Stewart Milne Group Limited

Directors' report and revised financial statements

Registered number 57709

30 June 2008

Contents

Directors and officers

Directors:	*Executive* S Milne, Chairman, CBE GFW Allison, CA JC Irvine, CA J Slater-Fearn *Non-executive* GMF Gillon, FRICS (resigned 30 June 2009) HJ Mackay, C Eng, MI Struct E
Secretary:	S Oag, CA
Registered Office:	Peregrine House Westhill Business Park Westhill Aberdeen AB32 6JQ
Auditors:	KPMG LLP Chartered Accountants Aberdeen AB10 1JB
Bankers:	Bank of Scotland

Chairman's statement

The year to 30 June 2008 has been impacted by the significant downturn in housebuilding activity that occurred during the year following the "credit crunch".

The Group achieved a turnover of £420m and a profit before tax of £25m.

During the year the Group continued with its growth plans and in September 2007 acquired a Scottish construction and housebuilding group. This was a vital strategic acquisition which gave us access to a strong landbank and experienced workforce in order to support and consolidate our position in the Scottish housebuilding and construction sectors.

In addition we started the process of building management teams in order to support anticipated growth across the business in line with our Corporate Plan. However the reduced activity level experienced in the housebuilding sector reduced forecast sales significantly and our expansion plans have been curtailed for the time being as we focus on maximising the performance of our existing businesses.

As a result of the market conditions, we have had to restructure our business in order to ensure our cost base is aligned with anticipated activity levels which, regrettably has resulted in a redundancy programme being carried out in August 2008.

This necessary action is aimed at ensuring that we are sized appropriately both against activity levels and to allow us to capitalise on opportunities when the market improves.

The Group remains fully committed to achieving and maintaining high standards of Health & Safety for its employees and supply chain and creating a safe working environment at all times.

We have engaged in extensive training programmes throughout 2008 and ensured standard procedures are operating across the Group.

Homes

The existing market conditions, principally caused by a lack of confidence and a lack of liquidity in the financial markets, have impacted on the results for the year. While we welcome the measures that have been taken by the Government to date, further action is urgently required to improve liquidity and lift consumer confidence.

Our North Scotland division generated turnover of £89m, a decline of 29% from the previous year reflecting a reduction in units sold.

Our Central Scotland housebuilding division generated turnover of £107m, a reduction of 13% on the previous year reflecting a reduction in units sold.

Our North West England Division generated turnover of £32m in its first full year of contribution since its acquisition. Significant progress has been made in introducing developments which strengthens our position in that area.

Landbank

Our strong landbank has a good balance between strategic and operational sites allowing flexibility in our approach as to where to develop in the current difficult market conditions.

We currently have around 4,000 consented plots under control which equates to 4 years supply at 2009 projected levels of activity, with a further 8,500 plots under conditional contracts.

Timber Systems

Our Timber Systems business generated turnover of £68m, a 5% increase on the previous year. There are stronger levels of activity in the social and commercial sectors which are anticipated to provide opportunities. However, the business in the private sector is suffering in line with our Homes business.

Our continued investment in Product Development is specifically targeting areas relating to the Government's environmental agenda and we are developing solutions to support the deliverability of sustainability codes. This should provide us with a competitive advantage in the market place, particularly in the area of affordable homes.

Construction

The Division more than doubled its activity in 2008 and achieved acceptable net margins.

This continued excellent performance is very encouraging and we have the ability to expand further into the Central belt of Scotland in the current year.

Chairman's statement *(continued)*

Developments

2008 saw the completion and sale of the office development of Union Plaza in the centre of Aberdeen. The development attracted high calibre tenants and strong rental rates and is undoubtedly a flagship development for the Group.

Financial performance

As noted above the financial performance has been below our expectations but nevertheless represents a solid result in the circumstances.

Turnover for the year to June 2008 increased by 21% to £420m due to higher activity levels in Construction and Developments. Margins reduced from 2007 as a result of market conditions and a change of mix.

Group profit before tax was £25m.

The increase in overheads reflects the writing off of goodwill from acquisitions and the additional employee costs resulting from the recruitment drive referred to above. Overhead levels are anticipated to be significantly reduced in 2009 from 2008 levels.

As forecast previously our gearing has increased as planned due to strategic investments made in the year. This gearing level is forecast to reduce over the coming year.

People

Despite the current market difficulties I am confident that the excellent and highly skilled staff that we have throughout the Group will ensure we perform strongly.

We remain fully committed to People Development as an ongoing part of our strategy and the effective management skills that we have been developing over many years in the Group will be an important element in managing through the current and future challenges.

We also remain fully committed to Investors in People.

Conclusion

Despite the difficult market conditions encountered during the last year the Group has achieved a solid level of profitability and has a strong Balance sheet.

We anticipate the coming year will continue to have very challenging trading conditions but we have taken and will continue to take appropriate steps in order to ensure that the Group operates effectively during that period.

Stewart Milne
Chairman

8 September 2008

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2008. The financial statements cover the period from 1 July 2007 to 7 July 2008.

Principal activity and business review

The principal activity of the company and its subsidiary undertakings is housebuilding. It is also involved in the manufacture of timber frames and commercial structures, building contracting and commercial property development. The chairman's statement on pages 2 and 3 gives details of the development of the group's business and its activities during the year.

Dividends

Dividends amounting to £4,050,000 were paid during the year. The directors do not recommend the payment of a final dividend.

Directors

The directors of the company during the year and up to the date of this report are shown on page 1.

Employees

The group is committed to maintaining and improving the methods by which employees are informed, either through meetings with representatives or otherwise, on matters affecting their work and the progress of the group. The group is also committed to offering employment, training and career development to disabled persons with the appropriate skills and qualifications.

Charitable contributions

The group made charitable contributions of £7,000 *(2007: £34,000)* during the year.

