

J. SMART & CO. (CONTRACTORS) PLC

ANNUAL REPORT  
AND  
STATEMENT OF ACCOUNTS  
TO  
31<sup>st</sup> JULY 2017



# J. Smart & Co. (Contractors) PLC

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## **DIRECTORS**

DAVID W SMART, *Chairman and Joint Managing Director*

JOHN R SMART, *Joint Managing Director*

ALASDAIR H ROSS

PATRICIA SWEENEY

## **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

SMART SERVICED OFFICES LIMITED

## **REGISTRARS AND TRANSFER OFFICE**

EQUINTI LIMITED,  
34 SOUTH GYLE CRESCENT,  
SOUTH GYLE BUSINESS PARK,  
EDINBURGH,  
EH12 9EB

## **BANKERS**

BANK OF SCOTLAND,  
75 GEORGE STREET,  
EDINBURGH,  
EH2 3EW

## **AUDITOR**

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 *14th December 2017* at 12 noon, for the following purposes:

1. To receive and consider the Statement of Accounts for the year ended 31st July 2017 and the Report of the Directors and the Independent Auditor's Report.
2. To approve the Directors' Remuneration Policy as set out in the Directors' Remuneration Report on pages 20 to 22 in the Annual Report.
3. To approve the Directors' Remuneration Report for the financial year ended 31st July 2017 as set out on pages 20 to 25 in the Annual Report.
4. To declare a Final Dividend of 2.17p per share.
5. To re-elect Alasdair H Ross as a Director, who retires in accordance with provision B.7.1 of the UK Corporate Governance Code.
6. To re-elect Patricia Sweeney as a Director, who being appointed in the year, retires in accordance with provision B.7.1 of the UK Corporate Governance Code.
7. To re-elect French Duncan LLP as Auditor.
8. To authorise the Directors to determine the remuneration of the Auditor.
9. 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 minimum price which the Company may pay for each ordinary share is 2p (exclusive of expenses); and
  - (c) the maximum price which the Company may pay for each ordinary share is the higher of:
    - (i) 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
    - (ii) the higher of the price of the last independent trade and the highest current independent bid for an ordinary share on the trading venue where the purchase is carried out.

This authority is to apply until the end of the next Annual General Meeting (or, if earlier, until the close of business on 14th February 2019) 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.

10. 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 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 Annual General Meeting any question relating to the business being dealt with at the Annual General Meeting 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

*14th November 2017*

# 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 and a profit on the unforeseen sale of property, was £4,037,000 compared with £3,752,000 last year.

As forecast underlying profit before tax for the year of £3,423,000 (including £613,000 profit from property sales) was less than last year's figure of £3,616,000 (including £186,000 profit from property sales). In our view discounting the increase in the revaluation of the commercial property portfolio provides a truer reflection of Group performance.

The Board is recommending a Final Dividend of 2.17p making a total of 3.12p which compares with 3.07p for the previous year. The Final Dividend will cost the Company no more than £973,000.

### TRADING ACTIVITIES

Group construction activities including private residential sales decreased by 17%. Own work capitalised increased by 55% and headline Group profit increased by 8%. If you disregard the unexpected property sale headline Group profit would have decreased by 9%. Underlying Group profit decreased by 5%.

Turnover in contracting was less than last year and the loss was increased. As forecast private residential sales were less than the previous year. Sales in precast concrete manufacture have increased marginally, but profit has decreased.

The two large mixed social housing and private residential developments at Seafield Street and Pilton Drive, Edinburgh are now complete. The social housing contracts at Fleming Place, Edinburgh continue to make progress, but will be fully complete by April 2018. A further social housing contract at Ferrymuir, South Queensferry is to commence by April 2018, but this is by no means certain due to the continuing and unwelcome drawn out statutory approval process.

A mixed private housing and affordable housing development at West Bowling Green Street, Edinburgh started after the financial year end, will provide 98 residential units and 4 commercial units. First completions will not be achieved during the current financial year.

The occupancy levels at our industrial estates, especially in the smaller size bracket, continue to be robust. We have finally encountered rental growth across all sizes of industrial units. This has partly been caused by a dearth of new build industrial development exacerbated in the Edinburgh area by a lack of industrial land supply.

The second phases at Inchwood Park, Bathgate and West Edinburgh Business Park, South Gyle, Edinburgh are progressing well and letting prospects are encouraging. The joint venture industrial development at Gartcosh, near Glasgow, has been delayed, but is still likely to proceed.

The voids in our office properties were reduced by the sale of CityWest, Robertson Avenue, Edinburgh. We launched a serviced office centre at our multi-let office building at Links Place, Leith, Edinburgh with our new subsidiary company, Smart Serviced Offices Limited. This has taken time to let but has assisted in attracting tenants to other vacant suites in the building.

### FUTURE PROSPECTS

Work in hand in contracting, as alluded to above, is considerably less than last year. All of our contracting work, in the Housing Association sector, in the past five years has been site acquisition led and due to increasing land values opportunities in this regard have decreased. This, coupled with a highly competitive tender market, means the likelihood of future contracting work in this sector does not look promising at present.

There will be no private housing sales this year. Property valuation levels have improved since last year, but it remains to be seen if this trend will continue. Planning applications will be submitted this year for a residential development at Rosyth and a third phase of industrial development at West Edinburgh Business Park.

Due to reduced turnover, which will impact on the recovery of fixed overhead costs, and the cost of redundancies it is likely that underlying profit will be less than this year's underlying profit.

Finally, I would like to pay tribute to the previous Chairman, John M Smart, who served your company for 50 years, 39 as a Director, 32 as Joint Managing Director/Managing Director and 29 as Chairman. He presided over an almost unbroken record of profit for your company. We all wish him well for a long and happy retirement.

DAVID W SMART  
*Chairman*

*14th November 2017*

The Directors present their Annual Report and the audited financial statements of the Group for the year ended 31st July 2017.

### 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 2017 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 2017 amounted to £3,727,000 (2016, £3,488,000).

During the year the Company paid on 21st December 2016 a final dividend for the year to 31st July 2016 of 2.15p per share (2016, 2.10p) and paid on 5th June 2017 an interim dividend for the year to 31st July 2017 of 0.95p per share (2016, 0.92p).

The Directors recommend a proposed final dividend for the year of 2.17p per share, making a total for the year of 3.12p. This final dividend is subject to approval by the shareholders at the Annual General Meeting in December 2017 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 24th November 2017. Dividend warrants will be posted on 19th December 2017.

### DIRECTORS

The following were Directors of the Company during the financial year ended 31st July 2017:

- John M Smart (retired 27th April 2017)
- David W Smart
- John R Smart
- Alasdair H Ross
- Patricia Sweeney (appointed 26th April 2017)

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 Chairman, 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 2017 and 20th October 2017.

Other than the original employment contract Directors received on joining the company, no Director has been issued with a Director's Service Contract on appointment as a director. 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 2016 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 2017 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 2016 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 2017 Annual General Meeting.

During the year the Company made market purchases of 500,000 ordinary shares of 2p under the existing authority, for a total consideration of £550,000. 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 2017 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:

	2017	2016
	Tonnes of CO <sub>2</sub> e	Tonnes of CO <sub>2</sub> e
Emissions from:		
Combustion of fuel and operation of facilities	1,530	1,412
Electricity, heat, steam and cooling purchased for own use	323	329
Total emissions	1,853	1,741
Group's chosen intensity measurement:		
Emissions reported above normalised to per full time equivalent employee	7.127	5.842
Emissions reported above normalised to per £million of revenues	81.059	59.979

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.

A decrease in staff within construction activities has increased the greenhouse gas emissions per employee metric and the decrease in revenue from construction activities has increased 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 2016 and 2017 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.

**AUDITOR**

The Company's auditor, French Duncan LLP, has expressed willingness to continue in office. Resolutions to re-appoint them as the Company's auditor 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 AUDITOR**

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 Auditor 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 Auditor is aware of that information.

BY ORDER OF THE BOARD OF DIRECTORS

PATRICIA SWEENEY  
Company Secretary

14th November 2017

The Directors present their Strategic Report of the Group for the year ended 31st July 2017.

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, the manufacture of hydraulically pressed concrete products, and the provision of serviced office spaces. All the construction work involved in these activities is carried out by the 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 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 five 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. Smart Serviced Offices Limited which trades as Foxglove Offices provides serviced office spaces in Leith.

