and other receivables	17	2,176	2,796
Deferred tax asset	21	1,641	2,531
		<u>82,590</u>	<u>91,432</u>
CURRENT ASSETS			
Inventories	16	7,635	2,305
Trade and other receivables	17	3,700	2,704
Cash and bank		16,468	10,251
		<u>27,803</u>	<u>15,260</u>
TOTAL ASSETS		<u>110,393</u>	<u>106,692</u>
NON CURRENT LIABILITIES			
Retirement benefit obligations	27	5,280	8,201
Deferred tax liabilities	21	7,843	9,734
		<u>13,123</u>	<u>17,935</u>
CURRENT LIABILITIES			
Trade and other payables	19	4,265	3,331
Current tax liabilities		870	1,346
		<u>5,135</u>	<u>4,677</u>
TOTAL LIABILITIES		<u>18,258</u>	<u>22,612</u>
NET ASSETS		<u>92,135</u>	<u>84,080</u>
EQUITY			
Called up share capital	22	1,008	1,008
Fair value reserve	23	372	473
Retained earnings	23	90,755	82,599
TOTAL EQUITY		<u>92,135</u>	<u>84,080</u>

Approved by the Board on
20th November 2007

M SMART, Director
A D McCLURE, Director

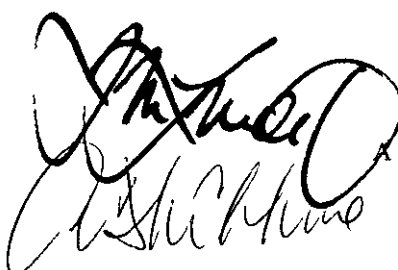
The notes on pages 24 to 49 form an integral part of these accounts

J Smart & Co (Contractors) PLC and Subsidiary Companies

COMPANY BALANCE SHEET as at 31st JULY 2007

	Notes	2007 £000	2006 £000
NON CURRENT ASSETS			
Property, plant and equipment	12	684	735
Investments in Subsidiaries and Joint Ventures	14	744	789
Trade and other receivables	17	2,176	2,796
Deferred tax asset	21	1,617	2,493
		<u>5,221</u>	<u>6,813</u>
CURRENT ASSETS			
Inventories	16	7,354	1,761
Trade and other receivables	17	9,555	2,567
Current tax assets		1,015	492
Cash and bank		—	2,819
		<u>17,924</u>	<u>7,639</u>
TOTAL ASSETS		<u>23,145</u>	<u>14,452</u>
NON CURRENT LIABILITIES			
Retirement benefit obligations	27	5,280	8,201
Deferred tax liabilities	21	58	48
		<u>5,338</u>	<u>8,249</u>
CURRENT LIABILITIES			
Trade and other payables	19	2,818	1,958
Bank overdraft		6,160	—
		<u>8,978</u>	<u>1,958</u>
TOTAL LIABILITIES		<u>14,316</u>	<u>10,207</u>
NET ASSETS		<u>8,829</u>	<u>4,245</u>
EQUITY			
Called up share capital	22	1,008	1,008
Retained earnings	23	7,821	3,237
TOTAL EQUITY		<u>8,829</u>	<u>4,245</u>

Approved by the Board on
20th November 2007



J M SMART, Director
A D McCLURE, Director

The notes on pages 24 to 49 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 2007

	Notes	2007 £000	2006 £000
CASH FLOWS FROM OPERATING ACTIVITIES	24(a)	(1,546)	5,551
Tax paid on profits		(2,346)	(1,520)
NET CASH FLOW FROM OPERATING ACTIVITIES		<u>(3,892)</u>	<u>4,031</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(465)	(662)
Purchase of investment properties		(5)	(27)
Sale of property, plant and equipment		79	50
Sale of investment properties		12,046	5,119
Expenditure on own work capitalised		(4,579)	(98)
Purchase of investments		(282)	(369)
Proceeds of sale of investments		205	456
Interest received		740	353
Interest paid		—	(1)
Dividend received from Joint Venture		3,000	—
NET CASH FROM INVESTING ACTIVITIES		<u>10,739</u>	<u>4,821</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(630)	(615)
NET CASH USED IN FINANCING ACTIVITIES		<u>(630)</u>	<u>(615)</u>
INCREASE IN CASH, CASH EQUIVALENTS AND BANK		<u>6,217</u>	<u>8,237</u>
CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF PERIOD	24(b)	<u>10,251</u>	<u>2,014</u>
CASH, CASH EQUIVALENTS AND BANK AT END OF PERIOD	24(b)	<u>16,468</u>	<u>10,251</u>

