J. SMART & CO. (CONTRACTORS) PLC

ANNUAL REPORT

AND

STATEMENT OF ACCOUNTS

TO

31st JULY 2011

J. Smart & Co. (Contractors) PLC

DIRECTORS

J. M. Smart, *Chairman and Managing Director*
A. D. McClure, *Secretary*
L. E. Glenday
D. W. Smart

REGISTERED OFFICE

28 Cramond Road South,
Edinburgh,
EH4 6AB

SUBSIDIARY COMPANIES

McGowan & Co. (Contractors) Limited
Cramond Real Estate Company Limited
Thomas Menzies (Builders) Limited
Concrete Products (Kirkcaldy) Limited
C. & W. Assets Limited

REGISTRARS AND TRANSFER OFFICE

Equiniti Limited,
34 South Gyle Crescent,
South Gyle Business Park,
Edinburgh,
EH12 9EB

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

Anderson Strathern LLP,
1 Rutland Court,
Edinburgh,
EH3 8EY

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 *15th December 2011* 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 2011.
2. To receive and consider the Report on Directors' Remuneration for the year ended 31st July 2011.
3. To declare a Final Dividend of 9.70p per share.
4. To re-elect A.D. McClure as a Director, who retires by rotation.
5. To re-elect D. W. Smart as a Director, who being appointed in the year, retires in accordance with the Company's Articles of Association and provision B.7.1 of UK Corporate Governance Code.
6. To re-elect French Duncan LLP as 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 and 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 2015.
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 be a member. Forms of proxy, if used, must be lodged with the Registrars of the Company at least 48 hours before the time fixed for the Meeting. Forms of proxy may also be lodged electronically by submitting a duly completed scanned copy of the proxy card to proxy.votes@equiniti.com. You may not use the electronic address provided either in this Notice of Meeting or any related documents (including the Form of Proxy) to communicate with the Company for any purpose other than that expressly stated.

In accordance with section 311A of the Companies Act 2006, the contents of this Notice of Meeting, details of the total number of shares in respect of which members are entitled to exercise voting rights at the AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice will be available on the Company's website www.jsmart.co.uk.

Pursuant to section 319A of the Companies Act 2006, the Company must cause to be answered at the AGM any question relating to the business being dealt with at the AGM which is put by a member attending the meeting, except in certain circumstances, including if it is undesirable in the interests of the Company or the good order of the Meeting that the question be answered or if to do so would involve the disclosure of confidential information.

BY ORDER OF THE BOARD
A. D. McClure, Secretary
28 Cramond Road South,
Edinburgh EH4 6AB

15th November 2011

Note: The Dividend, if approved, will be paid on 19th December 2011 to shareholders on the Register at the close of business on 2nd December 2011.

J. Smart & Co. (Contractors) PLC

CHAIRMAN'S REVIEW

ACCOUNTS

As forecast in the interim report, headline Group profit for the year before tax, including an unrealised deficit in revalued property as required by International Financial Reporting Standards, turned out lower than last year at £656,000. This compares with a headline profit for last year of £3,984,000. If the impact of revalued property on the figures is disregarded then a truer reflection of Group performance emerges in the form of an underlying profit before tax for the year under review of £5,992,000 (including £1,929,000 profit from property sales) which compares with the corresponding figure for underlying profit last year of £4,588,000 (no property sales).

The value of investment properties at the beginning of the year was £74,560,000 (cost £48,247,000). The net deficit on the year end valuation was £5,336,000 leaving a value of £72,586,000 (cost £51,609,000).

The Board is recommending a Final Dividend of 9.70p nett making a total for the year of 14.30p nett, which compares with 14.10p nett for the previous year. The final dividend will cost the Company £978,000.

Profit adjusted for pension scheme surplus, dividends paid and fair value reserve adjustment when added to opening shareholders' funds brings the total equity of the Group to £97,560,000.

TRADING ACTIVITIES

Group construction work carried out and share of Joint Ventures' turnover decreased by 17%, own work capitalised decreased by 3%, Group revenue decreased by 19% and headline Group profit decreased by 84%. Underlying Group profit excluding an unrealised deficit in revalued property increased by 31%.

Turnover in contracting was again lower, however a profit was achieved again. The slow pick up in private house sales since January mentioned in the interim report continued until the year end. Sales in precast concrete manufacture fell once more and a loss was incurred.

During the year we commenced a mixed commercial and predominantly private residential development at Robertson Avenue, Edinburgh and an industrial development at Bathgate. Commercial and industrial letting remains difficult.

OTHER MATTERS

At the end of December 2010 Mr Kenneth H Hastings, having attained his seniority, retired from the Board. Mr. Hastings served the Company for 36 years, 25 as a Director, during which time his hard work, loyalty, dedication and the consummate skills he demonstrated in the fields of Quantity Surveying and Property Development contributed very substantially to the Group's success. My sincerest personal thanks go to Ken for his sterling efforts on the Company's behalf, together with my wishes for a long and happy retirement.

FUTURE PROSPECTS

The general outlook is still uncertain. Occupancy levels in our commercial and industrial space are eroding, albeit slowly. Rental income may be slightly lower than last year's figure.

The slow but steady progress in private house sales experienced in the second half of the year under review has now halted.

While we have an adequate amount of contracting work in hand at present, margins will be difficult to achieve.

The uncertainties generated by the recession make it impossible to forecast the outcome for the current financial year with any degree of accuracy, however it is likely that underlying profit will be less than last year.

J. M. SMART
Chairman

15th November 2011

DIRECTORS

J.M. Smart, Chairman and Managing Director Aged 67
Joined the Company in 1967
Appointed Director in 1978 and appointed Chairman in 1988

K.H. Hastings Aged 65
Joined the Company in 1974
Appointed Director in 1985
Retired as a Director on 20th December 2010

A.D. McClure Aged 65
Joined the Company in 1964
Appointed Director in 1987

L.E. Glenday Aged 63
Joined the Company in 1972
Appointed Director in 2001

D.W. Smart Aged 38
Joined the Company in 1998
Appointed Director on 20th December 2010

The Directors submit their Annual Report and Statement of Accounts for the year ended 31st July 2011.

RESULTS AND DIVIDENDS

The profit of the Group for the year after charging taxation amounted to . . .		£1,014,000
The Directors have made the following appropriations:		
Paying a Final Dividend for 2010 of 9.60p per share (2009, 9.35p) . .	£968,000	
Paying an Interim Dividend for 2011 of 4.60p per share (2010, 4.50p) . .	464,000	
		£1,432,000

The Directors recommend a Final Dividend for the year of 9.70p per share, making a total for the year of 14.30p.

The Final Dividend, if approved, will be paid to all Members on the Share Register of the Company at the close of business on 2nd December 2011. Dividend warrants will be posted on 16th December 2011.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

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 year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and applicable law. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that year.

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;
- for the Group and Parent Company financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company 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 2006 and IFRS as adopted by the EU. 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.

Under applicable law and regulations, the Directors are also responsible for preparing the Report of the Directors, Report on Directors' Remuneration and Corporate Governance Statement that comply with that law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' STATEMENT PURSUANT TO DISCLOSURE AND TRANSPARENCY RULE 4.1.12

Each of the Directors confirms, to the best of their knowledge:

- that the Consolidated Financial Statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of assets, liabilities, financial position and profit or loss of the Group and Company; and
- that the Business Review contained in this report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that they face.

PRINCIPAL ACTIVITIES

The principal activities of the Company and its Subsidiaries are building and civil engineering contracting of all types, building for sale of private houses, carrying out of industrial and commercial developments and redevelopments for sale or lease. Other activities of Subsidiaries are the manufacture for sale of concrete building products and investment holding.

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%	Westerwood Limited
Northrigg Limited	50%	William Sanderson
Duff Street Limited	50%	Kiltane Developments Limited
Invertiel Developments Limited	50%	Macdonald Estates PLC
Primrose Development Company Limited	50%	Macdonald Estates PLC

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:

CONSTRUCTION ACTIVITIES

The Company continues to undertake the construction of social housing for several housing associations within the Edinburgh area. During the year the Company completed one such contract and commenced three new contracts. The Company also commenced the construction of a private housing development within the city of Edinburgh.

During the year the company sold a further 8 dwellings in an existing private housing development.

The Company completed the construction of a commercial office development and commenced construction of new office and industrial developments on behalf of subsidiary company, C&W Assets Limited.

Thomas Menzies (Builders) Limited continues to undertake small to medium sized civil engineering contracts for Local Authorities, Enterprise Companies and private sector clients and provides emergency call-out and remedial works for The Coal Authority.

Concrete Products (Kirkcaldy) Limited continues to manufacture and sell hydraulically pressed concrete products for the building and home improvement industries.

McGowan & Co (Contractors) Limited continues to support Group companies with the provision of plumbing and heating services.

BUSINESS REVIEW (cond.)

INVESTMENT ACTIVITIES

Rent, service charges recoverable and insurance premiums recharged are the main sources of investment income received by the Group on investment properties owned and managed by the subsidiary, C&W Assets Limited. The investment properties are located throughout the central belt of Scotland primarily within the Edinburgh area.

As noted above a commercial office development was completed during the year and construction commenced on new office and industrial developments, in addition the Company acquired an existing commercial development.