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 and develop relationships with new and existing partners to establish new areas of construction opportunities, 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>2017</b>	2016
	<b>£000</b>	£000
Revenue	<b>25,419</b>	30,682
Operating loss	<b>(673)</b>	(102)

Turnover in construction activities decreased in the year mainly due to the fact that there was considerably less revenue from our private residential development than in the previous year. At the start of the current year there were only four properties to be sold and all these sales occurred in the year.

During the year we completed two of our large mixed social housing developments which has also contributed to the decrease in turnover. We continued construction at two smaller social housing developments but no new developments commenced in the year.

During the year we commenced construction of Phase 2 at two of our industrial developments which accounted for the increase in own work capitalised.

The decrease in construction turnover has impacted on the recovery of fixed overheads and together with the loss provisions on current contracts has resulted in the loss from construction activities increasing in the year.

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. The Directors also monitor the level of fixed overheads with a view to minimising these where possible.

**Investment activities**

	<b>2017</b>	2016
	<b>£000</b>	£000
Income from investment properties	<b>6,090</b>	5,520
Profit on sale of investment properties	<b>613</b>	186
Net surplus on valuation of investment properties	<b>614</b>	136
Operating profit from investment properties	<b>4,519</b>	3,616
Income from available for sale financial assets	<b>32</b>	14
Profit on sale of available for sale financial assets	<b>22</b>	–
Share of profits in Joint Ventures	<b>42</b>	33

**PERFORMANCE REVIEW (continued)**

**Investment activities (continued)**

Income from the Group’s investment property portfolio continues to increase, mainly due to increased occupancy in both our industrial and commercial properties but also due to increased rental values. Occupancy levels in our industrial properties continue to be satisfactory with interest continuing to be shown in our vacant properties. Although the voids in our commercial properties still remain high the overall level of these voids has reduced due to the sale of one of our commercial properties in the year and new tenants taking occupancy in the year.

Other than the sale of one of our commercial properties there have been no other movements in our investment property portfolio this year. The Group is currently undertaking the construction of the next phases at two of our current industrial developments which will be completed prior to the end of the next financial year. Letting prospects in these new phases are encouraging. The Group continues to refurbish and improve the existing portfolio of properties to ensure that they are of a standard expected of existing and new tenants.

Property valuations continue to improve and the surplus on the valuation of investment properties accounted for this year in the Income Statement was higher than that recognised last year.

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

During the year the Group added to its portfolio of available for sale financial assets and this has resulted in the increase in the level of income from these assets. Also during the year there were disposals of assets which resulted in a profit being earned.

The Group’s share of profits in Joint Ventures continues to increase and are considered to be of a reasonable level.

**Results and financial position**

	<b>2017</b>	2016
	<b>£000</b>	£000
Profit before tax	<b>4,037</b>	3,752
Net bank position	<b>20,269</b>	19,676
Net assets	<b>93,858</b>	88,836

Although the Group has reported a higher profit before tax than last year this has been due to the increase in profit earned by the investment activities of the Group. The Group loss suffered in construction activities has increased this year due to the reduced level of turnover, and the impact of recovery of overheads.

Our net bank position, which comprises monies held on deposit, cash and cash equivalents and the netting of our bank overdraft, has improved only slightly this year. Although the profit before tax position has increased and this has been reflected through to the cash flows from operating activities this money has been utilised for purchase of own shares and the dividends paid in the year. The proceeds received from the sale of our commercial property have all but matched the monies spent by the Group on expenditure on property, plant and equipment, the construction of new investment properties and the purchase of new available for sale financial assets. The Group continues to remain debt free.

The Group’s net assets are impacted by the profit earned in the year, the movement in the valuation of the Group’s available for sale financial assets, the increase in the Group’s retirement benefit surplus which was mainly due to the actuarial gain recognised in the year, net of the shares bought back in the year and the dividends paid to shareholders.

**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 2.17p per share which taken with the interim dividend of 0.95p already paid in the year gives a total dividend for the year of 3.12p (2016, 3.07p), being an increase of 2% on the dividend rate for 2016.

**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 2017 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 in the social housing sector, which is a competitive market, failure to win new contracts would impact on our volume of work and therefore the workforce required by the Group.

Decline in home buyer confidence and availability of affordable mortgages resulting in stalling of private house sales.

**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.
  - Continue to acquire land for development for either private housing developments or for resale to social housing providers as part of a construction contract.
  - Develop new areas of construction activities.
  - Develop new joint venture opportunities.
- 
- Providing a range of purchase assistance schemes to buyers.
  - Building developments in popular residential areas.
  - Building high quality specification homes with attention to detail which sets them apart from other new build homes and therefore attractive to buyers.
  - Building a range of homes within a development thus providing choice to buyers.
  - Providing sales incentives.
  - Consider letting of homes at market rates until the market improves.

**PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

<b>Area of principal risk or uncertainty and impact</b>	<b>Mitigating actions and controls</b>
<p>Social housing sector and in general the housing market is highly competitive with tight margins.</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• 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.</li> <li>• 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.</li> <li>• In house architectural technicians and surveyors provide pre-contract design advice to resolve potential technical problems with the build and therefore potential costs.</li> </ul>
<p>Reduction in rental demand for investment properties may result in a fall in property valuations.</p>	<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>
<p>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.</p>	<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>
<p>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.</p>	<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>
<p>Reduction of financial resources.</p>	<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 2020, 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 2020.

**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	3	1
Senior Managers	2	-
Total Employees	246	14

BY ORDER OF THE BOARD OF DIRECTORS

PATRICIA SWEENEY  
Company Secretary

14th November 2017



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

### DIRECTORS

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**John M Smart, Chairman and Managing Director** Aged 73

Joined the Company in 1967

Appointed Director in 1978 and appointed Chairman in 1988

Retired as Chairman and Managing Director on 27th April 2017

**David W Smart, Chairman and Joint Managing Director** Aged 44

Joined the Company in 1998

Appointed Director in 2010

Appointed Chairman and Joint Managing Director on 27th April 2017

**John R Smart, Joint Managing Director** Aged 47

Joined the Company in 2002

Appointed Director in 2013

Appointed Joint Managing Director on 27th April 2017

**Alasdair H Ross** Aged 55

Joined the Company in 1989

Appointed Director in 2012

**Patricia Sweeney** Aged 48

Joined the Company in 2011

Appointed Director on 26th April 2017

**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 April 2016 (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 who is one of the two Joint Managing Directors and two other 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. On 27th April 2017, John M Smart retired as a Director and from the Company. David W Smart became the Chairman of the Company on 27th April 2017 and along with John R Smart became Joint Managing Director. Patricia Sweeney was appointed a Director on 26th April 2017.

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 3 formal Board Meetings in the year, attendance at these meetings was as follows:

John M Smart (retired 27th April 2017)	3
David W Smart	3
John R Smart	2
Alasdair H Ross	3
Patricia Sweeney (appointed 26th April 2017)	-

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 one of the Joint Managing Directors. 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 BOARD (continued)**

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 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 Chairman, 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 other than their initial employment contract and accordingly periods of notice and termination payments are structured 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 prevailing 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 Auditor and to review the scope and results of the audit and its cost effectiveness. The Board is responsible for setting the remuneration of the Auditor.

Currently there are no proposals to undertake a retendering of the Company's external audit function. The Company's external auditor has 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 auditor on behalf of the shareholders. The Board also takes into account the external auditor's 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 the external auditor 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 auditor has held office for over 20 years we will be required to appoint a new external auditor 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 Auditor, the Board has established policies regarding the provision of non-audit services by the Auditor. In some cases, the nature of the non-audit advice may make it more timely and cost effective to select the Group's Auditor, 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 2017 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 which would have a direct impact on overall performance of these contracts.
- Retirement Benefit Surplus – the valuation of the retirement benefit obligation is dependent upon a series of assumptions which are determined after the Directors take expert advice from the Group’s actuary. Changes in these assumptions could have a material affect on the surplus disclosed in the financial statements.

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 2017 and 20th October 2017, 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	1,872,400	4.2
A J Whitehead	2,292,745	5.1

BY ORDER OF THE BOARD OF DIRECTORS

14th November 2017

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 2017.