The notes on pages 24 to 49 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 2007

	Notes	2007 £000	2006 £000
CASH FLOWS FROM OPERATING ACTIVITIES	25(a)	(7,611)	2,620
Tax paid on profits		(548)	(330)
NET CASH FLOW FROM OPERATING ACTIVITIES		<u>(8,159)</u>	<u>2,290</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(213)	(461)
Sale of property, plant and equipment		22	28
Interest received		1	—
Interest paid		—	(1)
NET CASH USED IN INVESTING ACTIVITIES		<u>(190)</u>	<u>(434)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(630)	(615)
NET CASH USED IN FINANCING ACTIVITIES		<u>(630)</u>	<u>(615)</u>
(DECREASE)/INCREASE IN CASH, CASH EQUIVALENTS AND BANK		<u>(8,979)</u>	<u>1,241</u>
CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF PERIOD	25(b)	<u>2,819</u>	<u>1,578</u>
CASH, CASH EQUIVALENTS AND BANK AT END OF PERIOD	25(b)	<u>(6,160)</u>	<u>2,819</u>

The notes on pages 24 to 49 form an integral part of these accounts

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES

GENERAL INFORMATION

J Smart & Co (Contractors) PLC which is the ultimate Parent Company of the J Smart & Co (Contractors) PLC group is a public limited company registered in Scotland and incorporated under the Companies Act 1985 and listed on the London Stock Exchange

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

STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE IN THE YEAR ENDED 31st JULY 2007 BUT WHICH HAD NO IMPACT

The following standards, amendments and interpretations to existing standards became mandatory for the accounts for the year to 31st July 2007, but had no impact on the Group or Company

- IFRS 1 (Amended) – First Time Adoption of IFRS (relating to IFRS 6)
- IFRS 4 (Amended) – Insurance Contracts (Financial Guarantee Contracts)
- IFRS 6 – Exploration for and evaluation of Mineral Resources
- IAS 19 (Amended) – Employee Benefits (Recognition of Actuarial Gains and Losses)

STANDARDS, AMENDMENTS AND INTERPRETATIONS THAT ARE NOT YET EFFECTIVE AND HAVE NOT BEEN EARLY ADOPTED

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the accounts for the year to 31st July 2008 or later and are not expected to have a significant impact on the Group or Company

- IFRS 7 – Financial Instruments Disclosure
- IFRS 8 – Operating Segments
- IAS 1 (Amended) – Presentation of Financial Statements (Disclosures on Entity's Capital and Statement of Comprehensive Income)
- IAS 23 (Amended) – Borrowing Costs
- IFRIC 10 – Interim Financial Reporting and Impairment
- IFRIC 11 – IFRS 2 Group and Treasury Share Transactions
- IFRIC 12 – Service Concession Arrangements
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 14 – IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Group or Company but full consideration will be given to them in due course

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

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.

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

1 ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd)

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

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

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

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 33½% reducing balance or straight line as appropriate

GRANTS

Grants received in respect of capital expenditure on investment properties have been credited to the related non current 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 Investment Properties 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

Properties 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 recognised 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 Group operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Group 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.

