

J. SMART & CO. (CONTRACTORS) PLC

ANNUAL REPORT  
AND  
STATEMENT OF ACCOUNTS  
TO  
31<sup>st</sup> JULY 2016



# J. Smart & Co. (Contractors) PLC

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## **DIRECTORS**

JOHN M SMART, *Chairman and Managing Director*

DAVID W SMART

ALASDAIR H ROSS

JOHN R SMART

## **COMPANY SECRETARY**

PATRICIA SWEENEY

## **REGISTERED OFFICE**

28 CRAMOND ROAD SOUTH,

EDINBURGH,

EH4 6AB

## **SUBSIDIARY COMPANIES**

MCGOWAN AND COMPANY (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,

133 FINNIESTON STREET,

GLASGOW,

G3 8HB

## **SOLICITORS**

ANDERSON STRATHERN LLP,

1 RUTLAND COURT,

EDINBURGH,

EH3 8EY

## J. Smart & Co. (Contractors) PLC

NOTICE IS HEREBY GIVEN that the ANNUAL GENERAL MEETING of the Company will be held at the Registered Office, 28 Cramond Road South, Edinburgh on *15th December 2016* at 12 noon, for the following purposes:

1. To receive and consider the Statement of Accounts for the year ended 31st July 2016 and the Report of the Directors and the Report of the Auditors.
2. To approve the Directors' Remuneration Report for the financial year ended 31st July 2016 as set out on pages 20 to 25 in the Annual Report.
3. To declare a Final Dividend of 2.15p per share.
4. To re-elect David W Smart as a Director, who retires in accordance with provision B.7.1 of the UK Corporate Governance Code.
5. To re-elect French Duncan LLP as Auditors.
6. To authorise the Directors to determine the remuneration of the Auditors.
7. To authorise in accordance with sections 366 and 367 of Companies Act 2006, the Company and any company which is or becomes its subsidiary at any time during the period for which this Resolution has effect to:
  - (i) make political donations to political parties, other political organisations and/or independent election candidates; and
  - (ii) incur other political expenditure,providing such expenditure does not exceed £5,000 in aggregate for paragraphs (i) and (ii) above.

This authority shall expire immediately before the Company's Annual General Meeting to be held in 2020.

8. To authorise the Company, via a special resolution, for the purposes of section 701 of the Companies Act 2006 to make market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 2p each (ordinary shares) provided that:
  - (a) the Company does not purchase under this authority more than 10% of the nominal value of the Company's issued share capital at the date of this notice;
  - (b) the Company does not pay less than 2p (exclusive of expenses) for each ordinary share;
  - (c) the Company does not pay for each ordinary share more than 105% (exclusive of expenses) of the average market value of the Company's equity shares for the five business days prior to the day the purchase is made according to the Daily Official List of the London Stock Exchange and the higher of the price of the last independent trade and the highest current independent bid.

This authority is to apply until the end of the next Annual General Meeting (or, if earlier, until the close of business on 15th February 2018) but the Company may enter into a contract to purchase ordinary shares which will or may be completed or executed wholly or partly after this authority ends, the Company may purchase these ordinary shares pursuant to any contract as if the authority had not ended. Under this authority any shares purchased by the Company will be cancelled.

9. To transact any other business of an Annual General Meeting.

Explanatory notes providing information in relation to each of the proposed resolutions in this Notice of Meeting can be found on the Company's website [www.jsmart.co.uk](http://www.jsmart.co.uk).

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/her. 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](mailto: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 Annual General Meeting (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.

## J. Smart & Co. (Contractors) PLC

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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 OF DIRECTORS

PATRICIA SWEENEY

*Company Secretary*

28 Cramond Road South,  
Edinburgh  
EH4 6AB

*15th November 2016*

# J. Smart & Co. (Contractors) PLC

## CHAIRMAN'S REVIEW

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### ACCOUNTS

Headline Group profit for the year before tax, including an unrealised surplus in revalued property as required by the International Financial Reporting Standards was £3,752,000 compared with £3,544,000 last year. If the impact of revalued property 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 £3,616,000 (including £186,000 profit from property sales) which compares with the figure for underlying profit last year of £3,755,000 (including £1,318,000 profit from property sales and joint venture property sales).

The Board is recommending a Final Dividend of 2.15p nett making a total for the year of 3.07p nett which compares with 3.02p nett for the previous year. After waivers by members holding over 50% of the shares, the Final Dividend will cost the Company no more than £421,000.

### TRADING ACTIVITIES

Group construction activities carried out including private residential sales increased by 42%. Disregarding private residential sales Group construction activities increased by 23%. Own work capitalised increased by 125%. Group revenue increased by 39% and headline Group profit before tax increased by 6%. Underlying Group profit before tax excluding the unrealised surplus in revalued property decreased by 4%.

Turnover in contracting was more than last year and the loss was reduced. As forecast private residential sales were more than the previous year. Sales and profit in precast concrete manufacture increased.

The two large mixed social housing and private residential developments at Seafeld Street and Pilton Drive, Edinburgh, continue to make satisfactory progress. A third phase of social housing at Pilton Drive and a further social housing contract at Fleming Place (adjacent to Seafeld Street) have commenced.

Occupancy levels at our industrial estates continue to be satisfactory. A joint venture industrial development at Gartcosh near Glasgow is contemplated. Although interest in our commercial office premises has improved, take up of voids is still slow.

### FUTURE PROSPECTS

Work in hand in contracting is slightly less than at this time last year and there is little prospect of more work in the short term. Accordingly, turnover in this sector will be down on last year. Prices remain competitive.

Private residential sales will be less than last year. It is by no means certain that current property valuation levels will be maintained at the end of the current financial year.

At this early stage it is difficult to make an informed forecast of the outcome for the current year. However, bearing in mind the foregoing circumstances and that the reduced turnover will impair the recovery of fixed overhead costs, it seems unlikely that the profit for the current year will match last year's profit.

JOHN M SMART

*Chairman*

*15th November 2016*

The Directors present their Annual Report and the audited financial statements of the Group for the year ended 31st July 2016.

**STRATEGIC REPORT**

The Companies Act 2006 requires the Directors to prepare a Strategic Report which presents a fair review of the business during the year to 31st July 2016 and of the position of the Group at the end of the financial year. The Strategic Report also includes a description of the principal risks and uncertainties faced by the Group. The Strategic Report can be found on pages 9 to 14 and is incorporated into the Report of the Directors by reference.

**CORPORATE GOVERNANCE**

The Company is required, as a premium listed company on the London Stock Exchange, to prepare a report on Corporate Governance in accordance with the Financial Reporting Council's UK Corporate Governance Code (the Code). The information required by the Code and also the Disclosure and Transparency Rules and the Listing Rules can be found on pages 16 to 19 and is incorporated into the Report of the Directors by reference.

**RESULTS AND DIVIDENDS**

The profit of the Group after tax for the year ended 31st July 2016 amounted to £3,488,000 (2015, £2,998,000).

During the year the Company paid on 21st December 2015 a final dividend for the year to 31st July 2015 of 2.10p per share (2015, 2.04p) and paid on 31st May 2016 an interim dividend for the year to 31st July 2016 of 0.92p per share (2015, 0.92p).

The Directors recommend a proposed final dividend for the year of 2.15p per share, making a total for the year of 3.07p. This final dividend is subject to approval by the shareholders at the Annual General Meeting in December 2016 and has not been included as a liability in these financial accounts. If this dividend is approved it will be paid to the members on the share register of the Company at the close of business on 25th November 2016. Dividend warrants will be posted on 20th December 2016.

**DIRECTORS**

The following were Directors of the Company during the financial year ended 31st July 2016:

- John M Smart
- David W Smart
- Alasdair H Ross
- John R Smart

Details of the Directors are given on page 15.

**APPOINTMENT AND REPLACEMENT OF DIRECTORS**

The Company's Articles of Association (the Company's Articles) give the Directors the power to appoint or remove any Director. Initial appointments must 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. In accordance with the Company's Articles, Directors are not required to retire by rotation, however, in accordance with provision B.7.1 of the UK Corporate Governance Code, with the exception of the Managing Director, all Directors must retire and offer themselves for re-election at the Annual General Meeting at least every three years.

**DIRECTORS' INTERESTS**

Details of Directors' interests in the ordinary share capital of the Company are given in the Directors' Remuneration Report. There have been no changes in Directors' interests between 31st July 2016 and 21st October 2016.

No Director has a service contract with the Company and no Director has a material interest in any contract to which the Company or any Subsidiary Company was a party to during the year.

**DIRECTORS' POWERS**

The Company's Articles states that the Directors may exercise all of the powers of the Company which also includes the right of the Directors to buy back the Company's shares based on the authority given by the shareholders following the passing of a special resolution at the Company's 2015 Annual General Meeting.

**INDEMNIFICATION OF DIRECTORS**

In accordance with the Company's Articles and to the extent permitted by law, Directors are granted an indemnity by the Company in respect of liabilities incurred as a result of their office. The Directors are also indemnified against the cost of defending any proceedings whether criminal or civil in which judgement is given in favour of the Director or in which the Director is acquitted or the charge is found not proven. The Company has maintained Directors' and Officers' liability insurance cover throughout the financial year.

**CAPITAL MANAGEMENT AND SHAREHOLDER INFORMATION**

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

The Company's issued ordinary share capital as at 31st July 2016 comprises a single class of ordinary share of 2p each. Details of the issued share capital are shown in note 22 to the Accounts.

At the Annual General Meeting in 2015 the Company was authorised by the shareholders to purchase, in the market, up to 10% of the Company's issued share capital, as permitted under the Company's Articles. The purpose of the market purchase is to enhance the earnings per share and/or the equity shareholders' funds per share. The Directors are seeking renewal of this authority at the 2016 Annual General Meeting.

During the year the Company made market purchases of 670,000 ordinary shares of 2p under the existing authority, for a total consideration of £704,000. The shares purchased were subsequently cancelled, and represented less than 2% of the Company's issued share capital at the start of the financial year.

All members who hold ordinary shares are entitled to attend and vote at a 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.

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 on the transfer of securities.

Details of substantial shareholders can be found in the Company's Corporate Governance Report.



**ARTICLES OF ASSOCIATION**

The Company's Articles can only be amended by a special resolution at a General Meeting. No amendments are proposed to be made to the existing Company Articles at the 2016 Annual General Meeting.

**CHANGE OF CONTROL**

The Company is not party to any significant agreements which take effect, alter or terminate upon 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.

**POLITICAL DONATIONS AND POLITICAL EXPENDITURE**

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.

**GREENHOUSE GAS EMISSIONS**

The Companies Act 2006 (Strategic Report and Directors' Report) Regulation 2013 requires all quoted companies to report the greenhouse gas emissions for which they are responsible and on any environmental matters which are material to the company's operations.

Carbon emissions and energy use:

	<b>2016</b>	2015
	<b>Tonnes of CO2e</b>	Tonnes of CO2e
Emissions from:		
Combustion of fuel and operation of facilities	<b>1,412</b>	1,300
Electricity, heat, steam and cooling purchased for own use	<b>329</b>	379
Total emissions	<b>1,741</b>	1,679
Group's chosen intensity measurement:		
Emissions reported above normalised to per full time equivalent employee	<b>5.842</b>	6.825
Emissions reported above normalised to per £million of revenues	<b>59.979</b>	80.647

Changes in the total greenhouse gas emissions by the Group over the year are a result of changes in the mix of construction activities, contributing to the increase in emissions from fuel combustion and the decrease in emissions from purchased electricity.

An increase in staff within construction activities has reduced the greenhouse gas emissions per employee metric and the increase in revenue from construction activities has reduced the emissions normalised by revenue.

We have reported on all the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. These sources fall within our Statement of Accounts. We do not have responsibility for any emission sources that are not included in our Statement of Accounts.

Our greenhouse gas emissions have been calculated using the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), data gathered to fulfil our requirements under these Regulations, and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2015 and 2016 for the respective years. Emissions are calculated on the location based methodology.

**WASTE MANAGEMENT**

We manage waste in accordance with the waste hierarchy and ensure compliance with all applicable environmental legislation across all our operations. Construction waste is managed through site waste management plans which ensure waste arising is minimised, reused or recycled. Waste reduction is considered at the building design stage and any waste arising in construction is segregated either on site or off site. Where possible, waste is reused on site and waste to landfill is minimised with preference given to recycling or energy recovery. Training is provided to all staff and subcontractors and waste champions are assigned to each site to ensure compliance with our waste policies and procedures.

**GOING CONCERN**

The Group's business activities, performance and principal risks and uncertainties are set out in the Strategic Report.

The Group has adequate financial resources and is not reliant on external funding, and the Directors believe that the Group is well placed to manage its business risks successfully. After making enquires, the Directors have a reasonable expectation 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 Annual Report and Statement of Accounts.

**FUTURE DEVELOPMENTS**

It is not anticipated that the activities of the Company and its Subsidiaries, as described in the Strategic Report, will substantially change in the immediate future.

**POST BALANCE SHEET EVENTS**

There have been no events occurring after the Balance Sheet date that the Directors consider should be brought to the attention of the shareholders.

**AUDITORS**

The Company's auditors, French Duncan LLP, have expressed their willingness to continue in office. Resolutions to re-appoint them as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the Company's forthcoming Annual General Meeting.