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 2016.

The shareholders approved the previous Policy at the 2014 Annual General Meeting and the policy was effective for three years from that date.

The shareholders will be asked to approve the Policy at the 2017 Annual General Meeting and if approved will become effective from that date and will be effective for three years.

The Annual Report on Remuneration will be subject to a vote at the 2017 Annual General Meeting. Our Auditor is 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.

*14th November 2017*

DAVID W 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 27.8% 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, other than their initial employment contract and therefore periods of notice and termination payments are structured 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 Annual General Meeting 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 2016 Directors' Remuneration Report at the 2016 Annual General Meeting, 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 2017.

**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 2017 and the prior year:

	Salary £000	Taxable Benefits £000	Pension £000	Total £000
<b>John M Smart</b>				
<b>2017</b> <sup>1</sup>	79	7	–	<b>86</b>
2016	105	10	–	115
<b>David W Smart</b>				
<b>2017</b>	<b>107</b>	<b>10</b>	<b>31</b> <sup>2</sup>	<b>148</b>
2016	104	10	52 <sup>2</sup>	166
<b>John R Smart</b>				
<b>2017</b>	<b>107</b>	<b>10</b>	<b>13</b>	<b>130</b>
2016	104	10	12	126
<b>Alasdair H Ross</b>				
<b>2017</b>	<b>107</b>	<b>10</b>	<b>53</b> <sup>2</sup>	<b>170</b>
2016	104	10	34 <sup>2</sup>	148
<b>Patricia Sweeney</b>				
<b>2017</b> <sup>3</sup>	<b>26</b>	<b>2</b>	<b>3</b>	<b>31</b>
2016	–	–	–	–

1. John M Smart retired as a Director on 27th April 2017.

2. 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.

3. Patricia Sweeney was appointed as a Director on 26th April 2017.



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

### DIRECTORS' REMUNERATION REPORT (continued)

31st JULY 2017

#### 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 and Patricia Sweeney are members 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 27.8% of pensionable salary.

	Accrued pension as at 31 July 2017 £000	Accrued pension as at 31 July 2016 £000
David W Smart . . . . .	32	30
Alasdair H Ross . . . . .	42	38

#### 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 2017	31 July 2016
David W Smart . . . . .	11,863,500	11,863,500
John R Smart . . . . .	11,863,500	11,863,500
Alasdair H Ross . . . . .	100,000	100,000
Patricia Sweeney . . . . .	50,000	—

There have been no changes in any Directors' beneficial holdings between the year end and 20th October 2017.

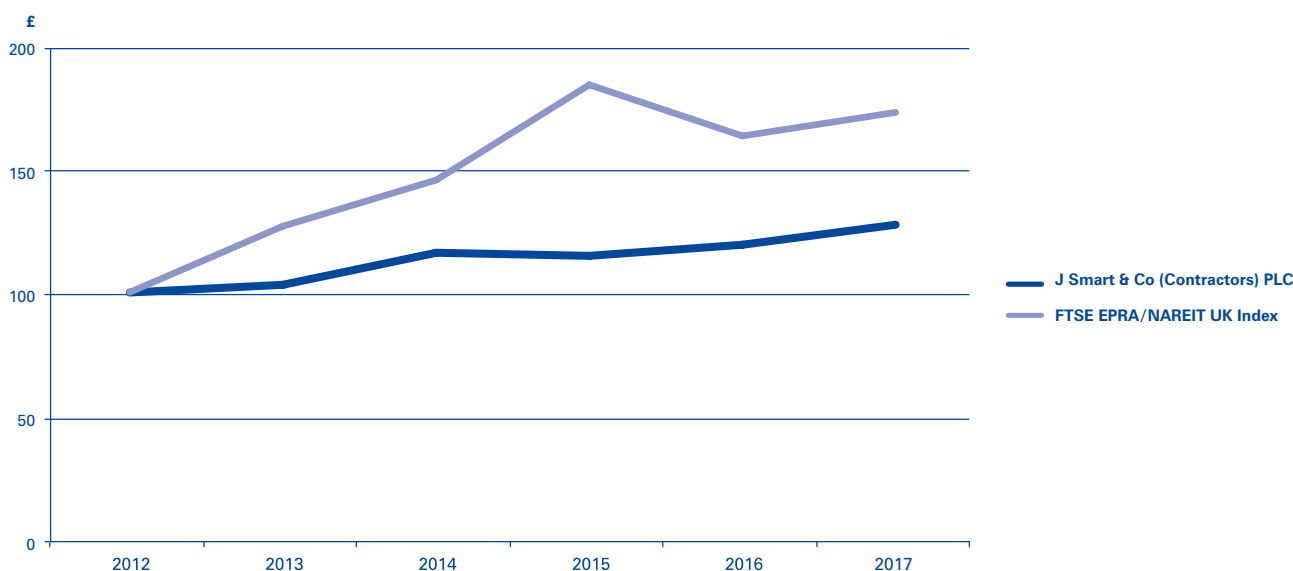
John M Smart retired as a Director on 27th April 2017. As at 1st August 2016 and 27th April 2017 he had a beneficial holding of 1,198,500 Ordinary Shares of 2p in the Company.

**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:

	2017	2016	2015	2014	2013
	£000	£000	£000	£000	£000
David W Smart	148	166	165	207	184
John M Smart	86	115	115	119	133

**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 2016-2017	% change 2016-2017
Base salary	3 %	6 %
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 2017 and 31st July 2016:

	2017 £000	2016 £000	Difference in spend £000	Difference as a percentage %
Remuneration of employees	11,005	11,678	(673)	(6)
Total distributions paid (being dividends and share buy backs)	1,396	1,550	(154)	(10)

**IMPLEMENTATION OF EXECUTIVE DIRECTOR REMUNERATION POLICY FOR 2018**

After taking into consideration Group employees' salary increases for the year to 31st July 2018, an increase of 3% of base salary was awarded to all Directors, except for Patricia Sweeney who received a base salary increase of 6%.

	Base salary from 1st July 2017 £	Base salary from 1st July 2016 £
David W Smart	109,250	106,500
John R Smart	109,250	106,500
Alasdair H Ross	109,250	106,500
Patricia Sweeney	109,250	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 2016 ANNUAL GENERAL MEETING**

The 2016 Directors' Remuneration Report was put to the shareholders for their approval at the 2016 Annual General Meeting. 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	26,314,160	99
Against	4,000	1
Total votes cast (excluding votes withheld)	26,318,160	100
Votes withheld	—	
Total votes cast (including votes withheld)	26,318,160	

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

PATRICIA SWEENEY  
Company Secretary

14th November 2017

**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 (IFRS 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 IFRS 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*

*14th November 2017*

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF J. SMART & CO. (CONTRACTORS) PLC****OPINION**

We have audited the financial statements of J. Smart & Co. (Contractors) PLC for the year ended 31st July 2017 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 notes to the accounts, including a summary of significant accounting policies. 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 (IFRS as adopted by EU) and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with IFRS 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.

**BASIS FOR OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT**

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on pages 12 and 13 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 18 in the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement, set out on page 8 in the financial statements, about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group and the Parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 14 in the Annual Report as to how they have assessed the prospects of the Group, 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 Group 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.

**CONCLUSIONS RELATING TO PRINCIPAL RISKS, GOING CONCERN AND VIABILITY STATEMENT (continued)**

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

**KEY AUDIT MATTERS**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

**VALUATION OF THE INVESTMENT PROPERTY PORTFOLIO**

As described in note 1 Accounting policies and estimation techniques and note 13 Investment Properties the Group carries investment properties at the Directors' estimate of fair value. As at 31st July 2017 the Group held investment properties of £64,799,000.

Judgement is required by the Directors in terms of the assessment of the individual nature of each property, its location, expected future rental income, tenure and tenancy profiles, prevailing market yields and comparable market conditions. The valuation of investment properties requires significant judgement by management. Any input inaccuracies or unreasonable bases used in these assumptions could result in a material misstatement in the financial statements.

*How we addressed the key audit matter*

To obtain assurance over management's assumptions applied in calculating the fair value of investment properties we completed the following audit procedures 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; and
- 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.

Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.