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

2 SEGMENTAL INFORMATION

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

	Total Revenue	Inter Segment Revenue	External Revenue	Profit attributable to equity shareholders	
				2007	2006
	£000	£000	£000	£000	£000
2007					
Construction activities	24,556	(4,579)	19,977	823	—
Investment activities	5,024	—	5,024	4,831	—
Joint Ventures	—	—	—	1,800	—
	<u>29,580</u>	<u>(4,579)</u>	<u>25,001</u>	<u>7,454</u>	<u>—</u>
2006					
Construction activities	26,247	(98)	26,149	—	1,694
Investment activities	5,819	—	5,819	—	10,132
Joint Ventures	—	—	—	—	1,651
	<u>32,066</u>	<u>(98)</u>	<u>31,968</u>	<u>—</u>	<u>13,477</u>
RESULT				7,454	13,477
Finance and investment income				1,009	466
Finance and investment costs				(319)	(183)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX				<u>8,144</u>	<u>13,760</u>
Tax on Profit on Ordinary Activities				(1,412)	(3,131)
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS				<u>6,732</u>	<u>10,629</u>
				2007	2006
				£000	£000
				Segment Assets	Segment Liabilities
Construction activities				11,409	14,952
Investment activities				97,013	87,161
Investment in Joint Ventures				1,971	4,579
				<u>110,393</u>	<u>106,692</u>
				2007	2006
				£000	£000
OTHER INFORMATION				Capital Additions	Depreciation
Construction activities				465	662
Investment activities				4,584	125
				<u>—</u>	<u>—</u>
3 OTHER OPERATING INCOME					
Rental income				4,739	5,577
Less Joint Ventures' income				(212)	(449)
				<u>4,527</u>	<u>5,128</u>
Service charges and insurance receivable				497	691
				<u>5,024</u>	<u>5,819</u>
Direct property costs				(1,855)	(1,271)
Net rental income				<u>3,169</u>	<u>4,598</u>

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

4 STAFF COSTS AND DIRECTORS' REMUNERATION

Staff costs during the year amounted to

	2007	2006
	£000	£000
Wages, salaries and short term benefits	8,127	8,883
Social security costs	780	852
Post-employment benefits	991	679
	<u>9,898</u>	<u>10,414</u>

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

	No	No
Construction and related services	263	341
Office and management	23	24
	<u>286</u>	<u>365</u>

Directors' remuneration

	£000	£000
– Salaries and short term benefits	439	422
– Post employment benefits	100	97
– Fees	–	–
	<u>539</u>	<u>519</u>

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	12,864	12,824
Staff costs (per note 4)	9,898	10,414
Hire of plant and machinery	530	649
Operating leases – Plant & Equipment	71	25
Depreciation of owned assets	483	488
Profit on disposal of property, plant and equipment	(68)	(14)
Auditors' remuneration and expenses – audit services	99	93
Auditors' remuneration and expenses – non audit services	12	19
	<u></u>	<u></u>

The auditors' fees for the Holding Company are £44,000 (2006, £40,000)

The auditors' remuneration for non audit services related to fees in relation to IFRS reporting and accounting advice and direct taxation advice

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

9 PROFIT FOR THE FINANCIAL YEAR

	2007 £000	2006 £000
Dealt with in the accounts of the Holding Company	3,285	1,627
Retained by Subsidiary and Joint Venture Companies	3,447	9,002
	<u>6,732</u>	<u>10,629</u>

10 DIVIDENDS

Ordinary dividends		
2007 Interim dividend of 3 00p per share	147	—
2006 Final dividend of 9 80p per share	483	—
2006 Interim dividend of 3 00p per share	—	147
2005 Final dividend of 9 50p per share	—	468
	<u>630</u>	<u>615</u>
Proposed 2007 Final dividend of 10 15p per share (2006, 9 80p), after waivers	<u>500</u>	<u>483</u>

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		
2007 Interim dividend of 3 00p per share	155	—
2006 Final dividend of 9 80p per share	505	—
2006 Interim dividend of 3 00p per share	—	155
2005 Final dividend of 9 50p per share	—	490
	<u>660</u>	<u>645</u>

11 EARNINGS PER SHARE

	Profit attributable to equity shareholders £000	Basic earnings per share
Year to 31st July 2007	<u>6 732</u>	<u>66 77p</u>
Year to 31st July 2006	<u>10,629</u>	<u>105 43p</u>