During the year the Company sold three properties, revenue received from these sales amounted to £4,054,000 and resulted in profit on sale of £1,929,000.

Other investing activities of the Group consists of dividends and interest received on a portfolio of equity investments and cash deposits.

JOINT VENTURES

Rents and service charges on industrial and residential properties remain the sources of income earned by the Joint Venture companies. During the year there was no change in the development activities of the Joint Ventures.

During the year an application to strike off Primrose Development Company Limited was submitted to the Registrar of Companies and the Company was formally dissolved on 11th November 2011. This Company had not traded in this or previous years.

SUMMARY

	Revenue £000	Profit £000	Profit excluding unrealised deficit in revalued property £000
Construction activities	19,588	312	312
Investment activities	5,523	302	5,638
Joint Ventures	–	42	42
	25,111	656	5,992

Group external construction revenue decreased from £21,022,000 to £17,001,000 a decrease of £4,021,000 and internal own work capitalised decreased from £2,668,000 to £2,587,000. Rental income from investment properties, excluding that from Joint Ventures, together with service charges and insurance receivable increased from £5,521,000 to £5,523,000.

During the year the Group sold investment properties resulting in profits of £1,929,000. The net deficit on valuation of investment properties as at 31st July 2011 amounted to £5,336,000 as compared to a net deficit for the previous year of £604,000.

The above movements have resulted in an Operating Profit for the Group for the year of £90,000 as compared to £3,787,000 in the previous year.

The Group's share of profits in Joint Ventures amounted to £42,000 a decrease of £159,000 from the previous year.

BUSINESS REVIEW (cond.)

SUMMARY (contd.)

Income from financial assets including profit arising on sale of financial assets together with finance income less finance costs amounted to £524,000 as compared to £(4,000) for the previous year.

Group Profit before tax amounted to £656,000 for the year as compared to £3,984,000 for the previous year. If the unrealised net deficit on valuation of investment properties is excluded, the Group Profit before tax for the year would be £5,992,000 as compared to £4,588,000 for the previous year.

GROUP FINANCIAL PERFORMANCE INDICATORS

	2011 £000	Movement %/£000	*2010* *£000*
Revenue	17,001	(19%)	*21,022*
Own work capitalised	2,587	(3%)	*2,668*
Other operating income (Group rental income including service charges)	5,523	–	*5,521*
Profit before tax	656	(84%)	*3,984*
Profit excluding unrealised deficit in revalued property	5,992	31%	*4,588*
Group investment income including profit on sale of available for sale financial assets	524	528	*(4)*
Share of Joint Ventures' profits	42	(79%)	*201*
Group Balance Sheet	97,560	1%	*96,541*

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 (there have been material but unquantifiable increases in the risk and impact).

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.

BUSINESS REVIEW (contd.)

PRINCIPAL RISK FACTORS (contd.)

RISK AND IMPACT	MEASURE
Cuts in funding reduce or suspend the social housing programme resulting in reduced contracting workload and substantial redundancies (there have been material but unquantifiable increases in the risk and impact).	• 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 six Joint Ventures in private development for four of which we carry out the work.
Inability to find tenants for new development space and loss of existing tenants leads to reduction of revenue and capital resources.	• By restricting our operations to the central belt of Scotland we are only involved in familiar locations we understand. • Secure a pre-let before commencement of development. • Only commence speculative development after a careful assessment of the local market and once we are reasonably certain of securing tenants. • Freshen up existing developments from time to time in order to retain and attract tenants and maintain market interest.
Free availability of credit leads to rise in cost of developable land and property to unsustainable levels resulting in heavy losses or insolvency when the "bubble" bursts and credit is withdrawn.	• Avoid overpaying for land or property. • Do not over extend resources by over committing to development while the market hots up. • Build up liquidity for the tough times ahead by selective selling of land and/or developed property at or near the top of the market.
Possible failure of bank threatens the Group's existence due to loss of cash reserves.	• Spread cash reserves among several banks placing more with the strongest. • Invest a proportion of cash in equities.
Massive reduction in bank and interest rates results in significant loss of Group revenue from cash on deposit.	• Seek out best interest rates obtainable from banks consistent with security of borrower. • Consider investing a proportion of cash in high yielding property with strong covenant. • Increase investment in equities paying attention to yield, high/low price history and security of investment.
Effect of recession and restriction on mortgage lending results in stalling of private house sales.	• Sales incentives within limitations. • Shared equity and Government backed co-ownership schemes. • Consider letting until sales market improves.

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 2010 a valuation of the Group's non-investment heritable properties was carried out by K. H. Hastings, a Director of the Parent Company. This valuation, which has not been incorporated into these accounts, showed a net surplus over the cost of these properties after depreciation of £1,672,000 as at 31st July 2011.

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 and are unable to fulfil current duties are offered suitable alternative employment.

CHARITABLE DONATIONS

During the year the Group made total charitable donations amounting to £35,000 (2010, £35,000). Donations to local causes amounted to £19,000 (2010, £19,000) and donations to national charities amounted to £16,000 (2010, £16,000).

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 such expenditure in the year.

The Companies Act 2006 prohibits companies from making any political donations to EU political organisations, independent candidates or incurring EU political expenditure unless authorised by shareholders in advance. The Company does not make, and does not intend to make, donations to EU political organisations or independent election candidates, nor does it incur any EU political expenditure.

The definitions of political donations, political organisations and political expenditure used in the Companies Act 2006 are very wide and can cover activities such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform. Shareholder approval is therefore being sought on a precautionary basis only, to allow the Company, and any Subsidiary Company, to continue to support the community and put forward its views to wider business and Government interests, without running the risk of being in breach of the legislation.

The Board is therefore seeking authority to make political donations to EU political organisations and independent election candidates not exceeding £5,000 in total and to incur EU political expenditure not exceeding £5,000 in total. In accordance with the Companies Act 2006 this resolution requires to be put to shareholders every four years. For the purposes of this resolution, the terms 'political donations', 'EU political organisations', 'independent election candidate' and 'EU political expenditure' shall have the meanings given to them in sections 363 to 365 of the Companies Act 2006.

CREDITOR PAYMENT 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 20, based on the average daily amount invoiced by suppliers during the year and the creditors balance at the year end.

DIRECTORS AND THEIR INTERESTS

(i) The Directors at 31st July 2011 and their beneficial interests in the share capital of the Company were as follows:

	1st August 2010 Ordinary shares of 10p each Beneficial holdings	*31st July 2011 Ordinary shares of 10p each Beneficial holdings*
J. M. Smart	239,700	239,700
A. D. McClure	55,000	55,000
L. E. Glenday	45,000	45,000
D. W. Smart	2,372,700	2,372,700

K. H. Hastings retired as a Director on 20th December 2010. At 1st August 2010 he had a beneficial holding in 63,000 ordinary shares of the Company.

(ii) A. D. McClure retires by rotation and, being eligible, offers himself for re-election.

(iii) D. W. Smart was appointed as a director on 20th December 2010 and in accordance with the Company's Articles of Association and provision B.7.1 of the UK Corporate Governance Code is subject to and offers himself for re-election at the first Annual General Meeting of the Company following his election.

(iv) There are no Directors' service contracts in existence.

(v) There have been no changes in the Directors' beneficial interests between 31st July 2011 and 20th October 2011.

SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

The Company's authorised and issued ordinary share capital as at 31st July 2011 comprises a single class of ordinary shares. During the year there has been no movement in the issued share capital of the Company.

As far as the Directors are aware, other than the Directors, the Company has been notified that as at 20th October 2011, the following have interests of more than 3% in the Company's issued share capital:

	Number	*%*
Octet Investments Limited	324,480	3.22
A. J. Whitehead	315,897	3.13
J. R. Smart	2,372,700	23.53

SHAREHOLDER AND VOTING RIGHTS

All members who hold ordinary shares are entitled to attend and vote at the Annual General Meeting. On a show of hands at a General Meeting every member present in person and every duly appointed proxy shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held or represented. The Company is not aware of any agreements between shareholders that may result in restrictions on voting rights of shareholders.

Rights attached to ordinary shares may only be varied by special resolution at a General Meeting.

RESTRICTIONS ON TRANSFER OF SECURITIES

There are no specific restrictions on the transfer of securities in the Company, other than those imposed by prevailing legislation and the requirements of the Listing Rules in respect of Company Directors. The Company is not aware of any agreements between shareholders that may result in restrictions of the transfer of securities.

APPOINTMENT AND REPLACEMENT OF DIRECTORS

Initial appointments may be approved by the Board of Directors but anyone so appointed must be re-elected by ordinary resolution at the next Annual General Meeting of the Company. Directors, excluding the Managing Director, must retire and may offer themselves for re-election at the Annual General Meeting at least every three years.

AMENDMENTS OF THE COMPANY'S ARTICLES OF ASSOCIATION

The Company's Articles of Association can only be amended by a special resolution at a General Meeting.

CHANGE OF CONTROL

The Company is not party to any significant agreements which take effect, alter or terminate upon the change of control of the Company following a takeover bid.

The Company does not have any agreements with any Director or employee that would provide compensation for loss of office or employment, whether through resignation, purported redundancy or otherwise resulting from a takeover bid.