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the board

J. Irvine

JC Irvine
Director

Peregrine House
Westhill Business Park
Westhill

8 September 2008

Statement of directors' responsibilities in respect of the directors' report and the revised financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under section 245 of the Companies Act 1985, the directors have the authority to revise financial statements or a directors' report if they do not comply with the Act. The revised financial statements must be amended in accordance with the Companies (Revision of Defective Accounts and Report) Regulations 1990. These require that the revised financial statements show a true and fair view as if they were prepared and approved by the directors as at the date of the original financial statements and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

KPMG

37 Albyn Place
Aberdeen
AB10 1JB
United Kingdom

Independent auditors' report to the members of Stewart Milne Group Limited

We have audited the revised group and parent company financial statements (the "revised financial statements") of Stewart Milne Group Limited for the year ended 30 June 2008 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes. These revised financial statements have been prepared under the accounting policies set out therein and replace the original financial statements approved by the directors on 8 September 2008.

The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Report) Regulations 1990 ("the Regulations") and accordingly do not take account events which have taken place after the date on which the original financial statements were approved.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985 and as required by paragraph 6 of the Regulations. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing revised financial statements in accordance with applicable law and United Kingdom Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 5.

Our responsibility is to audit the revised financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the revised financial statements give a true and fair view and have been properly prepared in accordance with the provisions of the Companies Act 1985 as they have effect under the Regulations. We also report to you whether, in our opinion, the information given in the directors' report is consistent with the revised financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

We are also required to report whether in our opinion the original financial statements failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors.

Basis of audit opinion

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

The audit of revised financial statements includes the performance of additional procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the revised financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the revised financial statements.

Independent auditors' report to the members of Stewart Milne Group Limited *(continued)*

Opinion

In our opinion:

- the revised financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, seen as at the date the original financial statements were approved, of the state of the group's and the parent company's affairs as at 30 June 2008 and of the group's profit for the year then ended;
- the revised financial statements have been properly prepared in accordance with the Companies Act 1985 as it has effect under the Regulations;
- the original financial statements for the year ended 30 June 2008 failed to comply with the requirements of the Companies Act 1985 in the respects identified by the directors in the statement contained in note 1 to these revised financial statements; and
- the information given in the Directors' Report is consistent with the revised financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

27 January 2010

Consolidated profit and loss account
for the year ended 30 June 2008

	Note	2008 £000	2007 £000
Group turnover	2	**420,406**	347,957
Cost of sales		**(330,792)**	(258,381)
Gross profit		**89,614**	89,576
Administration expenses		**(50,006)**	(39,255)
Other operating income		**2,155**	1,560
Group operating profit		**41,763**	51,881
Interest receivable		**418**	357
Interest payable	6	**(17,122)**	(10,133)
Profit on ordinary activities before taxation	3-5	**25,059**	42,105
Tax on profit on ordinary activities	7	**(8,039)**	(12,584)
Profit for the financial year	18	**17,020**	29,521

There is no material difference between the profit disclosed above and the profit on an unmodified historic cost basis.

All figures relate to continuing operations. Acquisitions had no material impact on the results for either year.

Joint ventures had no material impact on the profit and loss account above.

Consolidated statement of total recognised gains and losses
for the year ended 30 June 2008

	2008 £000	2007 £000
Profit for the financial year	**17,020**	29,521
Unrealised surplus on revaluation of properties	**11,248**	-
Total recognised gains and losses relating to the financial year	**28,268**	29,521

Consolidated balance sheet

at 30 June 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Intangible assets	*9*		**18,916**		8,481
Tangible assets	*10*		**33,053**		19,483
Investments:	*11*				
Investment in joint ventures:					
Share of gross assets		**22,525**		3,447	
Share of gross liabilities		**(22,525)**		(3,447)	
		-		-	
Investment in associate		**8**		8	
Other investments		**1,095**		352	
			1,103		360
			53,072		28,324
Current assets					
Stocks	*12*	**375,040**		273,283	
Debtors	*13*	**110,539**		92,594	
Cash at bank and in hand		**12**		5	
		485,591		365,882	
Creditors: amounts falling due within one year	*14*	**(165,249)**		(290,050)	
Net current assets			**320,342**		75,832
Total assets less current liabilities			**373,414**		104,156
Creditors: amounts falling due after more than one year	*15*		**(246,360)**		(360)
Provisions for liabilities	*16*		**(238)**		(1,198)
Net assets			**126,816**		102,598
Capital and reserves					
Called up share capital	*17*		**180**		180
Capital redemption reserve	*18*		**60**		60
Revaluation reserve	*18*		**13,072**		1,824
Profit and loss account	*18*		**113,504**		100,534
Shareholders' funds	*19*		**126,816**		102,598

These financial statements were approved by the board of directors on 26 January 2010 and were signed on its behalf by:

JC Irvine
Director

Balance sheet
at 30 June 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Intangible assets	*9*		**8,454**		8,481
Tangible assets	*10*		**32,850**		19,250
Investments	*11*		**80,703**		6,545
			122,007		34,276
Current assets					
Stocks	*12*	**267,001**		249,264	
Debtors	*13*	**69,626**		101,811	
Cash at bank and in hand		**10**		5	
		336,637		351,080	
Creditors: amounts falling due within one year	*14*	**(96,051)**		(285,251)	
Net current assets			**240,586**		65,829
Total assets less current liabilities			**362,593**		100,105
Creditors: amounts falling due after more than one year	*15*		**(246,158)**		(123)
Provisions for liabilities	*16*		-		(1,198)
Net assets			**116,435**		98,784
Capital and reserves					
Called up share capital	*17*		**180**		180
Capital redemption reserve	*18*		**60**		60
Revaluation reserve	*18*		**13,072**		1,824
Profit and loss account	*18*		**103,123**		96,720
Shareholders' funds	*19*		**116,435**		98,784

These financial statements were approved by the board of directors on 26 January 2010 and were signed on its behalf by:

J. Irvine

JC Irvine
Director

Consolidated cash flow statement

for the year ended 30 June 2008

	Note	2008		2007	
		£000	£000	£000	£000
Net cash (outflow) inflow from operating activities	24		**(19,953)**		2,152
Interest received		418		357	
Interest paid		(15,873)		(9,659)	
Interest element of finance lease rental payments		(50)		(73)	
Net cash outflow from returns on investments and servicing of finance			**(15,505)**		(9,375)
Taxation					
Corporation tax paid			**(15,932)**		(12,606)
Capital expenditure					
Payments to acquire tangible fixed assets		(2,893)		(3,704)	
Receipts from sale of tangible fixed assets		339		292	
Net cash outflow from capital expenditure			**(2,554)**		(3,412)
Acquisitions and disposals					
Purchase of subsidiary undertakings		(34,773)		(13,348)	
Net funds (overdrafts) acquired with subsidiary undertakings		4,607		(10,305)	
Net cash outflow from acquisitions and disposals			**(30,166)**		(23,653)
Dividends paid on shares classified in shareholders' funds			**(4,050)**		(6,200)
Net cash outflow before financing			**(88,160)**		(53,094)
Financing					
Capital element of finance lease rental payments		(540)		(573)	
Repayment of amounts borrowed		(26)		(22)	
Share buy-back		-		(15,000)	
Net cash outflow from financing			**(566)**		(15,595)
Decrease in cash	25		**(88,726)**		(68,689)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements, except as noted below.

Restatement

These revised financial statements have been prepared under section 245 of the Companies Act 1985 because those previously approved by the board of directors and signed on their behalf on 8 September 2008 did not comply with that Act (as explained below). These revised financial statements replace the original annual accounts for the financial year ending 30 June 2008 and are now the statutory accounts of the company for that financial year. They have been prepared as at the date of the original annual accounts and not as at the date of revision and accordingly do not deal with events between those dates.

As explained in note 11 to those financial statements, the company balance sheet had been drawn up on the basis that the trade and assets of King Group Limited and all of its subsidiaries had been transferred up to Stewart Milne Group Limited ('SMGL') on 31 January 2008 at net book value. Subsequent to the approval of those, financial statements by the board of directors, it was discovered that a condition precedent of the A & L King (Builders) Limited, a wholly owned subsidiary of King Group Limited, transfer agreement relating to Freedom Homes, a joint venture investment of A & L King (Builders) Limited, had not been satisfied. That condition precedent requires third party agreement and remains unsatisfied and has not been waived at the date of approval of these financial statements. As a result, the transfer of assets from A & L King (Builders) Limited to SMGL did not take place.

The intention of the transacting parties was that the transfer of the trade and assets from King Group Limited and each of its subsidiaries be conditional upon the successful completion of all transfer agreements. The Directors consider that this intention is an implied (though not an explicit) term in each of the transfer agreements as the agreements as drafted failed to express accurately the common intention of the parties. The Directors have received legal advice that the Company could seek rectification of those agreements to reflect this intention under Section 8 of the Law Reform (Miscellaneous Provisions) (Scotland) Act 1985 and that such rectification would result in each of the transfer agreements being incomplete and any purported transfers being legally void, because all of the conditions had not been met.

Further, the Directors have received legal advice, that an order for rectification is not legally necessary where the parties acknowledge that the agreement was defective and they themselves correct it. Given the cost involved the Directors do not intend to seek a rectification order.

In light of the continued absence of third party agreement to the condition precedent and the implied intention of the parties to all of the transfer agreements, the directors consider that the purported transfer of trade and assets from King Group Limited and each of its subsidiaries to SMGL is void. On that basis, the directors have prepared revised financial statements to reflect that the transfer of the trade and assets from King Group Limited and each of its subsidiaries did not occur.

The effect of this revision to the financial statements of the Company previously approved by the board of directors is set out in the table below which also includes revisions to the fair value of deferred and contingent consideration recognised within other creditors, together with the consequential impact on the carrying amount of investments:

Notes *(continued)*

1 **Accounting policies** *(continued)*

Additions to (reductions in) shareholders' funds

	£000
Fixed assets	(10,462)
Investments	62,692
Stocks and work in progress	(72,108)
Debtors	(5,473)
Creditors falling due within one year	14,045
Creditors falling due after more than one year	(4,200)
Provisions: Deferred tax	15,868

As the transfer was originally recorded at net book value, this would have resulted in a transfer pricing loss adjustment being recognised in the corporation tax computation of the Company, reducing any tax liability at that date. The effect of the revision is that, as no transfer took place, no such transfer pricing adjustment is required. Profits chargeable to corporation tax in respect of the year ended 30 June 2008 will be available to offset future trading losses carried back under the corporation tax legislation.

The directors have also reconsidered the amounts included in the group's consolidated accounts in respect of the acquisition, during the year ended 30 June 2008, of the King Group. In particular, the deferred and contingent consideration referred to above of £9,100,000 should also have been provided in the group accounts. In addition, the directors have concluded that deferred tax of £16,352,000 related to the acquisition fair value adjustment to land bank stocks should not have been recognised but that additional other liabilities of £6,530,000 should have been recognised. The effect of these revisions on the consolidated accounts at 30 June 2008 is to reduce the deferred tax liability by £15,630,000, to increase creditors falling due within one year by £11,430,000 and to increase creditors falling due after one year by £4,200,000. These revisions have no impact on goodwill or net assets at 30 June 2008 or profit for the year ended 30 June 2008.

Basis of preparation
The financial statements have been prepared in accordance with applicable Accounting Standards and under the historical cost accounting rules, modified to include the revaluation of certain land and buildings.

During the year the group adopted a policy of revaluation which represents a change in accounting policy. Previously advantage was taken of the transitional arrangements of FRS 15 to retain previous revalued amounts in the financial statements. The directors consider that the adoption of a policy of revaluation will provide users with more up to date information on the value of assets held. A prior year adjustment has not been made on adoption of this policy as it was not practicable to obtain retrospective valuations.

