

# J. SMART & CO. (CONTRACTORS) PLC

ANNUAL REPORT  
AND  
STATEMENT OF ACCOUNTS  
TO  
31<sup>st</sup> JULY 2012

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

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### **DIRECTORS**

J. M. SMART, *Chairman and Managing Director*

L. E. GLENDAY

D. W. SMART

A. H. ROSS

### **COMPANY SECRETARY**

P. SWEENEY

### **REGISTERED OFFICE**

28 CRAMOND ROAD SOUTH,

EDINBURGH,

EH4 6AB

### **SUBSIDIARY COMPANIES**

McGOWAN & Co. (CONTRACTORS) LIMITED

CRAMOND REAL ESTATE COMPANY LIMITED

THOMAS MENZIES (BUILDERS) LIMITED

CONCRETE PRODUCTS (KIRKCALDY) LIMITED

C. & W. ASSETS LIMITED

### **REGISTRARS AND TRANSFER OFFICE**

EQUINITI LIMITED,

34 SOUTH GYLE CRESCENT,

SOUTH GYLE BUSINESS PARK,

EDINBURGH,

EH12 9EB

### **BANKERS**

BANK OF SCOTLAND,

38 ST ANDREW SQUARE,

EDINBURGH,

EH2 2YR

### **AUDITORS**

FRENCH DUNCAN LLP,

CHARTERED ACCOUNTANTS,

375 WEST GEORGE STREET,

GLASGOW,

G2 4LW

### **SOLICITORS**

RUSSEL & AITKEN LLP,

27 RUTLAND SQUARE,

EDINBURGH,

EH1 2BU

ANDERSON STRATHERN LLP,

1 RUTLAND COURT,

EDINBURGH,

EH3 8EY

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

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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 *13th December 2012* at 12 noon, for the following purposes:

1. To receive and consider the Annual Report and Statement of Accounts for the year ended 31st July 2012.
2. To receive and consider the Report on Directors' Remuneration for the year ended 31st July 2012.
3. To declare a Final Dividend of 1.98p per share.
4. To re-elect L. E. Glenday as a Director, who retires in accordance with provision B.7.1 of UK Corporate Governance Code.
5. To re-elect A. H. Ross as a Director, who being appointed in the year, retires in accordance with provision B.7.1 of UK Corporate Governance Code.
6. To re-elect French Duncan LLP as Auditors.
7. To authorise the Directors to determine the remuneration of the Auditors.
8. To authorise the Company, via a special resolution, for the purposes of section 701 of the Companies Act 2006 to make one or more market purchases (as defined in section 693(4) of the Companies Act 2006) of its ordinary shares of 2p each ("Ordinary Shares"), such power to be limited to a maximum of 4,103,000 Ordinary Shares. The Company cannot pay a price per Ordinary Share which is less than the nominal value (2p per Ordinary Share) or more than 105% of the average of the middle market quotations of the Ordinary Shares taken from the London Stock Exchange Daily Official Listing for the five business days immediately before the day on which such Ordinary Shares are purchased. This authority is to apply until the end of the Annual General Meeting to be held in 2017 but the Company may enter into a contract to purchase Ordinary Shares which will or may be completed or executed wholly or partly after the authority ends, the Company may purchase these Ordinary Shares pursuant to any such contract as if the authority had not ended.
9. To transact any other business of an Annual General Meeting.

A member entitled to attend and vote at this Meeting is entitled to appoint one or more proxies to attend and vote on a poll instead of him. A proxy need not be a member. Forms of proxy, if used, must be lodged with the Registrars of the Company at least 48 hours before the time fixed for the Meeting. Forms of proxy may also be lodged electronically by submitting a duly completed scanned copy of the proxy card to [proxy.votes@equiniti.com](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 AGM and, if applicable, any members' statements, members' resolutions or members' matters of business received by the Company after the date of this Notice will be available on the Company's website [www.jsmart.co.uk](http://www.jsmart.co.uk).

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

BY ORDER OF THE BOARD  
P. SWEENEY, SECRETARY  
28 Cramond Road South,  
Edinburgh EH4 6AB

*13th November 2012*

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

### **CHAIRMAN'S REVIEW**

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#### **ACCOUNTS**

As forecast in the interim report, the results for the year were adversely affected by the inclusion of a further reduction in the value of our property portfolio as dictated by the International Financial Reporting Standards. Headline profit for the year turned out at £55,000 which compares with a headline profit of £656,000 last year. If the impact of revalued property on the figures is disregarded, then a truer reflection of Group performance emerges in the form of an underlying profit before tax for the year under review of £4,097,000 (no property sales) which compares with the figure for underlying profit last year of £5,992,000 (including £1,929,000 profit from property sales).

The value of investment properties at the beginning of the year was £72,586,000 (cost £51,609,000). Additions during the year cost £3,423,000. Transfers to Investment properties from Property, plant and equipment amounted to £25,000 and transfers from Investment properties to Inventories amounted to £1,555,000. The net deficit on the year end valuation was £4,042,000. Leaving a value of £70,437,000 (cost £53,502,000).

The Board is recommending a Final Dividend of 1.98p nett, making a total for the year of 2.90p nett, which compares with the equivalent figure of 2.86p nett (adjusted for the share sub-division) for the previous year. The final dividend will cost the Company £980,000.

Loss after tax adjusted for actuarial pension scheme deficit, dividends paid, fair value reserve adjustment and purchase of own shares when added to opening shareholders' funds brings the total equity of the Group to £91,309,000.

#### **TRADING ACTIVITIES**

Group construction work carried out and share of Joint Ventures' turnover increased by 43%, own work capitalised increased by 29%, Group revenue increased by 45% and headline Group profit decreased by 92%. Underlying Group profit excluding the unrealised deficit in revalued property decreased by 32%.

Turnover in contracting was higher than the previous year, although a reduced profit resulted. The modest revival in private dwelling sales in February and March mentioned in the interim report weakened during the summer months. Sales in precast concrete manufacture increased and a reduced loss was incurred.

Construction of the office block at the Robertson Avenue development, Edinburgh is progressing and the residential element is approximately 65% complete.

While occupancy levels at our established industrial developments have improved since this time last year and have remained stable at our established commercial sites, our recent developments at Saltire House, Whitefriars Business Park, Perth; Bridgeside House, McDonald Road, Edinburgh and Inchwood Business Park, Bathgate are proving to be a challenge and have so far failed to let.