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 Corporation Tax Act 2010.

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 the Financial Reporting Council's UK Corporate Governance Code issued in June 2010 (the Code). A copy of the Code can be found on the Financial Reporting Council's website, www.frc.org.uk.

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 following provisions set out in Section 1 of the Code – A.1.1- A.1.2, A.2.1, A.3.1, A.4.1-A.4.3, B.1.1-B.1.2, B.2.1-B.2.4, B.3.1-B.3.2, B.6.1-B.6.3, B.7.1-B.7.2, C.3.1-C.3.6, D.1.1, D.1.5, D.2.1-D.2.2, E.1.1 and E.2.2-E.2.3, details and explanations for non-compliance are given below.

THE BOARD

The Company is led by a Board of Directors which comprises the executive management of the Company, being the Chairman and three executive directors, and thus maintains full control of the Company. All the Directors worked for the Company prior to their appointments as Director. During the year K. H. Hastings retired from the Company, at the same time D. W. Smart was appointed as Director. Decisions are taken by the Board 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 4 formal Board Meetings in the year, attendance at these meetings was as follows:

J. M. Smart	4
K. H. Hastings (retired 20th December 2010)	2
A. D. McClure	4
L. E. Glenday	3
D. W. Smart (appointed 20th December 2010)	1

Given that the Board is the executive management of the Company and takes decisions on all material matters and thereby exercises full direction and control, there is no formal schedule of matters reserved for the Board's decision.

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 the Chairman and Managing Director, a policy which has served your Company well over many years. The Chairman is responsible for the leadership of the Board, ensuring that all the Directors receive accurate, timely and clear information on issues arising at Board meetings, setting Board agendas and ensuring adequate time is given to discussion of the agenda points. The members of the Board have complete freedom to seek independent professional advice, at the Company's expense, when they feel it is appropriate to do so. All Directors have access to the advice and services of the Company Secretary, who is also a Director of the Company, and is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. All Directors openly express their views and make a valuable contribution to the running of the Company.

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 a result of not appointing non-executive Directors, the Company has not established Nomination, Remuneration or Audit Committees.

CORPORATE GOVERNANCE (contd.)

THE BOARD (contd.)

As the Company does not have a Nomination Committee, 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 date of appointment, no formal tailored induction upon joining the Board was necessary. As the Directors are all full-time employees of the Company they are fully committed to the Company and to the discharge of their duties. The Directors are encouraged by the Board to receive any training they consider necessary to ensure they remain up-to-date with their skills, knowledge and familiarity of the Company's business and they remain aware of the risks associated with the Company and are also aware of regulatory, legal and financial and other developments to enable them to fulfil their role effectively.

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

The Company's Articles of Association require that all new Directors are subject to re-election at the first Annual General Meeting after their appointment and that all Directors, with the exception of the Managing Director, seek re-election at intervals of no more than three years at the Annual General Meeting.

As the Company does not have a Remuneration Committee, the Chairman is responsible for fixing the remuneration packages of the Directors which are based on their performance and the scope of their duties and responsibilities. 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. There is no scheme in place for Directors to receive entitlement to share options nor are there any long term incentive schemes.

FINANCIAL AND BUSINESS REPORTING

The Directors have sole responsibility for the preparation of the Annual Report and Statement of Accounts, the Half Yearly Financial Report, the Interim Management Reports and other price-sensitive public reports in a balanced and understandable manner.

In order to ensure that the Company and Group have adequate resources to ensure the continuing operations of the Company and Group for the foreseeable future the Directors consider future trading, investment property acquisitions and cash requirements. The Directors take account of available market conditions in all areas of the Group's activities and using their knowledge and experience relating to the Group's investment property portfolio. The Directors' opinion is that the Company and Group have adequate financial resources to allow the Company and Group to continue in operational existence for the foreseeable future and therefore considers the adoption of the going concern basis as appropriate for the preparation of the Accounts.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for and annually reviews the Group's system of internal controls in relation to financial, operational, compliance and risk management to ensure their continued effectiveness. The systems adopted by the Board are designed to manage the risk of failure to achieve the Company's business objectives as opposed to eliminate them as any system of control can only provide reasonable but not absolute assurance against material misstatement or loss.

The Board, in accordance with the Code, has reviewed the effectiveness of the internal controls from the commencement of the accounting period to the date of approval of the Annual Report and Statement of Accounts. No significant failings or weaknesses have been identified in that period. There has also been a continual process of identification by the Directors of key areas of risk within the Group and appropriate action taken to mitigate and monitor such risks.

The main features of the Group's internal control and risk management systems in relation to the financial reporting process are:

- contracts, development projects, land purchases and acquisition of property, plant and equipment are proceeded with after due consideration by the Directors;
- monthly reports are prepared for each contract and development project for review by the Directors;

CORPORATE GOVERNANCE (contd.)

RISK MANAGEMENT AND INTERNAL CONTROL (contd.)

- Subsidiary Company reports are prepared for consideration by the Directors; and
- treasury operations are carried out in accordance with policies and procedures already approved by the Board.

AUDIT COMMITTEE

As the Company does not have 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 Group'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 the shareholders.

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. As such there is no internal audit of the risks identified by the Board and the controls established by the Board to mitigate and monitor these risks.

RELATIONS WITH SHAREHOLDERS

The Board has in the past and will in the future continue to enter into dialogue with the shareholders wherever possible. The Chairman is responsible for ensuring that the views and concerns of the shareholders are communicated to the Board. The Chairman is also responsible for discussing governance and strategy matters with the shareholders.

As the Company has no non-executive Directors there is no opportunity for shareholders to meet with 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 489 of the Companies Act 2006, a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of French Duncan LLP as Auditors of the Company.

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 is no relevant audit information (as defined in the Companies Act 2006) 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.

APPROVED BY THE BOARD OF DIRECTORS
AND SIGNED ON ITS BEHALF BY
A. D. McCLURE,
Secretary.

15th November 2011

The Directors' Remuneration Report for the year to 31st July 2011 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 2011.

Directors' Remuneration
(Audited Information)

	Salary and Fees £000	Taxable Benefits £000	Total 2011 £000	Total 2010 £000
J. M. Smart	118	9	127	125
K. H. Hastings	204	4	208	128
A. D. McClure	118	9	127	125
L. E. Glenday	118	9	127	125
D. W. Smart	46	–	46	–

Directors' Pension Benefits
(Audited Information)

	Gross increase in accrued pension £	Total accrued pension 31/7/11 £	Transfer Value of accrued pension at 31/7/11 £	Transfer Value of accrued pension at 31/7/10 £	Total change in value during period £
A. D. McClure	4,754	75,713	1,470,916	1,294,237	173,155
L. E. Glenday	4,952	72,996	1,354,562	1,202,256	148,782
D. W. Smart	1,214	9,149	66,119	62,042	2,727

No Director receives fees or bonuses.

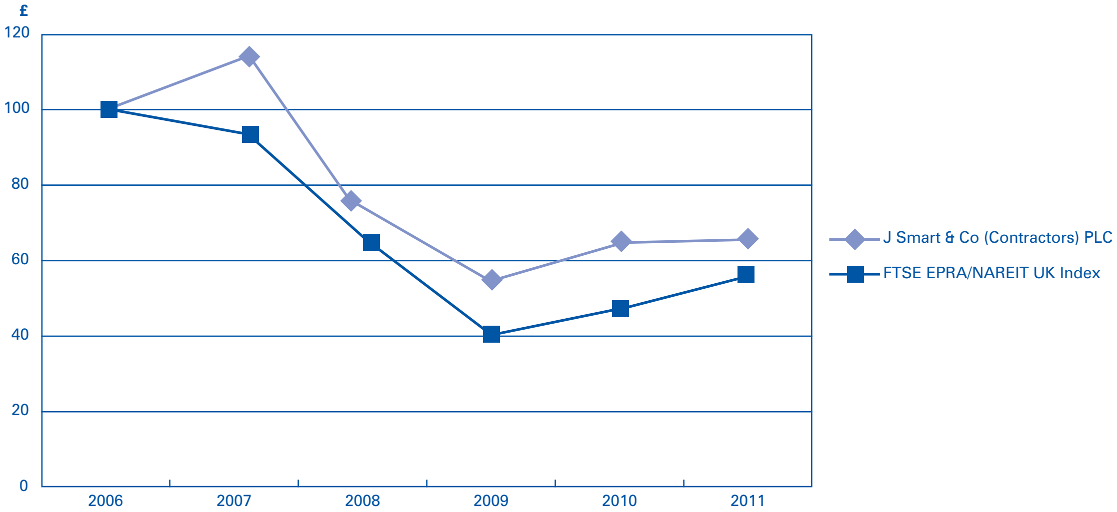
No Director holds share options and there is no scheme in place which could give such an entitlement, nor is there any long term incentive scheme.

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

PERFORMANCE GRAPH

The graph below shows the total shareholder return performance of the Company's shares in comparison with the FTSE EPRA/NAREIT UK Index for the five years to 31st July 2011. 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 EPRA/NAREIT UK Index which the Directors believe is the most appropriate comparative index.

APPROVED BY THE BOARD OF DIRECTORS
AND SIGNED ON ITS BEHALF BY
A. D. McCLURE,
Secretary.