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

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

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 2006	738	1,000	6,010	7,748
Additions	—	—	465	465
Disposals	—	—	(273)	(273)
At 31st July 2007	<u>738</u>	<u>1,000</u>	<u>6,202</u>	<u>7,940</u>
Depreciation				
At 1st August 2006	382	—	4,800	5,182
Provided during year	16	—	467	483
Disposals	—	—	(262)	(262)
At 31st July 2007	<u>398</u>	<u>—</u>	<u>5,005</u>	<u>5,403</u>
Net book value				
At 31st July 2007	<u>340</u>	<u>1,000</u>	<u>1,197</u>	<u>2,537</u>
Cost				
At 1st August 2005	738	—	5,736	6,474
Additions	—	1,000	662	1,662
Disposals	—	—	(388)	(388)
At 31st July 2006	<u>738</u>	<u>1,000</u>	<u>6,010</u>	<u>7,748</u>
Depreciation				
At 1st August 2005	364	—	4,682	5,046
Provided during year	18	—	470	488
Disposals	—	—	(352)	(352)
At 31st July 2006	<u>382</u>	<u>—</u>	<u>4,800</u>	<u>5,182</u>
Net book value				
At 31st July 2006	<u>356</u>	<u>1,000</u>	<u>1,210</u>	<u>2,566</u>

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

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

12 PROPERTY, PLANT AND EQUIPMENT (contd)

(b) COMPANY

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost			
At 1st August 2006	179	2,995	3,174
Additions	—	213	213
Disposals	—	(116)	(116)
At 31st July 2007	179	3,092	3,271
Depreciation			
At 1st August 2006	77	2,362	2,439
Provided during year	3	256	259
Disposals	—	(111)	(111)
At 31st July 2007	80	2,507	2,587
Net book value At 31st July 2007	99	585	684
Cost			
At 1st August 2005	179	2,778	2,957
Additions	—	461	461
Disposals	—	(244)	(244)
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
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 Report of the Directors, the Company's non investment heritable properties were revalued at 31st July 2005. This revaluation has not been incorporated into these accounts.

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

13 INVESTMENT PROPERTIES

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Total £000
Cost or valuation			
At 1st August 2006	65,409	12,027	77,436
Additions	2,078	2,506	4,584
Disposals	(9,519)	(1,900)	(11,419)
Surplus on valuation	1,495	449	1,944
At 31st July 2007	<u>59,463</u>	<u>13,082</u>	<u>72,545</u>
Cost or valuation			
At 1st August 2005	65,115	10,870	75,985
Additions	70	55	125
Disposals	(4,220)	—	(4,220)
Surplus on valuation	4,444	1,102	5,546
At 31st July 2006	<u>65,409</u>	<u>12,027</u>	<u>77,436</u>

The Group's completed investment properties were valued on the basis of market value on 31st July 2007 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 £3,000,000 in respect of development and repair costs at the balance sheet date.

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

14 INVESTMENTS

	<i>Group</i>		<i>Company</i>	
	2007 £000	2006 £000	2007 £000	2006 £000
Shares in Subsidiaries at Cost	—	—	719	764
Joint Ventures	1,996	4,604	25	25
	<u>1,996</u>	<u>4,604</u>	<u>744</u>	<u>789</u>

(a) JOINT VENTURES

	<i>Group</i>	
	2007 £000	2006 £000
Share of Assets		
Share of Non Current Assets	920	8,699
Share of Current Assets	6,662	2,596
	<u>7,582</u>	<u>11,295</u>
Share of Liabilities		
Share of Non Current Liabilities	3,301	3,633
Share of Current Liabilities	2,285	3,058
	<u>5,586</u>	<u>6,691</u>
Share of Net Assets	<u>1,996</u>	<u>4,604</u>
Net rental incomes	212	449
Net operating expenses	(44)	(24)
Net gain on valuation of investment properties	—	1,209
Gain on sale of land	77	17
Gain on sale of investment properties	1,502	—
Gain on sale of investment	53	—
	<u>1,800</u>	<u>1,651</u>
Operating profit	1,800	1,651
Finance income	111	7
Finance costs	(150)	(142)
	<u>1,761</u>	<u>1,516</u>
Profit before tax	1,761	1,516
Taxation	(1,369)	(84)
	<u>392</u>	<u>1,432</u>