Basis of consolidation
The consolidated financial statements include the financial statements of the company and the financial statements of its subsidiary undertakings made up to 7 July 2008. The acquisition method of accounting has been adopted. Under this method the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

An associate is an undertaking in which the group has a long term interest, usually from 20% to 50% of the equity voting rights, and over which it exercises significant influence. The directors do not consider that the group exercises significant influence over the affairs of Aberdeen Football Club and accordingly this investment has not been accounted for as an associated undertaking. A joint venture is an undertaking in which the group has a long term interest and over which it exercises joint control. The group's share of the profits less losses of associates and of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet.

Notes *(continued)*

1 Accounting policies *(continued)*

In the company's financial statements, investments in subsidiary and associated undertakings and joint ventures are stated at cost less amounts written off. Other investments are stated at cost less provision for impairment.

Under section 230 (4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. Purchased goodwill arising on consolidation in respect of acquisitions before 1 January 1998, when FRS 10 *Goodwill and intangible assets* was adopted, was written off to reserves in the year of acquisition. When a subsequent disposal occurs any related goodwill previously written off to reserves is written back through the profit and loss account as part of the profit or loss on disposal.

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life.

Research and development expenditure
Expenditure on research and development is written off against profits in the period in which it is incurred. Development expenditure incurred on an individual project is carried forward only when future recoverability can be foreseen with reasonable assurance. Development expenditure is amortised over 3 years.

Fixed assets and depreciation
Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Buildings	-	10 to 50 years
Plant and machinery	-	5 to 15 years
Motor vehicles	-	4 years
Furniture and equipment	-	3 to 5 years
Computer equipment	-	3 years

No depreciation is provided on land.

Foreign currencies
Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Stocks
Stocks, including land, are valued at the lower of cost and net realisable value. In determining the cost of raw materials and consumables, the purchase invoice price is used. For work in progress, cost is taken as production cost which includes an appropriate proportion of overheads. Payments on account are deducted when receivable.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years.

Contract work in progress is stated at costs incurred, less those transferred to the profit and loss account, after deducting foreseeable losses and payments on account not matched with turnover.

Leases

Assets acquired under finance leases are capitalised and the outstanding future obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Post retirement benefits

The group operates defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged against profits represents the contributions payable to the schemes in respect of the accounting period.

Turnover

Turnover represents sales of residential properties and land legally completed in the year, invoiced sales and the value of work executed by construction activities. Turnover excludes value added tax and the proceeds from sales of houses taken in part exchange.

Segmental reporting

The directors consider that no disclosure should be made of the analysis of profit on ordinary activities before taxation and net assets by activity, as it is considered that disclosure of this information would be seriously prejudicial to the interests of the group.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Notes *(continued)*

2 Turnover

	2008		2007	
	£000	**%**	£000	%
Activity:				
Timber frame manufacture	**67,553**	**16**	64,053	18
Building contracting	**77,584**	**18**	30,974	9
House building and property development	**264,666**	**63**	243,513	70
Other	**10,603**	**3**	9,417	3
	420,406	**100**	347,957	100

Turnover arises almost exclusively in the UK.

3 Profit on ordinary activities before taxation

	2008	2007
	£000	£000
Profit on ordinary activities before taxation is stated after charging		
Depreciation - owned assets	**2,455**	2,102
Depreciation - leased assets	**405**	274
Amortisation of goodwill	**1,647**	697
Operating lease rentals - plant and machinery	**323**	218
Operating lease rentals - other	**860**	958

	2008	2007
	£000	£000
Auditors remuneration:		
Audit of these financial statements	**90**	90
Amounts receivable by the auditors in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	**15**	35
Other services relating to taxation	**75**	62
Services relating to corporate finance transactions entered into or proposed to be entered into by or on behalf of the Company or the Group	**186**	48
Other services	**-**	35

Notes *(continued)*

4 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	3,680	4,107
Company contributions to money purchase pension schemes	183	209
Amounts paid to third parties in respect of directors' services	36	36
Compensation for loss of office	-	30
	3,899	4,382

The emoluments of the highest paid director were £2,015,000 *(2007: £1,547,000)*, and company pension contributions of £nil *(2007: £nil)* were made to a money purchase scheme on his behalf.

	Number of directors 2008	2007
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	3

5 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2008	2007
Office and administration	655	542
Manufacturing	722	590
	1,377	1,132

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	46,491	37,348
Social security costs	4,766	3,970
Other pension costs (note 22)	1,597	943
	52,854	42,261

Notes *(continued)*

6 Interest payable

	2008 **£000**	2007 £000
On bank loans and overdrafts	**16,778**	9,979
Finance charges payable in respect of finance leases and hire purchase contracts	**50**	73
Other interest payable	**294**	81
	17,122	10,133

7 Taxation

Analysis of charge in year

	2008		2007	
UK corporation tax	**£000**	**£000**	£000	£000
Current tax on income for the year	**9,099**		12,751	
Adjustments in respect of prior year	**31**		6	
Total current tax		**9,130**		12,757
Deferred tax (see note 16)				
Origination/reversal of timing differences	**(1,021)**		(172)	
Adjustments in respect of prior year	**(70)**		(1)	
Total deferred tax		**(1,091)**		(173)
Tax on profit on ordinary activities		**8,039**		12,584

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2007: higher)* than the effective standard rate of corporation tax in the UK applicable to the accounting period (see below) of *29.5% (2007: 30%)*. The differences are explained below:

	2008	2007
Current tax reconciliation	**£000**	£000
Profit on ordinary activities before tax	**25,059**	42,105
Current tax at 29.5% *(2007: 30%)*	**7,392**	12,632
Effects of:		
Non deductible expenditure	**637**	397
Capital allowances greater than depreciation charge	**132**	126
Depreciation on assets not qualifying for capital allowances	**9**	9
Other timing differences	**915**	(346)
Non standard tax rates	**14**	(4)
Impact of enacted rate change on deferred taxation	**-**	(46)
Transfer pricing adjustments	**-**	(17)
Adjustments to tax charge in respect of previous periods	**31**	6
Total current tax charge (see above)	**9,130**	12,757

The standard rate of corporation tax in the UK reduced from 30% to 28% effective on 1 April 2008.