15th November 2011

INDEPENDENT REPORT OF THE AUDITORS

To the Shareholders of J. Smart & Co. (Contractors) PLC

We have audited the financial statements of J. Smart & Co. (Contractors) PLC for the year ended 31st July 2011 which comprise Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Cash Flows and related notes to the accounts. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's shareholders, as a body, in accordance with sections 495 and 496 of the Companies Act 2006. 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 auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's 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

As explained more fully in the Directors' Responsibilities Statement (set out on page 5), the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements.

OPINION ON FINANCIAL STATEMENTS

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31st July 2011 and of the Group's profit and the Group's and Parent Company's Cash Flow for the year then ended;

– the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion:

– the part of the Report on Directors' Remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and

– the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

– adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

– the Parent Company's financial statements and the part of the Report on Directors' Remuneration to be audited are not in agreement with the accounting records and returns; or

– certain disclosures of Directors' remuneration specified by law are not made; or

– we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

– the Directors' statement set out on page 14, in relation to the going concern basis; and

– the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Kevin G Booth
Senior Statutory Auditor
for and on behalf of FRENCH DUNCAN LLP
Statutory Auditor and Chartered Accountants

375 West George Street,
Glasgow G2 4LW.
15th November 2011

CONSOLIDATED INCOME STATEMENT for the year ended 31st JULY 2011

	Notes	2011 £000	*2010 £000*
Group construction work carried out and share of Joint Ventures' turnover		19,588	*23,690*
Less: Share of Joint Ventures' turnover		–	*–*
Less: Own construction work capitalised		(2,587)	*(2,668)*
REVENUE		17,001	*21,022*
Cost of sales		(13,176)	*(16,662)*
GROSS PROFIT		3,825	*4,360*
Other operating income	3	5,523	*5,521*
Net operating expenses		(5,851)	*(5,490)*
OPERATING PROFIT BEFORE PROFIT ON SALE AND NET DEFICIT ON VALUATION OF INVESTMENT PROPERTIES		3,497	*4,391*
Profit on sale of investment properties		1,929	*–*
Net deficit on valuation of investment properties		(5,336)	*(604)*
OPERATING PROFIT	5	90	*3,787*
Share of profits in Joint Ventures	14	42	*201*
Income from available for sale financial assets	6	140	*89*
Profit on sale of available for sale financial assets		–	*95*
Finance income	7	384	*120*
Finance costs	7	–	*(308)*
PROFIT BEFORE TAX		656	*3,984*
Taxation	8	358	*(250)*
PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS	9	1,014	*3,734*
EARNINGS PER SHARE – BASIC AND DILUTED	11	10.06p	*37.04 p*

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

The notes on pages 26 to 53 form an integral part of these accounts.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST JULY 2011

	Notes	2011 £000	*2010 £000*
Actuarial gain recognised on defined benefit pension scheme	27	1,847	*2,489*
Deferred taxation on actuarial gain	21	(601)	*(767)*
NET SURPLUS RECOGNISED DIRECTLY IN EQUITY		1,246	*1,722*
Profit for the year		1,014	*3,734*
TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR		2,260	*5,456*
ATTRIBUTABLE TO EQUITY SHAREHOLDERS		2,260	*5,456*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31ST JULY 2011

	Share Capital £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
As at 1st August 2009	1,008	41	91,258	92,307
Total recognised Income and Expense	—	—	5,456	5,456
Fair value adjustment	—	217	—	217
Tax on fair value adjustment	—	(42)	—	(42)
Dividends	—	—	(1,397)	(1,397)
As at 31st July 2010	1,008	216	95,317	96,541
Total recognised Income and Expense	—	—	2,260	2,260
Fair value adjustment	—	236	—	236
Tax on fair value adjustment	—	(45)	—	(45)
Dividends	—	—	(1,432)	(1,432)
As at 31st July 2011	1,008	407	96,145	97,560

The notes on pages 26 to 53 form an integral part of these accounts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31st JULY 2011

	Notes	2011 £000	*2010 £000*
NON-CURRENT ASSETS			
Property, plant and equipment	12	1,290	*1,391*
Investment properties	13	72,586	*74,560*
Investments in Joint Ventures	14	1,012	*1,635*
Available for sale financial assets	15	3,018	*2,604*
Retirement benefit surplus	27	1,660	—
Deferred tax asset	21	253	*719*
		79,819	*80,909*
CURRENT ASSETS			
Inventories	16	7,078	*7,324*
Trade and other receivables	17	7,375	*6,632*
Corporation tax asset		—	*26*
Cash at bank and in hand		21,704	*22,197*
		36,157	*36,179*
TOTAL ASSETS		115,976	*117,088*
NON-CURRENT LIABILITIES			
Retirement benefit obligations	27	–	*1,344*
Deferred tax liabilities	21	2,852	*4,001*
		2,852	*5,345*
CURRENT LIABILITIES			
Trade and other payables	19	4,376	*5,068*
Current tax liabilities		234	—
Bank overdraft		10,954	*10,134*
		15,564	*15,202*
TOTAL LIABILITIES		18,416	*20,547*
NET ASSETS		97,560	*96,541*
EQUITY			
Called up share capital	22	1,008	*1,008*
Fair value reserve	23	407	*216*
Retained earnings	23	96,145	*95,317*
TOTAL EQUITY		97,560	*96,541*

Approved by the Board on
15th November 2011

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

Company Registration No. SC025130

The notes on pages 26 to 53 form an integral part of these accounts.

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

COMPANY STATEMENT OF FINANCIAL POSITION as at 31st JULY 2011

	Notes	2011 £000	*2010 £000*
NON-CURRENT ASSETS			
Property, plant and equipment	12	613	*628*
Investments in Subsidiaries and Joint Ventures	14	733	*733*
Retirement benefit surplus	27	1,660	*—*
Deferred tax asset	21	56	*570*
		3,062	*1,931*
CURRENT ASSETS			
Inventories	16	6,780	*6,893*
Trade and other receivables	17	8,242	*9,240*
Current tax assets		942	*1,021*
Cash at bank and in hand		7,971	*5,021*
		23,935	*22,175*
TOTAL ASSETS		26,997	*24,106*
NON-CURRENT LIABILITIES			
Retirement benefit obligations	27	—	*1,344*
Deferred tax liabilities	21	496	*89*
		496	*1,433*
CURRENT LIABILITIES			
Trade and other payables	19	2,733	*2,248*
Bank overdraft		—	*—*
		2,733	*2,248*
TOTAL LIABILITIES		3,229	*3,681*
NET ASSETS		23,768	*20,425*
EQUITY			
Called up share capital	22	1,008	*1,008*
Retained earnings	23	22,760	*19,417*
TOTAL EQUITY		23,768	*20,425*

Approved by the Board on
15th November 2011

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

Company Registration No. SC025130

The notes on pages 26 to 53 form an integral part of these accounts.

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

CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31st JULY 2011

	Notes	2011 £000	*2010 £000*
CASH FLOWS FROM OPERATING ACTIVITIES	24(a)	1,951	*5,672*
Tax paid on profits		(710)	*(950)*
NET CASH FLOWS FROM OPERATING ACTIVITIES		1,241	*4,722*
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property, plant and equipment		(363)	*(304)*
Additions to investment properties		(2,900)	*(1,418)*
Sale of property, plant and equipment		54	*77*
Sale of investment properties		4,054	—
Expenditure on own work capitalised - investment properties		(2,587)	*(2,668)*
Purchase of available for sale financial assets		(178)	*(597)*
Proceeds of sale of available for sale financial assets		—	*219*
Interest received		133	*120*
Interest paid		—	—
Dividend received from Joint Venture		665	*850*
NET CASH USED IN INVESTING ACTIVITIES		(1,122)	*(3,721)*
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(1,432)	*(1,397)*
NET CASH USED IN FINANCING ACTIVITIES		(1,432)	*(1,397)*
DECREASE IN CASH, CASH EQUIVALENTS AND BANK		(1,313)	*(396)*
CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF YEAR	24(b)	12,063	*12,459*
CASH, CASH EQUIVALENTS AND BANK AT END OF YEAR	24(b)	10,750	*12,063*

The notes on pages 26 to 53 form an integral part of these accounts.

COMPANY STATEMENT OF CASH FLOWS for the year ended 31st JULY 2011

	Notes	2011 £000	*2010 £000*
CASH FLOWS FROM OPERATING ACTIVITIES	25(a)	4,316	*3,564*
Net credit for group tax payments		265	*224*
NET CASH FLOWS FROM OPERATING ACTIVITIES		4,581	*3,788*
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(236)	*(165)*
Sale of property, plant and equipment		27	*37*
Interest received		10	*14*
NET CASH USED IN INVESTING ACTIVITIES		(199)	*(114)*
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(1,432)	*(1,397)*
NET CASH USED IN FINANCING ACTIVITIES		(1,432)	*(1,397)*
INCREASE IN CASH, CASH EQUIVALENTS AND BANK		2,950	*2,277*
CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF YEAR	25(b)	5,021	*2,744*
CASH, CASH EQUIVALENTS AND BANK AT END OF YEAR	25(b)	7,971	*5,021*

The notes on pages 26 to 53 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, incorporated in the United Kingdom 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 2006 applicable to companies reporting under IFRS.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE YEAR TO 31ST JULY 2011

The following new Standards, Amendments to Standards and Interpretations which were mandatory for the Company and Group for the year to 31st July 2011 were:

- IFRS 1 (revised) 'First time adoption' relating to oil and gas assets.
- IFRS 1 (revised) 'First time adoption' relating to comparative IFRS 7 disclosures.
- IFRS 2 (amended) 'Share-based payment' relating to Group cash-settled share-based payment transactions.
- IAS 32 (amended) 'Financial Instruments: Presentation' relating to classification of rights issues.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments'.