The Group's share of retained profits in the Joint Ventures at 31st July 2007 amounted to £1,971,000 (2006, £4,579,000)

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

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

14 INVESTMENTS (contd)

(a) JOINT VENTURES (contd)

<i>Name of Joint Ventures</i>	<i>Jointly managed with</i>	<i>Issued Share capital</i>	<i>Issued shares held by J Smart & Co (Contractors) PLC</i>
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	William Sanderson	2 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	1 A Shares
Duff Street Limited	Keane Developments Limited	100 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	50 A Shares

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 2007 the Company held the entire issued share capital of the following companies all of which are registered in and operate in Scotland

	<i>Nature of business</i>
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

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

15 FINANCIAL ASSETS – AVAILABLE FOR SALE

	<i>Group</i>	
	2007	2006
	£000	£000
Listed investments	1,695	1,499

Fair value movement, before tax amounted to £111,000 (2006, £219,000)

16 INVENTORIES

	<i>Group</i>		<i>Company</i>	
	2007	2006	2007	2006
	£000	£000	£000	£000
Long term contract balances	1,818	449	1,741	113
Land held for development	5,542	1,615	5,542	1,615
Raw materials and consumables	152	107	71	33
Finished goods	123	134	—	—
	<u>7,635</u>	<u>2,305</u>	<u>7,354</u>	<u>1,761</u>

17 TRADE AND OTHER RECEIVABLES

NON CURRENT ASSETS				
Loans to Joint Venture companies	2,176	2,796	2,176	2,796
	<u>2,176</u>	<u>2,796</u>	<u>2,176</u>	<u>2,796</u>
CURRENT ASSETS				
Trade debtors	1,524	1,766	528	624
Amounts owed by subsidiaries	—	—	7,185	1,354
Other receivables	265	304	282	10
Prepayments and accrued income	557	439	461	384
Amounts recoverable on contracts	734	195	479	195
Loans to Joint Venture companies	620	—	620	—
	<u>3,700</u>	<u>2,704</u>	<u>9,555</u>	<u>2,567</u>

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

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

18 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

19 TRADE AND OTHER PAYABLES

	<i>Group</i>		<i>Company</i>	
	2007	2006	2007	2006
	£000	£000	£000	£000
CURRENT LIABILITIES				
Payments received on account	50	232	50	232
Trade creditors	1,472	1,109	1,017	685
Amounts owed to subsidiaries	—	—	199	227
Other taxes and social security costs	292	311	166	156
Other creditors and accruals	2,451	1,679	1,386	658
	<u>4,265</u>	<u>3,331</u>	<u>2,818</u>	<u>1,958</u>

Certain members of the Group have granted Standard Securities over certain investment properties

20 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.

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

21 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 2006	2,974	115	6,568	77	9,734
Charged/(credited) to Income Statement	(1,329)	—	(570)	8	(1,891)
As at 31st July 2007	<u>1,645</u>	<u>115</u>	<u>5,998</u>	<u>85</u>	<u>7,843</u>

COMPANY

	Other Timing Differences £000
As at 1st August 2006	48
Charged to Income Statement	10
As at 31st July 2007	<u>58</u>

DEFERRED TAX ASSETS GROUP

	Retirement Benefit Obligations £000	Other £000	Total £000
As at 1st August 2006	2,460	71	2,531
Charged to Income Statement	(50)	(14)	(64)
Charged to Equity	(826)	—	(826)
As at 31st July 2007	<u>1,584</u>	<u>57</u>	<u>1,641</u>

COMPANY

	Retirement Benefit Obligations £000	Other £000	Total £000
As at 1st August 2006	2,460	33	2,493
Charged to Income Statement	(50)	—	(50)
Charged to Equity	(826)	—	(826)
As at 31st July 2007	<u>1,584</u>	<u>33</u>	<u>1,617</u>