Notes *(continued)*

8 Dividends

	2008 **£000**	2007 £000
Interim dividends paid in respect of the current year	**4,050**	6,200

9 Intangible fixed assets

Group	**Goodwill** **£000**
Cost	
At beginning of year	9,178
Additions (note 11)	11,013
Adjustment (see below)	1,069
At end of year	21,260
Amortisation	
At beginning of year	697
Charge for year	1,647
At end of year	2,344
Net book value	
At 30 June 2008	**18,916**
At 30 June 2007	8,481

Company	**Goodwill** **£000**
Cost	
At beginning of year	9,178
Adjustment (see below)	1,069
At end of year	10,247
Amortisation	
At beginning of year	697
Charge for year	1,096
At end of year	1,793
Net book value	
At 30 June 2008	**8,454**
At 30 June 2007	8,481

Notes *(continued)*

9 Intangible fixed assets *(continued)*

Following acquisition of Cobco (415) Limited and subsidiaries during the previous financial year, the associated fair value adjustments were determined on a provisional basis for the purposes of last year's financial statements. Subsequent reassessment during this financial year has resulted in the following amendments to the fair values of the assets and liabilities acquired:

	£000
Reduction in stocks	(1,673)
Reduction in associated deferred taxation liability	604
Net addition to goodwill	(1,069)

The directors consider each acquisition separately for the purpose of determining the amortisation period of any goodwill that arises. The goodwill on the acquisition during the year is being amortised over a period of 15 years with the goodwill on the acquisition made during last year being amortised over a period of 10 years. These are the periods during which these strategic acquisitions are expected to contribute to the growth of the Group.

10 Tangible fixed assets

Group	Freehold land and buildings £000	Plant, machinery and vehicles £000	Furniture and equipment £000	Total £000
Cost or valuation				
At beginning of year	16,231	9,126	7,396	32,753
Additions	359	1,794	900	3,053
Acquisitions	731	1,451	172	2,354
Disposals	-	(954)	(145)	(1,099)
Revaluations	8,712	-	-	8,712
At end of year	26,033	11,417	8,323	45,773
Depreciation				
At beginning of year	2,238	4,747	6,285	13,270
Charge for year	559	1,631	670	2,860
On disposals	-	(762)	(112)	(874)
Revaluations	(2,536)	-	-	(2,536)
At end of year	261	5,616	6,843	12,720
Net book value				
At 30 June 2008	**25,772**	**5,801**	**1,480**	**33,053**
At 30 June 2007	13,993	4,379	1,111	19,483

Included in the net book value of plant, machinery and vehicles are leased assets with a net book value of £916,000 *(2007: £587,000)*. Depreciation on leased assets was £405,000 *(2007: £274,000)*.

The value of land not depreciated is £8,495,000 *(2007: £5,814,000)*.

Notes *(continued)*

10 Tangible fixed assets *(continued)*

	Freehold land and buildings £000	Plant, machinery and vehicles £000	Furniture and equipment £000	Total £000
Company				
Cost or valuation				
At beginning of year	15,643	9,125	7,396	32,164
Additions	219	1,774	892	2,885
Disposals	-	(771)	(65)	(836)
Group transfers	972	1,318	130	2,420
Revaluations	8,712	-	-	8,712
At end of year	25,546	11,446	8,353	45,345
Depreciation				
At beginning of year	1,882	4,747	6,285	12,914
Charge for year	525	1,459	663	2,647
On disposals	-	(611)	(56)	(667)
Group transfers	132	5	-	137
Revaluations	(2,536)	-	-	(2,536)
At end of year	3	5,600	6,892	12,495
Net book value				
At 30 June 2008	**25,543**	**5,846**	**1,461**	**32,850**
At 30 June 2007	13,761	4,378	1,111	19,250

Included in the net book value of plant, machinery and vehicles are leased assets with a net book value of £916,000 *(2007: £587,000)*. Depreciation on leased assets was £344,000 (*2007: £274,000*).

The value of land not depreciated is £8,495,000 *(2007: £5,814,000)*.

The split between cost and valuation of land and buildings is as follows:

	Group Land and buildings £000	Company Land and buildings £000
Cost	46	46
Valuation	25,987	25,500
	26,033	25,546

The land and buildings held at cost in the group and company represents tenant's improvements.

Notes *(continued)*

10 Tangible fixed assets *(continued)*

Valuation details

The group's factory and office premises at Peregrine Road/Mosscroft Avenue in Westhill, Aberdeen were valued as at 30 June 2008 by an external valuer, Scott Strachan, MRICS of FG Burnett, Chartered Surveyors. Both valuations were undertaken in accordance with the RICS Appraisal and Valuation Standards. In addition, the group's office and workshop premises at Hunter Street in Auchterarder were valued as at 30 June 2008 by an external valuer, Neil Strachan, MRICS of FG Burnett, Chartered Surveyors. The valuations of these properties which are utilised in connection with the Group's ongoing business were carried out on the basis of Existing Use Value. The valuers' opinions of Existing Use Value were primarily derived using comparable market evidence from sales and lettings of sites, offices and industrial buildings in this and other comparable locations.

Neither valuer has been responsible for any previous valuations of these premises for accounts purposes. However, FG Burnett has been responsible for carrying out valuations of the Westhill properties for the same purpose on two previous occasions (June 1997 and September 1994). In relation to FG Burnett's financial year ending 30 April 2008, the total fees payable by the group represented less than 5% of the total fee income of FG Burnett.