**CONTRACT ACCOUNTING ESTIMATES**

As described in note 1 Accounting policies and estimation techniques, note 17 Trade and other receivables and note 19 Trade and other payables the Group carries amounts recoverable on contracts of £1,781,000 and contract loss provisions of £609,000.

Judgement is required in preparing suitable estimates of the forecast costs and revenue on contracts. The Directors take into account the estimated costs to complete and the percentage stage of completion of current contracts when determining the recognition of profit or the requirement for a loss provision. 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.

**KEY AUDIT MATTERS (continued)**

**CONTRACT ACCOUNTING ESTIMATES (continued)**

*How we addressed the key audit matter*

To obtain assurance over management's assumptions in calculating contract outcomes we completed the following audit procedures 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; and
- performing site visits and reviewing contract terms for key contracts.

Overall based on these procedures, we are satisfied that contract balances are appropriately stated and that revenue and contract results have been recorded appropriately.

**PENSION SCHEME VALUATION**

As described in note 1 Accounting policies and estimation techniques and note 26 Retirement benefit obligations the Group has a defined benefit pension plan in the UK. At 31st July 2017, the Group recorded a net retirement benefit asset of £3,862,000, comprising scheme assets of £37,888,000 and scheme liabilities of £34,026,000.

The pension valuation is dependent on market conditions and key assumptions made, in particular, relating to investment returns, discount rate, inflation expectations and life expectancy assumptions.

The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries. Any unreasonable bases used in these assumptions could result in a material misstatement in the financial statements, refer to sensitivity analysis in note 26.

*How we addressed the key audit matter*

To obtain assurance over managements judgements in the determination of the pension scheme surplus we completed the following audit procedures among others:

- we reviewed the key assumptions with management;
- we reviewed the key assumptions with the actuary;
- we benchmarked key assumptions against available empirical data;
- we reviewed the Directors assessment as to the recoverability of the pension surplus; and
- we also reviewed the disclosure of the pension scheme assumptions in the financial statements.

Based on our procedures, we noted no material exceptions and considered management's key assumptions to be within reasonable ranges.

**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 £548,000. 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.

**OUR APPLICATION OF MATERIALITY (continued)**

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.

There were no misstatements identified during the course of our audit that were individually, or in aggregate, considered to be material in terms of their absolute monetary value or on qualitative grounds.

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

The Group financial statements are a consolidation of the seven trading entities including the parent entity and the Group's four joint ventures. Except for two of the joint ventures which are dormant all entities were audited to their own individual materiality levels.

In establishing the overall approach to the Group audit, we obtained an understanding of the Group and its environment, including group-wide controls, and assessed the risks of material misstatement at the Group level. This assessment 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 in the scope of our audit during the year.

Our audit work at Group level on the three areas highlighted in the key audit matters is described above.

In addition we assessed that the main risk from either fraud or irregularity with respect to the Group financial statements was the possibility of management override of controls.

In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

**OTHER INFORMATION**

The other information comprises the information included in the Annual Report set out on pages 4 to 71 other than the financial statements and our Auditor's report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.



**OTHER INFORMATION (continued)**

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** - the statement given by the Directors on page 26 that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's business model, performance and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** - the explanation set out on page 18 as to why the Annual Report does not include a section describing the work of the audit committee is materially inconsistent with our knowledge obtained in the audit; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the Directors' statement, set out on page 16 to 19, required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

**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.

In our opinion, based on the work undertaken in the course of the audit:

- 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 and those reports have been prepared in accordance with applicable legal requirements.

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

In the light of the knowledge and understanding of the Group and the Parent company and its environment obtained in the course of the audit, we have not identified material misstatements in:

- The Report of the Directors' or the Strategic Report; or
- The information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us 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.

**RESPONSIBILITIES OF DIRECTORS**

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

**AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located in the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

**USE OF THIS REPORT**

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.

**OTHER MATTERS WHICH WE ARE REQUIRED TO ADDRESS**

We were appointed by the Directors to audit the financial statements for the year ending 31st July 1975 and subsequent financial periods. The period of total uninterrupted engagement is 43 years, covering the years ending 31st July 1975 to 31st July 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the Board.

133 Finnieston Street  
Glasgow  
G3 8HB  
14th November 2017

PAULA GALLOWAY  
*Senior Statutory Auditor*  
for and on behalf of FRENCH DUNCAN LLP  
*Statutory Auditor and Chartered Accountants*

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

### CONSOLIDATED INCOME STATEMENT for the year ended 31st JULY 2017

	Notes	2017 £000	2016 £000
Group construction activities . . . . .		25,419	30,682
Less: Own construction work capitalised . . . . .		<u>(2,559)</u>	<u>(1,655)</u>
<b>REVENUE</b> . . . . .		22,860	29,027
Cost of sales . . . . .		<u>(19,406)</u>	<u>(25,260)</u>
<b>GROSS PROFIT</b> . . . . .		3,454	3,767
Other operating income . . . . .	3	6,090	5,520
Net operating expenses . . . . .		<u>(6,925)</u>	<u>(6,095)</u>
<b>OPERATING PROFIT BEFORE PROFIT ON SALE AND NET SURPLUS ON VALUATION OF INVESTMENT PROPERTIES</b> . . . . .		2,619	3,192
Profit on sale of investment properties . . . . .		613	186
Net surplus on valuation of investment properties . . . . .		<u>614</u>	<u>136</u>
<b>OPERATING PROFIT</b> . . . . .	5	3,846	3,514
Share of profits in Joint Ventures . . . . .	14	42	33
Income from available for sale financial assets . . . . .	6	32	14
Profit on sale of available for sale financial assets . . . . .		22	–
Finance income . . . . .	7	<u>95</u>	<u>191</u>
<b>PROFIT BEFORE TAX</b> . . . . .		4,037	3,752
Taxation . . . . .	8	<u>(310)</u>	<u>(264)</u>
<b>PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b> . . . . .	9	<u>3,727</u>	<u>3,488</u>
<b>EARNINGS PER SHARE – BASIC AND DILUTED</b> . . . . .	11	<u>8.26p</u>	<u>7.61p</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 2017

	2017 £000	2016 £000
<b>PROFIT FOR THE YEAR</b>	3,727	3,488
<b>OTHER COMPREHENSIVE INCOME/(LOSS)</b>		
Items that may be subsequently reclassified to Income Statement:		
Fair value adjustment of available for sale financial assets	<u>65</u>	<u>(10)</u>
<b>TOTAL ITEMS WHICH MAY BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT</b>	<u>65</u>	<u>(10)</u>
Items that will not be subsequently reclassified to Income Statement:		
Actuarial gain/(loss) recognised in defined benefit pension scheme	3,306	(2,256)
Deferred taxation on actuarial (gain)/loss	<u>(680)</u>	<u>215</u>
<b>TOTAL ITEMS THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT</b>	<u>2,626</u>	<u>(2,041)</u>
<b>TOTAL OTHER COMPREHENSIVE INCOME/(LOSS)</b>	<u>2,691</u>	<u>(2,051)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX</b>	<u>6,418</u>	<u>1,437</u>
<b>ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>	<u>6,418</u>	<u>1,437</u>

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

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY as at 31st JULY 2017

	Share Capital £000	Capital Redemption Reserve £000	Fair Value Reserve £000	Retained Earnings £000	Total £000
<b>At 1st August 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
Profit for the year	–	–	–	3,727	3,727
Other comprehensive income	–	–	65	2,626	2,691
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	–	–	65	6,353	6,418
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>					
Shares purchased and cancelled	(10)	–	–	(540)	(550)
Transfer to Capital Redemption Reserve	–	10	–	(10)	–
Dividends	–	–	–	(846)	(846)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	(10)	10	–	(1,396)	(1,396)
<b>At 31st July 2017</b>	896	112	9	92,841	93,858

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

### COMPANY STATEMENT OF CHANGES IN EQUITY as at 31st JULY 2017

	Share Capital £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
<b>At 1st August 2015</b>	919	89	12,279	13,287
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>
Loss for the year	–	–	(410)	(410)
Other comprehensive income	–	–	2,626	2,626
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u>–</u>	<u>–</u>	<u>2,216</u>	<u>2,216</u>
<b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b>				
Shares purchased and cancelled	(10)	–	(540)	(550)
Transfer to Capital Redemption Reserve	–	10	(10)	–
Dividends	–	–	(846)	(846)
<b>TOTAL TRANSACTIONS WITH OWNERS</b>	<u>(10)</u>	<u>10</u>	<u>(1,396)</u>	<u>(1,396)</u>
<b>At 31st July 2017</b>	<u>896</u>	<u>112</u>	<u>9,818</u>	<u>10,826</u>