Also, there have been a number of changes to Standards resulting from the International Accounting Standard Board's 2009 and 2010 Annual Improvements programme, none of the amendments had a material impact on the Company or Group.

NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The following new Standards, Amendments to Standards and Interpretations have been issued by the International Accounting Standard Board but which are effective for the Company and Group after the date of these financial statements, and have not been adopted earlier:

- IFRS 1 (amended) 'First time adoption' relating to certain exceptions with date of transition to IFRS.
- IFRS 1 (amended) 'First time adoption' relating to entities ceasing due to hyperinflation.
- IFRS 7 (amended) 'Financial Instruments: Disclosures' relating to transfer of financial assets.
- IFRS 9 'Financial Instruments: Classification and Measurement' resulting from IASB's work on replacing IAS 39.
- IFRS 10 'Consolidated Financial Statements'.
- IFRS 11 'Joint Arrangements'.
- IFRS 12 'Disclosure of Interests in Other Entities'.
- IFRS 13 'Fair Value Measurements'.
- IAS 1 (amended) 'Presentation of Financial Statements' relating to revision in presentation of other comprehensive income.
- IAS 12 (amended) 'Income Taxes' relating to recovery of underlying assets.
- IAS 19 (amended) 'Employee Benefits' relating to post-employment benefits and termination benefits.
- IAS 24 (revised) 'Related Party Disclosures' relating to revised definition of related parties.
- IFRIC 14 'IAS 19 The Limit of a Defined Benefit Asset, Minimum Funding Requirement and their Interaction' relating to voluntary prepaid contributions.

The Directors are to fully consider the implications of these Standards, Amendments to Standards and Interpretations and their relevance and impact on the financial statements of the Company or Group. The Directors anticipate that there will be no material effect on the financial statements.

1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd.)

BASIS OF PREPARATION

The accounts have been prepared under the historical cost convention except where the measurement of balances at fair value is required as noted below for investment properties and available for sale financial assets.

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.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

INVESTMENT PROPERTIES

Investment properties are revalued annually by the Group Directors in accordance with the RICS Valuation Standards. The Directors use yields which they consider to be appropriate to the circumstances and nature of the Group's investment property portfolio. The Directors consider that any variances in yields would not result in significant changes in revaluation movements.

LONG-TERM CONTRACT PROVISIONS

Judgement is required in the area of provisions for losses on long-term contracts. The Directors consider adequate, but not excessive provisions have been made in this respect.

RETIREMENT BENEFIT OBLIGATION

The valuation of the retirement benefit obligation is dependent upon a series of assumptions, mainly discount rates, mortality rates, investment returns, salary inflation and the rate of pension increases, which are determined after taking expert advice from the Group's Actuary. These are set out in note 27 to the financial statements.

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of J. Smart & Co. (Contractors) PLC and all of 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 Parent Company as provided by section 408 of the Companies Act 2006.

1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd.)

CAPITAL MANAGEMENT

Group objectives in managing capital are to safeguard the interests of the Company to operate as a net debt-free going concern, of its employees to maintain wherever possible security of employment, remuneration and retirement provisions and of its shareholders to maintain continuity of dividends and stability of share price.

The capital structure of the Group consists of issued share capital, reserves and retained earnings represented predominantly by investment properties, financial investments and cash.

These assets are purchased, managed and maintained by the Group's management and employees, advised where appropriate by independent outside professionals. Refer to pages 8 and 9 of this report for details of relevant risk factors and management measures.

The Group has sufficient cash reserves and readily realisable assets available to meet its foreseeable commitments.

INVESTMENT IN JOINT VENTURES

Joint Ventures are those entities over 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.

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 Group Directors in accordance with the RICS Valuation Standards.

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 year 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 now accounted for under IAS 40: Investment Property following the May 2008 amendments to IFRSs. Properties under construction previously accounted for under IAS 16: Property, Plant and Equipment have been transferred to investment properties as at 1st August 2009. Properties under construction continue to be measured at cost and on completion of construction will be measured at fair value in accordance with IAS 40.

1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd.)

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.

DEPRECIATION

Depreciation is provided on all items of property, plant and equipment, other than investment properties 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 and machinery	-	25% to 33 ⅓% reducing balance
Office furniture and fittings	-	20% to 33 ⅓% reducing balance
Motor vehicles	-	33 ⅓% reducing balance

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 trade and other payables as payments on account.

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.

1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd.)

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 year 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 Consolidated Statement of Comprehensive Income.

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.

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 Property, 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.

1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (contd.)

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. The measurement and stage of completion of long-term contracts are based on external valuations issued by the third party surveyors.

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, insurance receivable and other recoveries, and is disclosed as other operating income in the Income Statement.

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 term. When the unit is re-let all deferred amounts are released to revenue at that point.

Revenue from private house sales under shared ownership scheme are accounted for as instalments are received.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position 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.

AVAILABLE FOR SALE FINANCIAL ASSETS

Financial assets available 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 in hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

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 year in which they are approved by the Company's shareholders. Interim Dividends are recognised when they are paid.

2. SEGMENTAL INFORMATION

IFRS 8: Operating Segments requires operating segments to be indentified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision maker to allow the allocation of resources to the segments and to assess their performance. The chief operating decision maker has been identified as the Board of Directors.

All revenue arises from activities within the UK and therefore the Board of Directors does not consider the business from a geographical perspective. The operating segments are based on activity and performance of an operating segment is based on a measure of operating profit.

	External Revenue	Internal Revenue	Total Revenue	Operating Profit 2011	Operating Profit *2010*
	£000	£000	£000	£000	*£000*
2011					
Construction activities	17,001	2,587	19,588	51	—
Investment activities	5,523	—	5,523	39	—
	22,524	2,587	25,111	90	—
2010					
Construction activities	*21,022*	*2,668*	*23,690*	—	*679*
Investment activities	*5,521*	—	*5,521*	—	*3,108*
	26,543	*2,668*	*29,211*	—	*3,787*

	2011	2010
OPERATING PROFIT	90	*3,787*
Share of results of Joint Ventures	42	*201*
Finance and investment income	524	*304*
Finance and investment costs	—	*(308)*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	656	*3,984*

Internal revenue relates to own work capitalised, all other internal transactions are eliminated on consolidation. The Company had sales under construction activities from two customers amounting to £8,606,000.

OTHER SEGMENTAL INFORMATION

	Non-Current Asset Additions	Depreciation	Segment Assets	Segment Liabilities
	£000	£000	£000	£000
2011				
Construction activities	363	426	26,796	4,267
Investment activities	5,487	—	89,282	15,263
Joint Ventures	—	—	1,012	—
			117,090	19,530
Allocation of corporation tax creditor			(1,114)	(1,114)
			115,976	18,416
2010				
Construction activities	*304*	*456*	*22,940*	*4,513*
Investment activities	*4,086*	—	*93,721*	*17,242*
Joint Ventures	—	—	*1,635*	—
			118,296	*21,755*
Allocation of corporation tax debtor			*(1,208)*	*(1,208)*
			117,088	*20,547*

3. OTHER OPERATING INCOME

	2011 £000	*2010 £000*
Rental income	5,334	*5,215*
Less: Joint Ventures' income	(312)	*(292)*
	5,022	*4,923*
Service charges and insurance receivable	501	*598*
	5,523	*5,521*
Direct property costs	(2,060)	*(1,797)*
Net rental income	3,463	*3,724*

Direct property costs included £569,000 (2010, £330,000) in respect of investment properties that did not generate rental income in the year.

4. STAFF COSTS AND DIRECTORS' REMUNERATION

Staff costs during the year amounted to:

Wages, salaries and short term benefits	7,088	*8,622*
Social security costs	665	*785*
Post-employment benefits	836	*842*
	8,589	*10,249*

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

	No.	*No.*
Construction and related services	187	*244*
Office and management.	26	*24*
	213	*268*

Directors' remuneration:

	£000	*£000*
– Salaries and short term benefits	635	*503*
– Post-employment benefits	76	*73*
– Fees	—	—
	711	*576*

All of the Directors except J. M. Smart are members of the Group's defined benefit pension scheme.

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	9,696	*11,707*
Staff costs (per note 4)	8,589	*10,249*
Hire of plant and machinery	451	*571*
Depreciation of owned assets	426	*456*
Profit on disposal of property, plant and equipment	(16)	*(37)*
Auditors' remuneration and expenses – audit services	119	*117*

The auditors' fees for the Parent Company are £51,000 (2010, £51,000).