#### **OTHER MATTERS**

In December 2011 Mr A.D. McClure, having attained his seniority, retired from the Board. Mr McClure served the Company for 47 years, 24 as a Director, during which time his hard work, loyalty, dedication and the calm efficiency he employed in his role as Financial Director and Company Secretary were major factors in the Group's success. My sincere personal thanks go to Andrew for his unstinting efforts on the Company's behalf, together with my wishes for a long and happy retirement.

#### **FUTURE PROSPECTS**

Work in hand in contracting is less than at this time last year and margins continue to tighten.

Private house sales are slow.

The failure to let our recent commercial and industrial developments is disappointing and there appears to be no likely improvement in the short term at least. Property values appear to have stabilised for the present, however a further softening in values before the end of the current financial year cannot be discounted.

The recession drags on and too many uncertainties exist to permit an accurate forecast of the results for the current financial year, however on balance it seems likely that, discounting any property sales, underlying profit will be less than last year.

*13th November 2012*

**J. M. SMART**  
*Chairman*

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

### **DIRECTORS**

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**J.M. Smart, Chairman and Managing Director** Aged 68

Joined the Company in 1967

Appointed Director in 1978 and appointed Chairman in 1988

**A.D. McClure** Aged 66

Joined the Company in 1964

Appointed Director in 1987

Retired as a Director on 19th December 2011

**L.E. Glenday** Aged 64

Joined the Company in 1972

Appointed Director in 2001

**D.W. Smart** Aged 39

Joined the Company in 1998

Appointed Director in 2010

**A.H. Ross** Aged 50

Joined the Company in 1989

Appointed Director on 1st January 2012

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

### REPORT OF THE DIRECTORS

31st JULY 2012

The Directors submit their Annual Report and Statement of Accounts for the year ended 31st July 2012.

#### RESULTS AND DIVIDENDS

The loss of the Group for the year after charging taxation amounted to . . . £(531,000)

The Directors have made the following appropriations:

|   |                   |
|---|-------------------|
| Paying a Final Dividend for 2011 of 9.70p per 10p share (2010, 9.60p per 10p share)   | £978,000          |
| Paying an Interim Dividend for 2012 of 0.92p per 2p share (2011, 4.60p per 10p share) | <u>462,000</u>    |
|   | <u>£1,440,000</u> |

The Directors recommend a Final Dividend for the year of 1.98p per share, making a total for the year of 2.90p.

The Final Dividend, if approved, will be paid to all Members on the Share Register of the Company at the close of business on 30th November 2012. Dividend warrants will be posted on 14th December 2012.

#### STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group and Parent Company financial statements, state whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 2006 and IFRS as adopted by the EU. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

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

### REPORT OF THE DIRECTORS (contd.)

31st JULY 2012

#### DIRECTORS' STATEMENT PURSUANT TO DISCLOSURE AND TRANSPARENCY RULE 4.1.12

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

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

#### PRINCIPAL ACTIVITIES

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

The company has interests in Joint Venture Companies as follows:

| Name of Joint Venture Company            | Percentage of interest held | Joint Venture Party          |
|--|-----------------------------|------------------------------|
| Edinburgh Industrial Estates Limited     | 50%                         | EDI (Industrial) Limited     |
| Prestonfield Development Company Limited | 50%                         | Westerwood Limited           |
| Northrigg Limited                        | 50%                         | William Sanderson            |
| Duff Street Limited                      | 50%                         | Kiltane Developments Limited |
| Inveriel Developments Limited            | 50%                         | Macdonald Estates PLC        |

Full details of the Joint Venture companies are given in note 14 to the accounts.

#### BUSINESS REVIEW

Group operations during the year were as follows:

##### CONSTRUCTION ACTIVITIES

The Company continues to undertake the construction of social housing for several housing associations within the Edinburgh area.

Thomas Menzies (Builders) Limited continues to undertake small to medium sized civil engineering contracts for Local Authorities, Enterprise Companies and private sector clients.

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

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



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

### REPORT OF THE DIRECTORS (contd.)

31st JULY 2012

#### BUSINESS REVIEW (contd.)

##### INVESTMENT ACTIVITIES

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

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

##### JOINT VENTURES

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

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

##### SUMMARY

|                         |   |   |   |   |   |   | Revenue | Profit/ | Profit/(Loss)                                     |
|-------------------------|---|---|---|---|---|---|---------|---------|---|
|                         |   |   |   |   |   |   | £000    | (Loss)  | excluding unrealised deficit in revalued property |
|                         |   |   |   |   |   |   | £000    | £000    | £000  |
| Construction activities | . | . | . | . | . | . | 28,013  | 473     | 473   |
| Investment activities   | . | . | . | . | . | . | 5,518   | (403)   | 3,639   |
| Joint Ventures          | . | . | . | . | . | . | 67      | (15)    | (15)  |
|                         |   |   |   |   |   |   | 33,598  | 55      | 4,097   |

Group external construction revenue increased from £17,001,000 to £24,684,000 an increase of £7,683,000 and internal own work capitalised increased from £2,587,000 to £3,329,000. Rental income from investment properties, excluding that from Joint Ventures, together with service charges and insurance receivable decreased from £5,523,000 to £5,518,000.

The net deficit on valuation of investment properties as at 31st July 2012 amounted to £4,042,000 as compared to a net deficit for the previous year of £5,336,000. There were no investment property sales in the year.

The above movements have resulted in an Operating Loss for the Group for the year of £685,000 as compared to an Operating Profit of £90,000 in the previous year.

The Group's share of losses in Joint Ventures amounted to £15,000 as compared to a profit of £42,000 in the previous year.

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

### REPORT OF THE DIRECTORS (contd.)

31st JULY 2012

#### BUSINESS REVIEW (contd.)

##### SUMMARY (contd.)

Income from financial assets including profit arising on sale of financial assets together with finance income less finance costs amounted to £755,000 as compared to £524,000 for the previous year.

Group Profit before tax amounted to £55,000 for the year as compared to £656,000 for the previous year. If the unrealised net deficit on valuation of investment properties is excluded, the Group Profit before tax for the year would be £4,097,000 as compared to £5,992,000 for the previous year.