**CAUTIONARY STATEMENT**

The Chairman's Review on page 4 and the Strategic Report on pages 9 to 14 have been prepared to provide additional information to members of the Company to assess the Group's strategy and the potential for the strategy to succeed. It should not be relied on by any other party or for any other purpose.

This Annual Report and Statement of Accounts contain certain forward-looking statements relating to operations, performance and financial status. By their nature, such statements involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors, including both economic and business risk factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These statements are made by the Directors in good faith based on the information available to them up to the time of their approval of this Report.

**STATEMENT OF DISCLOSURE TO AUDITORS**

The Directors who held office at the date of approval of the Report of the Directors, confirm that, so far as they are each aware, there is no relevant audit information of which the Company's Auditors is unaware; and each of the Directors has taken all steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

BY ORDER OF THE BOARD OF DIRECTORS

PATRICIA SWEENEY  
Company Secretary

15th November 2016

The Directors present their Strategic Report of the Group for the year ended 31st July 2016.

The purpose of the Strategic Report is to provide the members of the Company with information to allow them to assess how the Directors have performed their duty to promote the success of the Company and Group.

### **OUR BUSINESS MODEL, STRATEGY AND OBJECTIVES**

The Company was established in 1947 and was listed on the London Stock Exchange in 1965.

The principal activities of the Group are building and civil engineering contracting, residential development for sale, the development of industrial and commercial property for lease and sale and the manufacture of hydraulically pressed concrete products. All the construction work involved in these activities is carried out by the Parent Company and its Subsidiaries. Sub-contracting is kept to a minimum. The main area of operations is the central belt of Scotland.

The main construction activity undertaken by the Group is that of social housing for several housing associations and registered social landlords predominately in the Edinburgh area and is undertaken by the Parent Company, J. Smart & Co. (Contractors) PLC.

The Group has a portfolio of self-financed industrial and commercial properties which are owned and managed by subsidiary company, C. & W. Assets Limited. The investment properties are located throughout the central belt of Scotland but primarily in the Edinburgh area, this being the area of the country we are familiar with and understand. Our portfolio currently extends to more than 1,000,000 sq ft.

The Group has four other subsidiaries. Thomas Menzies (Builders) Limited carries out small to medium sized building and civil engineering work for a variety of clients. McGowan and Company (Contractors) Limited provides plumbing support to the main construction companies. Concrete Products (Kirkcaldy) Limited manufactures hydraulically pressed concrete products sold to the trade. Cramond Real Estate Company Limited, is the investment holding company of the Group and holds the Group's equity investments and monies on bank deposits.

The Group also has interests in a number of Joint Venture Companies which were established for purposes of property development.

The Group operates out of premises in Edinburgh and Kirkcaldy, with the centralised administration and finance function being at the head office in Edinburgh. Full support is given by the company Directors and the finance staff to all Group companies based at the two locations.

We maintain a core employee base which is beneficial to the growth and success of the Group due to the fact that they have the expertise to ensure the construction activities of the Group are efficiently run, achieve high level of quality of work and retain control over operations. Employees who manage the Group's investment property portfolio are fully aware of current market conditions and ensure that there is appropriate marketing of the Group's investment property portfolio. We employ our own maintenance team thereby ensuring that our investment property portfolio is always in good condition and ready for let.

Our objectives are to identify and exploit promising business opportunities as they arise to the benefit of the Group, its shareholders and employees without over extending Group resources. While endeavouring to complete all our operations as efficiently and to as high a standard as possible we do not set ourselves general performance yardsticks or volumetric targets.

**OUR BUSINESS MODEL, STRATEGY AND OBJECTIVES (continued)**

To achieve these objectives our strategy is to continue to maintain and develop the relationships we have with social housing providers, retain our core workforce and only use specialist subcontractors with proven track records in the Group to ensure work quality. We will continue to build both our residential properties and investment property portfolio within the central belt of Scotland, being the area of the country with which we are familiar. We will build up our resources to ensure the Group has sufficient current working capital facilities and financing for future commercial and private residential developments.

In achieving our objectives we aim to generate value by creating long-term and sustainable returns for our shareholders by growing our income and profits and increasing the value of our investment portfolio and the net assets of the Group.

**PERFORMANCE REVIEW**

**Construction activities**

	<b>2016</b>	2015
	<b>£000</b>	£000
Revenue	<b>30,682</b>	21,556
Operating loss	<b>(102)</b>	(949)

Construction activities improved in the year over that of last year, due to the commencement of additional phases of work and new contracts for our social housing developments and the work at our private housing development at Pilton Drive, Edinburgh. We also started and completed in the year the construction of the first phase of a new industrial development.

Housing sales at our development at Pilton Drive progressed well in the year and at the year end there were only 4 properties still to be sold.

Although the Group continued to make a loss on construction activities it was at a considerably lower level than the previous year, as the increased turnover helped to recover overhead costs.

The Directors continue to monitor, on a monthly basis, all construction contracts currently underway with regards to costs incurred and the profitability of the contract.

**Investment activities**

	<b>2016</b>	2015
	<b>£000</b>	£000
Income from investment properties	<b>5,520</b>	5,241
Profit on sale of investment properties	<b>186</b>	60
Net surplus/(deficit) on valuation of investment properties	<b>136</b>	(211)
Operating profit from investment properties	<b>3,616</b>	2,958
Income from available for sale financial assets	<b>14</b>	28
Profit on sale of available for sale financial assets	<b>–</b>	1
Share of profits in Joint Ventures	<b>33</b>	1,306

Income from the Group's investment property portfolio has increased mainly due to increased occupancy of our industrial units and improved occupancy in our commercial office properties. Occupancy levels in our industrial properties are satisfactory with interest continuing to be shown in our vacant properties. Although there has been some improvement in occupancy in our vacant commercial office properties there still remain substantial voids.

**PERFORMANCE REVIEW (continued)**

**Investment activities (continued)**

The increased revenue, surplus on valuation of the investment properties and the profit on sale of investment properties has resulted in the increase in the profit earned.

One commercial property was sold in the year and one new industrial property was added to the investment property portfolio. The Group continued to refurbish and improve the existing portfolio of properties to ensure that they are of a standard expected by existing and new tenants.

The Group did not add to its portfolio of available for sale financial assets in the year and the dividends received in the year were purely on those shares held at July 2015 and continued to be held at July 2016.

The Group's share of profits in Joint Ventures is considerably lower than last year, as last year's profit included the Group's half share of the profit on the sale by one of the Joint Venture Companies of its entire investment property portfolio.

**Results and financial position**

	<b>2016</b>	2015
	<b>£000</b>	£000
Profit before tax . . . . .	<b>3,752</b>	3,544
Net bank position . . . . .	<b>19,676</b>	16,825
Net assets . . . . .	<b>88,836</b>	88,949

Although the Group reported a higher profit than that of last year, it continues to suffer losses in its construction activities albeit at a significantly reduced level due to the increased turnover contributing to overhead recovery. Revenue levels and profits in our investment activities continue to remain strong.

Our net bank position, which comprises monies held on deposit, cash and cash equivalents and the netting of our bank overdraft has increased due the improved performance in our operating activities and including receipts from the sales of the properties at our private housing development offset by expenditure on property, plant and equipment and investment properties. The Group continues to remain debt free.

The Group's net assets are impacted by the profit earned in the year, the movement in valuation of the Group's available for sale financial assets, the reduction in the Group's retirement benefit surplus, primarily due to actuarial losses, the shares bought back by the Company and the dividends paid in the year.

**FINANCIAL INSTRUMENTS**

The Group's financial instruments consist of bank balances and cash, available for sale financial assets, trade receivables and trade payables. The main purpose of the financial instruments are to provide working capital for the Group's continuing activities and provide funding for future activities whether in construction or investment. Given the nature of the Group's financial instruments the main risk associated with these is credit risk, however this is minimised due to the fact that exposure is spread over a number of counterparties and customers. The Group is not exposed to interest rate risk as it does not have any net debt but it does suffer from fallen interest rates on the amount we can earn on monies on deposit.

**TOTAL DIVIDEND**

The Directors are recommending a final dividend of 2.15p per share which taken with the interim dividend of 0.92p already paid in the year gives a total dividend for the year of 3.07p (2015, 3.02p), being an increase of 2% on the dividend rate for 2015.

**GREENHOUSE GAS EMISSIONS**

The Group is required to report the greenhouse gas emissions for which it is responsible and on any environmental matters which are material to the Group's operations. Details of our emissions for the year to 31st July 2016 are set out in the Report of the Directors on page 7.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks and uncertainties faced by the Group and the mitigating factors taken by the Group against these risks are detailed below. The principal risks noted below are not all of the risks faced by the Group but are those risks which the Group perceives as those which could have a significant impact on the Group's performance and future prospects.

**Area of principal risk or uncertainty and impact**

By focusing external construction activities on the social housing sector any cuts in spending by providers of social housing can reduce or suspend the social housing programme thus impacting on our workload and therefore the workforce required by the Group.

Social housing sector is highly competitive with tight margins.

**Mitigating actions and controls**

- Maintain long term relationships with social housing providers, resulting from high standards of service, quality and post construction care thus giving the Group an advantage over other builders when contracts are awarded on criteria other than cost only.
- Identify potential build sites or include the provider within private housing developments in relation to the element of affordable housing required.
- When workload is reduced workforce can be diverted to the Group's own commercial and private residential developments.
- We are an 'all trades' contractor who employs our own personnel in all basic building trades who are supervised by site agents who are long serving employees of the Group, who have been promoted through their trades, thus ensuring control of labour costs on contracts.
- We have invested heavily in plant and the maintenance thereof and therefore limit our costs on contracts by utilising own plant as opposed to incurring higher costs of hiring plant.
- Subcontractors employed by the Group are specialists in their fields and in the main subcontractors have previously been used by the Group therefore quality of work and reliability is known. No labour only subcontractors are employed.
- In house architectural technicians and surveyors provide pre-contract design advice to resolve potential technical problems with the build and therefore potential costs.

**PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

<b>Area of principal risk or uncertainty and impact</b>	<b>Mitigating actions and controls</b>
Limited mortgage availability to home buyers resulting in stalling of private house sales.	<ul style="list-style-type: none"><li>• Providing a range of purchase assistance schemes to buyers including partaking in the ‘Help to Buy (Scotland)’ scheme.</li><li>• Building developments in popular residential areas.</li><li>• Building high quality specification homes with attention to detail which sets them apart from other new build homes and therefore attractive to buyers.</li><li>• Building a range of homes within a development thus providing choice to buyers.</li><li>• Providing sales incentives.</li><li>• Consider letting of homes at market rates until the market improves.</li></ul>
Reduction in rental demand for investment properties may result in a fall in property valuations.	<ul style="list-style-type: none"><li>• Only commence speculative developments after careful assessment of the market.</li><li>• Restricting our operations to the central belt of Scotland being the area of the country with which we are familiar.</li><li>• Continually maintain and refurbish existing properties to retain existing tenants and attract new tenants.</li><li>• Provide necessary financial incentives to retain existing tenants at end of current leases and attract new tenants.</li></ul>
Reduction in demand for UK real estate from investors may result in a fall in valuations within our investment property portfolio, this could result in delays in investment decisions which could impact on our activities.	<ul style="list-style-type: none"><li>• The Directors regularly review the property market to ascertain if changes in the overall market present specific risks or opportunities to the Group.</li><li>• Restricting our operations to the central belt of Scotland being the area of the country with which we are familiar.</li></ul>
Political events and policies result in uncertainty until final decisions have been made and the impact of decisions are known, this could result in delays in investment decisions which could impact on our activities.	<ul style="list-style-type: none"><li>• Before any decisions are taken by the Directors in any area of the Group’s activities the level of uncertainty and range of potential outcomes arising from political events and policies are considered.</li></ul>
Reduction of financial resources.	<ul style="list-style-type: none"><li>• Ensure resources are not over committed and only undertake commercial and private housing developments after due consideration of the financial impact on the Group financial resources.</li><li>• Build up resources to ensure the Group has sufficient finance for working capital requirements and financing of commercial and private housing developments.</li><li>• Spread cash reserves over several banks taking account of the strength of the bank and interest rates attainable.</li><li>• Invest resources in equities also taking account of the security of the investment and the yields attainable.</li></ul>

**VIABILITY STATEMENT**

The Directors have assessed the viability of the Group over a three year period to July 2019, taking account of the Group's current financial strength, business model and strategy. The Directors have also taken account of the principal risks and uncertainties facing the Group and the actions being taken to mitigate these risks as described above.

The assessment period of three years has been chosen as the Directors consider this period to be appropriate as it fits well with the Group's development and investment property cycles.

The Group's financial planning process consists of cash flow projections based on the current financial position and assumptions on future developments and investment property acquisitions and disposals. As the Group is net debt-free the Directors are assessing the cash impact of their assumptions of future activity to ensure that this position is maintained. The Directors vary their assumptions in terms of economic, investment and other factors to different scenarios to assess the impact on the Group's cash position. Even with these sensitivities applied the Group is net debt-free.

Based on this assessment the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over the period to July 2019.

**EMPLOYEES**

The Group recognises the contribution of the staff to the success of the Group. The Group operates with a core employee base who in the main have been with the Group for a considerable length of time and have gained a significant knowledge of the sectors the Group operates in and of the companies within the Group. Where appropriate the Group promotes from within whether that be the Directors, staff or site employees. The Group recognises the importance of retaining its core staff to ensure its future success.