The group's freehold property known as "Falcon House, Curbridge Business Park, Downs Road, Curbridge, Witney, Oxfordshire, OX29 7WJ" was valued on 27 June 2008 by an external valuer, N C Brown, BSc MRICS of Gerald Eve. The valuations were performed in accordance with the requirements of the RICS Valuation Standards and FRS 15.

Gerald Eve have not previously provided valuation or other property advice to Stewart Milne Group Limited. The total fees earned from Stewart Milne Group Limited have never exceeded 5% of the total earnings of Gerald Eve annually, and this is not expected to change in the foreseeable future.

The valuation of the property has been carried out on an Existing Use Value basis, assuming that the property would be sold as part of the continuing business. Should this not be the case, the Market Value of the property could be significantly lower and a figure was also reported on this basis.

The valuers' opinions of Existing Use Value and Market Value were primarily derived using comparable recent market transactions on arm's length terms.

No valuation of the group's other property has been obtained on the grounds that it was recently purchased and the directors believe that net book value accurately reflects its existing use value.

The following information relates to tangible fixed assets carried on the basis of revaluations in accordance with FRS 15 *Tangible fixed assets*.

	2008	2007
	£000	£000
At existing use value	**25,728**	4,795
Aggregate depreciation thereon	**-**	(660)
Net book value	**25,728**	4,135
Historical cost of revalued assets	**15,950**	3,373
Aggregate depreciation based on historical cost	**(3,294)**	(871)
Historical cost net book value	**12,656**	2,502

Notes *(continued)*

11 Fixed asset investments

Group	Interest in associated undertakings (including joint ventures) £000	Other investments £000	Loans £000	Total £000
Cost				
At beginning of year	8	2,815	331	3,154
Acquisitions	-	18	725	743
At end of year	8	2,833	1,056	3,897
Provisions				
At beginning and end of year	-	2,794	-	2,794
Net book value				
At 30 June 2008	**8**	**39**	**1,056**	**1,103**
At 30 June 2007	8	21	331	360

The net book value of interests in associated undertakings, comprises interests in joint ventures of £100 *(2007: £100)* and associates of £8,000 *(2007: £8,000)*.

Loans include £331,000 *(2007: £331,000)* advanced to two joint ventures and £725,000 *(2007: £nil)* advanced to Stirling Gateway HC Limited, an entity in which the company holds a 12.5% shareholding.

Company	Unlisted associated undertakings £000	Unlisted subsidiary undertakings £000	Other investments £000	Total £000
Cost				
At beginning of year	8	6,510	460	6,978
Additions	-	74,158	-	74,158
At end of year	8	80,668	460	81,136
Provisions				
At beginning and end of year	-	-	(433)	(433)
Net book value				
At 30 June 2008	**8**	**80,668**	**27**	**80,703**
At 30 June 2007	8	6,510	27	6,545

Notes *(continued)*

11 Fixed asset investments *(continued)*

During the previous financial year, the trade and net assets of certain subsidiary undertakings were transferred to the company at their book value which was less than their fair value. The cost of the company's investments in these subsidiary undertakings reflected the underlying fair value of their net assets and goodwill at the time of the acquisitions. As a result of these transfers, the value of the company's investments in these subsidiary undertakings fell below the amount at which they were stated in the company's accounting records. Schedule 4 to the Companies Act 1985 requires that the investments be written down accordingly and that the amount be charged as a loss in the company's profit and loss account. However, the directors consider that, as there has been no overall loss to the company, it would fail to give a true and fair view to charge such diminutions to the company's profit and loss account and they should instead be re-allocated to goodwill and the identifiable net assets transferred, so as to recognise in the company's individual balance sheet the effective cost to the company of those net assets and goodwill.

The departure has no effect on the group financial statements however the individual parent company financial statements show an increased profit and increased net asset position of £9,931,000 *(2007: £13,246,000)*.

The principal undertakings in which the group's interest at the year end is significant are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Ordinary Share Capital Owned Group %	Ordinary Share Capital Owned Company %
Stewart Milne Commercial Limited	Scotland	Commercial developer	100	100
Stewart Milne Developments Limited	Scotland	Residential & commercial developer	100	100
Stewart Milne Properties Limited	Scotland	Residential & commercial developer	100	100
Dalglen No. (817) Limited	Scotland	Commercial developer	100	100
Stewart Milne Central Limited	Scotland	Commercial developer	100	100
Stewart Milne Westhill Limited	Scotland	Commercial developer	100	100
A & L King (Builders) Limited	Scotland	Building contractors	100	-
The King Group Limited	Scotland	Investment holding company	100	100

Notes *(continued)*

11 Fixed asset investments *(continued)*

Joint ventures	Country of incorporation	Principal activity	Ordinary Share Capital Owned Group %	Company %
Stewart Milne (West) Limited	Scotland	Residential & commercial developer	50	-
Stewart Milne (Glasgow) Limited	Scotland	Residential & commercial developer	50	-
Freedom Homes (Stirling) Limited	Scotland	Residential & commercial developer	50	-

Stewart Milne (West) Limited and Stewart Milne (Glasgow) Limited have financial year ends of 31 December *(2007: 31 December)*. The financial year end of Freedom Homes (Stirling) Limited is 30 June.

Other investments

Aberdeen Football Club	Scotland	Football Club	26.8	4.2

Additional information on acquisitions during the year

On 14 September 2007, 100% of the issued share capital of King Group Limited was acquired for a cash consideration of £34,933,000 including professional fees and the Directors' estimate of deferred and contingent consideration of £39,225,000 which is expected to be paid wholly within 5 years. The resulting goodwill of £11,013,000 has been capitalised and is being amortised over 15 years.