##### GROUP FINANCIAL PERFORMANCE INDICATORS

|   | 2012<br>£000 | Movement<br>%/£000 | 2011<br>£000 |
|---|--------------|--------------------|--------------|
| Revenue . . . . .   | 24,684       | 45%                | 17,001       |
| Own work capitalised . . . . .  | 3,329        | 29%                | 2,587        |
| Other operating income . . . . .  | 5,518        | —                  | 5,523        |
| Profit before tax . . . . .   | 55           | (92%)              | 656          |
| Profit excluding unrealised deficit in revalued property . . . . .                                | 4,097        | (32%)              | 5,992        |
| Group investment income including profit on sale of available for sale financial assets . . . . . | 755          | 44%                | 524          |
| Share of Joint Ventures' (losses)/profits . . . . .   | (15)         | (57)               | 42           |
| Group Balance Sheet . . . . .   | 91,309       | (6%)               | 97,560       |

##### PRINCIPAL RISK FACTORS

###### RISK AND IMPACT

Main focus in contracting is on social housing which can be highly competitive putting pressure on turnover and margins (there have been material but unquantifiable increases in the risk and impact).

##### MEASURE

- Genuine “All Trades” Contractor employing own plant and directly employed operatives to carry out all basic trades.
- No “labour-only” sub-contractors.
- Long serving site supervisory staff promoted through the ranks.
- Specialist trades sub-contracted to pool of tried and tested sub-contractors who are paid in full on or ahead of time.
- Clients receive pre-contract design advice to resolve potential technical problems.
- As property and private residential developers we identify sites unsuitable for private development and offer them to Housing Associations to negotiate package.

We believe the above measures ensure a high standard of service, quality and progress which permits our clients to employ us on a partnering “best value” basis where price is not the only criterion and repeat business results.

#### BUSINESS REVIEW (contd.)

##### PRINCIPAL RISK FACTORS (contd.)

###### RISK AND IMPACT

Cuts in funding reduce or suspend the social housing programme resulting in reduced contracting workload and substantial redundancies (there have been material but unquantifiable increases in the risk and impact).

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

Free availability of credit leads to rise in cost of developable land and property to unsustainable levels resulting in heavy losses or insolvency when the “bubble” bursts and credit is withdrawn.

Possible failure of bank threatens the Group’s existence due to loss of cash reserves.

Massive reduction in bank and interest rates results in significant loss of Group revenue from cash on deposit.

Effect of recession and restriction on mortgage lending results in stalling of private house sales.

###### MEASURE

- Take up slack by diverting staff and workforce to private commercial and residential developments held in reserve.
- Unlike a pure “contractor” we can take the portion of affordable housing required by the Planning Authority on a private residential development to a Housing Association resulting in reciprocal business and increased workload.
- We now have five Joint Ventures in private development for four of which we carry out the work.
- By restricting our operations to the central belt of Scotland we are only involved in familiar locations we understand.
- Secure a pre-let before commencement of development.
- Only commence speculative development after a careful assessment of the local market and once we are reasonably certain of securing tenants.
- Freshen up existing developments from time to time in order to retain and attract tenants and maintain market interest.
- Avoid overpaying for land or property.
- Do not over extend resources by over committing to development while the market hots up.
- Build up liquidity for the tough times ahead by selective selling of land and/or developed property at or near the top of the market.
- Spread cash reserves among several banks placing more with the strongest.
- Invest a proportion of cash in equities.
- Seek out best interest rates obtainable from banks consistent with security of borrower.
- Consider investing a proportion of cash in high yielding property with strong covenant.
- Increase investment in equities paying attention to yield, high/low price history and security of investment.
- Sales incentives within limitations.
- Shared equity and Government backed co-ownership schemes.
- Consider letting until sales market improves.

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**RETIREMENT BENEFIT OBLIGATIONS**

Note 27 to the accounts gives details of the most recent actuarial review of the Group's defined benefit pension scheme.

**PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES**

Full details of the movements in Property, plant and equipment and Investment properties during the year are given in notes 12 and 13 to the accounts.

At 31st July 2012 a valuation of the Group's non-investment heritable properties was carried out by Group Company Directors. This valuation, which has not been incorporated into these accounts, showed a net surplus over the cost of these properties after depreciation of £1,688,000 as at 31st July 2012.

**FUTURE DEVELOPMENTS**

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

**EMPLOYEE INVOLVEMENT**

It is Company policy that there should be effective communication with employees at all levels, on matters which affect their current jobs or future prospects. In achieving this policy, the Directors are aware of the need to take account of the practical and commercial considerations of the Company, and of the needs of employees.

**DISABLED EMPLOYEES**

The policy of the Company with regard to disabled persons is to give full and fair consideration to all applicants for employment and to all employees in relation to promotion. Wherever possible, employees who become disabled during their employment and are unable to fulfil current duties are offered suitable alternative employment.

**CHARITABLE DONATIONS**

During the year the Group made total charitable donations amounting to £35,000 (2011, £35,000). Donations to local causes amounted to £17,000 (2011, £19,000) and donations to national charities amounted to £18,000 (2011, £16,000).

**POLITICAL DONATIONS**

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

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

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

The Board has been granted, by a resolution at the 2011 Annual General Meeting, authority to make political donations to EU political organisations and independent election candidates not exceeding £5,000 in total and to incur EU political expenditure not exceeding £5,000 in total. This authority remains valid until the conclusion of the Company's Annual General Meeting to be held in 2015.

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

### REPORT OF THE DIRECTORS (contd.)

31st JULY 2012

#### CREDITOR PAYMENT POLICY

The Group's policy concerning payment of trade creditors is to settle in accordance with accepted best practice in the building industry, i.e. payment is made by the end of the month following the month of supply or delivery. Further information relating to the policy on payment of creditors may be obtained from the Group's registered office. The average number of days taken to pay creditors is 16, based on the average daily amount invoiced by suppliers during the year and the creditors balance at the year end.

#### DIRECTORS AND THEIR INTERESTS

- (i) The Directors at 31st July 2012 and their beneficial interests in the share capital of the Company were as follows:

|               | <i>1st August 2011</i>             | <i>21st December 2011</i>         | <i>31st July 2012</i>             |
|---------------|------------------------------------|-----------------------------------|-----------------------------------|
|               | <i>Ordinary shares of 10p each</i> | <i>Ordinary shares of 2p each</i> | <i>Ordinary shares of 2p each</i> |
|               | <i>Beneficial holdings</i>         | <i>Beneficial holdings</i>        | <i>Beneficial holdings</i>        |
| J. M. Smart   | 239,700                            | 1,198,500                         | 1,198,500                         |
| L. E. Glenday | 45,000                             | 225,000                           | 225,000                           |
| D. W. Smart   | 2,372,700                          | 11,863,500                        | 11,863,500                        |
| A. H. Ross    | 10,000                             | 50,000                            | 100,000                           |

On 21st December 2011 there was a subdivision of the Company's Ordinary shares of 10p each resulting in 5 New Ordinary Shares of 2p each for 1 Old Ordinary share of 10p each.