The Group does not have a specific Human Rights policy but it does have policies on recruitment and retention of employees and communication with employees which are aimed at ensuring employees are fairly treated during their employment with the Group.

The Group is committed to providing equal opportunities in recruitment and employment, full and fair consideration is given to all applicants for employment and to all existing employees for promotion. Where employees become disabled during their employment and are unable to fulfil current duties they are offered suitable alternative employment within the Group, if feasible.

It is the Group's policy that there should be effective communication with employees at all levels, on matters which affect their current jobs or future prospects and all Directors and senior staff members make themselves available to all staff to discuss any matters of concern. In achieving this policy, the Directors are aware of the need to take account of the practical and commercial considerations of the Group, and the needs of the employees.

A breakdown by gender of Directors, senior managers and all employees is given below:

	Male	Female
Directors	4	-
Senior Managers	2	1
Total Employees	284	14

BY ORDER OF THE BOARD OF DIRECTORS

PATRICIA SWEENEY  
Company Secretary

15th November 2016



## J. Smart & Co. (Contractors) PLC

### DIRECTORS

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**John M Smart, Chairman and Managing Director** Aged 72

Joined the Company in 1967

Appointed Director in 1978 and appointed Chairman in 1988

**David W Smart** Aged 43

Joined the Company in 1998

Appointed Director in 2010

**Alasdair H Ross** Aged 54

Joined the Company in 1989

Appointed Director in 2012

**John R Smart** Aged 46

Joined the Company in 2002

Appointed Director in 2013

**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 September 2014 (the Code). A copy of the Code can be found on the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

The Board of Directors (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 as it has no non-executive Directors on the Board, no Nomination, Remuneration or Audit Committees have been established and therefore the Company has not complied with any of the principles of the Code relating to non-executive directors or the establishment and operations of these committees. Also, the Board recognises that it has not fully complied with other principles of the Code relating to the division of responsibilities and evaluation of the Board as a whole and the Directors individually. Details and explanations for all principles not complied with are given below.

**THE BOARD**

The Company is led by the Board which comprises the executive management of the Company, being the Chairman and three executive Directors, and thus maintains full control of the Company, sets the strategic aims of the Company and ensures the Company has adequate financial and human resources to meet its objectives. All the Directors worked for the Company prior to their appointments as Director and therefore have the appropriate skills, experience and knowledge of the Company to ensure that the Board discharges its duties and responsibilities effectively. There were no changes in Directors in the year.

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 2 formal Board Meetings in the year, John M Smart, Alasdair H Ross and John R Smart attended both of these meetings and David W Smart attended one. During the year the Directors also met regularly on an ad hoc basis to undertake the executive management of the Company and take decisions on all material matters quickly and effectively thus exercising full direction and control of the Company. Given the way in which the Board and Company operates there is no requirement for a 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 formal and ad hoc 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 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.

Information regarding the Directors' interests in ordinary shares of the Company is given in the Directors' Remuneration Report.

The Chairman is also responsible for ensuring effective communication with shareholders and ensuring that their views and concerns are brought to the attention of the Board.

**THE BOARD (continued)**

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 or identified an independent Director.

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 this ensures that the skills, experience and knowledge are retained in the Company and onto the Board. Due regard is taken of the benefits of diversity, including gender on the Board when appointments are made. No formal tailored induction upon joining the Board is considered necessary. As the Directors are all full-time employees of the Company they are fully committed to the Company and are able to allocate sufficient time to the Company in discharging their duties and responsibilities effectively. 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, financial and other developments to enable them to fulfil their role effectively.

There is no formal system of performance evaluation of the Board or the Directors individually given the manner in which the Board operates on a day to day basis.

The Company's Articles of Association do not require that Directors retire by rotation, however, in accordance with provision B.7.1 of the Code 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. Also in accordance with provision B.7.1 of the Code all new Directors are subject to re-election at the first Annual General Meeting following their appointment.

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 a Director to receive entitlement to share options nor are there any long term incentive schemes. Full details of the Company's remuneration policy are given in the Directors' Remuneration Report.

**FINANCIAL AND BUSINESS REPORTING**

The Directors have sole responsibility for the preparation of the Annual Report and Statement of Accounts which taken as a whole is fair, balanced and understandable and provides the information necessary for the shareholders to assess the Company's performance, business model and strategy. The Directors are also solely responsible for the preparation of the Interim Report and other price-sensitive public reports in a fair, balanced and understandable manner. The basis on which the Company creates and preserves value over the long term is described in the business model within the Strategic Report.

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 current and 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 use 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.

The Statement of Directors' Responsibilities is set out on page 26.

**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 Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, as detailed in the Strategic Report, including those which threaten the business model, future performance, solvency and liquidity of the Group.

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;
- 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**

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.

Currently there are no proposals to undertake a retendering of the Company's external audit function. The Company's external auditors have held office since 1975 and there has been no audit tender since that appointment. The Board continues to assess the independence and effectiveness of the external audit function to ensure the integrity of the audit role provided by the current external auditors on behalf of the shareholders. The Board also takes into account the external auditors own policies and procedures regarding their integrity and independence including their procedures for rotation of audit partner and senior staff and the professional standards they have to adhere to. At this time the Board has concluded that there is no requirement to place the external audit function out to tender.

Mandatory rotation of external auditors has become effective for all public limited companies following implementation of an EU ruling which has become part of Companies Act 2006 via Statutory Instrument: The Statutory Auditors and Third Country Auditors Regulations 2016. Given that our current external auditors have held office for over 20 years we will be required to appoint new external auditors for the audit of the Group's accounts for the year ending 31st July 2020.

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 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.

**SIGNIFICANT JUDGEMENTS, KEY ASSUMPTIONS AND ESTIMATES**

Given that there is no Audit Committee, it is the responsibility of the Board as a whole to consider areas of the financial statements where there are significant areas of judgement regarding estimates and assumptions, which in turn have a significant effect on the amounts recognised in the financial statements. In respect of the 2016 financial statements these areas were:

- Investment Property Valuations – the valuation of the investment property portfolio is completed by the Directors. The valuation of the property portfolio is inherently subjective and requires significant judgements and assumptions to be made. The Directors appoint external valuers to value a sample of properties in the portfolio to provide a sense check on their valuation. The valuations are discussed with the Auditors.
- Long-Term Contract Valuations and Provisions – the Directors consider contract performance to ensure appropriate revenue recognition. Future revenue and contract performance are considered and loss provisions determined where necessary. Both costs and revenues may require to be revised as future events unfold and uncertainties are resolved.

The Board discusses fully all issues relevant to the above areas and obtains where possible information and advice from external experts and our external Auditors and only when fully satisfied with the amounts associated with each area are they incorporated into the financial statements.

**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, against, and withheld for each resolution will be announced.

**SUBSTANTIAL SHAREHOLDERS**

As at 31st July 2016 and 21st October 2016, excluding holdings of Directors, the Company has been notified of the following holdings of substantial voting rights in respect of the issued share capital of the Company:

	Number	%
Octet Investments Limited	1,622,400	3.58
A J Whitehead	1,579,485	3.49

BY ORDER OF THE BOARD OF DIRECTORS

15th November 2016

PATRICIA SWEENEY  
Company Secretary

**ANNUAL STATEMENT**

On behalf of the Board of Directors, I present the Directors' Remuneration Report for the year ended 31st July 2016.

In addition to this statement the Report includes two other parts being the Policy Report and the Annual Report on Remuneration, which have been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The Report also meets the requirements of the UK Listing Authority's Listing Rules and the Disclosure and Transparency Rules.

The Policy Report has been developed taking account of the principles of the UK Corporate Governance Code 2014. The shareholders approved the Policy at the 2014 Annual General Meeting (AGM) and the policy became effective for three years from that date.

The Annual Report on Remuneration will be subject to a vote at the 2016 AGM. Our Auditors are required to report to the shareholders on certain information contained in the Annual Report on Remuneration and that it has been prepared in accordance with the Act and the Regulations. The information to be audited is appropriately marked.

There have been no substantial changes to Executive Directors' remuneration in the year. Our policy continues to be to provide remuneration packages that will retain and motivate the Directors to sustain the long term growth and value of the Company.

*15th November 2016*

**JOHN M SMART**  
*Chairman*

**THE POLICY REPORT**

As stated in the Corporate Governance Statement the Company does not appoint non-executive Directors and therefore the Company does not have a Remuneration Committee to set the Executive Directors' Remuneration Policy. The Chairman fulfils the function of the Remuneration Committee.

The Company's remuneration policy is to provide remuneration packages that will retain and motivate the Directors to sustain the long-term growth and value of the Company and is based on the scope of their duties and responsibilities. The Directors are not entitled to any performance related remuneration, long term incentive schemes or share options. The remuneration of the Directors is not performance related therefore no element of their remuneration is based on performance measures.

The policy table below summarises the main components of Directors' Remuneration:

<b>ELEMENT</b>	<b>PURPOSE AND STRATEGY</b>	<b>OPERATION</b>
BASE SALARY	To pay a fair salary commensurate with the individual's role, responsibilities and experience.	Reviewed annually in July taking account of the individual's role and experience and the salary increases of employees throughout the Group as a whole. No maximum level is set.

<b>ELEMENT</b>	<b>PURPOSE AND STRATEGY</b>	<b>OPERATION</b>
BENEFITS	To provide support to enable the Directors to carry out their duties effectively.	Benefits include cash in lieu of a company car and private medical insurance. No maximum level is set as the costs of providing benefits fluctuate over time; however the costs are monitored to ensure they remain reasonable.
PENSION	To provide appropriate levels of retirement benefits.	<p>Depending on when a Director first became an employee of the Company will determine whether they are members of the Company's Defined Benefit Pension Scheme or Defined Contribution Scheme.</p> <p>Company contributions to the Defined Benefit Scheme are currently 22.6% of base salary. Contribution levels are set in agreement between the scheme trustees and the Company and can therefore vary from time to time.</p> <p>Company contributions to the Defined Contribution Scheme are currently a minimum of 10% of base salary.</p>

The Chairman retains the right to make minor amendments to the above policy, to take account of regulatory, tax, legislative or administrative changes without obtaining shareholder approval for these amendments.

No share options or long term incentive schemes are operated by the Company.

Directors are entitled to claim relevant expenses incurred by them in respect of their duties.

There are no provisions for the recovery of sums paid to Directors or the withholding of the payment of any sums to Directors.

As all remuneration of Directors is fixed remuneration there is no need to illustrate, via a bar chart, the expected values of proposed remuneration as it does not contain any elements based on performance and therefore is not subject to change based on either the Company's or Director's performance.

#### **APPROACH TO RECRUITMENT OF DIRECTORS**

The Company's approach to appointing new Executive Directors is to appoint from within the Company. As such the remuneration of the Director has already been set by the Company and the package held by the employee prior to appointment as a Director will remain in place. Consideration will be made of the increased duties and responsibilities that will apply post appointment as a Director and revision to their base salary may be made to reflect this.

#### **SERVICE CONTRACTS AND POLICY ON CESSATION**

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

#### **CONSIDERATION OF EMPLOYMENT CONDITIONS ELSEWHERE IN COMPANY**

The Chairman when considering the remuneration of the Executive Directors takes into account the remuneration of employees across the Group as a whole. However, the Chairman does not consult directly with employees on the remuneration of the Executive Directors but is mindful of salary increases which are applied across the Group as a whole.

**CONSIDERATION OF SHAREHOLDER VIEWS**

The Chairman considers all views and concerns he receives from shareholders especially at the AGM when shareholders have the opportunity to ask questions of the Board on all matters relating to the Company including Directors' Remuneration, or at any other time throughout the year.

Although no direct communication was held by the Chairman with major shareholders prior to shaping the Remuneration Policy he believes that it is a responsible approach to remuneration and its policies in the past and for the future as evidenced by the level of approval of the 2015 Directors' Remuneration Report at the 2015 AGM, details of which are given in the Annual Report on Remuneration below.

**ANNUAL REPORT ON REMUNERATION**

The following provides details of how the remuneration policy was implemented in the year to 31st July 2016.

**Single Total Figure of Remuneration for Executive Directors (Audited Information)**

The following table presents the single figure for the total remuneration of each Executive Director for the year ended 31st July 2016 and the prior year:

	Salary £000	Taxable Benefits £000	Pension £000	Total £000
<b>John M Smart</b>				
<b>2016</b>	<b>105</b>	<b>10</b>	–	<b>115</b>
2015	105	10	–	115
<b>David W Smart</b>				
<b>2016</b>	<b>104</b>	<b>9</b>	<b>52<sup>1</sup></b>	<b>165</b>
2015	101	9	55 <sup>1</sup>	165
<b>Alasdair H Ross</b>				
<b>2016</b>	<b>104</b>	<b>9</b>	<b>34<sup>1</sup></b>	<b>147</b>
2015	101	9	108 <sup>1</sup>	218
<b>John R Smart</b>				
<b>2016</b>	<b>104</b>	<b>9</b>	<b>12</b>	<b>125</b>
2015	101	9	12	122

1. Pension value represents the cash value of pension accrued over one year multiplied by 20 in line with new regulations with allowance for inflation and employee contributions.



**DIRECTORS' PENSION ENTITLEMENTS (AUDITED INFORMATION)**

David W Smart and Alasdair H Ross are members of the Company's Defined Benefit Pension Scheme whilst John R Smart is a member of the Company's Group Personal Pension Plan.