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

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31st JULY 2017

	Notes	2017 £000	2016 £000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment . . . . .	12	1,431	1,382
Investment properties . . . . .	13	64,799	64,728
Investments in Joint Ventures . . . . .	14	305	263
Available for sale financial assets . . . . .	15	1,000	326
Retirement benefit surplus . . . . .	26	3,862	33
Deferred tax assets . . . . .	21	58	41
		<u>71,455</u>	<u>66,773</u>
<b>CURRENT ASSETS</b>			
Inventories . . . . .	16	2,881	2,684
Trade and other receivables . . . . .	17	5,723	6,369
Monies held on deposit . . . . .	18	2,536	5,519
Cash and cash equivalents . . . . .	18	26,524	26,785
		<u>37,664</u>	<u>41,357</u>
<b>TOTAL ASSETS</b> . . . . .		<u>109,119</u>	<u>108,130</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities . . . . .	21	1,923	1,389
<b>CURRENT LIABILITIES</b>			
Trade and other payables . . . . .	19	4,385	5,134
Corporation tax liability . . . . .		162	143
Bank overdraft . . . . .		8,791	12,628
		<u>13,338</u>	<u>17,905</u>
<b>TOTAL LIABILITIES</b> . . . . .		<u>15,261</u>	<u>19,294</u>
<b>NET ASSETS</b> . . . . .		<u>93,858</u>	<u>88,836</u>
<b>EQUITY</b>			
Called up share capital . . . . .	22	896	906
Capital redemption reserve . . . . .		112	102
Fair value reserve . . . . .		9	(56)
Retained earnings . . . . .		92,841	87,884
		<u>93,858</u>	<u>88,836</u>
<b>TOTAL EQUITY</b> . . . . .		<u>93,858</u>	<u>88,836</u>

The financial statements on pages 33 to 71 were approved by the Board of Directors and authorised for issue on 14th November 2017 and were signed on its behalf by:

DAVID W SMART  
Director

JOHN R SMART  
Director

Company Number SC025130

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

### COMPANY STATEMENT OF FINANCIAL POSITION as at 31st JULY 2017

	Notes	2017 £000	2016 £000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	743	853
Investments in Subsidiaries and Joint Ventures	14	708	708
Retirement benefit surplus	26	3,862	33
		<u>5,313</u>	<u>1,594</u>
<b>CURRENT ASSETS</b>			
Inventories	16	2,576	2,406
Trade and other receivables	17	6,383	6,009
Current tax asset		529	522
Cash and cash equivalents	18	–	2,948
		<u>9,488</u>	<u>11,885</u>
<b>TOTAL ASSETS</b>		<u>14,801</u>	<u>13,479</u>
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities	21	719	80
<b>CURRENT LIABILITIES</b>			
Trade and other payables	19	3,038	3,393
Bank overdraft		218	–
		<u>3,256</u>	<u>3,393</u>
<b>TOTAL LIABILITIES</b>		<u>3,975</u>	<u>3,473</u>
<b>NET ASSETS</b>		<u>10,826</u>	<u>10,006</u>
<b>EQUITY</b>			
Called up share capital	22	896	906
Capital redemption reserve		112	102
Retained earnings		9,818	8,998
<b>TOTAL EQUITY</b>		<u>10,826</u>	<u>10,006</u>

The financial statements on pages 33 to 71 were approved by the Board of Directors and authorised for issue on 14th November 2017 and were signed on its behalf by:

DAVID W SMART  
*Director*

JOHN R SMART  
*Director*

Company Number SC025130



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

### CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31st JULY 2017

	Notes	2017 £000	2016 £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	23 (a)	2,205	5,197
Tax (paid)/received		<u>(454)</u>	<u>634</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>1,751</u>	<u>5,831</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(487)	(488)
Additions to investment properties		(20)	(45)
Expenditure on own work capitalised - investment properties		(2,559)	(1,655)
Sale of property, plant and equipment		70	70
Sale of investment properties		3,735	525
Purchase of available for sale financial assets		(674)	–
Proceeds of sale of available for sale financial assets		87	1
Decrease/(increase) in monies held on deposit		2,983	(2,017)
Interest received		86	125
Dividend received from Joint Ventures		–	37
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u>3,221</u>	<u>(3,447)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of own shares		(550)	(704)
Dividends paid		<u>(846)</u>	<u>(846)</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u>(1,396)</u>	<u>(1,550)</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>3,576</u>	<u>834</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	23 (b)	<u>14,157</u>	<u>13,323</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	23 (b)	<u>17,733</u>	<u>14,157</u>

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

### COMPANY STATEMENT OF CASH FLOWS for the year ended 31st JULY 2017

	Notes	2017 £000	2016 £000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	24 (a)	(1,890)	1,087
Tax received		<u>213</u>	<u>1,084</u>
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<u>(1,677)</u>	<u>2,171</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment		(122)	(286)
Sale of property, plant and equipment		24	59
Interest received		5	12
Dividend received from Joint Ventures		<u>–</u>	<u>37</u>
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<u>(93)</u>	<u>(178)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Purchase of own shares		(550)	(704)
Dividends paid		<u>(846)</u>	<u>(846)</u>
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<u>(1,396)</u>	<u>(1,550)</u>
<b>(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u>(3,166)</u>	<u>443</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	24 (b)	<u>2,948</u>	<u>2,505</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	24 (b)	<u>(218)</u>	<u>2,948</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 2017**

The following new standards and amendments to standards and interpretations relevant to the Group have been issued by the International Accounting Standards Board and are mandatory for the first time for the financial year to 31st July 2017 but had no material impact on the financial statements:

- IAS 1 (amended): Presentation of financial statements.
- IAS 19 (amended): Employee Benefits.

**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 at the date of these financial statements, and have not been adopted early:

- 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).
- IAS 7 (amended): Statement of Cash Flows (effective in the year ending 31st July 2018).
- IAS 12 (amended): Income Taxes (effective in the year ending 31st July 2018).

The Directors are to fully consider the implications and impact on the financial statements of these Standards, especially IFRS 15 and IFRS 16. Based on our review to date no material transitional impact has been identified as at 31st July 2017 in respect of IFRS 9 or IFRS 15.

**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 the 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 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)	
	£000	£000	£000	2017 £000	2016 £000
<b>2017</b>					
Construction activities	22,860	2,559	25,419	(673)	–
Investment activities	6,090	–	6,090	4,519	–
	<u>28,950</u>	<u>2,559</u>	<u>31,509</u>	<u>3,846</u>	<u>–</u>
<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>–</u>	<u>3,514</u>
<b>OPERATING PROFIT</b>				3,846	3,514
Share of results of Joint Ventures				42	33
Finance and investment income				149	205
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b>				<u>4,037</u>	<u>3,752</u>

Internal revenue relates to own work capitalised, all other internal transactions are eliminated on consolidation. The Group had sales from construction activities from three customers amounting to £14,404,000 (2016, sales from construction activities from two customers amounting to £14,467,000).

**2. SEGMENTAL INFORMATION (continued)**

**OTHER SEGMENTAL INFORMATION**

	Non-Current Asset Additions £000	Depreciation £000	Segment Assets £000	Segment Liabilities £000
<b>2017</b>				
Construction activities . . . . .	316	388	16,606	4,797
Investment activities . . . . .	2,750	19	92,790	11,046
Joint Ventures . . . . .	—	—	305	—
	<u>          </u>	<u>          </u>	<u>109,701</u>	<u>15,843</u>
Allocation of corporation tax debtor . . . . .			(582)	(582)
			<u>109,119</u>	<u>15,261</u>
<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>

**3. OTHER OPERATING INCOME**

	2017 £000	2016 £000
Rental income . . . . .	5,515	4,994
Service charges and insurance receivable . . . . .	575	526
	<u>6,090</u>	<u>5,520</u>
Direct property costs . . . . .	(2,653)	(2,164)
Net rental income . . . . .	<u>3,437</u>	<u>3,356</u>

Direct property costs included £1,258,000 (2016, £914,000) in respect of investment properties that did not generate rental income in the year.