22 SHARE CAPITAL

	2007		2006	
	Authorised £	Allotted and fully paid £	Authorised £	Allotted and fully paid £
Ordinary shares of 10p each	<u>1,200,000</u>	<u>1,008,200</u>	<u>1,200,000</u>	<u>1,008,200</u>

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

23 STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

GROUP

	Share Capital £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
At 1st August 2005	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	<u>1,008</u>	<u>473</u>	<u>82,599</u>	<u>84,080</u>
Transfer between reserves	—	(125)	125	—
Total recognised Income and Expense	—	—	8,661	8,661
Fair value adjustment net of tax	—	24	—	24
Dividends	—	—	(630)	(630)
At 31st July 2007	<u>1,008</u>	<u>372</u>	<u>90,755</u>	<u>92,135</u>

COMPANY

	Share Capital £000	Retained Earnings £000	Total £000
At 1st August 2005	1,008	3,302	4,310
Total recognised Income and Expense	—	550	550
Dividends	—	(615)	(615)
At 31st July 2006	<u>1,008</u>	<u>3,237</u>	<u>4,245</u>
Total recognised Income and Expense	—	5,214	5,214
Dividends	—	(630)	(630)
At 31st July 2007	<u>1,008</u>	<u>7,821</u>	<u>8,829</u>
	Notes		
Profit for financial year	9	3,285	
Actuarial gain on defined benefit pension scheme	27	2,755	
Deferred taxation on actuarial gain	21	(826)	
Total recognised Income and Expense		<u>5,214</u>	

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

24 NOTES TO THE CASH FLOW STATEMENT

GROUP

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

	2007 £000	2006 £000
Profit before tax	8,144	13,760
Share of profits from Joint Ventures	(1,800)	(1,651)
Depreciation	483	488
Unrealised revaluation gains on investment properties	(1,944)	(5,546)
Gain on sale of property, plant and equipment	(68)	(14)
Gain on sale of investment properties	(627)	(899)
(Gain)/Loss on sale of investments	(95)	40
Change in retirement benefits	(166)	(365)
Interest received	(740)	(353)
Interest received by Joint Ventures	(111)	(7)
Interest paid	—	1
Interest paid by Joint Ventures	150	142
Change in inventories	(5,330)	1,619
Change in receivables – current	(376)	62
Change in receivables – non current	—	(1,140)
Change in payables	934	(586)
NET CASH GENERATED FROM OPERATIONS	(1,546)	5,551

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

Cash and cash equivalents	22,737	10,364
Bank overdraft	(6,269)	(113)
Net position	16,468	10,251

(c) ANALYSIS OF NET FUNDS

	At 1st August 2006 £000	Cash Flow £000	Other £000	At 31st July 2007 £000
Cash and cash equivalents	10,364	12,373	—	22,737
Bank overdraft	(113)	(6,156)	—	(6,269)
Net funds	10,251	6,217	—	16,468

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

25 NOTES TO THE CASH FLOW STATEMENT

COMPANY

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

	2007	2006
	£000	£000
Profit before tax	3,369	2,071
Depreciation	259	275
Gain on sale of property, plant and equipment	(17)	(3)
Write off of investment in subsidiaries	45	—
Change in retirement benefits	(166)	(365)
Interest received	(1)	—
Interest paid	—	1
Change in inventories	(5,593)	2,728
Change in receivables – current	(6,368)	(354)
Change in receivables – non current	—	(1,140)
Change in payables	861	(593)
NET CASH GENERATED FROM OPERATIONS	(7,611)	2,620

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

Cash and cash equivalents	—	2,819
Bank overdraft	(6,160)	—
	(6,160)	2,819

(c) ANALYSIS OF NET FUNDS

	At 1st August 2006	Cash Flow	Other	At 31st July 2007
	£000	£000	£000	£000
Cash and cash equivalents	2,819	(2,819)	—	—
Bank overdraft	—	(6,160)	—	(6,160)
	2,819	(8,979)	—	(6,160)

26 FUTURE CAPITAL EXPENDITURE

The Group's share of Capital Expenditure contracted for by its Joint Ventures as at 31st July 2007 amounted £nil (2006, £489,000)

There were no other amounts of Capital Expenditure relating to Property, plant and equipment contracted for at 31st July 2007 or 31st July 2006

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

NOTES TO THE ACCOUNTS (contd.)