A. D. McClure retired as a Director on 19th December 2011. As at 1st August 2011 he had a beneficial holding in 55,000 Ordinary Shares of 10p of the Company.

- (ii) L. E. Glenday retires by rotation and, being eligible, offers himself for re-election in accordance with provision B.7.1 of the UK Corporate Governance Code.
- (iii) A. H. Ross was appointed as a director on 1st January 2012 and in accordance with provision B.7.1 of the UK Corporate Governance Code is subject to and offers himself for re-election at the first Annual General Meeting of the Company following his election.
- (iv) There are no Directors' service contracts in existence.
- (v) There have been no changes in the Directors' beneficial interests between 31st July 2012 and 20th October 2012.

#### SHARE CAPITAL AND SUBSTANTIAL SHAREHOLDERS

The Company's authorised and issued ordinary share capital as at 31st July 2012 comprises a single class of ordinary shares. The Company was authorised by shareholders, at the 2011 Annual General Meeting, to purchase in the market up to 10% of the Company's issued share capital, as permitted under the Company's Articles of Association. During the year the Company made market purchases of 938,000 Ordinary Shares of 2p under this authority. These shares were subsequently cancelled.

This authority is renewable and the Directors will seek renewal of this authority at the 2012 Annual General Meeting.

As far as the Directors are aware, other than the Directors, the Company has been notified that as at 31st July 2012 and as at 20th October 2012, the following have interests of more than 3% in the Company's issued share capital:

|                           | <i>Number</i> | <i>%</i> |
|---------------------------|---------------|----------|
| Octet Investments Limited | 1,622,400     | 3.28     |
| A. J. Whitehead           | 1,579,485     | 3.19     |
| J. R. Smart               | 11,863,500    | 23.98    |

**SHAREHOLDER AND VOTING RIGHTS**

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

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

**RESTRICTIONS ON TRANSFER OF SECURITIES**

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

**APPOINTMENT AND REPLACEMENT OF DIRECTORS**

Initial appointments may be approved by the Board of Directors but anyone so appointed must be re-elected by ordinary resolution at the next Annual General Meeting of the Company. Directors, excluding the Managing Director, in accordance with the provision B.7.1 of UK Corporate Governance Code, must retire and offer themselves for re-election at the Annual General Meeting at least every three years.

**AMENDMENTS OF THE COMPANY'S ARTICLES OF ASSOCIATION**

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

**CHANGE OF CONTROL**

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

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

**CLOSE COMPANY STATUS**

On the information available, the Directors are of the opinion that the Company is not a Close Company within the provisions of the Corporation Tax Act 2010.

#### CORPORATE GOVERNANCE

##### STATEMENT OF COMPLIANCE

This statement details how your Company has applied the main and supporting principles of corporate governance as set out in the Financial Reporting Council's UK Corporate Governance Code issued in June 2010 (the Code). A copy of the Code can be found on the Financial Reporting Council's website, [www.frc.org.uk](http://www.frc.org.uk).

The Board is committed to the principles of openness, integrity and accountability in dealing with the Company's affairs and believes it has always acted with probity in the best interests of the Company, its employees and shareholders without recourse to guidance or instruction from others and fully intends to continue to do so in the future.

The Board recognises that it has not complied throughout the year in whole or in part with the following provisions set out in Section 1 of the Code – A.1.1- A.1.2, A.2.1, A.3.1, A.4.1-A.4.3, B.1.1-B.1.2, B.2.1-B.2.4, B.3.1-B.3.2, B.6.1-B.6.3, B.7.1-B.7.2, C.3.1-C.3.6, D.1.1, D.1.5, D.2.1-D.2.2, E.1.1 and E.2.2-E.2.3, details and explanations for non-compliance are given below.

##### THE BOARD

The Company is led by a Board of Directors which comprises the executive management of the Company, being the Chairman and three executive directors, and thus maintains full control of the Company. All the Directors worked for the Company prior to their appointments as Director. During the year A. D. McClure retired from the Company, and A. H. Ross was appointed as Director. Decisions are taken by the Board quickly and effectively following ad hoc consultation among the Directors concerned when any matter arises. Your Board takes the view that this direct and flexible approach is preferable to the more cumbersome procedures prevalent in larger organisations and has made a considerable contribution to your Company's continuing success and ensures that this approach best serves the interests of the Company and its shareholders.

The Board held 15 formal Board Meetings in the year, attendance at these meetings was as follows:

|  |    |
|--|----|
| J. M. Smart                                | 14 |
| A. D. McClure (retired 19th December 2011) | 2  |
| L. E. Glenday                              | 12 |
| D. W. Smart                                | 13 |
| A. H. Ross (appointed 1st January 2012)    | 9  |

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

The Chairman of the Company is also the Managing Director. Bearing in mind the size of the Company, the Board sees no value in splitting the role of the Chairman and Managing Director, a policy which has served your Company well over many years. The Chairman is responsible for the leadership of the Board, ensuring that all the Directors receive accurate, timely and clear information on issues arising at Board meetings, setting Board agendas and ensuring adequate time is given to discussion of the agenda points. The members of the Board have complete freedom to seek independent professional advice, at the Company's expense, when they feel it is appropriate to do so. All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. All Directors openly express their views and make a valuable contribution to the running of the Company.

The Board considers that increasing the manning level of the Board by 50% by the appointment of two non-executive Directors would increase costs and impose an additional administrative burden for no discernible benefit and, accordingly, would serve no useful purpose. As a result of not appointing non-executive Directors, the Company has not established Nomination, Remuneration or Audit Committees.



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

### **REPORT OF THE DIRECTORS (contd.)**

**31st JULY 2012**

#### **CORPORATE GOVERNANCE (contd.)**

##### **THE BOARD (contd.)**

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

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

The Company's Articles of Association do not require that Directors retire by rotation, however, in accordance with provision B.7.1 of the Code all Directors, with the exception of the Managing Director, seek re-election at intervals of no more than three years at the Annual General Meeting. Also in accordance with provision B.7.1 of the Code all new Directors are subject to re-election at the first Annual General Meeting following their appointment.

As the Company does not have a Remuneration Committee, the Chairman is responsible for fixing the remuneration packages of the Directors which are based on their performance and the scope of their duties and responsibilities. No Director has a service contract with the Company and accordingly periods of notice and termination payments would be construed in accordance with Employment Law. There is no scheme in place for Directors to receive entitlement to share options nor are there any long term incentive schemes.