The Company's Defined Benefit Pension Scheme was closed to new members in 2003. The normal date of retirement based on the scheme rules is 65 and there is no automatic entitlement to early retirement. Contributions by the employer under the scheme are 22.6% of pensionable salary.

	Accrued pension as at 31 July 2016	Accrued pension as at 31 July 2015
	£000	£000
David W Smart . . . . .	30	27
Alasdair H Ross . . . . .	38	37

**SCHEME INTEREST AWARDS (AUDITED INFORMATION)**

There were no scheme interests awarded in the year.

**PAYMENTS TO PAST DIRECTORS (AUDITED INFORMATION)**

No payments were made to past Directors in the year.

**PAYMENTS FOR LOSS OF OFFICE (AUDITED INFORMATION)**

No payments for loss of office were made to Directors in the year.

**STATEMENT OF DIRECTORS' SHAREHOLDING AND SHARE INTERESTS (AUDITED INFORMATION)**

The Company has no policy that Directors are required to own shares in the Company, although all Directors are currently shareholders of the Company.

The interests of the Directors in the ordinary shares of the Company, including beneficial interests, are shown in the table below:

	Beneficial holdings	
	(including interests of the Director's connected persons)	
	31 July 2016	31 July 2015
John M Smart . . . . .	1,198,500	1,198,500
David W Smart . . . . .	11,863,500	11,863,500
Alasdair H Ross . . . . .	100,000	100,000
John R Smart . . . . .	11,863,500	11,863,500

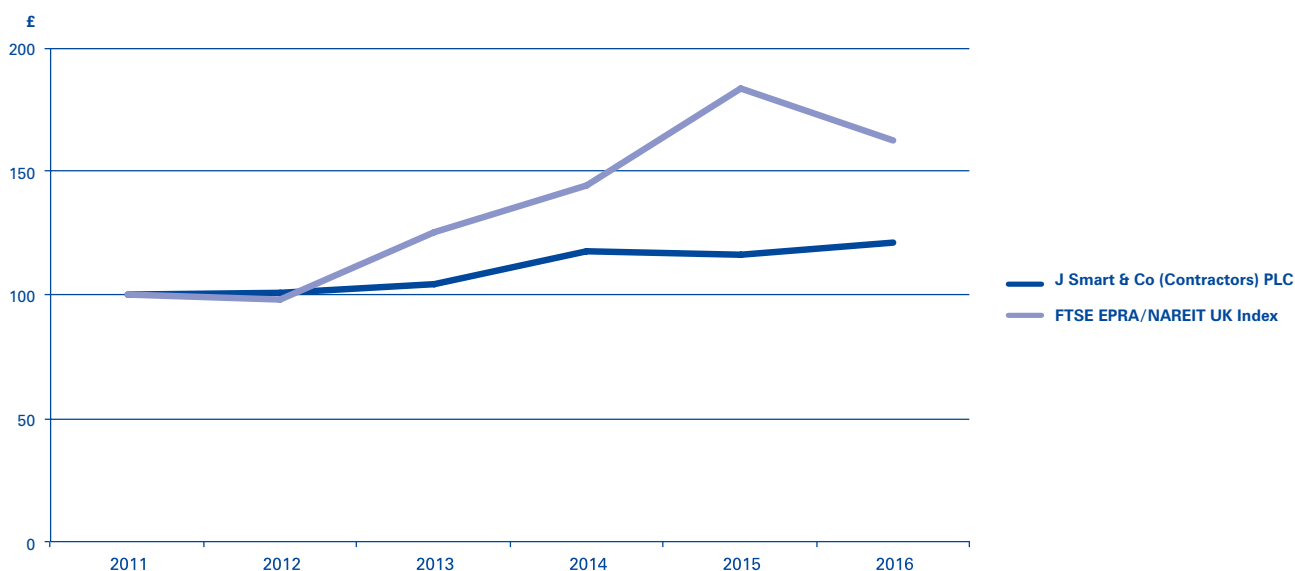
There have been no changes in any Directors' beneficial holdings between the year end and 21st October 2016.

**PERFORMANCE GRAPH**

The graph below shows a comparison of the total shareholder return for the Company's shares for each of the last five financial years against the total shareholder return for the companies comprised in the FTSE EPRA/NAREIT UK index which the Company deems to be the most relevant to the Company as it includes companies in the same sector as the Company.

The graph compares the value of £100 invested in J. Smart & Co. (Contractors) PLC, including re-invested dividends.

**Total Shareholder Return over the last five financial years**



**GROUP CHIEF EXECUTIVE OFFICER'S TOTAL REMUNERATION**

The following table details the Chief Executive Officer's single figure of remuneration over the last five financial years:

	2016	2015	2014	2013	2012
	£000	£000	£000	£000	£000
John M Smart	115	115	119	133	130

**GROUP CHIEF EXECUTIVE OFFICER'S CHANGE IN REMUNERATION**

The following table compares the change in remuneration of the Group Chief Executive Officer and that of the remuneration of the Group's salaried employees. This group of employees was chosen as it represents the most comparable group.

	CEO	Other employees
	% change 2015-2016	% change 2015-2016
Base salary	- %	5 %
Taxable benefits	- %	- %

**RELATIVE IMPORTANCE OF SPEND ON PAY**

The following table compares the total spend on remuneration of all employees of the Group, including Executive Directors, and the total amounts paid in distributions to shareholders for the years to 31st July 2016 and 31st July 2015:

	2016 £000	2015 £000	Difference in spend £000	Difference as a percentage %
Remuneration of employees	11,676	9,908	1,768	18
Total distributions paid (being dividends and share buy backs)	1,550	1,683	(133)	(8)

**IMPLEMENTATION OF EXECUTIVE DIRECTOR REMUNERATION POLICY FOR 2017**

After taking into consideration Group employees' salary increases for the year to 31st July 2017, an increase of 3% of base salary was awarded to all Directors, except John M Smart who did not receive any salary increase.

	Base salary from 1st July 2016 £	Base salary from 1st July 2015 £
John M Smart	105,000	105,000
David W Smart	106,500	103,500
Alasdair H Ross	106,500	103,500
John R Smart	106,500	103,500

**CONSIDERATIONS BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION**

The Chairman is responsible for determining Directors' Remuneration. No advice was sought in the year in considering Directors' Remuneration.

**SUMMARY OF SHAREHOLDER VOTING AT THE 2015 AGM**

The 2015 Directors' Remuneration Report was put to the shareholders for their approval at the 2015 AGM. The resolution was passed on a show of hands.

Details of the proxy votes lodged, including those at the discretion of the Chairman, are as follows:

	Total number of votes	% of votes cast
For	26,523,925	99
Against	4,000	1
Total votes cast (excluding votes withheld)	26,527,925	100
Votes withheld	—	—
Total votes cast (including votes withheld)	26,527,925	—

Votes withheld are not included in the proxy figures as they are not recognised as a vote in law.

BY ORDER OF THE BOARD OF DIRECTORS

15th November 2016

PATRICIA SWEENEY  
Company Secretary

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND STATEMENT OF ACCOUNTS**

The Directors are responsible for preparing the Annual Report and the Group and Parent Company's Statement of Accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

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 period. In preparing each of the Group and Parent Company 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 they have been prepared in accordance with IFRSs as adopted by the EU; 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 adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that its financial statements comply with Companies Act 2006. 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 applicable law and regulations, the Directors are also responsible for preparing the Report of the Directors, Strategic Report, Corporate Governance Statement and Directors' Remuneration Report that complies with that law and those 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' RESPONSIBILITY STATEMENT**

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

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Report of the Directors and the Strategic Report include a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Statement of Accounts taken as a whole are fair, balanced and understandable and provide the information necessary for the shareholders to assess the Group's business model, performance and strategy.

BY ORDER OF THE BOARD OF DIRECTORS

PATRICIA SWEENEY  
*Company Secretary*

*15th November 2016*

### INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF J. SMART & CO. (CONTRACTORS) PLC

We have audited the financial statements of J. Smart & Co. (Contractors) PLC for the year ended 31st July 2016 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Financial Position, the 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 as adopted by the European Union (IFRSs as adopted by the EU) and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's 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 Statement of Directors Responsibilities set out on page 26, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) (ISAs (UK and Ireland)). Those standards require us to comply with the Auditing Practices Board'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. In addition we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### 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 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; 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 Regulations.

### OUR ASSESSMENT OF RISK OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit strategy, the allocation of our resources in the audit and directing the efforts of the audit team, were the valuation of the investment property portfolio, contract accounting estimates and revenue recognition.

**OUR APPLICATION OF MATERIALITY**

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. For the purposes of determining whether the financial statements are free from material misstatement we define materiality as the magnitude of misstatements that makes it probable that the economic decisions of a reasonably knowledgeable person relying on the financial statements would be changed or influenced.

The materiality for the Group financial statements as a whole was set at £537,000. This has been determined with reference to a benchmark of Group total assets (of which it represents 0.5%) which we consider to be one of the principal considerations for members of the Company in assessing the financial position of the Group. We also considered the overall property portfolio valuation and the extent and significance of the construction business in concluding on the appropriate level of materiality.

We agreed with the Board of Directors to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £27,000, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

**AN OVERVIEW OF THE SCOPE OF OUR AUDIT**

The Group financial statements are a consolidation of the six trading entities including the Parent entity and the Group's four Joint Ventures. Except for the Joint Ventures where we focussed our work on the share of profits and net assets that are recognised in the Group accounts, all entities were audited. In establishing the overall approach to the Group audit, we determined the type of audit work required to enable us to conclude whether sufficient audit evidence had been obtained as a basis for our opinion on the Group financial statements.

There were no changes to the scope of our audit in the current year.

The way in which we scoped our response to the risks identified above was as follows:

**VALUATION OF THE INVESTMENT PROPERTY PORTFOLIO**

Risk: The valuation of investment property requires significant judgement and estimates by management. Any input inaccuracies or unreasonable bases used in these assumptions (such as in respect of estimated rental value and yield profile applied) could result in a material misstatement of the Income Statement and Statement of Financial Position.

Our response: Our audit procedures included among others:

- Testing the integrity of the information used by the Directors in completing the valuation including agreement on a sample basis back to underlying leases;
- Meeting with the Directors to challenge the valuation process, the performance of the portfolio and the significant assumptions and critical judgement areas, including future income and yields;
- Reviewing the results of a valuation completed by a third party valuer of a sample of the property portfolio, comparing this to the Directors' valuation and discussing the results with the Directors.

**CONTRACT ACCOUNTING ESTIMATES**

Risk: Judgement is required in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract outcome could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period.

Our response: Our audit procedures included among others:

- Substantive testing of contract revenues and costs;
- Meeting with the Directors to challenge key judgements inherent in the forecast costs to complete that are crucial in determining revenue and margin to be recognised and the identification of loss making contracts and the quantum of loss provisions;
- Performing site visits and reviewing contract terms for key contracts.

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**AN OVERVIEW OF THE SCOPE OF OUR AUDIT (continued)**

**REVENUE RECOGNITION**

Risk: Revenue recognition including the timing of revenue recognition on construction contracts, house sales and property rental income, including rental incentives. Performance expectations may place pressure on management to distort revenue recognition. This may result in the overstatement or deferral of revenues.

Our response: Our audit procedures included among others:

- Testing rental income to lease agreements, rental incentives and other property related income.
- Our approach to contract income is detailed above.
- Substantive testing and analytical procedures in connection with revenue balances, including private house sales, to assess whether revenue has been recognised in the appropriate accounting period;
- Assessment of whether revenue recognition policies adopted complied with IFRSs as adopted by the EU.

**OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors and the Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following:

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' Statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Board of Directors which we consider should have been disclosed.

**MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION (continued)**

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 financial statements and the part of the Directors' Remuneration Report 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 8, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the ten provisions of the UK Corporate Governance Code specified for our review.

**STATEMENT ON THE DIRECTORS' ASSESSMENT OF THE PRINCIPAL RISKS THAT WOULD THREATEN THE SOLVENCY OR LIQUIDITY OF THE ENTITY**

Under the ISAs (UK and Ireland) we are required to give a statement as to whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation in the Annual Report and Statement of Accounts that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report and Statement of Accounts that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they consider it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over the period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the Annual Report and Statement of Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing material to add or to draw attention to.