31st JULY 2007

27 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 completed 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 this 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%. Since the year end, it was agreed with the scheme trustees that with effect from 1st November 2007 the employer contributions would be increased to 59.6% of pensionable salaries and the employee contributions would remain at 3%. These rates will continue to be paid pending completion of the 1st November 2006 triennial valuation of the scheme. The total net pension charge for the period was £896,000. 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 2007.

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

Valuation method	2007 Projected Unit	2006 Projected Unit	2005 Projected Unit
Discount rate	5.8%	5.1%	5.0%
Inflation rate	3.4%	3.1%	2.7%
Salary increases	4.9%	4.6%	4.2%
Pension increases	2.1%–3.4%	2.0%–3.3%	1.9%–3.4%

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 2007	Value at 31st July 2007 £000	Long term rate of return expected at 31st July 2006	Value at 31st July 2006 £000	Long term rate of return expected at 31st July 2005	Value at 31st July 2005 £000
Equities	8.1%	11,501	8.3%	10,534	8.3%	10,354
Bonds	5.8%	1,942	5.1%	712	5.0%	299
Other	5.5%	1,025	4.5%	1,239	4.8%	245
Market value of assets		14,468		12,485		10,898
Present value of scheme liabilities		(19,748)		(20,686)		(17,926)
Scheme deficit		(5,280)		(8,201)		(7,028)
Related deferred tax		1,584		2,460		2,108
Net pension liability		(3,696)		(5,741)		(4,920)

Investments are in a mixed management fund, split being 80% equity investments and 20% bonds and cash.

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

27 RETIREMENT BENEFIT OBLIGATIONS (contd)

The following amounts are incorporated into the financial statements

	2007 £000	2006 £000
Amounts included in operating profit		
Current service cost	(598)	(570)
Past service cost	—	—
Total included within operating profit	<u>(598)</u>	<u>(570)</u>
Amounts included in other finance (costs)/income		
Expected return on assets	896	905
Interest cost	(1,064)	(883)
Total included as net finance (costs)/income	<u>(168)</u>	<u>22</u>
Amounts included in Consolidated Statement of Recognised Income and Expense		
Actual return less assumed return on assets	969	219
Experience gains and losses arising on scheme liabilities	(290)	(708)
Changes in assumptions underlying the valuation of liabilities	2,076	(1,049)
Total actuarial gain/(loss)	<u>2,755</u>	<u>(1,538)</u>
Changes in the present value of the defined benefit obligations are as follows		
Present value of obligation at beginning of period	20,686	17,926
Current service cost	598	570
Interest cost	1,064	883
Charges paid	(21)	—
Benefit payments	(793)	(449)
Actuarial (gain)/loss	(1,786)	1,756
Present value of obligation at end of period	<u>19,748</u>	<u>20,686</u>
Changes in the fair value of plan assets are as follows		
Fair value of plan assets at beginning of period	12,485	10,898
Employer contributions	862	845
Employee contributions	70	69
Benefits paid	(793)	(449)
Charges paid	(21)	—
Expected return on plan assets	896	904
Actuarial gain	969	218
Fair value of plan assets at end of period	<u>14,468</u>	<u>12,485</u>

J Smart & Co (Contractors) PLC and Subsidiary Companies

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

27 RETIREMENT BENEFIT OBLIGATIONS (contd)

Analysis of movement in scheme deficit	2007	2006
	£000	£000
As at 1st August 2006	(8,201)	(7,028)
Current service cost	(598)	(570)
Past service cost	—	—
Contributions	932	913
Other finance (costs)/income	(168)	22
Actuarial gain/(loss)	2,755	(1,538)
As at 31st July 2007	<u>(5,280)</u>	<u>(8,201)</u>
Cumulative actuarial gains and losses recognised in equity		
At beginning of period	(2,573)	(1,035)
Net actuarial gain/(loss) recognised in period	2,755	(1,538)
Cumulative gain/(loss)	<u>182</u>	<u>(2,573)</u>