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

	2017	2016
	£000	£000
Staff costs during the year amounted to:		
Wages, salaries and short term benefits . . . . .	9,032	9,784
Social security costs . . . . .	966	1,051
Post-employment benefits . . . . .	1,007	843
	<u>11,005</u>	<u>11,678</u>
The average weekly number of employees during the year was made up as follows:		
	No.	No.
Construction and related services . . . . .	235	275
Office and management . . . . .	25	23
	<u>260</u>	<u>298</u>
Directors' remuneration:		
	£000	£000
– Salaries and short term benefits . . . . .	465	457
– Post-employment benefits . . . . .	72	59
	<u>537</u>	<u>516</u>

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

John R Smart and Patricia Sweeney are members 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 . . . . .	2,044	7,074
Staff costs (per note 4) . . . . .	11,005	11,678
Hire of plant and machinery . . . . .	721	651
Contingent rents . . . . .	83	75
Depreciation of owned assets . . . . .	407	465
Profit on disposal of property, plant and equipment . . . . .	(39)	(47)
Auditor remuneration and expenses – audit services . . . . .	112	104

The audit fees for the Parent Company are £50,000 (2016, £50,000).

**6. INCOME FROM INVESTMENTS**

Dividend income from available for sale financial assets . . . . .	<u>32</u>	<u>14</u>
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**7. FINANCE INCOME**

Income:		
Interest on short term deposits . . . . .	79	111
Other interest . . . . .	7	14
Net interest income on retirement benefit obligations . . . . .	9	66
	<u>95</u>	<u>191</u>

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

### NOTES TO THE ACCOUNTS (continued)

31st JULY 2017

8. TAXATION	2017	2016
	£000	£000
UK Corporation Tax		
Current tax on income for the year	472	512
Corporation tax under/(over) provided in previous years	1	(8)
	<u>473</u>	<u>504</u>
Deferred taxation (note 21)	(163)	(240)
	<u>310</u>	<u>264</u>
Current Tax Reconciliation		
Profit on ordinary activities before tax	4,037	3,752
Share of profits of Joint Ventures	(42)	(33)
	<u>3,995</u>	<u>3,719</u>
Current tax at 19.67% (2016, 20.00%).	786	744
Effects of:		
Expenses not deductible for tax purposes	34	6
Other timing differences	–	10
Non taxable income including revaluation surplus	(127)	(67)
Effect of indexation allowances on property sales	(185)	–
Effect of change in tax rate	(199)	(421)
Adjustments to corporation tax charge in respect of prior years	1	(8)
	<u>310</u>	<u>264</u>

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 years 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 19.67% (2016, 20.00%) being the average rate applicable over the period. Deferred tax provisions have been calculated using the 17% rate.

In addition to amounts charged to the Income Statement, a deferred tax charge of £680,000 (2016, credit £215,000) relating to actuarial gains/(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 £774,000 (2016, £1,340,000).

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

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

### NOTES TO THE ACCOUNTS (continued)

31st JULY 2017

9. PROFIT FOR THE FINANCIAL YEAR	2017	2016
	£000	£000
Dealt with in the accounts of the Parent Company . . . . .	(410)	310
Retained by Subsidiary and Joint Venture Companies . . . . .	4,137	3,178
	<u>3,727</u>	<u>3,488</u>

The Group uses underlying profit before tax as an alternative performance measure, which is the profit before tax excluding net surplus or deficit on valuation of investment properties accounted for through the Income Statement. As the net surplus or deficit on valuation of investment properties can fluctuate from year to year and is not a realised surplus or loss by excluding this amount a truer reflection of actual Group performance is obtained. Analysis of this alternative performance measure is as follows:

Profit before tax . . . . .	4,037	3,752
Surplus on valuation of investment properties . . . . .	(614)	(136)
	<u>3,423</u>	<u>3,616</u>

### 10. DIVIDENDS

2015 Final Dividend of 2.10p per share, after waivers . . . . .	–	425
2016 Interim Dividend of 0.92p per share . . . . .	–	421
2016 Final Dividend of 2.15p per share, after waivers . . . . .	418	–
2017 Interim Dividend of 0.95p per share . . . . .	428	–
	<u>846</u>	<u>846</u>

The Board is proposing a Final Dividend of 2.17p per share (2016, 2.15p) which, will cost the Company no more than £973,000.

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 2017 . . . . .	<u>3,727</u>	<u>8.26p</u>
Year to 31st July 2016 . . . . .	<u>3,488</u>	<u>7.61p</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 2017 amounted to 45,099,000 (2016, 45,845,000).

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 2016 . . . . .	896	5,920	6,816
Additions . . . . .	–	487	487
Disposals . . . . .	–	(472)	(472)
At 31st July 2017 . . . . .	<u>896</u>	<u>5,935</u>	<u>6,831</u>
Depreciation:			
At 1st August 2016 . . . . .	553	4,881	5,434
Provided during year . . . . .	19	388	407
Disposals . . . . .	–	(441)	(441)
At 31st July 2017 . . . . .	<u>572</u>	<u>4,828</u>	<u>5,400</u>
Net book value:			
At 31st July 2017 . . . . .	<u>324</u>	<u>1,107</u>	<u>1,431</u>
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>

Included within Freehold Land and Buildings is land costing £13,000 (2016, £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 2016 . . . . .	361	2,729	3,090
Additions . . . . .	–	122	122
Disposals . . . . .	–	(105)	(105)
At 31st July 2017 . . . . .	<u>361</u>	<u>2,746</u>	<u>3,107</u>
Depreciation:			
At 1st August 2016 . . . . .	115	2,122	2,237
Provided during year . . . . .	5	214	219
Disposals . . . . .	–	(92)	(92)
At 31st July 2017 . . . . .	<u>120</u>	<u>2,244</u>	<u>2,364</u>
Net book value:			
At 31st July 2017 . . . . .	<u>241</u>	<u>502</u>	<u>743</u>
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>



**13. INVESTMENT PROPERTIES**

	Land and buildings Freehold £000	Land and buildings Leasehold £000	Total £000
Cost or valuation:			
At 1st August 2016 . . . . .	56,630	8,098	64,728
Additions . . . . .	1,326	1,253	2,579
Disposals . . . . .	(3,122)	–	(3,122)
Surplus on valuation . . . . .	610	4	614
At 31st July 2017 . . . . .	<u>55,444</u>	<u>9,355</u>	<u>64,799</u>
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>

**Valuation Process**

The Group’s investment properties are valued by David W Smart, MRICS, who is a Director of the Parent Company, on the basis of fair value, in accordance with the RICS Valuation – Global Standards 2017, incorporating the International Valuations Standards, and RICS Professional Standards UK January 2014 (revised April 2015). 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 Director 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 2017:

	Fair Value at 31 July 2017 £000	Estimated Rental Value £ per sq ft			Equivalent Yield %		
		Low	Average	High	Low	Average	High
<b>Investment</b>							
Commercial	15,089	9.00	12.00	15.00	10.2	10.5	11.3
Industrial	49,710	4.00	6.25	8.50	7.7	8.4	10.2

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 2017:

	Fair Value at 31 July 2017 £000	5% change in estimated rental value		25bps change in equivalent yield	
		Increase £000	Decrease £000	Decrease £000	Increase £000
<b>Investment</b>					
Commercial	15,089	760	(760)	398	(380)
Industrial	49,710	2,383	(2,383)	1,405	(1,328)

The Group had obligations of £1,472,000 (2016, £nil) in respect of developments and repair costs of investment properties at the Balance Sheet date.

**14. INVESTMENTS**

	<i>Group</i>		<i>Company</i>	
	2017 £000	2016 £000	2017 £000	2016 £000
Shares in Subsidiaries at Cost . . . . .	–	–	708	708
Joint Ventures . . . . .	305	263	–	–
	<u>305</u>	<u>263</u>	<u>708</u>	<u>708</u>

**(a) JOINT VENTURES**

At 31st July 2017 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:

	2017 £000	2016 £000
Aggregate carrying amount of individually immaterial associates . . . . .	<u>305</u>	<u>263</u>
Aggregate carrying amount of the Group's share of:		
Profit from continuing activities . . . . .	<u>42</u>	<u>33</u>
Total comprehensive income . . . . .	42	33
Dividend received . . . . .	<u>–</u>	<u>(37)</u>
	<u>42</u>	<u>(4)</u>

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.