## J. Smart & Co. (Contractors) PLC

### CONSOLIDATED INCOME STATEMENT for the year ended 31st JULY 2016

	Notes	2016 £000	2015 £000
Group construction activities . . . . .		30,682	21,556
Less: Own construction work capitalised . . . . .		<u>(1,655)</u>	<u>(737)</u>
<b>REVENUE</b> . . . . .		29,027	20,819
Cost of sales . . . . .		<u>(25,260)</u>	<u>(18,061)</u>
<b>GROSS PROFIT</b> . . . . .		3,767	2,758
Other operating income . . . . .	3	5,520	5,241
Net operating expenses . . . . .		<u>(6,095)</u>	<u>(5,839)</u>
<b>OPERATING PROFIT BEFORE PROFIT ON SALE AND NET SURPLUS / (DEFICIT) ON VALUATION OF INVESTMENT PROPERTIES</b> . . . . .		3,192	2,160
Profit on sale of investment properties . . . . .		186	60
Net surplus/(deficit) on valuation of investment properties . . . . .		<u>136</u>	<u>(211)</u>
<b>OPERATING PROFIT</b> . . . . .	5	3,514	2,009
Share of profits in Joint Ventures . . . . .	14	33	1,306
Income from available for sale financial assets . . . . .	6	14	28
Profit on sale of available for sale financial assets . . . . .		–	1
Finance income . . . . .	7	<u>191</u>	<u>200</u>
<b>PROFIT BEFORE TAX</b> . . . . .		3,752	3,544
Taxation . . . . .	8	<u>(264)</u>	<u>(546)</u>
<b>PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b> . . . . .	9	<u>3,488</u>	<u>2,998</u>
<b>EARNINGS PER SHARE – BASIC AND DILUTED</b> . . . . .	11	<u>7.61p</u>	<u>6.45p</u>

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

## J. Smart & Co. (Contractors) PLC

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year ended 31st JULY 2016

	2016 £000	2015 £000
<b>PROFIT FOR THE YEAR</b>	3,488	2,998
<b>OTHER COMPREHENSIVE LOSS</b>		
Items that may be subsequently reclassified to Income Statement:		
Fair value adjustment of available for sale financial assets	<u>(10)</u>	<u>(46)</u>
<b>TOTAL ITEMS WHICH MAY BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT</b>	<u>(10)</u>	<u>(46)</u>
Items that will not be subsequently reclassified to Income Statement:		
Actuarial loss recognised in defined benefit pension scheme	(2,256)	(1,003)
Deferred taxation on actuarial loss	<u>215</u>	<u>201</u>
<b>TOTAL ITEMS THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT</b>	<u>(2,041)</u>	<u>(802)</u>
<b>TOTAL OTHER COMPREHENSIVE LOSS</b>	<u>(2,051)</u>	<u>(848)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u>1,437</u>	<u>2,150</u>
<b>ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>	<u>1,437</u>	<u>2,150</u>

## J. Smart & Co. (Contractors) PLC

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY as at 31st JULY 2016

	Share Capital £000	Capital Redemption Reserve £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
<b>At 1st August 2014</b>	936	72	–	87,474	88,482
Profit for the year	–	–	–	2,998	2,998
Other comprehensive loss	–	–	(46)	(802)	(848)
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>	–	–	(46)	2,196	2,150
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>					
Shares purchased and cancelled	(17)	–	–	(814)	(831)
Transfer to Capital Redemption Reserve	–	17	–	(17)	–
Dividends	–	–	–	(852)	(852)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	(17)	17	–	(1,683)	(1,683)
<b>At 31st July 2015</b>	919	89	(46)	87,987	88,949
Profit for the year	–	–	–	3,488	3,488
Other comprehensive loss	–	–	(10)	(2,041)	(2,051)
<b>TOTAL COMPREHENSIVE (LOSS) / INCOME FOR THE YEAR</b>	–	–	(10)	1,447	1,437
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>					
Shares purchased and cancelled	(13)	–	–	(691)	(704)
Transfer to Capital Redemption Reserve	–	13	–	(13)	–
Dividends	–	–	–	(846)	(846)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	(13)	13	–	(1,550)	(1,550)
<b>At 31st July 2016</b>	906	102	(56)	87,884	88,836

## J. Smart & Co. (Contractors) PLC

### COMPANY STATEMENT OF CHANGES IN EQUITY as at 31st JULY 2016

	Share Capital £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
<b>At 1st August 2014</b>	936	72	12,953	13,961
Profit for the year	–	–	1,811	1,811
Other comprehensive loss	–	–	(802)	(802)
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>–</u>	<u>–</u>	<u>1,009</u>	<u>1,009</u>
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>				
Shares purchased and cancelled	(17)	–	(814)	(831)
Transfer to Capital Redemption Reserve	–	17	(17)	–
Dividends	–	–	(852)	(852)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<u>(17)</u>	<u>17</u>	<u>(1,683)</u>	<u>(1,683)</u>
<b>At 31st July 2015</b>	<u>919</u>	<u>89</u>	<u>12,279</u>	<u>13,287</u>
Profit for the year	–	–	310	310
Other comprehensive loss	–	–	(2,041)	(2,041)
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>	<u>–</u>	<u>–</u>	<u>(1,731)</u>	<u>(1,731)</u>
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>				
Shares purchased and cancelled	(13)	–	(691)	(704)
Transfer to Capital Redemption Reserve	–	13	(13)	–
Dividends	–	–	(846)	(846)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<u>(13)</u>	<u>13</u>	<u>(1,550)</u>	<u>(1,550)</u>
<b>At 31st July 2016</b>	<u>906</u>	<u>102</u>	<u>8,998</u>	<u>10,006</u>

## J. Smart & Co. (Contractors) PLC

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31st JULY 2016

	Notes	2016 £000	2015 £000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	1,382	1,382
Investment properties	13	64,728	63,231
Investments in Joint Ventures	14	263	267
Available for sale financial assets	15	326	337
Retirement benefit surplus	26	33	1,472
Deferred tax assets	21	41	27
		<u>66,773</u>	<u>66,716</u>
<b>CURRENT ASSETS</b>			
Inventories	16	2,684	5,735
Trade and other receivables	17	6,369	4,508
Current tax asset		–	995
Monies held on deposit	18	5,519	3,502
Cash and cash equivalents	18	26,785	26,047
		<u>41,357</u>	<u>40,787</u>
<b>TOTAL ASSETS</b>		<u>108,130</u>	<u>107,503</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	21	1,389	1,830
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	5,134	4,000
Corporation tax liability		143	–
Bank overdraft		12,628	12,724
		<u>17,905</u>	<u>16,724</u>
<b>TOTAL LIABILITIES</b>		<u>19,294</u>	<u>18,554</u>
<b>NET ASSETS</b>		<u>88,836</u>	<u>88,949</u>
<b>EQUITY</b>			
Called up share capital	22	906	919
Capital redemption reserve		102	89
Fair value reserve		(56)	(46)
Retained earnings		87,884	87,987
<b>TOTAL EQUITY</b>		<u>88,836</u>	<u>88,949</u>

The financial statements on pages 31 to 69 were approved by the Board of Directors and authorised for issue on 15th November 2016 and were signed on its behalf by:

JOHN M SMART  
Director

DAVID W SMART  
Director

Company Number SC025130

## J. Smart & Co. (Contractors) PLC

### COMPANY STATEMENT OF FINANCIAL POSITION as at 31st JULY 2016

	Notes	2016 £000	2015 £000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	853	857
Investments in Subsidiaries and Joint Ventures	14	708	708
Retirement benefit surplus	26	33	1,472
		<u>1,594</u>	<u>3,037</u>
<b>CURRENT ASSETS</b>			
Inventories	16	2,406	5,450
Trade and other receivables	17	6,009	3,878
Current tax asset		522	1,453
Cash and cash equivalents	18	2,948	2,505
		<u>11,885</u>	<u>13,286</u>
<b>TOTAL ASSETS</b>		<u>13,479</u>	<u>16,323</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	21	80	375
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	3,393	2,661
<b>TOTAL LIABILITIES</b>		<u>3,473</u>	<u>3,036</u>
<b>NET ASSETS</b>		<u>10,006</u>	<u>13,287</u>
<b>EQUITY</b>			
Called up share capital	22	906	919
Capital redemption reserve		102	89
Retained earnings		8,998	12,279
<b>TOTAL EQUITY</b>		<u>10,006</u>	<u>13,287</u>

The financial statements on pages 31 to 69 were approved by the Board of Directors and authorised for issue on 15th November 2016 and were signed on its behalf by:

JOHN M SMART  
*Director*

DAVID W SMART  
*Director*

Company Number SC025130

## J. Smart & Co. (Contractors) PLC

### CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31st JULY 2016

	Notes	2016 £000	2015 £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	23 (a)	5,197	4,991
Tax received/(paid)		<u>634</u>	<u>(233)</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>5,831</u>	<u>4,758</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(488)	(483)
Additions to investment properties		(45)	(236)
Expenditure on own work capitalised - investment properties		(1,655)	(737)
Sale of property, plant and equipment		70	78
Sale of investment properties		525	1,000
Purchase of available for sale financial assets		–	(383)
Proceeds of sale of available for sale financial assets		1	3,997
Increase in monies held on deposit		(2,017)	(3,502)
Interest received		125	117
Dividend received from Joint Ventures		<u>37</u>	<u>2,327</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u>(3,447)</u>	<u>2,178</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of own shares		(704)	(831)
Dividends paid		<u>(846)</u>	<u>(852)</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u>(1,550)</u>	<u>(1,683)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>834</u>	<u>5,253</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	23 (b)	<u>13,323</u>	<u>8,070</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23 (b)	<u>14,157</u>	<u>13,323</u>

## J. Smart & Co. (Contractors) PLC

### COMPANY STATEMENT OF CASH FLOWS for the year ended 31st JULY 2016

	Notes	2016 £000	2015 £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	24 (a)	1,087	3,101
Tax received		<u>1,084</u>	<u>588</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>2,171</u>	<u>3,689</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(286)	(321)
Sale of property, plant and equipment		59	54
Interest received		12	20
Dividend received from Joint Ventures		<u>37</u>	<u>2,327</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u>(178)</u>	<u>2,080</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of own shares		(704)	(831)
Dividends paid		<u>(846)</u>	<u>(852)</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u>(1,550)</u>	<u>(1,683)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>443</u>	<u>4,086</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	24 (b)	<u>2,505</u>	<u>(1,581)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	24 (b)	<u>2,948</u>	<u>2,505</u>



### 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 2016

There have been no new International Financial Reporting Standards or amendments to existing standards which impact the Group's financial statements in the year to 31st July 2016.

#### NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS NOT YET APPLIED

The following new standards, amendments to standards and interpretations relevant to the Group have been issued by the International Accounting Standards Board but are not yet effective for the Group and Company at the date of these financial statements, and have not been adopted early:

- IFRS 7: Financial Instruments: Disclosures (effective in the year ending 31st July 2017).
- IFRS 9: Financial Instruments (effective in the year ending 31st July 2019).
- IFRS 15: Revenue from Contracts with Customers (effective in the year ending 31st July 2019).
- IFRS 16: Leases (effective in the year ending 31st July 2020).

The Directors are to fully consider the implications and impact on the financial statements of these Standards, especially IFRS 15 and IFRS 16. It is not currently practical to anticipate the financial impact of these Standards on the financial statements.

#### BASIS OF PREPARATION

The accounts have been prepared on a going concern basis and under the historical cost convention except where the measurement of balances at fair value is required as noted below for investment properties, available for sale financial assets and assets held by defined benefit pension scheme.

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.

**1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (continued)**

**CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

**INVESTMENT PROPERTIES**

Investment properties are revalued annually by the Directors in accordance with the RICS Valuation Standards. The valuations are subjective due to, among other factors, the individual nature of the property, its location and the expected future rental income. As a result, the valuation of the Group's investment property portfolio incorporated into the financial statements is subject to a degree of uncertainty and is made on the basis of assumptions which may prove to be inaccurate, particularly in periods of volatility or low transaction flow in the property market.

The assumptions used by the Directors are market standard assumptions in accordance with the RICS Valuation Standards and include matters such as tenure and tenancy details, ground conditions of the properties and their structural conditions, prevailing market yields and comparable market conditions. If any of the assumptions used by the Directors prove to be incorrect this could result in the valuation of the Group's investment property portfolio differing from the valuation incorporated into the financial statements and the difference could have a material effect on the financial statements.

**LONG-TERM CONTRACT PROVISIONS**

Judgement is required in the area of provisions for losses on long-term contracts. The Directors take into account the estimated costs to complete and the percentage stage of completion of current contracts when determining the provision for losses. 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. If different assumptions were used then this could materially affect the results disclosed in the financial statements. These are set out in note 26 to the Accounts.

**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.

**BUSINESS COMBINATIONS AND GOODWILL**

Subsidiaries acquired in the year are accounted for using the acquisition method of accounting. Identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date. The consideration transferred for the acquisition is the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill.

**1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (continued)**

**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.

**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, working capital 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 12 and 13 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 PROPERTIES**

Investment properties are properties, either owned by the Group or where the Group is a lessee under a finance lease, which are held for long-term rental income or for capital appreciation or both. Also, properties held under operating leases are accounted for as investment properties when the rest of the definition of an investment property is met.

Investment properties, whether completed or under development, are initially recognised at cost and revalued at the Balance Sheet date to fair value as determined by the Directors in accordance with the RICS Valuation Standards.

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.

**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.

**1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (continued)****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

**IMPAIRMENT REVIEWS****PROPERTY, PLANT AND EQUIPMENT**

Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows independent of the cash inflows of other groups of assets.

The Group assesses at each Balance Sheet date whether there is an indication that an asset may be impaired. If an indication exists the Group makes an estimate of the recoverable amount of each asset group, being the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. An impairment loss is recognised where the recoverable amount is lower than the carrying value of assets.

If there is an indication that previously recognised impairment losses may have decreased or no longer exist, a reversal of the loss may be made. The carrying amount of the asset is increased to its recoverable amount only up to the carrying amount that would have resulted, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Impairment losses and any subsequent reversals are recognised in the Income Statement.

**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.

Variations and claims are included in Revenue where it is probable that the amount, which can be measured reliably, will be recovered from the customer.

**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 (continued)****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. The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amounts of its assets and liabilities for Investment Properties that are measured at fair value.