On acquisition, King Group Limited owned 100% of the share capital of the following companies:

A&L King (Builders) Limited
James Turner and Company Limited
King (Kirkton) Limited
King Developments Company Limited
King Investments Company Limited

The book value of the consolidated net assets of King Group Limited at the date of acquisition was £13,065,000. The fair value of those net assets was £63,145,000, reflecting an uplift of £50,080,000 on book value. This uplift principally comprises a fair value uplift of £56,423,000 on current assets acquired (book value of £28,854,000), and an increase of £5,441,000 in liabilities (book value of £19,051,000). There were no significant fair value adjustments to fixed assets or provisions for liabilities (book values of £3,277,000 and £15,000 respectively), and there were no significant accounting policy alignment adjustments.

The consideration payable and the fair value adjustments have been determined on a provisional basis using the information available subsequent to the date of acquisition, and may be subject to adjustment following the outcome of future events.

Notes *(continued)*

11 Fixed asset investments *(continued)*

The consolidated results of King Group Limited from the start of its statutory financial period to the date of acquisition were as follows:

	£000
Turnover	31,510
Cost of sales	(31,718)
Gross loss	(208)
Administrative expenses	(2,688)
Other operating income	3,639
Operating profit	743
Interest receivable	97
Profit before tax	840
Taxation	(337)
Profit for the financial period	503

The acquisition of King Group Limited had no material impact on the results or cash flows of the Group.

The consolidated profit of King Group Limited for the statutory financial year ended 31 March 2007 was £3,620,000 and there were no recognised gains or losses other than the profit for the year.

The total goodwill amortisation attributable to the acquisition which was charged during the year was £551,000.

12 Stocks

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Raw materials including land banks	**175,394**	136,527	**116,449**	136,527
Work in progress	**187,737**	128,234	**138,643**	104,215
Finished goods	**11,909**	8,522	**11,909**	8,522
	375,040	273,283	**267,001**	249,264

Notes *(continued)*

13 Debtors

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Trade debtors	**91,624**	70,017	**46,395**	69,961
Amounts owed by subsidiary undertakings	**-**	-	**3,103**	9,739
Amounts owed by joint ventures	**1,093**	384	**-**	-
Corporation tax recoverable	**510**	1,533	**2,942**	1,533
Deferred tax asset (note 16)	**-**	-	**76**	-
Other debtors	**6,678**	16,291	**6,476**	16,288
Prepayments and accrued income	**10,634**	4,369	**10,634**	4,290
	110,539	92,594	**69,626**	101,811

Included in other debtors at the year end are unsecured, interest free advances to Mr Stewart Milne of £12,000 *(2007: £162,000)* and to Mr Glenn Allison of £1,024,000 *(2007: £640,000)*. The maximum amounts outstanding during the year were £9,451,000 and £1,184,000 respectively.

14 Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Bank overdraft	**60,083**	191,350	**1,599**	179,078
Bank loans (note 15)	**37**	28	**-**	-
Finance lease obligations (note 15)	**289**	245	**289**	245
Trade creditors	**47,383**	53,406	**47,380**	53,406
Corporation tax payable	**146**	6,416	**146**	6,212
Group relief payable	**-**	-	**15**	162
Amounts owed to subsidiary undertakings	**-**	-	**33**	7,669
Tax and social security	**2,777**	1,470	**2,777**	1,470
Accruals and deferred income	**30,778**	31,206	**26,908**	31,107
Other creditors	**23,756**	5,929	**16,904**	5,902
	165,249	290,050	**96,051**	285,251

Notes *(continued)*

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Bank overdraft	**220,000**	-	**220,000**	-
Bank loans	**202**	237	**-**	-
Finance lease obligations	**158**	123	**158**	123
Other creditors	**26,000**	-	**26,000**	-
	246,360	360	**246,158**	123
Bank loans can be analysed as falling due:				
In one year or less	**37**	28	**-**	-
Between one and two years	**37**	30	**-**	-
Between two and five years	**110**	107	**-**	-
In five years or more	**55**	100	**-**	-
	239	265	**-**	-

The maturity of obligations under finance leases is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Within one year	**289**	245	**289**	245
In the second to fifth years	**98**	123	**98**	123
More than five years	**60**	-	**60**	-
	447	368	**447**	368

The bank borrowings of the group are secured by standard securities held by the Bank of Scotland over heritable property and land, and by floating charges over the assets of the company and certain subsidiaries.

The bank overdraft falling due after more than one year represents the group's Revolving Credit facility which is repayable in September 2010.

The bank loan outstanding at the year end is a term loan of £450,000 repayable over twenty years commencing December 1994. The balance outstanding on this loan as at 30 June 2008 was £239,000 *(2007: £265,000)*. Interest is payable at commercial rates.

Other creditors at 30 June 2008 include deferred and contingent consideration in respect of the acquisition of King Group Limited and subsidiaries during the year (see note 11) and is partially secured by bank guarantees and securities held over land. It is expected to be wholly paid within five years. Other creditors at 30 June 2007 includes deferred consideration related to the acquisition made during the previous financial year which was secured by bank guarantees.

Notes *(continued)*

16 Provisions for liabilities

	Group Deferred taxation £000	Company Deferred taxation £000
At beginning of year	1,198	1,198
Credit to profit and loss account	(1,091)	(670)
Acquisitions	131	(604)
Transfer to debtors	-	76
At end of year	**238**	-

The elements of deferred taxation are as follows:

	Group 2008 £000	Group 2007 £000
Difference between accumulated depreciation and capital allowances	**(386)**	(143)
Other timing differences	**624**	1,341
Deferred tax liability	**238**	1,198

	Company 2008 £000	Company 2007 £000
Difference between accumulated depreciation and capital allowances	**(288)**	(143)
Other timing differences	**212**	1,341
Deferred tax (asset) liability	**(76)**	1,198

No provision has been made for deferred tax on gains recognised on revaluing property. An estimate of tax that would be payable if these were sold at their revalued amounts is £141,000 *(2007: £nil)*.