##### **FINANCIAL AND BUSINESS REPORTING**

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

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

##### **RISK MANAGEMENT AND INTERNAL CONTROL**

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

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

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

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



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

### **REPORT OF THE DIRECTORS (contd.)**

**31st JULY 2012**

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#### **CORPORATE GOVERNANCE (contd.)**

##### **RISK MANAGEMENT AND INTERNAL CONTROL (contd.)**

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

##### **AUDIT COMMITTEE**

As the Company does not have an Audit Committee, it is the responsibility of the Chairman and Company Secretary on a continuing basis to consider how the financial reporting and internal control principles apply to the Company, to maintain an appropriate relationship with the Group's Auditors and to review the scope and results of the audit and its cost effectiveness. The Board is responsible for setting the remuneration of the Auditors. In order to ensure the continued independence and objectivity of the Group's Auditors, the Board has established policies regarding the provision of non-audit services by the Auditors. In some cases, the nature of the non-audit advice may make it more timely and cost effective to select the Group's Auditors, who already have a good understanding of the Group. In other circumstances the decisions on the allocation of work are made on the basis of competence and cost effectiveness. The Group's Auditors are subject to professional standards which safeguard the integrity of the auditing role performed on behalf of the shareholders.

The Board has considered and for the time being has concluded that an internal audit function is not necessary. The Board will continue to review the need for such a function. As such there is no internal audit of the risks identified by the Board and the controls established by the Board to mitigate and monitor these risks.

##### **RELATIONS WITH SHAREHOLDERS**

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

As the Company has no non-executive Directors there is no opportunity for shareholders to meet with these Directors.

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

At the Annual General Meeting separate resolutions will be proposed on each substantially separate issue and the number of proxy votes received for, against, and withheld for each resolution will be announced.

##### **AUDITORS**

In accordance with section 489 of the Companies Act 2006, a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of French Duncan LLP as Auditors of the Company.

##### **STATEMENT OF DISCLOSURE TO AUDITORS**

In the case of each of the Directors who were Directors at the date this Report was approved:

- so far as the Directors are aware there is no relevant audit information (as defined in the Companies Act 2006) of which the Company's Auditors are unaware; and
- each of the Directors has taken all steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

APPROVED BY THE BOARD OF DIRECTORS  
AND SIGNED ON ITS BEHALF BY  
**P. SWEENEY,**  
*Secretary.*

*13th November 2012*

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

### REPORT ON DIRECTORS' REMUNERATION

31st JULY 2012

The Directors' Remuneration Report for the year to 31st July 2012 is set out below, in compliance with current Listing Rules and statutory reporting requirements.

The Listing Rules require a Company to include a statement in its Annual Report and Statement of Accounts as to whether or not it has complied with Section B of the Code of Best Practice annexed to the Listing Rules. These provisions require the Company to set up a Remuneration Committee consisting exclusively of non-executive Directors to determine the executive Directors' remuneration.

For reasons set out under Corporate Governance above, your Board has appointed no non-executive Directors and therefore no Remuneration Committee.

#### REMUNERATION POLICY

The Company's policy on Directors' remuneration for the current and future years is that individual rewards should reflect performance and the scope of their duties and responsibilities.

#### DIRECTORS' REMUNERATION

The following tables show an analysis of the various elements of remuneration receivable by those Directors who served during the year ended 31st July 2012.

##### Directors' Remuneration (Audited Information)

|               |           | Salary and<br>Fees<br>£000 | Taxable<br>Benefits<br>£000 | Total<br>2012<br>£000 | Total<br>2011<br>£000 |
|---------------|-----------|----------------------------|-----------------------------|-----------------------|-----------------------|
| J. M. Smart   | . . . . . | 121                        | 9                           | 130                   | 127                   |
| A. D. McClure | . . . . . | 196                        | 4                           | 200                   | 127                   |
| L. E. Glenday | . . . . . | 121                        | 9                           | 130                   | 127                   |
| D. W. Smart   | . . . . . | 83                         | 5                           | 88                    | 46                    |
| A. H. Ross    | . . . . . | 48                         | 5                           | 53                    | —                     |

##### Directors' Pension Benefits (Audited Information)

|               |           | Gross increase<br>in accrued<br>pension<br>£ | Total accrued<br>pension<br>31/7/12<br>£ | Transfer Value<br>of accrued<br>pension at<br>31/7/12<br>£ | Transfer Value<br>of accrued<br>pension at<br>31/7/11<br>£ | Total change<br>in value<br>during period<br>£ |
|---------------|-----------|--|--|--|--|--|
| L. E. Glenday | . . . . . | 5,666  | 78,662                                   | 1,745,756  | 1,354,562  | 387,580  |
| D. W. Smart   | . . . . . | 3,872  | 13,021                                   | 117,779  | 66,119   | 49,185   |
| A. H. Ross    | . . . . . | 2,507  | 20,261                                   | 265,992  | 186,580  | 77,612   |

No Director receives fees or bonuses.

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

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

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

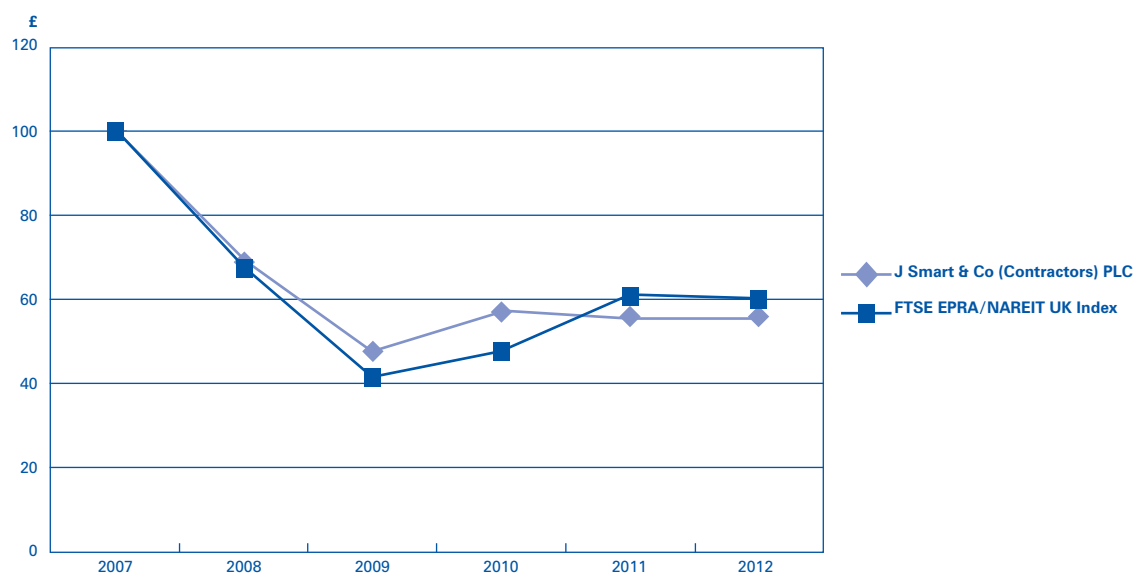
### REPORT ON DIRECTORS' REMUNERATION (contd.)