6. INCOME FROM INVESTMENTS

	2011 £000	*2010 £000*
Available for sale financial assets	140	*89*

7. FINANCE INCOME AND FINANCE COSTS

		2011 £000	*2010 £000*
Receivable:	Interest on short term deposits	123	*106*
	Other interest	10	*14*
	Pension scheme	251	*—*
		384	*120*
Payable:	Other interest	—	*—*
	Pension scheme	—	*(308)*
		—	*(308)*

8. TAXATION

	2011 £000	*2010 £000*
UK Corporation Tax		
Current tax on income for the year	991	*815*
Corporation tax over provided in previous years	(20)	*(53)*
	971	*762*
Deferred taxation (note 21)	(1,329)	*(512)*
	(358)	*250*
Current Tax Reconciliation		
Profit on ordinary activities before tax	656	*3,984*
Less: Share of profits of Joint Ventures	(42)	*(201)*
	614	*3,783*
Current tax at 27.33% (2010, 28%)	168	*1,059*
Effects of:		
Expenses not deductible for tax purposes	5	*4*
Depreciation in excess of capital allowances	32	*—*
Non taxable income	(38)	*(114)*
IBA adjustment	(214)	*(456)*
Effect of change on tax rate	(291)	*(190)*
Adjustments to tax charge in respect of prior years	(20)	*(53)*
	(358)	*250*

In addition to amounts charged to the Income Statement, a deferred tax credit of £601,000 (2010, £767,000) relating to actuarial gains on defined benefit pension scheme has been recognised directly to Equity.

Also a deferred tax charge of £45,000 (2010, £42,000) relating to the movement in fair value of available for sale financial assets has been recognised directly to Equity.

There are no income tax consequences attached to dividends paid or proposed by the Company to its shareholders.

9. PROFIT FOR THE FINANCIAL YEAR

	2011 £000	*2010 £000*
Dealt with in the accounts of the Parent Company	3,529	*1,257*
Retained by Subsidiary and Joint Venture Companies	(2,515)	*2,477*
	1,014	*3,734*

10. DIVIDENDS

	2011 £000	*2010 £000*
2009 Final Dividend of 9.35p per share	—	*943*
2010 Interim Dividend of 4.50p per share	—	*454*
2010 Final Dividend of 9.60p per share	968	—
2011 Interim Dividend of 4.60p per share	464	—
	1,432	*1,397*
Proposed 2011 Final Dividend of 9.70p per share (2010, 9.60p)	978	*968*

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.

11. EARNINGS PER SHARE

	Profit attributable to Equity shareholders £000	Basic Earnings per share
Year to 31st July 2011	1,014	10.06p
Year to 31st July 2010	*3,734*	*37.04p*

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

There is no difference between basic and diluted earnings per share.

12. PROPERTY, PLANT AND EQUIPMENT

(a) GROUP

	Land and buildings Freehold £000	Investment properties under construction £000	Plant, equipment and vehicles £000	Total £000
Cost:				
At 1st August 2010	739	—	5,438	6,177
Additions	—	—	363	363
Disposals	—	—	(349)	(349)
At 31st July 2011	739	—	5,452	6,191
Depreciation:				
At 1st August 2010	446	—	4,340	4,786
Provided during year	16	—	410	426
Disposals	—	—	(311)	(311)
At 31st July 2011	462	—	4,439	4,901
Net book value:				
At 31st July 2011	277	—	1,013	1,290
Cost:				
At 1st August 2009	739	5,132	5,835	11,706
Transfer to Investment properties	—	(5,132)	—	(5,132)
Additions	—	—	304	304
Disposals	—	—	(701)	(701)
At 31st July 2010	739	—	5,438	6,177
Depreciation:				
At 1st August 2009	430	—	4,561	4,991
Provided during year	16	—	440	456
Disposals	—	—	(661)	(661)
At 31st July 2010	446	—	4,340	4,786
Net book value:				
At 31st July 2010	293	—	1,098	1,391

As referred to in the Report of the Directors, the Group's non-investment heritable properties were revalued at 31st July 2010. This revaluation has not been incorporated into these accounts.

12. PROPERTY, PLANT AND EQUIPMENT (contd.)

(b) COMPANY

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost:			
At 1st August 2010	179	2,404	2,583
Additions	—	236	236
Disposals	—	(124)	(124)
At 31st July 2011	179	2,516	2,695
Depreciation:			
At 1st August 2010	89	1,866	1,955
Provided during year	3	228	231
Disposals	—	(104)	(104)
At 31st July 2011	92	1,990	2,082
Net book value:			
At 31st July 2011	87	526	613
Cost:			
At 1st August 2009	179	2,509	2,688
Additions	—	163	163
Group transfers - addition	—	14	14
Group transfers - disposal	—	(27)	(27)
Disposals	—	(255)	(255)
At 31st July 2010	179	2,404	2,583
Depreciation:			
At 1st August 2009	86	1,864	1,950
Provided during year	3	235	238
Group transfers - addition	—	12	12
Group transfers - disposal	—	(19)	(19)
Disposals	—	(226)	(226)
At 31st July 2010	89	1,866	1,955
Net book value:			
At 31st July 2010	90	538	628

As referred to in the Report of the Directors, the Company's non-investment heritable properties were revalued at 31st July 2010. This revaluation has not been incorporated into these accounts.

13. INVESTMENT PROPERTIES

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Total £000
Cost or valuation:			
At 1st August 2010	67,731	6,829	74,560
Additions	4,456	1,031	5,487
Disposals	(2,125)	—	(2,125)
Transfers	(42)	42	—
Deficit on valuation	(5,321)	(15)	(5,336)
At 31st July 2011	64,699	7,887	72,586
Cost or valuation:			
At 1st August 2009	57,853	8,093	65,946
Additions	4,086	—	4,086
Transfer from Property, plant and equipment	5,132	—	5,132
Transfers	1,155	(1,155)	—
Deficit on valuation	(495)	(109)	(604)
At 31st July 2010	67,731	6,829	74,560

The Group's completed investment properties were valued on the basis of market value on 31st July 2011 in accordance with the RICS Valuation Standards by J. M. Smart, MRICS and D. W. Smart, MRICS both of whom are Directors of the Parent Company. Open 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 Property, 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.

14. INVESTMENTS

	Group 2011 £000	*Group 2010 £000*	Company 2011 £000	*Company 2010 £000*
Shares in Subsidiaries at Cost	—	*—*	708	*708*
Joint Ventures	1,012	*1,635*	25	*25*
	1,012	*1,635*	733	*733*

(a) JOINT VENTURES

	Group 2011 £000	Group 2010 £000
Share of Assets:		
Share of Non-Current Assets	3,241	*3,241*
Share of Current Assets	1,988	*2,317*
	5,229	*5,558*
Share of Liabilities:		
Share of Non-Current Liabilities	—	*—*
Share of Current Liabilities	4,217	*3,923*
	4,217	*3,923*
Share of Net Assets	1,012	*1,635*
Turnover	—	*—*
Cost of Sales	(178)	*—*
Net rental incomes	312	*292*
Net operating expenses	(35)	*(31)*
Operating profit	99	*261*
Finance income	1	*2*
Finance costs	(4)	*(5)*
Profit before tax	96	*258*
Taxation	(54)	*(57)*
Profit after tax	42	*201*

The Group's share of retained profits in the Joint Ventures at 31st July 2011 amounted to £987,000 (2010, £1,610,000).

14. INVESTMENTS (contd.)

(a) JOINT VENTURES (contd.)

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

Name of Joint Venture	*Jointly managed with*	*Issued Share capital*	*Issued shares held by J. Smart & Co. (Contractors) PLC*
Edinburgh Industrial Estates Limited	EDI (Industrial) Limited	50,000 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	25,000 B Shares
Prestonfield Development Company Limited	Westerwood 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 Share
Duff Street Limited	Kiltane Developments Limited	100 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	50 A Shares
Invertiel Developments Limited	Macdonald Estates PLC	100 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	50 A Shares
Primrose Development Company Limited	Macdonald Estates PLC	100 ordinary £1 shares split equally into A & B shares and ranking equally in all respects	50 A Shares

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

As at 31st July 2011 an application to strike off Primrose Development Company Limited had been submitted to the Registrar of Companies and the Company was formally dissolved on 11th November 2011. This company had not traded in this or previous years.

14. INVESTMENTS (contd.)

(b) SUBSIDIARIES

At 31st July 2011 the Company held the entire issued share capital of the following companies, all of which are registered in and operate in Scotland:

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

15. AVAILABLE FOR SALE FINANCIAL ASSETS

	Group	
	2011	*2010*
	£000	*£000*
Listed investments	3,018	*2,604*

Fair value movement on shares held at 31st July 2011 before tax amounted to £236,000 (2010, £255,000).