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 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. Where future rentals are material, the properties are capitalised and treated as finance leases in accordance with IAS 17: Leases, otherwise 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 (continued)****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 amounts received and receivable for work done in the year. The measurement and stage of completion of long-term contracts are based on valuations agreed with 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.

Revenue from private housing sales is recognised when transactions are legally completed.

Revenue from private housing sales under shared equity scheme are accounted for at fair value.

**FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised in 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**

Available for sale financial assets 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. For the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**MONIES HELD ON DEPOSIT**

Monies held on deposit with original maturity dates exceeding three months are disclosed separately in the Statement of Financial Position. As these monies originated from investing activities any movements in the year on these monies are disclosed under Investing Activities in the Statement of Cash Flows.

**TRADE AND OTHER PAYABLES**

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

**1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES (continued)**

**MEASUREMENT OF FAIR VALUES**

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which a change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 13 – Investment Properties;
- Note 15 – Available for Sale Financial Assets;
- Note 20 – Financial Instruments;
- Note 26 – Retirement Benefit Obligations.

**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 identified 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 results.

	External Revenue	Internal Revenue	Total Revenue	Operating Profit / (Loss)	
				2016	2015
	£000	£000	£000	£000	£000
<b>2016</b>					
Construction activities	29,027	1,655	30,682	(102)	–
Investment activities	5,520	–	5,520	3,616	–
	<u>34,547</u>	<u>1,655</u>	<u>36,202</u>	<u>3,514</u>	<u>–</u>
<b>2015</b>					
Construction activities	20,819	737	21,556	–	(949)
Investment activities	5,241	–	5,241	–	2,958
	<u>26,060</u>	<u>737</u>	<u>26,797</u>	<u>–</u>	<u>2,009</u>
<b>OPERATING PROFIT</b>				3,514	2,009
Share of results of Joint Ventures				33	1,306
Finance and investment income				205	229
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>				<u>3,752</u>	<u>3,544</u>

Internal revenue relates to own work capitalised, all other internal transactions are eliminated on consolidation. The Group had sales from construction activities from two customers amounting to £14,467,000 (2015, sales from construction activities from three customers amounting to £11,764,000).



**2. SEGMENTAL INFORMATION (continued)**

**OTHER SEGMENTAL INFORMATION**

	Non-Current Asset Additions £000	Depreciation £000	Segment Assets £000	Segment Liabilities £000
<b>2016</b>				
Construction activities . . . . .	488	465	16,860	4,749
Investment activities . . . . .	1,700	–	91,561	15,099
Joint Ventures . . . . .	–	–	263	–
	<u>          </u>	<u>          </u>	<u>108,684</u>	<u>19,848</u>
Allocation of corporation tax debtor . . . . .			(554)	(554)
			<u>108,130</u>	<u>19,294</u>
<b>2015</b>				
Construction activities . . . . .	483	450	20,241	3,900
Investment activities . . . . .	973	–	87,654	15,313
Joint Ventures . . . . .	–	–	267	–
	<u>          </u>	<u>          </u>	<u>108,162</u>	<u>19,213</u>
Allocation of corporation tax debtor . . . . .			(659)	(659)
			<u>107,503</u>	<u>18,554</u>

**3. OTHER OPERATING INCOME**

	2016 £000	2015 £000
Rental income . . . . .	4,994	4,764
Service charges and insurance receivable . . . . .	526	477
	<u>5,520</u>	<u>5,241</u>
Direct property costs . . . . .	(2,164)	(2,070)
Net rental income . . . . .	<u>3,356</u>	<u>3,171</u>

Direct property costs included £914,000 (2015, £830,000) in respect of investment properties that did not generate rental income in the year.

**4. STAFF COSTS AND DIRECTORS' REMUNERATION**

	2016	2015
	£000	£000
Staff costs during the year amounted to:		
Wages, salaries and short term benefits . . . . .	9,784	8,269
Social security costs . . . . .	1,051	850
Post-employment benefits . . . . .	843	789
	<u>11,678</u>	<u>9,908</u>
The average weekly number of employees during the year was made up as follows:		
	No.	No.
Construction and related services . . . . .	275	224
Office and management . . . . .	23	22
	<u>298</u>	<u>246</u>
Directors' remuneration:		
	£000	£000
– Salaries and short term benefits . . . . .	454	445
– Post-employment benefits . . . . .	59	58
	<u>513</u>	<u>503</u>

David W Smart and Alasdair H Ross are members of the Group's defined benefit pension scheme.

John R Smart is a member of the Group's defined contribution Group Personal Pension Plan.

Key management is comprised solely of the Directors of the Company. Full details of Directors' remuneration is given in the Directors' Remuneration Report on pages 20 to 25.

**5. OPERATING PROFIT**

This is stated after charging/(crediting):		
Cost of inventories recognised as an expense . . . . .	7,074	2,597
Staff costs (per note 4) . . . . .	11,678	9,908
Hire of plant and machinery . . . . .	651	430
Contingent rents . . . . .	75	68
Depreciation of owned assets . . . . .	465	450
Profit on disposal of property, plant and equipment . . . . .	(47)	(47)
Auditors' remuneration and expenses – audit services . . . . .	104	110
	<u>          </u>	<u>          </u>

The auditors' fees for the Parent Company are £50,000 (2015, £50,000).

**6. INCOME FROM INVESTMENTS**

Dividend income from available for sale financial assets . . . . .	<u>14</u>	<u>28</u>
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**7. FINANCE INCOME**

Income:		
Interest on short term deposits . . . . .	111	95
Other interest . . . . .	14	22
Net interest income on retirement benefit obligations . . . . .	66	83
	<u>191</u>	<u>200</u>

8. TAXATION	2016	2015
	£000	£000
UK Corporation Tax		
Current tax on income for the year . . . . .	512	262
Corporation tax over provided in previous years . . . . .	(8)	(36)
	<u>504</u>	<u>226</u>
Deferred taxation (note 21) . . . . .	(240)	320
	<u>264</u>	<u>546</u>
Current Tax Reconciliation		
Profit on ordinary activities before tax . . . . .	3,752	3,544
Share of profits of Joint Ventures . . . . .	(33)	(1,306)
	<u>3,719</u>	<u>2,238</u>
Current tax at 20.00% (2015, 20.67%). . . . .	744	463
Effects of:		
Expenses not deductible for tax purposes . . . . .	6	3
Other timing differences . . . . .	10	–
Tangible asset differences . . . . .	–	2
Non taxable income . . . . .	(67)	(5)
Deferred tax asset not recognised . . . . .	–	48
Effect of indexation allowances. . . . .	–	(17)
Effect of change in tax rate . . . . .	(421)	(10)
Adjustments to corporation tax charge in respect of prior years . . . . .	(8)	(36)
Adjustment to deferred tax charge in respect of prior years . . . . .	–	98
	<u>264</u>	<u>546</u>

The Finance Act 2015, which received Royal Assent on 26th March 2015 stated that the UK corporation tax rate would reduce to 20% for financial years commencing 1st April 2015. The Finance (No.2) Act 2015, which received Royal Assent on 18th November 2015, reduced the UK corporation tax rate to 19% for financial years commencing 1st April 2017 to 1st April 2019 and to 18% for financial year commencing 1st April 2020. The Finance Act 2016, which received Royal Assent on 15th September 2016, reduced the rate to 17% for financial years commencing 1st April 2020.

The effective corporation tax rate is 20.00% (2015, 20.67%) being the average rate applicable over the period. Deferred tax provisions have been calculated using the 18% rate.

In addition to amounts charged to the Income Statement, a deferred tax credit of £215,000 (2015, £201,000) relating to actuarial losses on the defined benefit pension scheme has been recognised directly to Equity.

The value of the deferred tax asset in respect of Capital Losses not recognised in the financial statements amounted to £1,340,000 (2015, £1,550,000).

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

**9. PROFIT FOR THE FINANCIAL YEAR**

Dealt with in the accounts of the Parent Company . . . . .	310	1,811
Retained by Subsidiary and Joint Venture Companies . . . . .	3,178	1,187
	<u>3,488</u>	<u>2,998</u>

<b>10. DIVIDENDS</b>	2016	2015
	£000	£000
2014 Final Dividend of 2.04p per share, after waivers . . . . .	–	428
2015 Interim Dividend of 0.92p per share . . . . .	–	424
2015 Final Dividend of 2.10p per share, after waivers . . . . .	425	–
2016 Interim Dividend of 0.92p per share . . . . .	421	–
	<u>846</u>	<u>852</u>

The Board is proposing a Final Dividend of 2.15p per share (2015, 2.10p) which, after waivers will cost the Company no more than £421,000.

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 2016 . . . . .	<u>3,488</u>	<u>7.61p</u>
Year to 31st July 2015 . . . . .	<u>2,998</u>	<u>6.45p</u>

Basic earnings per share are calculated by dividing the profit attributable to equity shareholders by the weighted average number of shares in issue during the year.

The weighted average number of shares for the year to 31st July 2016 amounted to 45,845,000 (2015, 46,516,000).

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

**12. PROPERTY, PLANT AND EQUIPMENT**

**(a) GROUP**

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost:			
At 1st August 2015 . . . . .	896	5,760	6,656
Additions . . . . .	–	488	488
Disposals . . . . .	–	(328)	(328)
At 31st July 2016 . . . . .	<u>896</u>	<u>5,920</u>	<u>6,816</u>
Depreciation:			
At 1st August 2015 . . . . .	534	4,740	5,274
Provided during year . . . . .	19	446	465
Disposals . . . . .	–	(305)	(305)
At 31st July 2016 . . . . .	<u>553</u>	<u>4,881</u>	<u>5,434</u>
Net book value:			
At 31st July 2016 . . . . .	<u>343</u>	<u>1,039</u>	<u>1,382</u>
Cost:			
At 1st August 2014 . . . . .	896	5,720	6,616
Additions . . . . .	–	483	483
Disposals . . . . .	–	(443)	(443)
At 31st July 2015 . . . . .	<u>896</u>	<u>5,760</u>	<u>6,656</u>
Depreciation:			
At 1st August 2014 . . . . .	515	4,721	5,236
Provided during year . . . . .	19	431	450
Disposals . . . . .	–	(412)	(412)
At 31st July 2015 . . . . .	<u>534</u>	<u>4,740</u>	<u>5,274</u>
Net book value:			
At 31st July 2015 . . . . .	<u>362</u>	<u>1,020</u>	<u>1,382</u>

Included within Freehold Land and Buildings is land costing £13,000 (2015, £13,000) which is not depreciated.

**12. PROPERTY, PLANT AND EQUIPMENT (continued)**

**(b) COMPANY**

	Land and buildings Freehold £000	Plant, equipment and vehicles £000	Total £000
Cost:			
At 1st August 2015 . . . . .	361	2,719	3,080
Additions . . . . .	–	286	286
Disposals . . . . .	–	(230)	(230)
Group transfers . . . . .	–	(46)	(46)
At 31st July 2016 . . . . .	<u>361</u>	<u>2,729</u>	<u>3,090</u>
Depreciation:			
At 1st August 2015 . . . . .	110	2,113	2,223
Provided during year . . . . .	5	265	270
Disposals . . . . .	–	(216)	(216)
Group transfers . . . . .	–	(40)	(40)
At 31st July 2016 . . . . .	<u>115</u>	<u>2,122</u>	<u>2,237</u>
Net book value:			
At 31st July 2016 . . . . .	<u>246</u>	<u>607</u>	<u>853</u>
Cost:			
At 1st August 2014 . . . . .	361	2,685	3,046
Additions . . . . .	–	321	321
Disposals . . . . .	–	(287)	(287)
At 31st July 2015 . . . . .	<u>361</u>	<u>2,719</u>	<u>3,080</u>
Depreciation:			
At 1st August 2014 . . . . .	105	2,114	2,219
Provided during year . . . . .	5	260	265
Disposals . . . . .	–	(261)	(261)
At 31st July 2015 . . . . .	<u>110</u>	<u>2,113</u>	<u>2,223</u>
Net book value:			
At 31st July 2015 . . . . .	<u>251</u>	<u>606</u>	<u>857</u>

**13. INVESTMENT PROPERTIES**

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Total £000
Cost or valuation:			
At 1st August 2015 . . . . .	55,330	7,901	63,231
Additions . . . . .	1,664	36	1,700
Disposals . . . . .	(339)	–	(339)
(Deficit)/surplus on valuation . . . . .	(25)	161	136
At 31st July 2016 . . . . .	<u>56,630</u>	<u>8,098</u>	<u>64,728</u>
Cost or valuation:			
At 1st August 2014 . . . . .	55,084	8,525	63,609
Additions . . . . .	431	542	973
Disposals . . . . .	(135)	(1,005)	(1,140)
Deficit on valuation . . . . .	(50)	(161)	(211)
At 31st July 2015 . . . . .	<u>55,330</u>	<u>7,901</u>	<u>63,231</u>

**Valuation Process**

The Group's investment properties are valued by John M Smart, MRICS and David W Smart, MRICS, who are Directors of the Parent Company, on the basis of fair value, in accordance with the RICS Valuation – Professional Standards (January 2014), Global and UK Edition. As in previous years, external valuers have reviewed a sample of the Group's investment properties and provided a report to the Group detailing the valuations they would have placed on the sample of investment properties reviewed. The valuations prepared by the Directors and the external valuers are compared to ensure that there are no material variations between the valuations.