History of experience gains and losses	2007	2006	2005	2004	2003
Difference between actual return and assumed return on assets					
Amount (£000)	969	219	1,331	51	(1,358)
Percentage of market value of scheme assets	6.7%	1.8%	12.2%	0.6%	19.0%
Experience gains and losses arising on scheme liabilities					
Amount (£000)	(290)	(708)	12	108	(546)
Percentage of market value of scheme liabilities	1.5%	3.4%	0.1%	0.7%	3.7%
Total amounts included in Consolidated Statement of Recognised Income and Expense					
Amount (£000)	2,755	(1,538)	(1,035)	1,093	(3,909)
Percentage of market value of scheme liabilities	14.0%	7.4%	5.8%	7.5%	26.7%

The contribution expected to be paid by the Group during the financial period ending 31st July 2008 amounts to £1,270,000

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 £52,000 (2006, £55,000)

28 CONTINGENT LIABILITIES

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

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

29 OPERATING LEASE ARRANGEMENTS

GROUP – AS LESSEE

Future minimum lease payments payable under non cancellable operating leases

	2007 £000	2006 £000
Within one year	96	100
In two – five years exclusively	336	333
After five years	170	220
	<u>602</u>	<u>653</u>

GROUP – AS LESSOR

Gross property rental income earned in the year amounted to £4,739,000 (2006, £5,577,000) At the balance sheet date, the Group had contracted with its tenants for the following future minimum lease payments

	2007	2006
Within one year	4,508	4,573
In two – five years exclusively	14,541	14,771
After five years	11,831	12,368
	<u>30,880</u>	<u>31,712</u>

30 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		Purchases of goods and services	
	2007 £000	2006 £000	2007 £000	2006 £000
McGowan & Co (Contractors) Limited	65	27	854	1,546
King & Ritchie Limited	—	—	—	—
Cramond Real Estate Company Limited	—	—	—	—
D & J McDougall Limited	—	—	—	—
Thomas Menzies (Builders) Limited	34	10	9	2
Concrete Products (Kirkcaldy) Limited	15	1	22	44
C & W Assets Limited	1,785	299	—	—
	<u>1,854</u>	<u>327</u>	<u>885</u>	<u>1,592</u>

SUBSIDIARY	Amounts owed by subsidiaries		Amounts owed to subsidiaries	
	McGowan & Co (Contractors) Limited	—	—	199
King & Ritchie Limited	—	—	—	—
Cramond Real Estate Company Limited	104	—	—	—
D & J McDougall Limited	—	—	—	—
Thomas Menzies (Builders) Limited	9	6	—	—
Concrete Products (Kirkcaldy) Limited	1	—	—	—
C & W Assets Limited	7,071	1,348	—	—
	<u>7,185</u>	<u>1,354</u>	<u>199</u>	<u>227</u>

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

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

NOTES TO THE ACCOUNTS (contd)

31st JULY 2007

30 RELATED PARTY TRANSACTIONS (contd)

(b) JOINT VENTURE COMPANIES

During the year to 31st July 2007, 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	—	620
	Construction Costs	1,299	82
Prestonfield Development Company Limited	Working Capital Loan	—	1,600
	Construction Costs	196	230
Northrigg Limited	Working Capital Loan	—	176
Duff Street Limited	Working Capital Loan	—	400
	Construction Costs	756	—

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.

(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 2007 the Group purchased materials amounting to £640,000 (2006, £623,000) and materials and services supplied amounting to £36,000 (2006, £29,000).

As at 31st July 2007 the Group owed these companies £35,000 (2006, £33,000) and was owed £nil (2006, £29,000).

(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 Report on Directors' Remuneration.