16. INVENTORIES

	Group		*Company*	
	2011	*2010*	2011	*2010*
	£000	*£000*	£000	*£000*
Long-term contract balances	2,998	*2,338*	2,874	*2,071*
Land held for development	3,880	*4,797*	3,880	*4,797*
Raw materials and consumables	126	*107*	26	*25*
Finished goods	74	*82*	—	—
	7,078	*7,324*	6,780	*6,893*

CONTRACTS IN PROGRESS AT THE BALANCE SHEET DATE:

Aggregate amount of costs incurred and recognised profits less recognised losses to date	5,649	*8,633*	5,588	*7,554*
Advances received	(5,691)	*(8,402)*	(5,256)	*(7,556)*
Net value of contracts in progress	(42)	*231*	332	*(2)*

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2011	*2010*	2011	*2010*
	£000	*£000*	£000	*£000*
CURRENT ASSETS:				
Trade debtors	1,949	*1,639*	565	*524*
Amounts owed by Subsidiaries	—	—	2,624	*3,890*
Other receivables	117	*87*	4	*72*
Prepayments and accrued income	504	*470*	432	*364*
Amounts recoverable on contracts	444	*375*	256	*329*
Loans to Joint Venture companies	4,361	*4,061*	4,361	*4,061*
	7,375	*6,632*	8,242	*9,240*

The loans to Joint Venture companies (note 14(a)) are repayable on demand. The Group has charged interest on one loan to a Joint Venture Company at a rate of 1% above the Group's banker's base rate.

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

	Group 2011 £000	*Group 2010 £000*	Company 2011 £000	*Company 2010 £000*
CURRENT LIABILITIES:				
Payments received on account	123	—	123	—
Trade creditors	1,414	*1,139*	1,081	*846*
Amounts owed to Subsidiaries	—	—	37	*79*
Other taxes and social security costs	342	*215*	139	*135*
Other creditors and accruals	2,497	*3,714*	1,353	*1,188*
	4,376	*5,068*	2,733	*2,248*

Certain members of the Group have granted Standard Securities over certain investment properties. The Directors consider that there are no material restrictions which affect the realisability of these properties.

20. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise of bank balances and cash, available for sale financial assets, 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.

21. DEFERRED TAXATION

DEFERRED TAX ASSETS

GROUP

	Retirement Benefit Obligations £000	Fair Value Reserve £000	Other £000	Total £000
As at 1st August 2009	1,251	10	517	1,778
Charged to Income Statement	(121)	—	(161)	(282)
Charged to Equity	(767)	(10)	—	(777)
As at 31st July 2010	363	—	356	719
Credited/(Charged) to Income Statement	1,519	—	(103)	1,416
Charged to Equity	(1,882)	—	—	(1,882)
As at 31st July 2011	—	—	253	253

COMPANY

	Retirement Benefit Obligations £000	Other £000	Total £000
As at 1st August 2009	1,251	364	1,615
Charged to Income Statement	(121)	(157)	(278)
Charged to Equity	(767)	—	(767)
As at 31st July 2010	363	207	570
Credited/(Charged) to Income Statement	1,519	(151)	1,368
Charged to Equity	(1,882)	—	(1,882)
As at 31st July 2011	—	56	56

21. DEFERRED TAXATION (contd.)

DEFERRED TAX LIABILITIES

GROUP

	Accelerated Capital Allowances £000	Fair Value Reserve £000	Valuation Surplus on Investment Properties £000	Retirement Benefit Obligations £000	Other Timing Differences £000	Total £000
At 1st August 2009	1,641	—	2,986	—	136	4,763
Charged to Equity	—	32	—	—	—	32
Credited to Income Statement	(92)	—	(686)	—	(16)	(794)
At 31st July 2010	1,549	32	2,300	—	120	4,001
Charged/(Credited) to Equity	—	45	—	(1,281)	—	(1,236)
(Credited)/Charged to Income Statement	(19)	—	(1,580)	1,696	(10)	87
At 31st July 2011	1,530	77	720	415	110	2,852

COMPANY

	Retirement Benefit Obligations £000	Other Timing Differences £000	Total £000
At 1st August 2009	–	99	99
Credited to Income Statement	–	(10)	(10)
At 31st July 2010.	–	89	89
Credited to Equity	(1,281)	–	(1,281)
Charged/(Credited) to Income Statement	1,696	(8)	1,688
At 31st July 2011.	415	81	496

22. SHARE CAPITAL

	2011 £000	*2010 £000*
Authorised		
12,000,000 (2010, 12,000,000) ordinary shares of 10p each	1,200	*1,200*
Allotted called up and fully paid		
10,082,000 (2010, 10,082,000) ordinary shares of 10p each	1,008	*1,008*

All shareholders of ordinary shares have a right to receive dividends paid by the Company in accordance with their shareholding. Each shareholder has the right to attend and vote at a General Meeting, each share attracts one vote. There are no restrictions on the distribution of dividends or repayment of capital.

23. STATEMENT OF CHANGES IN EQUITY

GROUP

	Share Capital £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
At 1st August 2009	1,008	41	91,258	92,307
Total recognised Income and Expense	—	—	5,456	5,456
Fair value adjustment	—	217	—	217
Tax on fair value adjustment	—	(42)	—	(42)
Dividends	—	—	(1,397)	(1,397)
At 31st July 2010	1,008	216	95,317	96,541
Total recognised Income and Expense	—	—	2,260	2,260
Fair value adjustment	—	236	—	236
Tax on fair value adjustment	—	(45)	—	(45)
Dividends	—	—	(1,432)	(1,432)
At 31st July 2011	1,008	407	96,145	97,560

COMPANY

	Share Capital £000	Retained Earnings £000	Total £000
At 1st August 2009	1,008	17,835	18,843
Total recognised Income and Expense	—	2,979	2,979
Dividends.	—	(1,397)	(1,397)
At 31st July 2010	1,008	19,417	20,425
Total recognised Income and Expense	—	4,775	4,775
Dividends.	—	(1,432)	(1,432)
At 31st July 2011	1,008	22,760	23,768

	Notes	
Profit for financial year	9	3,529
Actuarial gain on defined benefit pension scheme	27	1,847
Deferred taxation on actuarial gain	21	(601)
Total recognised Income and Expense		4,775

24. NOTES TO THE STATEMENT OF CASH FLOWS

GROUP

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

	2011 £000	*2010* £000
Profit before tax	656	*3,984*
Share of profits from Joint Ventures	(42)	*(201)*
Depreciation	426	*456*
Unrealised valuation deficit on investment properties	5,336	*604*
Profit on sale of property, plant and equipment	(16)	*(37)*
Profit on sale of investment properties	(1,929)	—
Profit on sale of available for sale financial assets	—	*(95)*
Change in retirement benefits	(1,157)	*(635)*
Interest received	(133)	*(120)*
Interest paid	—	—
Change in inventories	246	*1,152*
Change in receivables	(743)	*369*
Change in payables	(693)	*195*
NET CASH GENERATED FROM OPERATIONS	1,951	*5,672*

(b) CASH AND CASH EQUIVALENTS FOR STATEMENT OF CASH FLOWS

	2011	*2010*
Cash and cash equivalents	21,704	*22,197*
Bank overdraft	(10,954)	*(10,134)*
Net position	10,750	*12,063*

(c) ANALYSIS OF NET FUNDS

	At 1st August 2010 £000	Cash Flow £000	Other £000	At 31st July 2011 £000
Cash and cash equivalents	22,197	(493)	—	21,704
Bank overdraft	(10,134)	(820)	—	(10,954)
Net funds	12,063	(1,313)	—	10,750

25. NOTES TO THE STATEMENT OF CASH FLOWS

COMPANY

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

	2011 £000	*2010 £000*
Profit before tax	3,662	*1,333*
Depreciation	231	*238*
Profit on sale of property, plant and equipment	(7)	—
Change in retirement benefits	(1,157)	*(635)*
Interest received	(10)	*(14)*
Change in inventories	113	*1,289*
Change in receivables	998	*3,056*
Change in payables	486	*(1,703)*
NET CASH GENERATED FROM OPERATIONS	4,316	*3,564*

(b) CASH AND CASH EQUIVALENTS FOR STATEMENT OF CASH FLOWS

	2011 £000	*2010 £000*
Cash and cash equivalents	7,971	*5,021*
Bank overdraft	—	—
	7,971	*5,021*

(c) ANALYSIS OF NET FUNDS

	At 1st August 2010 £000	Cash Flow £000	Other £000	At 31st July 2011 £000
Cash and cash equivalents	5,021	2,950	—	7,971
Bank overdraft	—	—	—	—
	5,021	2,950	—	7,971

26. FUTURE CAPITAL EXPENDITURE

There were no amounts of Capital Expenditure relating to Property, plant and equipment contracted for at 31st July 2011 or 31st July 2010.

The Group's share of Capital Expenditure contracted for by its Joint Ventures as at 31st July 2011 amounted to £nil (2010, £nil).

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 seperately from the assets of the Group and are administered and managed professionally. The last completed triennial actuarial valuation of the scheme was made at 1st November 2009 by an independent qualified Actuary. A Statement of Funding Principles has been agreed with the scheme trustees and based on these principles the technical provisions at this valuation reveals a deficit of £3,400,000, representing a funding level of 86.1%. It has also been agreed with the scheme trustees that the employer contributions to the scheme will continue at the level of 63.6% of pensionable salaries and employee contributions at 3%. The total net pension charge for the year was £654,000 (2010, £690,000). 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 2011.