Investment properties, excluding ongoing developments, are valued using the investment method of valuation. This approach involves applying capitalisation yields to current and estimated future rental streams and then allowing for voids arising from vacancies and rent free periods and associated running costs. The capitalisation yields and rental values are based on comparable property and leasing transactions in the market, using the valuers' professional judgment and market observations. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

In the case of ongoing developments, the approach applied is the residual method of valuation, which is the same as the investment method, as described above, with a deduction for all costs necessary to complete the development, together with a further allowance for remaining risk.

In accordance with IAS 40: Investment Property, net annual surpluses or deficits are taken to the Income Statement and no depreciation is provided in respect of these properties.

**13. INVESTMENT PROPERTIES (continued)**

The Group considers all of its investment properties fall within ‘Level 3’ of the fair value hierarchy as described by IFRS 13: Fair Value Measurement. Level 3 valuations are those using inputs for the asset or liability that are not based on observable market data. The main unobservable inputs relate to estimated rental value and equivalent yield. There have been no transfers of properties in the fair value hierarchy in the financial year. The table below summarises the key unobservable inputs used in the valuation of the Group’s investment properties as at 31st July 2016:

	Fair Value at 31 July 2016 £000	Estimated Rental Value £ per sq ft			Equivalent Yield %		
		Low	Average	High	Low	Average	High
<b>Investment</b>							
Commercial	17,845	9.00	12.00	15.00	8.0	10.3	11.5
Industrial	46,883	4.00	5.75	7.50	8.6	8.9	10.1

The following table illustrates the impact of changes in the key unobservable inputs (in isolation) on the fair value of the Group’s investment properties as at 31st July 2016:

	Fair Value at 31 July 2016 £000	5% change in estimated rental value		25bps change in equivalent yield	
		Increase £000	Decrease £000	Decrease £000	Increase £000
<b>Investment</b>					
Commercial	17,845	906	(906)	494	(472)
Industrial	46,883	2,257	(2,257)	1,289	(1,220)

The Group had obligations of £nil (2015, £1,269,000) in respect of developments and repair costs of investment properties at the Balance Sheet date.



**14. INVESTMENTS**

	<i>Group</i>		<i>Company</i>	
	2016 £000	2015 £000	2016 £000	2015 £000
Shares in Subsidiaries at Cost . . . . .	–	–	708	708
Joint Ventures . . . . .	263	267	–	–
	<u>263</u>	<u>267</u>	<u>708</u>	<u>708</u>

**(a) JOINT VENTURES**

At 31st July 2015 the Directors considered Prestonfield Development Company Limited to be a material associate and the following table summarises the financial information of that company as included in its own financial statements, adjusted for differences in accounting policies for the year to 31st July 2015. At 31st July 2016 Prestonfield Development Company Limited is no longer considered to be a material associate.

	<i>2015</i> <i>£000</i>
Current assets (including cash and cash equivalents of £430,000) . . . . .	454
Current liabilities (including current financial liabilities excluding trade and other payables and provisions of £nil) . . . . .	<u>(372)</u>
Net assets . . . . .	<u>82</u>
Group's share of net assets . . . . .	<u>41</u>
Revenue . . . . .	388
Profit on sale of investment property . . . . .	2,516
Profit and total comprehensive income . . . . .	<u>2,533</u>
Group's share of profit and total comprehensive income . . . . .	1,267
Dividend received . . . . .	<u>(2,325)</u>
	<u>(1,058)</u>

At 31st July 2016 the Group's interests in its Joint Venture Companies are not considered to be material and the aggregate financial information for these associate companies is as follows:

	2016 £000	2015' £000
Aggregate carrying amount of individually immaterial associates . . . . .	<u>263</u>	<u>226</u>
Aggregate carrying amount of the Group's share of:		
Profit from continuing activities . . . . .	<u>33</u>	<u>39</u>
Total comprehensive income . . . . .	33	39
Dividend received . . . . .	<u>(37)</u>	<u>(2)</u>
	<u>(4)</u>	<u>37</u>

1.Excludes Prestonfield Development Company Limited

The Group accounts for all Joint Ventures using the equity method of accounting.

**14. INVESTMENTS (continued)**

**(a) JOINT VENTURES (continued)**

<i>Name of Joint Venture</i>	<i>Registered in and Principal Country of Operation</i>	<i>J. Smart &amp; Co. (Contractors) PLC Interest in Joint Venture's Capital</i>
Prestonfield Development Company Limited	Scotland	50%
Northrigg Limited	Scotland	50%
Duff Street Limited	Scotland	50%
Invertiel Developments Limited	Scotland	50%

<i>Name of Joint Venture</i>	<i>Jointly managed with</i>	<i>Issued Share capital</i>	<i>Issued shares held by J. Smart &amp; Co. (Contractors) PLC</i>
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	DKG Estates LLP	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.

**14. INVESTMENTS (continued)**

**(b) SUBSIDIARIES**

	2016	2015
	£000	£000
At 1st August 2015 and 31st July 2016	708	708

At 31st July 2016 the Company held the entire issued share capital of the following companies, all of which are registered in and operate in Scotland:

	<i>Nature of business</i>
McGowan and Company (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**

	<i>Group</i>	
	2016	2015
	£000	£000
Listed investments	326	337

Fair value movement on shares held at 31st July 2016 before tax amounted to £(10,000) (2015, £(46,000)).

There has been no impairment adjustment on available for sale financial assets in this or the previous year.

As the Group's available for sale financial assets consisted entirely of equities of companies listed on quoted markets then these fall within 'Level 1' of the fair value hierarchy as described by IFRS 13: Fair Value Measurement. Level 1 valuations are those using inputs which are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company can access at the year end date.

**16. INVENTORIES**

	<i>Group</i>		<i>Company</i>	
	2016	2015	2016	2015
	£000	£000	£000	£000
Long-term contract balances . . . . .	55	113	–	107
Work in progress . . . . .	420	3,402	420	3,402
Land held for development . . . . .	1,953	1,908	1,953	1,908
Raw materials and consumables . . . . .	168	147	33	33
Finished goods . . . . .	88	165	–	–
	<u>2,684</u>	<u>5,735</u>	<u>2,406</u>	<u>5,450</u>

**CONTRACTS IN PROGRESS AT THE BALANCE SHEET DATE:**

Aggregate amount of costs incurred and recognised profits less recognised losses to date . . . . .	20,948	13,106	19,471	12,009
Retentions outstanding . . . . .	534	419	534	419
Advances received . . . . .	<u>(22,060)</u>	<u>(13,763)</u>	<u>(20,724)</u>	<u>(12,879)</u>
Net value of contracts in progress . . . . .	<u>(578)</u>	<u>(238)</u>	<u>(719)</u>	<u>(451)</u>

**17. TRADE AND OTHER RECEIVABLES**

**CURRENT ASSETS:**

Trade receivables . . . . .	2,342	1,182	454	105
Amounts owed by Subsidiaries . . . . .	–	–	1,688	779
Other receivables . . . . .	147	168	163	152
Prepayments and accrued income . . . . .	381	417	291	308
Amounts recoverable on contracts . . . . .	2,402	1,645	2,316	1,438
Loans to Joint Venture companies . . . . .	1,097	1,096	1,097	1,096
	<u>6,369</u>	<u>4,508</u>	<u>6,009</u>	<u>3,878</u>

Trade receivables are shown net of provision for doubtful debts of £30,000 (2015, £56,000).

The ageing of past due but not impaired trade debtors is as follows:

Less than 30 days . . . . .	1,870	685	422	105
30 to 60 days . . . . .	281	458	32	–
Greater than 60 days . . . . .	191	39	–	–
	<u>2,342</u>	<u>1,182</u>	<u>454</u>	<u>105</u>

Trade receivables includes £220,000 (2015, £481,000) in respect of outstanding retentions.

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.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

**18. BANK**

Cash and cash equivalents comprise the following:

	<i>Group</i>		<i>Company</i>	
	2016 £000	2015 £000	2016 £000	2015 £000
Cash at bank and on hand . . . . .	13,837	11,220	2,948	2,505
Short term deposits . . . . .	12,948	14,827	–	–
	<u>26,785</u>	<u>26,047</u>	<u>2,948</u>	<u>2,505</u>

Monies held on deposit are held in bank accounts which have original maturity dates exceeding three months and therefore do not meet the criteria of cash and cash equivalents as defined in IAS 7: Statement of Cash Flows.

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**

**CURRENT LIABILITIES:**

Trade payables . . . . .	1,629	1,382	893	877
Amounts owed to Subsidiaries . . . . .	–	–	118	122
Other taxes and social security costs . . . . .	498	282	172	166
Other creditors and accruals . . . . .	3,007	2,336	2,210	1,496
	<u>5,134</u>	<u>4,000</u>	<u>3,393</u>	<u>2,661</u>

**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 number of counterparties and customers.

There is no significant impairment loss recognised or significant receivables that are past due but not impaired.

The Group has assessed that there is no significant credit risk in relation to loans to Joint Venture companies given the underlying value of the assets held by these entities.

IFRS7: Financial Instrument Disclosures requires a company to undertake a sensitivity analysis on its financial instruments which are affected by changes in interest rates. The Group financial instruments affected by interest rate fluctuations are bank deposits and bank overdrafts. Based on the Group’s net position at the year end, a 1% increase or decrease in the interest rates would change the Group’s profit before tax by approximately £196,000 and £111,000 respectively (2015, £173,000 and £96,000 respectively).

**21. DEFERRED TAXATION**

**DEFERRED TAX ASSETS  
GROUP**

	Other £000
At 1st August 2014	23
Credited to Income Statement	4
At 31st July 2015	<u>27</u>
Credited to Income Statement	14
At 31st July 2016	<u>41</u>

Deferred tax assets arising in respect of valuation surpluses on Investment Properties of £1,340,000 (2015, £1,550,000) have not been recognised because it is not probable that relevant future taxable profits will be available against which the Group can use the benefits therefrom.

**DEFERRED TAX LIABILITIES  
GROUP**

	Accelerated Capital Allowances £000	Retirement Benefit Obligations £000	Other Timing Differences £000	Total £000
At 1st August 2014	1,315	326	66	1,707
Credited to Equity	–	(201)	–	(201)
Charged / (Credited) to Income Statement	163	169	(8)	324
At 31st July 2015	<u>1,478</u>	<u>294</u>	<u>58</u>	<u>1,830</u>
Credited to Equity	–	(215)	–	(215)
Credited to Income Statement	(150)	(73)	(3)	(226)
At 31st July 2016	<u>1,328</u>	<u>6</u>	<u>55</u>	<u>1,389</u>

**COMPANY**

	Accelerated Capital Allowances £000	Retirement Benefit Obligations £000	Other Timing Differences £000	Total £000
At 1st August 2014	10	326	52	388
Credited to Equity	–	(201)	–	(201)
Charged / (Credited) to Income Statement	26	169	(7)	188
At 31st July 2015	<u>36</u>	<u>294</u>	<u>45</u>	<u>375</u>
Credited to Equity	–	(215)	–	(215)
Credited to Income Statement	(5)	(73)	(2)	(80)
At 31st July 2016	<u>31</u>	<u>6</u>	<u>43</u>	<u>80</u>

**22. SHARE CAPITAL**

	2016		2015	
	Number	£000	Number	£000
Issued and fully paid ordinary shares of 2p each				
At 1st August 2015	45,974,000	919	46,833,000	936
Purchased and cancelled	(670,000)	(13)	(859,000)	(17)
At 31st July 2016	<u>45,304,000</u>	<u>906</u>	<u>45,974,000</u>	<u>919</u>

During the year to 31st July 2016 the Company purchased for cancellation 670,000 ordinary shares of 2p each with a nominal value of £13,000 for a consideration of £704,000.

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 and each share attracts one vote. There are no restrictions on the distribution of dividends or repayment of capital.

**23. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS**

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

	2016 £000	2015 £000
Profit before tax	3,752	3,544
Share of profits from Joint Ventures	(33)	(1,306)
Depreciation	465	450
Unrealised valuation (surplus)/deficit on investment properties	(136)	211
Profit on sale of property, plant and equipment	(47)	(47)
Profit on sale of investment properties	(186)	(60)
Profit on sale of available for sale financial assets	–	(1)
Change in retirement benefits	(817)	(846)
Interest received	(125)	(117)
Change in inventories	3,051	711
Change in receivables	(1,861)	2,595
Change in payables	1,134	(143)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>5,197</u>	<u>4,991</u>

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

Cash and cash equivalents	26,785	26,047
Bank overdraft	(12,628)	(12,724)
Net position	<u>14,157</u>	<u>13,323</u>

**(c) ANALYSIS OF NET FUNDS**

	At 1st August 2015 £000	Cash Flow £000	At 31st July 2016 £000
Cash and cash equivalents	26,047	738	26,785
Bank overdraft	(12,724)	96	(12,628)
Net funds	<u>13,323</u>	<u>834</u>	<u>14,157</u>

**24. NOTES TO THE COMPANY STATEMENT OF CASH FLOWS**

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

	2016 £000	2015 £000
Profit before tax . . . . .	77	1,668
Depreciation . . . . .	270	265
Profit on sale of property, plant and equipment . . . . .	(39)	(28)
Dividend received from Joint Ventures . . . . .	(37)	(2,327)
Change in retirement benefits . . . . .	(817)	(846)
Interest received . . . . .	(12)	(20)
Change in inventories . . . . .	3,044	493
Change in receivables . . . . .	(2,131)	4,099
Change in payables . . . . .	732	(203)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b> . . . . .	<u>1,087</u>	<u>3,101</u>

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

Cash and cash equivalents . . . . .	<u>2,948</u>	<u>2,505</u>
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**(c) ANALYSIS OF NET FUNDS**

	At 1st August 2015 £000	Cash Flow £000	At 31st July 2016 £000
Cash and cash equivalents . . . . .	<u>2,505</u>	<u>443</u>	<u>2,948</u>

**25. FUTURE CAPITAL EXPENDITURE**

There were no amounts of Capital Expenditure relating to Property, plant and equipment contracted for at 31st July 2016 or 31st July 2015.