Prestonfield Development Company Limited was dissolved on 22nd August 2017.

Invertiel Developments Limited became dormant in the year.

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

NOTES TO THE ACCOUNTS (continued)

31st JULY 2017

### 14. INVESTMENTS (continued)

#### (b) SUBSIDIARIES

	2017	2016
	£000	£000
At 1st August 2016 and 31st July 2017	708	708

On 3rd August 2016 the Company acquired the entire issued share capital of newly incorporated company Smart Serviced Offices Limited for £100 being the nominal value of the shares issued.

At 31st July 2017 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
Smart Serviced Offices Limited	Serviced office space provider

### 15. AVAILABLE FOR SALE FINANCIAL ASSETS

	<i>Group</i>	
	2017	2016
	£000	£000
Listed investments	1,000	326

Fair value movement on shares held at 31st July 2017 before tax amounted to £65,000 (2016, £(10,000)).

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>	
	2017	2016	2017	2016
	£000	£000	£000	£000
Long-term contract balances . . . . .	–	55	–	–
Work in progress . . . . .	172	420	172	420
Land held for development . . . . .	2,372	1,953	2,372	1,953
Raw materials and consumables . . . . .	156	168	32	33
Finished goods . . . . .	181	88	–	–
	<u>2,881</u>	<u>2,684</u>	<u>2,576</u>	<u>2,406</u>

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

Aggregate amount of costs incurred and recognised profits less recognised losses to date . . . . .	12,131	20,948	9,505	19,471
Retentions outstanding . . . . .	318	534	318	534
Advances received . . . . .	<u>(12,203)</u>	<u>(22,060)</u>	<u>(10,001)</u>	<u>(20,724)</u>
Net value of contracts in progress . . . . .	<u>246</u>	<u>(578)</u>	<u>(178)</u>	<u>(719)</u>

**17. TRADE AND OTHER RECEIVABLES**

**CURRENT ASSETS:**

Trade receivables . . . . .	2,146	2,342	591	454
Amounts owed by Subsidiaries . . . . .	–	–	2,841	1,688
Other receivables . . . . .	327	147	224	163
Prepayments and accrued income . . . . .	371	381	272	291
Amounts recoverable on contracts . . . . .	1,781	2,402	1,357	2,316
Loans to Joint Venture companies . . . . .	1,098	1,097	1,098	1,097
	<u>5,723</u>	<u>6,369</u>	<u>6,383</u>	<u>6,009</u>

Trade receivables are shown net of provision for doubtful debts of £44,000 (2016, £30,000).

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

Less than 30 days . . . . .	1,471	1,870	560	422
30 to 60 days . . . . .	632	281	31	32
Greater than 60 days . . . . .	43	191	–	–
	<u>2,146</u>	<u>2,342</u>	<u>591</u>	<u>454</u>

Trade receivables includes £570,000 (2016, £220,000) 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.

Amounts owed by subsidiaries are repayable on demand and are interest free.

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>	
	2017 £000	2016 £000	2017 £000	2016 £000
Cash at bank and on hand . . . . .	15,129	13,837	–	2,948
Short term deposits . . . . .	11,395	12,948	–	–
	<u>26,524</u>	<u>26,785</u>	<u>–</u>	<u>2,948</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 . . . . .	2,063	1,629	1,444	893
Amounts owed to Subsidiaries . . . . .	–	–	60	118
Other taxes and social security costs . . . . .	220	498	143	172
Other creditors and accruals . . . . .	2,102	3,007	1,391	2,210
	<u>4,385</u>	<u>5,134</u>	<u>3,038</u>	<u>3,393</u>

Included in Other creditors and accruals are contract loss provisions.

**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 £183,000 and £79,000 respectively (2016, £196,000 and £111,000 respectively).

21. DEFERRED TAXATION

**DEFERRED TAX ASSETS**  
**GROUP**

	Other £000
At 1st August 2015 . . . . .	27
Credited to Income Statement . . . . .	14
At 31st July 2016 . . . . .	<u>41</u>
Credited to Income Statement . . . . .	17
At 31st July 2017 . . . . .	<u>58</u>

Deferred tax assets arising in respect of valuation surpluses on Investment Properties of £774,000 (2016, £1,340,000) 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 2015 . . . . .	1,478	294	58	1,830
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>
Charged to Equity . . . . .	–	680	–	680
Credited to Income Statement . . . . .	(114)	(29)	(3)	(146)
At 31st July 2017 . . . . .	<u>1,214</u>	<u>657</u>	<u>52</u>	<u>1,923</u>

**COMPANY**

	Accelerated Capital Allowances £000	Retirement Benefit Obligations £000	Other Timing Differences £000	Total £000
At 1st August 2015 . . . . .	36	294	45	375
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>
Charged to Equity . . . . .	–	680	–	680
Credited to Income Statement . . . . .	(10)	(29)	(2)	(41)
At 31st July 2017 . . . . .	<u>21</u>	<u>657</u>	<u>41</u>	<u>719</u>



**22. SHARE CAPITAL**

	2017		2016	
	Number	£000	Number	£000
Issued and fully paid ordinary shares of 2p each				
At 1st August 2016	45,304,000	906	45,974,000	919
Purchased and cancelled	(500,000)	(10)	(670,000)	(13)
At 31st July 2017	<u>44,804,000</u>	<u>896</u>	<u>45,304,000</u>	<u>906</u>

During the year to 31st July 2017 the Company purchased for cancellation 500,000 ordinary shares of 2p each with a nominal value of £10,000 for a consideration of £550,000.

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**

	2017 £000	2016 £000
Profit before tax	4,037	3,752
Share of profits from Joint Ventures	(42)	(33)
Depreciation	407	465
Unrealised valuation surplus on investment properties	(614)	(136)
Profit on sale of property, plant and equipment	(39)	(47)
Profit on sale of investment properties	(613)	(186)
Profit on sale of available for sale financial assets	(22)	–
Change in retirement benefits	(523)	(817)
Interest received	(86)	(125)
Change in inventories	(197)	3,051
Change in receivables	646	(1,861)
Change in payables	(749)	1,134
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<u>2,205</u>	<u>5,197</u>

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

Cash and cash equivalents	26,524	26,785
Bank overdraft	(8,791)	(12,628)
Net position	<u>17,733</u>	<u>14,157</u>

**(c) ANALYSIS OF NET FUNDS**

	At 1st August 2016 £000	Cash Flow £000	At 31st July 2017 £000
Cash and cash equivalents	26,785	(261)	26,524
Bank overdraft	(12,628)	3,837	(8,791)
Net funds	<u>14,157</u>	<u>3,576</u>	<u>17,733</u>

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

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

	2017 £000	2016 £000
(Loss)/profit before tax . . . . .	(671)	77
Depreciation . . . . .	219	270
Profit on sale of property, plant and equipment . . . . .	(11)	(39)
Dividend received from Joint Ventures . . . . .	–	(37)
Change in retirement benefits . . . . .	(523)	(817)
Interest received . . . . .	(5)	(12)
Change in inventories . . . . .	(170)	3,044
Change in receivables . . . . .	(374)	(2,131)
Change in payables . . . . .	(355)	732
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b> . . . . .	<u>(1,890)</u>	<u>1,087</u>

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

Cash and cash equivalents . . . . .	–	2,948
Bank overdraft . . . . .	(218)	–
	<u>(218)</u>	<u>2,948</u>

**(c) ANALYSIS OF NET FUNDS**

	At 1st August 2016 £000	Cash Flow £000	At 31st July 2017 £000
Cash and cash equivalents . . . . .	2,948	(2,948)	–
Bank overdraft . . . . .	–	(218)	(218)
	<u>2,948</u>	<u>(3,166)</u>	<u>(218)</u>

**25. FUTURE CAPITAL EXPENDITURE**

There were no amounts of Capital Expenditure relating to Property, plant and equipment contracted for at 31st July 2017 or 31st July 2016.