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

	2011	*2010*	*2009*
Valuation method	Projected Unit	*Projected Unit*	*Projected Unit*
Discount rate	5.3%	*5.4%*	*6.0%*
Inflation rate - Retail price index . . .	3.5%	*3.4%*	*3.8%*
Inflation rate - Consumer price index . . .	3.0%	*—*	*—*
Salary increases	4.0%	*4.9%*	*5.3%*
Pension increases	2.4%–3.5%	*2.4%–3.4%*	*2.4%–3.8%*

The mortality assumptions imply the following expectations of years of life from age 65:

	2011	*2010*	*2009*
Man currently aged 65	22.1	*22.6*	*22.5*
Woman currently aged 65	24.2	*25.5*	*25.4*
Man currently aged 45	23.5	*24.6*	*24.5*
Woman currently aged 45	25.8	*27.4*	*27.3*

The expected rates of return on scheme assets are determined as the aggregate weighted return for the various classes of assets held by the scheme.

The rates of return for each class were determined as follows:
- equity returns are based on yields on Gilts Index plus a margin to allow for expected outperformance;
- bonds returns are based on yields and Government and corporate debt as appropriate to the Scheme's holdings in these instruments; and
- cash returns are based on short term returns on cash deposits based on current base rates.

As at 31st July 2011 the actual return on plan assets amounted to £2,802,000 (2010, £2,367,000).

27. RETIREMENT BENEFIT OBLIGATIONS (contd.)

The assets of the scheme are invested in funds managed by Newton Investment Management Limited, in direct investments via Speirs & Jeffery, in insurance policies with companies belonging to the AEGON UK Group and in bank accounts. The assets do not include any directly owned ordinary shares issued by J Smart & Co (Contractors) PLC. The analysis of the underlying investments in these policies, the expected rates of returns and reconciliation of scheme assets and liabilities to the Balance Sheet were:

	Long term rate of return expected at 31st July 2011	Value at 31st July 2011 £000	*Long term rate of return expected at 31st July 2010*	*Value at 31st July 2010 £000*	*Long term rate of return expected at 31st July 2009*	*Value at 31st July 2009 £000*
Equities	8.3%	19,706	*8.6%*	*16,386*	*7.9%*	*12,329*
Bonds	5.3%	1,726	*5.4%*	*2,040*	*6.0%*	*2,177*
Gilts	3.9%	1,006	*4.2%*	*517*	—	—
Other	0.5%	2,172	*0.5%*	*2,689*	*0.5%*	*4,015*
Market value of assets		24,610		*21,632*		*18,521*
Present value of scheme liabilities		(22,950)		*(22,976)*		*(22,989)*
Scheme surplus/(deficit)		1,660		*(1,344)*		*(4,468)*
Related deferred tax		(415)		*363*		*1,251*
Net pension surplus/(liability)		1,245		*(981)*		*(3,217)*

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

The following amounts are incorporated into the financial statements:

	2011 £000	*2010 £000*
Amounts included in operating profit:		
Current service cost	(577)	*(620)*
Past service cost	—	—
Total included within operating profit	(577)	*(620)*
Amounts included in finance income/(cost):		
Expected return on assets	1,487	*1,083*
Interest cost	(1,236)	*(1,391)*
Total included as net finance income/(cost)	251	*(308)*

27. RETIREMENT BENEFIT OBLIGATIONS (contd.)

Amounts included in Consolidated Statement of Comprehensive Income:	2011 £000	*2010 £000*
Actual return less assumed return on assets	1,315	*1,284*
Experience gains and losses arising on scheme liabilities	(480)	*1,736*
Changes in assumptions underlying the valuation of liabilities	1,012	*(531)*
Total actuarial gain	1,847	*2,489*

Changes in the present value of the defined benefit obligations are as follows:

Present value of obligations at beginning of year	22,976	*22,989*
Current service cost	577	*620*
Interest cost	1,236	*1,391*
Charges paid	(32)	*(32)*
Benefit payments	(1,275)	*(787)*
Actuarial gain	(532)	*(1,205)*
Present value of obligations at end of year	22,950	*22,976*

Changes in the fair value of plan assets are as follows:

Fair value of plan assets at beginning of year	21,632	*18,521*
Employer contributions	1,416	*1,493*
Employee contributions	67	*70*
Benefits paid	(1,275)	*(787)*
Charges paid	(32)	*(32)*
Expected return on plan assets	1,487	*1,083*
Actuarial gain	1,315	*1,284*
Fair value of plan assets at end of year	24,610	*21,632*

Analysis of movement in scheme surplus/(deficit):

As at 1st August 2010	(1,344)	*(4,468)*
Current service cost	(577)	*(620)*
Past service cost	—	*—*
Contributions	1,483	*1,563*
Other finance income/(cost)	251	*(308)*
Actuarial gain	1,847	*2,489*
As at 31st July 2011	1,660	*(1,344)*

Cumulative actuarial gains and losses recognised in Equity:

At beginning of year	(501)	*(2,990)*
Net actuarial gain recognised in year	1,847	*2,489*
Cumulative gain/(loss)	1,346	*(501)*

27. RETIREMENT BENEFIT OBLIGATIONS (contd.)

History of experience gains and losses:	2011	*2010*	*2009*	*2008*	*2007*
Difference between actual return and assumed return on assets					
Amount (£000)	1,315	*1,284*	*(1,086)*	*(1,193)*	*969*
Percentage of market value of scheme assets	5.3%	*5.9%*	*5.9%*	*6.9%*	*6.7%*
Experience gains and losses arising on scheme liabilities					
Amount (£000)	(480)	*1,736*	*(166)*	*(140)*	*(290)*
Percentage of market value of scheme liabilities	2.1%	*7.6%*	*0.7%*	*0.8%*	*1.5%*
Total amounts included in Consolidated Statement of Comprehensive Income					
Amount (£000)	1,847	*2,489*	*(4,553)*	*1,381*	*2,755*
Percentage of market value of scheme liabilities	8.1%	*10.8%*	*19.8%*	*7.5%*	*14.0%*

The contribution expected to be paid by the Group during the financial year ending 31st July 2012 amounts to £1,317,000.

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 AEGON UK. The net contribution to the plan for the year was £108,000 (2010, £114,000).

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.

29. OPERATING LEASE ARRANGEMENTS

GROUP – AS LESSEE

Future minimum lease payments payable under non-cancellable operating leases:

	2011 £000	*2010 £000*
Within one year	68	*68*
In two – five years exclusively	227	*194*
After five years	93	*109*
	388	*371*

GROUP – AS LESSOR

Gross property rental income earned in the year amounted to £5,334,000 (2010, £5,215,000). At the Balance Sheet date, the Group had contracted with its tenants for the following future minimum lease payments:

	2011	*2010*
Within one year	4,735	*4,749*
In two – five years exclusively	14,147	*14,238*
After five years	8,653	*10,573*
	27,535	*29,560*

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:

	2011 £000	*2010 £000*	2011 £000	*2010 £000*
SUBSIDIARY	Sale of goods and services		Purchase of goods and services	
McGowan & Co. (Contractors) Limited	117	*92*	636	*1,292*
Cramond Real Estate Company Limited	—	—	—	—
Thomas Menzies (Builders) Limited	67	*120*	30	*61*
Concrete Products (Kirkcaldy) Limited	38	*48*	7	*26*
C. & W. Assets Limited	977	*902*	—	—
SUBSIDIARY	Amounts owed by Subsidiaries		Amounts owed to Subsidiaries	
McGowan & Co. (Contractors) Limited	—	—	37	*75*
Cramond Real Estate Company Limited	—	*155*	—	—
Thomas Menzies (Builders) Limited	1	—	—	*4*
Concrete Products (Kirkcaldy) Limited	—	*1*	—	—
C. & W. Assets Limited	2,623	*3,734*	—	—

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

(b) JOINT VENTURE COMPANIES

During the year to 31st July 2011, the Group carried out the following transactions with Joint Ventures:

Name of Joint Venture	Nature of transaction	Amount £000	Amount owed by Joint Venture Company £000
Prestonfield Development Company Limited	Loan	340	2,975
	Dividend Received	665	
Northrigg Limited	Loan	—	176
Duff Street Limited	Loan	(60)	1,100
	Loan interest	8	4
	Construction Costs	40	
Invertiel Developments Limited	Loan	20	110

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

30. RELATED PARTY TRANSACTIONS (contd.)

(c) DIRECTORS' INTEREST IN CONTRACTS

D. W. Smart and Subsidiary Company Director J. R. Smart, throughout the year had material beneficial interests in Plean Precast Limited, Sterling Precast Limited and The Roofing and Building Supply Co. Limited, which have interests in continuing contracts for the purchase of materials and services from and for the sale of materials and services to the Group. All transactions were at normal commercial rates.

During the year to 31st July 2011 the Group purchased materials amounting to £251,000 (2010 - £486,000) from these companies and sold materials and services amounting to £42,000 (2010 - £25,000) to these companies.

As at 31st July 2011 the Group owed these companies £31,000 (2010 - £10,000) and was owed £15,000 (2010 - £1,000).

(d) DIRECTORS' REMUNERATION

The remuneration of the Directors, who are the only key management of 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.

(e) DIRECTORS' DIVIDENDS

During the year the Directors received dividends from the Company as follows:

	£000
J. M. Smart	34
K. H. Hastings	6
A. D. McClure	8
L. E. Glenday	6
D. W. Smart	109

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