The Group's share of Capital Expenditure contracted for by its Joint Ventures as at 31st July 2016 amounted to £nil (2015, £nil).



**26. RETIREMENT BENEFIT OBLIGATIONS**

The Group operates a defined benefit pension scheme for certain active and former employees of the Group. The scheme was closed to new members in the year to 31st July 2003. The scheme is subject to the funding legislation outlined in the Pensions Act 2004 together with documents issued by the Pensions Regulator and Guidance Notes adopted by the Financial Reporting Council.

The scheme is administered by a separate Board of Trustees which is composed of employer nominated representatives and member nominated Trustees and is a separate legal entity. The assets of the scheme are held separately from the assets of the Group and are administered and managed professionally under the supervision of the Trustees. The Trustees are required by law to act in the best interests of all classes of beneficiaries to the scheme and are responsible for the investment policy and the day-to-day running of the scheme. The Trustees are also responsible for jointly agreeing with the employer the level of contributions due to the Pension scheme.

The scheme provides qualifying employees with an annual pension based on final pensionable salary on attainment of a normal retirement age of 65. Active members also benefit from life assurance cover. However the payment of these benefits are at the discretion of the Trustees of the scheme.

The pension scheme's independent qualified Actuary carries out a triennial valuation using the Projected Unit Credit Method to determine the level of the scheme's surplus or deficit. The last completed triennial valuation was as at 31st October 2012 which revealed a deficit of £3,092,000, representing a funding level of 89.7%. Following the latest triennial valuation the Group and the scheme Trustees agreed that the employer contributions to the scheme would increase to 68.8% of pensionable salaries and employee contributions would remain at 3%. The triennial valuation as at 31st October 2015 is being prepared but as at the date of these financial statements it has not yet been completed.

There were no outstanding contributions at the year end.

The Group expects to pay a contribution of £1,215,000 during the financial year to 31st July 2017.

**ASSUMPTIONS**

The financial assumptions used to calculate scheme liabilities under IAS 19 (amended): Employee Benefits are:

	2016	2015	2014
Valuation method	Projected Unit	<i>Projected Unit</i>	<i>Projected Unit</i>
Discount rate	2.3%	3.5%	4.1%
Inflation rate - Retail price index	2.6%	3.0%	3.1%
Inflation rate - Consumer price index	1.7%	2.0%	2.3%
Salary increases	2.6%	3.0%	3.3%
Pension increases	1.5% – 3.0%	1.9% – 3.0%	2.2% – 3.1%

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

Man currently aged 65	21.9	22.0	22.0
Woman currently aged 65	23.9	24.3	24.2
Man currently aged 45	23.2	23.3	23.3
Woman currently aged 45	25.4	25.8	25.7

**26. RETIREMENT BENEFIT OBLIGATIONS (continued)**

**SENSITIVITY TO KEY ASSUMPTIONS**

The scheme exposes the Group to actuarial risks, such as interest rate risk, inflation risk, longevity risk and investment risk. The key assumptions used for IAS 19 are discount rate, inflation rates and mortality. If different assumptions were used then this could materially affect the results disclosed in the financial statements. Movements in the key assumptions would have the following effect on the level of the deficit:

Change in assumption		Increase in scheme liabilities	
		2016	2015
		£000	£000
Discount rate	Decrease of 0.25%	1,298	1,029
Inflation rate	Increase of 0.25%	456	545
Mortality rate	Increase in life expectancy of 1 year	1,267	908

The sensitivity information has been prepared using the same methodology as the calculation of the current year scheme obligations.

**BALANCE SHEET DISCLOSURES**

The investments held by the scheme and the reconciliation of the scheme assets and liabilities to the Balance Sheet were:

	Valuation 2016 £000	Valuation 2015 £000	Valuation 2014 £000
<b>EQUITIES</b>			
UK	10,637	9,336	8,531
Overseas	13,741	13,342	12,373
Multi-asset diversified funds	1,594	2,547	2,475
Absolute return funds	946	–	–
<b>BONDS</b>			
Government	1,069	166	480
Corporate	3,223	2,813	2,399
<b>OTHER</b>			
Cash	3,477	3,530	3,273
Fair value of scheme assets	34,687	31,734	29,531
Present value of scheme liabilities	(34,654)	(30,262)	(27,902)
Scheme surplus	33	1,472	1,629
Deferred taxation	(6)	(294)	(326)
Net pension scheme surplus	27	1,178	1,303

**26. RETIREMENT BENEFIT OBLIGATIONS (continued)**

The assets of the scheme are invested in funds managed by Standard Life Wealth, in direct investments via Speirs & Jeffrey, in insurance policies with companies belonging to the Royal London Group and in bank accounts. The assets do not include any directly owned ordinary shares issued by J. Smart & Co. (Contractors) PLC. The fair value of the assets of the pension scheme are determined based on publicly available market prices wherever available.

**The following amounts are incorporated into the financial statements**

	2016 £000	2015 £000
<b>Analysis of amounts charged to operating profit:</b>		
Service cost	(555)	(384)
<b>Analysis of amounts charged to net finance income:</b>		
Interest income	1,113	1,215
Interest costs	(1,047)	(1,132)
	<u>66</u>	<u>83</u>
<b>Movement in present value of defined benefit obligations:</b>		
At 1st August 2015	30,262	27,902
Service cost	555	384
Interest cost	1,047	1,132
Charges paid	(60)	(34)
Employee contributions	53	49
Benefit payments	(1,153)	(976)
Actuarial movements due to scheme experiences	(157)	–
Actuarial movements due to changes in demographic assumptions	(447)	(28)
Actuarial movements due to changes in financial assumptions	4,554	1,833
At 31st July 2016	<u>34,654</u>	<u>30,262</u>

**26. RETIREMENT BENEFIT OBLIGATIONS (continued)**

	2016	2015					
	£000	£000					
<b>Movement in fair value of scheme assets:</b>							
At 1st August 2015	31,734	29,531					
Interest income	1,113	1,215					
Employer contributions	1,306	1,147					
Employee contributions	53	49					
Benefits paid	(1,153)	(976)					
Charges paid	(60)	(34)					
Return on plan assets excluding amount shown in interest income	1,694	802					
At 31st July 2016	<u>34,687</u>	<u>31,734</u>					
<b>Movement in scheme surplus:</b>							
At 1st August 2015	1,472	1,629					
Current service cost	(555)	(384)					
Contributions	1,306	1,147					
Net finance income	66	83					
Actuarial remeasurement of pension scheme liability	(2,256)	(1,003)					
At 31st July 2016	<u>33</u>	<u>1,472</u>					
<b>Analysis of the actuarial loss included in the statement of comprehensive income:</b>							
Return on scheme assets excluding amounts shown in interest income	1,694	802					
Changes in assumptions underlying present value of scheme liabilities	(3,950)	(1,805)					
At 31st July 2016	<u>(2,256)</u>	<u>(1,003)</u>					
<b>History of experience gains and losses:</b>							
Return on scheme assets			2016	2015	2014	2013	2012
Amount (£000)	1,694	802	(743)	2,776	(1,574)		
Percentage of market value of scheme assets	4.9%	2.5%	2.5%	9.7%	6.3%		
Changes in assumptions underlying present value of scheme liabilities							
Amount (£000)	(3,950)	(1,805)	(1,050)	446	122		
Percentage of market value of scheme liabilities	11.4%	6.0%	3.8%	1.7%	0.5%		
Total amounts included in Consolidated Statement of Comprehensive Income							
Amount (£000)	(2,256)	(1,003)	(1,793)	3,222	(4,517)		
Percentage of market value of scheme liabilities	6.5%	3.3%	6.4%	12.4%	17.0%		

**26. RETIREMENT BENEFIT OBLIGATIONS (continued)**

**DEFINED CONTRIBUTION SCHEMES**

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 £188,000 (2015, £164,000).

**STAKEHOLDER SCHEMES**

The Group has stakeholder pension arrangements for those employees not eligible for membership of either the Defined Benefit or Defined Contribution schemes. The Group makes contributions to these schemes and has no liability beyond these contributions. The contributions to these schemes in the year amounted to £70,000 (2015, £57,000) and are expensed through the Income Statement as incurred.

**MULTI EMPLOYER SCHEME**

The Group is also a member of the multi-employer pension scheme, Plumbing & Mechanical Services (UK) Industry Pension Scheme. The Group makes contributions to this scheme which in the year amounted to £30,000 (2015, £23,000) and are expensed through the Income Statement as incurred.

No provision has been made for amounts payable by the Group in respect of Section 75 pension liabilities relating to the Group's participation in this scheme given that, as at the date of these financial statements, any potential liability has not yet been assessed.

At the last actuarial valuation of this scheme carried out as at 5th April 2014 the assets of the scheme covered 101% of the scheme's liabilities.

**27. 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. As at 31st July 2016 these amounted to £3,665,000.

**28. OPERATING LEASE ARRANGEMENTS**

**GROUP – AS LESSEE**

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

	2016	2015
	£000	£000
Within one year . . . . .	73	69
In two – five years exclusively . . . . .	164	169
After five years . . . . .	150	20
	<u>387</u>	<u>258</u>

**GROUP – AS LESSOR**

Gross property rental income earned in the year amounted to £4,994,000 (2015, £4,764,000). At the Balance Sheet date, the Group had contracted with its tenants for the following future minimum lease payments:

Within one year . . . . .	5,301	4,847
In two – five years exclusively . . . . .	12,820	12,347
After five years . . . . .	6,634	6,614
	<u>24,755</u>	<u>23,808</u>

**29. RELATED PARTY TRANSACTIONS****(a) SUBSIDIARIES**

Transactions between the Company and its Subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Details of transactions between the Company and Subsidiaries are as follows:

SUBSIDIARY	2016	2015	2016	2015
	£000	£000	£000	£000
	Sale of goods and services		Purchase of goods and services	
McGowan and Company (Contractors) Limited . . . . .	134	139	1,357	796
Cramond Real Estate Company Limited . . . . .	–	–	–	–
Thomas Menzies (Builders) Limited . . . . .	72	96	4	9
Concrete Products (Kirkcaldy) Limited . . . . .	40	56	50	20
C. & W. Assets Limited . . . . .	2,455	1,605	–	–
	2,455	1,605	–	–
	Amounts owed by Subsidiaries		Amounts owed to Subsidiaries	
McGowan and Company (Contractors) Limited . . . . .	–	–	118	115
Cramond Real Estate Company Limited . . . . .	–	–	–	–
Thomas Menzies (Builders) Limited . . . . .	9	2	–	–
Concrete Products (Kirkcaldy) Limited . . . . .	–	–	–	7
C. & W. Assets Limited . . . . .	1,679	777	–	–
	1,679	777	–	–

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**

Transactions between the Group and its Joint Venture Companies were the receipt of interest on a loan to one of the joint venture companies of £6,000 (2015, £6,000) and receipt of dividends of £37,000 (2015, £2,327,000).

During the year the Group was repaid £nil (2015, £2,375,000) of outstanding loans to Joint Venture Companies and advanced £1,000 (2015, £nil) to Joint Venture Companies.

As at 31st July 2016 loans outstanding from Joint Venture Companies amounted to £1,097,000 (2015, £1,096,000) and the Group was due £3,000 in respect of loan interest charged from one of the Joint Venture Companies (2015, £nil).

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 Venture Companies.

**29. RELATED PARTY TRANSACTIONS (continued)**

**(c) DIRECTORS' INTEREST IN CONTRACTS**

John M Smart, David W Smart and John 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.

During the year to 31st July 2016 the Group purchased materials amounting to £311,000 (2015, £320,000) from these companies and sold materials and services amounting to £55,000 (2015, £70,000) to these companies.

All transactions were at normal commercial rates.

As at 31st July 2016 the Group owed these companies £9,000 (2015, £9,000) and was owed £33,000 (2015, £3,000).

**(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 Directors' Remuneration Report.

**(e) DIRECTORS' DIVIDENDS**

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

	2016	2015
	£000	£000
John M Smart . . . . .	11	11
David W Smart . . . . .	109	109
Alasdair H Ross . . . . .	3	3
John R Smart . . . . .	109	109

**(f) DIRECTORS' TRANSACTIONS**

The following Directors received goods and services from Group Companies in the year amounting to:

John M Smart . . . . .	2	5
David W Smart . . . . .	2	2
Alasdair H Ross . . . . .	8	—
John R Smart . . . . .	1	3

All transactions were at normal commercial rates.

**(g) PENSION SCHEMES**

Disclosures in relation to the pension schemes are included in note 26 to the Accounts.