31st JULY 2012

#### PERFORMANCE GRAPH

The graph below shows the total shareholder return performance of the Company's shares in comparison with the FTSE EPRA/NAREIT UK Index for the five years to 31st July 2012. For the purposes of the graph, total shareholder return has been calculated as the percentage change during the five year period in the market price of the shares, assuming that Dividends are reinvested.

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



This graph shows the value of £100 invested in J. Smart & Co. (Contractors) PLC over the last five financial years compared to £100 invested in the FTSE EPRA/NAREIT UK Index which the Directors believe is the most appropriate comparative index.

APPROVED BY THE BOARD OF DIRECTORS  
AND SIGNED ON ITS BEHALF BY

**P. SWEENEY,**  
*Secretary.*

*13th November 2012*

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**INDEPENDENT REPORT OF THE AUDITORS**

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

We have audited the financial statements of J. Smart & Co. (Contractors) PLC for the year ended 31st July 2012 which comprise Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Cash Flows and related notes to the accounts. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union.

This report is made solely to the Company's shareholders, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's shareholders those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

**RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND AUDITORS**

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

**SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements. In addition we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**OPINION ON FINANCIAL STATEMENTS**

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31st July 2012 and of the Group's loss and the Group's and Parent Company's Cash Flow for the year then ended;
- the financial statements have been properly prepared in accordance with IFRS as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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

INDEPENDENT REPORT OF THE AUDITORS (contd.)

31st JULY 2012

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

In our opinion:

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

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

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company's financial statements and the part of the Report on Directors' Remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement set out on page 14, in relation to the going concern basis;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

375 WEST GEORGE STREET,  
GLASGOW G2 4LW.  
13th November 2012

KEVIN G BOOTH  
*Senior Statutory Auditor*  
for and on behalf of FRENCH DUNCAN LLP  
*Statutory Auditor and Chartered Accountants*

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

### CONSOLIDATED INCOME STATEMENT for the year ended 31st July 2012

|   | Notes | 2012<br>£000    | 2011<br>£000    |
|---|-------|-----------------|-----------------|
| Group construction work carried out and share of Joint Ventures' turnover   |       | 28,080          | 19,588          |
| Less: Share of Joint Ventures' turnover . . . . .   |       | (67)            | –               |
| Less: Own construction work capitalised . . . . .   |       | <u>(3,329)</u>  | <u>(2,587)</u>  |
| <b>REVENUE . . . . .</b>  |       | 24,684          | 17,001          |
| Cost of sales . . . . .   |       | <u>(20,743)</u> | <u>(13,176)</u> |
| <b>GROSS PROFIT . . . . .</b>   |       | 3,941           | 3,825           |
| Other operating income . . . . .  | 3     | 5,518           | 5,523           |
| Net operating expenses . . . . .  |       | <u>(6,102)</u>  | <u>(5,851)</u>  |
| <b>OPERATING PROFIT BEFORE PROFIT ON SALE AND NET DEFICIT<br/>ON VALUATION OF INVESTMENT PROPERTIES . . . . .</b> |       | 3,357           | 3,497           |
| Profit on sale of investment properties . . . . .   |       | –               | 1,929           |
| Net deficit on valuation of investment properties . . . . .   |       | <u>(4,042)</u>  | <u>(5,336)</u>  |
| <b>OPERATING (LOSS)/PROFIT . . . . .</b>  | 5     | (685)           | 90              |
| Share of (losses)/profits in Joint Ventures . . . . .   | 14    | (15)            | 42              |
| Income from available for sale financial assets . . . . .   | 6     | 128             | 140             |
| Profit on sale of available for sale financial assets . . . . .   |       | 34              | –               |
| Finance income . . . . .  | 7     | <u>593</u>      | <u>384</u>      |
| <b>PROFIT BEFORE TAX . . . . .</b>  |       | 55              | 656             |
| Taxation . . . . .  | 8     | <u>(586)</u>    | <u>358</u>      |
| <b>(LOSS)/PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS . . . . .</b>  | 9     | <u>(531)</u>    | <u>1,014</u>    |
| <b>(LOSS)/EARNINGS PER SHARE – BASIC AND DILUTED . . . . .</b>  | 11    | <u>(1.06)p</u>  | <u>2.01p</u>    |

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

The notes on pages 26 to 54 form an integral part of these accounts.

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

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

#### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31ST JULY 2012

|  | Notes | 2012<br>£000   | 2011<br>£000 |
|--|-------|----------------|--------------|
| Actuarial (loss)/gain recognised on defined benefit pension scheme | 27    | (4,517)        | 1,847        |
| Deferred taxation on actuarial loss/(gain)                         | 21    | 937            | (601)        |
| <b>NET (DEFICIT)/SURPLUS RECOGNISED DIRECTLY IN EQUITY</b>         |       | <b>(3,580)</b> | <b>1,246</b> |
| (Loss)/Profit for the year   |       | (531)          | 1,014        |
| <b>TOTAL RECOGNISED INCOME AND EXPENSE FOR THE YEAR</b>            |       | <b>(4,111)</b> | <b>2,260</b> |
| <b>ATTRIBUTABLE TO EQUITY SHAREHOLDERS</b>                         |       | <b>(4,111)</b> | <b>2,260</b> |

#### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31ST JULY 2012

|  | Share<br>Capital<br>£000 | Capital<br>Redemption<br>Reserve<br>£000 | Fair Value<br>Reserve<br>£000 | Retained<br>Earnings<br>£000 | Total<br>£000  |
|--|--------------------------|--|-------------------------------|------------------------------|----------------|
| As at 1st August 2010  | 1,008                    | —  | 216                           | 95,317                       | 96,541         |
| Total recognised Income and Expense                          | —                        | —  | —                             | 2,260                        | 2,260          |
| Fair value adjustment  | —                        | —  | 236                           | —                            | 236            |
| Tax on fair value adjustment                                 | —                        | —  | (45)                          | —                            | (45)           |
| <b>Total comprehensive income</b>                            | <b>—</b>                 | <b>—</b>                                 | <b>191</b>                    | <b>2,260</b>                 | <b>2,451</b>   |
| <b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b> |                          |  |                               |                              |                |
| Shares purchased and cancelled                               | —                        | —  | —                             | —                            | —              |
| Transfer to capital redemption reserve                       | —                        | —  | —                             | —                            | —              |
| Dividends  | —                        | —  | —                             | (1,432)                      | (1,432)        |
| <b>Total transactions with owners</b>                        | <b>—</b>                 | <b>—</b>                                 | <b>—</b>                      | <b>(1,432)</b>               | <b>(1,432)</b> |
| As at 31st July 2011   | 1,008                    | —  | 407                           | 96,145                       | 97,560         |
| Total recognised Income and Expense                          | —                        | —  | —                             | (4,111)                      | (4,111)        |
| Fair value adjustment  | —                        | —  | 46                            | —                            | 46             |
| Tax on fair value adjustment                                 | —                        | —  | 5                             | —                            | 5              |
| <b>Total comprehensive income</b>                            | <b>—</b>                 | <b>—</b>                                 | <b>51</b>                     | <b>(4,111)</b>               | <b>(4,060)</b> |
| <b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b> |                          |  |                               |                              |                |
| Shares purchased and cancelled                               | (19)                     | —  | —                             | (732)                        | (751)          |
| Transfer to capital redemption reserve                       | —                        | 19                                       | —                             | (19)                         | —              |
| Dividends  | —                        | —  | —                             | (1,440)                      | (1,440)        |
| <b>Total transactions with owners</b>                        | <b>(19)</b>              | <b>19</b>                                | <b>—</b>                      | <b>(2,191)</b>               | <b>(2,191)</b> |
| As at 31st July 2012   | 989                      | 19                                       | 458                           | 89,843                       | 91,309         |

The notes on pages 26 to 54 form an integral part of these accounts.

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31st JULY 2012

|   | Notes | 2012<br>£000   | 2011<br>£000   |
|---|-------|----------------|----------------|
| <b>NON-CURRENT ASSETS</b>                     |       |                |                |
| Property, plant and equipment . . . . .       | 12    | 1,122          | 1,290          |
| Investment properties . . . . .               | 13    | 70,437         | 72,586         |
| Investments in Joint Ventures . . . . .       | 14    | 997            | 1,012          |
| Available for sale financial assets . . . . . | 15    | 2,988          | 3,018          |
| Retirement benefit surplus . . . . .          | 27    | —              | 1,660          |
| Deferred tax asset . . . . .                  | 21    | 557            | 253            |
|   |       | <u>76,101</u>  | <u>79,819</u>  |
| <b>CURRENT ASSETS</b>                         |       |                |                |
| Inventories . . . . .                         | 16    | 10,654         | 7,078          |
| Trade and other receivables . . . . .         | 17    | 6,921          | 7,375          |
| Cash at bank and in hand . . . . .            |       | 9,761          | 21,704         |
|   |       | <u>27,336</u>  | <u>36,157</u>  |
| <b>TOTAL ASSETS</b> . . . . .                 |       | <u>103,437</u> | <u>115,976</u> |
| <b>NON-CURRENT LIABILITIES</b>                |       |                |                |
| Retirement benefit obligations . . . . .      | 27    | 1,490          | —              |
| Deferred tax liabilities . . . . .            | 21    | 2,180          | 2,852          |
|   |       | <u>3,670</u>   | <u>2,852</u>   |
| <b>CURRENT LIABILITIES</b>                    |       |                |                |
| Trade and other payables . . . . .            | 19    | 3,961          | 4,376          |
| Current tax liabilities . . . . .             |       | 32             | 234            |
| Bank overdraft . . . . .                      |       | 4,465          | 10,954         |
|   |       | <u>8,458</u>   | <u>15,564</u>  |
| <b>TOTAL LIABILITIES</b> . . . . .            |       | <u>12,128</u>  | <u>18,416</u>  |
| <b>NET ASSETS</b> . . . . .                   |       | <u>91,309</u>  | <u>97,560</u>  |
| <b>EQUITY</b>                                 |       |                |                |
| Called up share capital . . . . .             | 22    | 989            | 1,008          |
| Capital redemption reserve . . . . .          | 23    | 19             | —              |
| Fair value reserve . . . . .                  | 23    | 458            | 407            |
| Retained earnings . . . . .                   | 23    | 89,843         | 96,145         |
| <b>TOTAL EQUITY</b> . . . . .                 |       | <u>91,309</u>  | <u>97,560</u>  |

Approved by the Board on  
13th November 2012

Company Registration No. SC025130

J. M. SMART, *Director*  
L. E. GLENDAY, *Director*

The notes on pages 26 to 54 form an integral part of these accounts.



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

### COMPANY STATEMENT OF FINANCIAL POSITION as at 31st JULY 2012

|  | Notes | 2012<br>£000  | 2011<br>£000  |
|--|-------|---------------|---------------|
| <b>NON-CURRENT ASSETS</b>                                |       |               |               |
| Property, plant and equipment . . . . .                  | 12    | 596           | 613           |
| Investments in Subsidiaries and Joint Ventures . . . . . | 14    | 733           | 733           |
| Retirement benefit surplus . . . . .                     | 27    | —             | 1,660         |
| Deferred tax asset . . . . .                             | 21    | 387           | 56            |
|  |       | <u>1,716</u>  | <u>3,062</u>  |
| <b>CURRENT ASSETS</b>                                    |       |               |               |
| Inventories . . . . .                                    | 16    | 10,336        | 6,780         |
| Trade and other receivables . . . . .                    | 17    | 9,032         | 8,242         |
| Current tax assets . . . . .                             |       | 776           | 942           |
| Cash at bank and in hand . . . . .                       |       | 1,045         | 7,971         |
|  |       | <u>21,189</u> | <u>23,935</u> |
| <b>TOTAL ASSETS</b> . . . . .                            |       | <u>22,905</u> | <u>26,997</u> |
| <b>NON-CURRENT LIABILITIES</b>                           |       |               |               |
| Retirement benefit obligations . . . . .                 | 27    | 1,490         | —             |
| Deferred tax liabilities . . . . .                       | 21    | 68            | 496           |
|  |       | <u>1,558</u>  | <u>496</u>    |
| <b>CURRENT LIABILITIES</b>                               |       |               |               |
| Trade and other payables . . . . .                       | 19    | 2,760         | 2,733         |
| Bank overdraft . . . . .                                 |       | —             | —             |
|  |       | <u>2,760</u>  | <u>2,733</u>  |
| <b>TOTAL LIABILITIES</b> . . . . .                       |       | <u>4,318</u>  | <u>3,229</u>  |
| <b>NET ASSETS</b> . . . . .                              |       | <u>18,587</u> | <u>23,768</u> |
| <b>EQUITY</b>  |       |               |               |
| Called up share capital . . . . .                        | 22    | 989           | 1,008         |
| Capital redemption reserve . . . . .                     | 23    | 19            | —             |
| Retained earnings . . . . .                              | 23    | 17,579        | 22,760        |
| <b>TOTAL EQUITY</b> . . . . .                            |       | <u>18,587</u> | <u>23,768</u> |