No provision has been made for deferred tax on the fair value uplift to stock on acquisition. An estimate of tax that would be payable if the stock was sold at the fair value amounts is £16,042,000.

17 Called up share capital

	2008 £000	2007 £000
Authorised		
Ordinary shares of £1 each	**500**	500
Allotted, called up and fully paid		
Ordinary shares of £1 each	**180**	180
Shares classified as shareholders' funds	**180**	180

Notes *(continued)*

18 Reserves

	Capital redemption reserve £000	Revaluation reserve £000	Profit and loss account £000
Group			
At beginning of year	60	1,824	100,534
Profit for the financial year	-	-	17,020
Dividends on shares classified as shareholders' funds	-	-	(4,050)
Unrealised surplus on revaluation of properties	-	11,248	-
At end of year	**60**	**13,072**	**113,504**
Company			
At beginning of year	60	1,824	96,720
Profit for the financial year	-	-	10,453
Dividends on shares classified as shareholders' funds	-	-	(4,050)
Unrealised surplus on revaluation of properties	-	11,248	-
At end of year	**60**	**13,072**	**103,123**

Cumulative goodwill written off to reserves in previous years is £618,000 *(2007: £618,000)*.

19 Reconciliation of movements in shareholders' funds

	Group		Company	
	2008 £000	2007 £000	**2008 £000**	2007 £000
Profit for the financial year	**17,020**	29,521	**10,453**	29,418
Dividends on shares classified in shareholders' funds	**(4,050)**	(6,200)	**(4,050)**	(6,200)
Retained profit for the year	**12,970**	23,321	**6,403**	23,218
Share buy-back	-	(15,000)	-	(15,000)
Unrealised surplus on revaluation of properties	**11,248**	-	**11,248**	-
Net addition to shareholders' funds	**24,218**	8,321	**17,651**	8,218
Opening shareholders' funds	**102,598**	94,277	**98,784**	90,566
Closing shareholders' funds	**126,816**	102,598	**116,435**	98,784

During the previous financial year, the company repurchased and cancelled 22,000 Ordinary £1 shares, representing 10.9% of the share capital then in issue, for consideration of £15,000,000 following the exercise of an option by a shareholder.

Notes *(continued)*

20 Contingent liabilities

(i) At the year end the group and company had granted performance bonds and guarantees amounting to £40,732,000 *(2007: £13,878,000)* and £33,134,000 *(2007: £13,878,000)* respectively.

(ii) The company and certain subsidiaries are parties to a cross guarantee given in respect of their bank loans and overdraft. At 30 June 2008 the company had contingent liabilities under the cross guarantee of £1,888,000 *(2007: £2,465,000)*.

(iii) The company has entered into a third party guarantee, under which the maximum contingent liability is £1,225,000 *(2007: £1,225,000)*.

21 Commitments

(i) The group and company had no contracted capital commitments at the end of either financial year.

(ii) At the end of the financial year the group and company had annual commitments for other assets under non-cancellable operating leases as follows:

	Group		Company	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Operating leases which expire:				
Within one year – other	**210**	148	**210**	148
In the second to fifth years inclusive - other	**934**	734	**934**	734
More than five years - land and buildings	**135**	132	**135**	132
More than five years - other	**23**	23	**23**	23
	1,302	1,037	**1,302**	1,037

22 Pension schemes

The group operates two defined contribution pension schemes, one for the directors and one for other employees. The contributions to the directors' scheme were £183,000 *(2007: £209,000)* and to the employees' scheme were £1,307,000 *(2007: £734,000)*.

Also during the year, the group made contributions to a defined contribution scheme operated by A&L King (Builders) Limited. The contributions to this scheme were £107,000 *(2007: £nil)*. Contributions to this scheme commenced in October 2007 and ceased in November 2007.

Contributions amounting to £nil *(2007: £nil)* were payable to the schemes at the year end and are included in creditors.

23 Related party transactions

Amounts due from joint ventures are disclosed in notes 11 and 13.

During the year, the group sold a property at a market price of £41,000,000 to a partnership, in which Mr Stewart Milne is general partner. The sale proceeds are included within trade debtors at 30 June 2008 and are receivable within one year.

Notes *(continued)*

24 Reconciliation of operating profit to net cash (outflow) inflow from operating activities

	2008 £000	2007 £000
Operating profit	**41,763**	51,881
Depreciation on tangible fixed assets	**2,860**	2,376
Amortisation of intangible assets	**1,647**	697
Profit on sale of tangible fixed assets	**(114)**	(94)
Increase in stocks	**(31,868)**	(41,412)
Increase in debtors	**(9,860)**	(25,557)
(Decrease) increase in creditors	**(24,381)**	14,261
Net cash (outflow) inflow from operating activities	**(19,953)**	2,152

25 Analysis of changes in debt

	At 1 July 2007 £000	Cash flow £000	Inception of finance leases £000	At 30 June 2008 £000
Cash at bank	5	7	-	**12**
Overdrafts	(191,350)	(88,733)	-	**(280,083)**
	(191,345)	(88,726)	-	**(280,071)**
Debt due within one year	(28)	(9)	-	**(37)**
Debt due after more than one year	(237)	35	-	**(202)**
Finance leases	(368)	540	(619)	**(447)**
	(633)	566	(619)	**(686)**
Total	(191,978)	(88,160)	(619)	**(280,757)**

Included within the £619,000 of new finance leases is £459,000 connected to the acquisition of King Group Limited and subsidiaries.

26 Reconciliation of net cash flow to movement in debt

	2008 £000	2007 £000
Decrease in cash in the year	**(88,726)**	(68,689)
Cash outflow from decrease in debt	**566**	595
Change in net debt resulting from cash flow	**(88,160)**	(68,094)
Inception of finance leases	**(619)**	(411)
Net debt at beginning of year	**(191,978)**	(123,473)
Net debt at end of year	**(280,757)**	(191,978)