The Group's share of Capital Expenditure contracted for by its Joint Ventures as at 31st July 2017 amounted to £nil (2016, £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 2015 which revealed a surplus of £2,783,000, representing a funding level of 110%. Following this latest triennial valuation the Group and the scheme Trustees agreed that employer contributions to the scheme as from 31st October 2017 would increase from 27.8% to 31.9% and employee contributions are to remain at 3%.

There were no outstanding contributions at the year end.

The Group expects to pay a contribution of £766,000 during the financial year to 31st July 2018.

**ASSUMPTIONS**

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

	2017	2016	2015
Valuation method . . . . .	Projected Unit	<i>Projected Unit</i>	<i>Projected Unit</i>
Discount rate . . . . .	2.5%	2.3%	3.5%
Inflation rate - Retail price index . . . . .	3.2%	2.6%	3.0%
Inflation rate - Consumer price index . . . . .	2.3%	1.7%	2.0%
Salary increases . . . . .	3.2%	2.6%	3.0%
Pension increases . . . . .	1.8% – 3.4%	1.5% – 3.0%	1.9% – 3.0%

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

Man currently aged 65 . . . . .	21.9	21.9	22.0
Woman currently aged 65 . . . . .	23.7	23.9	24.3
Man currently aged 45 . . . . .	23.0	23.2	23.3
Woman currently aged 45 . . . . .	25.0	25.4	25.8

**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	
		2017 £000	2016 £000
Discount rate	Decrease of 0.25%	1,199	1,298
Inflation rate	Increase of 0.25%	322	456
Mortality rate	Increase in life expectancy of 1 year	1,265	1,267

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 2017 £000	Valuation 2016 £000	Valuation 2015 £000
<b>EQUITIES</b>			
UK	10,861	10,637	9,336
Overseas	16,012	13,741	13,342
Multi-asset diversified funds	2,425	1,594	2,547
Absolute return funds	946	946	–
<b>BONDS</b>			
Government	991	1,069	166
Corporate	2,924	3,223	2,813
<b>OTHER</b>			
Cash	3,729	3,477	3,530
Fair value of scheme assets	37,888	34,687	31,734
Present value of scheme liabilities	(34,026)	(34,654)	(30,262)
Scheme surplus	3,862	33	1,472
Deferred taxation	(657)	(6)	(294)
Net pension scheme surplus	3,205	27	1,178

**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

	2017 £000	2016 £000
<b>Analysis of amounts charged to operating profit:</b>		
Service cost	(707)	(555)
<b>Analysis of amounts charged to net finance income:</b>		
Interest income	791	1,113
Interest costs	(782)	(1,047)
	<u>9</u>	<u>66</u>
<b>Movement in present value of defined benefit obligations:</b>		
At 1st August 2016	34,654	30,262
Service cost	707	555
Interest cost	782	1,047
Charges paid	(60)	(60)
Employee contributions	44	53
Benefit payments	(1,628)	(1,153)
Actuarial movements due to scheme experiences	(593)	(157)
Actuarial movements due to changes in demographic assumptions	(157)	(447)
Actuarial movements due to changes in financial assumptions	277	4,554
At 31st July 2017	<u>34,026</u>	<u>34,654</u>

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

	2017	2016			
	£000	£000			
<b>Movement in fair value of scheme assets:</b>					
At 1st August 2016	34,687	31,734			
Interest income	791	1,113			
Employer contributions	1,221	1,306			
Employee contributions	44	53			
Benefits paid	(1,628)	(1,153)			
Charges paid	(60)	(60)			
Return on plan assets excluding amount shown in interest income	2,833	1,694			
At 31st July 2017	<u>37,888</u>	<u>34,687</u>			
<b>Movement in scheme surplus:</b>					
At 1st August 2016	33	1,472			
Current service cost	(707)	(555)			
Contributions	1,221	1,306			
Net finance income	9	66			
Actuarial remeasurement of pension scheme liability	3,306	(2,256)			
At 31st July 2017	<u>3,862</u>	<u>33</u>			
<b>Analysis of the actuarial gain/(loss) included in the statement of comprehensive income:</b>					
Return on scheme assets excluding amounts shown in interest income	2,833	1,694			
Changes in assumptions underlying present value of scheme liabilities	473	(3,950)			
At 31st July 2017	<u>3,306</u>	<u>(2,256)</u>			
<b>History of experience gains and losses:</b>					
	2017	2016	2015	2014	2013
Return on scheme assets					
Amount (£000)	2,833	1,694	802	(743)	2,776
Percentage of market value of scheme assets	7.5%	4.9%	2.5%	2.5%	9.7%
Changes in assumptions underlying present value of scheme liabilities					
Amount (£000)	473	(3,950)	(1,805)	(1,050)	446
Percentage of market value of scheme liabilities	1.4%	11.4%	6.0%	3.8%	1.7%
Total amounts included in Consolidated Statement of Comprehensive Income					
Amount (£000)	3,306	(2,256)	(1,003)	(1,793)	3,222
Percentage of market value of scheme liabilities	9.7%	6.5%	3.3%	6.4%	12.4%

**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 £212,000 (2016, £188,000).

**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 £62,000 (2016, £70,000) 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 £26,000 (2016, £30,000) 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.

**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 2017 these amounted to £1,744,000.

**28. OPERATING LEASE ARRANGEMENTS**

**GROUP – AS LESSEE**

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

	2017	2016
	£000	£000
Within one year . . . . .	84	73
In two – five years exclusively . . . . .	250	164
After five years . . . . .	180	150
	<u>514</u>	<u>387</u>

**GROUP – AS LESSOR**

Gross property rental income earned in the year amounted to £5,515,000 (2016, £4,994,000). At the Balance Sheet date, the Group had contracted with its tenants for the following future minimum lease payments:

Within one year . . . . .	5,528	5,301
In two – five years exclusively . . . . .	13,650	12,820
After five years . . . . .	7,708	6,634
	<u>26,886</u>	<u>24,755</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	2017	2016	2017	2016
	£000	£000	£000	£000
	Sale of goods and services		Purchase of goods and services	
McGowan and Company (Contractors) Limited . . . . .	134	134	1,177	1,357
Cramond Real Estate Company Limited . . . . .	—	—	—	—
Thomas Menzies (Builders) Limited . . . . .	206	72	7	4
Concrete Products (Kirkcaldy) Limited . . . . .	36	40	38	50
C. & W. Assets Limited . . . . .	3,486	2,455	—	—
Smart Serviced Offices Limited . . . . .	18	—	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	Amounts owed by Subsidiaries		Amounts owed to Subsidiaries	
McGowan and Company (Contractors) Limited . . . . .	—	—	59	118
Cramond Real Estate Company Limited . . . . .	—	—	—	—
Thomas Menzies (Builders) Limited . . . . .	24	9	—	—
Concrete Products (Kirkcaldy) Limited . . . . .	—	—	1	—
C. & W. Assets Limited . . . . .	2,587	1,679	—	—
Smart Serviced Offices Limited . . . . .	230	—	—	—
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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 £5,000 (2016, £6,000), sale of materials and services of £1,000 (2016, £nil) and receipt of dividends of £nil (2016, £37,000).

The Group was due £2,000 (2016, £3,000) in respect of the loan interest charged to one of the Joint Venture Companies and £2,000 (2016, £nil) in respect of sale of materials and services. During the year the Group was repaid £nil (2016, £nil) of outstanding loans to Joint Venture Companies and advanced £1,000 (2016, £1,000) to Joint Venture Companies.

As at 31st July 2017 loans outstanding from Joint Venture Companies amounted to £1,098,000 (2016, £1,097,000).

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 2017 the Group purchased materials amounting to £315,000 (2016, £311,000) from these companies and sold materials and services amounting to £198,000 (2016, £55,000) to these companies.

All transactions were at normal commercial rates.

As at 31st July 2017 the Group owed these companies £51,000 (2016, £9,000) and was owed £6,000 (2016, £33,000).

**(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:

	2017 £000	2016 £000
John M Smart . . . . .	11	11
David W Smart . . . . .	113	109
John R Smart . . . . .	113	109
Alasdair H Ross . . . . .	3	3
Patricia Sweeney . . . . .	—	—

**(f) DIRECTORS' TRANSACTIONS**

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

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

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.

During the year the Company paid fees and expenses on behalf of the defined benefit pension scheme amounting to £169,000 (2016, £33,000).