Approved by the Board on  
13th November 2012

Company Registration No. SC025130

J. M. SMART, *Director*  
L. E. GLENDAY, *Director*

The notes on pages 26 to 54 form an integral part of these accounts.

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

### CONSOLIDATED STATEMENT OF CASH FLOWS for the year ended 31st JULY 2012

|   | Notes | 2012<br>£000   | 2011<br>£000   |
|---|-------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 | 24(a) | 984            | 1,951          |
| Tax paid on profits   |       | (823)          | (710)          |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>             |       | <u>161</u>     | <u>1,241</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |       |                |                |
| Additions to property, plant and equipment                  |       | (230)          | (363)          |
| Additions to investment properties                          |       | (94)           | (2,900)        |
| Sale of property, plant and equipment                       |       | 16             | 54             |
| Sale of investment properties                               |       | –              | 4,054          |
| Expenditure on own work capitalised - investment properties |       | (3,329)        | (2,587)        |
| Purchase of available for sale financial assets             |       | (49)           | (178)          |
| Proceeds of sale of available for sale financial assets     |       | 159            | –              |
| Interest received   |       | 103            | 133            |
| Dividend received from Joint Venture                        |       | –              | 665            |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                |       | <u>(3,424)</u> | <u>(1,122)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |       |                |                |
| Purchase of own shares                                      |       | (751)          | –              |
| Dividends paid  |       | (1,440)        | (1,432)        |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                |       | <u>(2,191)</u> | <u>(1,432)</u> |
| <b>DECREASE IN CASH, CASH EQUIVALENTS AND BANK</b>          |       | <u>(5,454)</u> | <u>(1,313)</u> |
| <b>CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF YEAR</b> | 24(b) | <u>10,750</u>  | <u>12,063</u>  |
| <b>CASH, CASH EQUIVALENTS AND BANK AT END OF YEAR</b>       | 24(b) | <u>5,296</u>   | <u>10,750</u>  |

The notes on pages 26 to 54 form an integral part of these accounts.

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

### COMPANY STATEMENT OF CASH FLOWS for the year ended 31st JULY 2012

|  | Notes | 2012<br>£000   | 2011<br>£000   |
|--|-------|----------------|----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                    | 25(a) | (4,894)        | 4,316          |
| Net credit for group tax payments                              |       | 354            | 265            |
| <b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>                |       | <u>(4,540)</u> | <u>4,581</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                    |       |                |                |
| Purchase of property, plant and equipment                      |       | (211)          | (236)          |
| Sale of property, plant and equipment                          |       | 9              | 27             |
| Interest received  |       | 7              | 10             |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                   |       | <u>(195)</u>   | <u>(199)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                    |       |                |                |
| Purchase of own shares   |       | (751)          | –              |
| Dividends paid   |       | (1,440)        | (1,432)        |
| <b>NET CASH USED IN FINANCING ACTIVITIES</b>                   |       | <u>(2,191)</u> | <u>(1,432)</u> |
| <b>(DECREASE)/ INCREASE IN CASH, CASH EQUIVALENTS AND BANK</b> |       | <u>(6,926)</u> | <u>2,950</u>   |
| <b>CASH, CASH EQUIVALENTS AND BANK AT BEGINNING OF YEAR</b>    | 25(b) | <u>7,971</u>   | <u>5,021</u>   |
| <b>CASH, CASH EQUIVALENTS AND BANK AT END OF YEAR</b>          | 25(b) | <u>1,045</u>   | <u>7,971</u>   |

The notes on pages 26 to 54 form an integral part of these accounts.

**1. ACCOUNTING POLICIES AND ESTIMATION TECHNIQUES**

**GENERAL INFORMATION**

J. Smart & Co. (Contractors) PLC which is the ultimate Parent Company of the J. Smart & Co. (Contractors) PLC Group is a public limited company registered in Scotland, incorporated in the United Kingdom and listed on the London Stock Exchange.

**STATEMENT OF COMPLIANCE**

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

**STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE YEAR TO 31ST JULY 2012**

The following new Standards, Amendments to Standards and Interpretations which were mandatory for the first time for the year to 31st July 2012, but which are not relevant or material to the Company and Group were:

- IFRS 1 (amended), First Time Adoption relating to severe hyperinflation and the removal of fixed dates for first time adopters.
- IFRS 7 (amended), Financial Instruments Disclosures relating to transfers of financial assets.
- IAS 24 (revised), Related Party Disclosures revised definition of related parties.
- IFRIC 14 (amended), IAS 19 Prepayments of a minimum funding requirement.
- IFRIC 20, Stripping costs in the production phase of a surface mine.

Also there have been changes to standards resulting from the International Accounting Standards Board's 2010 Annual Improvement Programme, none of the amendments had a material impact on the Company and Group.

The Company and Group adopted IAS 12 (revised) Income Tax relating to Deferred Tax and the recovery of underlying assets in the accounts to 31st July 2012 although mandatory adoption thereof is not required until the year to 31st July 2013.

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

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

- IAS 1 (amended), Presentation of items in Other Comprehensive Income. Effective for accounting periods beginning on or after 1st July 2012.
- IAS 19 (amended), Employee benefits resulting from Post-Employment and Termination Benefits projects. Effective for accounting periods beginning on or after 1st January 2013.
- IAS 27 (revised), Consolidated and Separate Financial Statements. Effective for accounting periods beginning on or after 1st January 2013.
- IAS 28 (revised), Investments in Associates and Joint Ventures. Effective for accounting periods beginning on or after 1st January 2013.
- IAS 32 (amended), Financial Instruments: Presentation relating to offset of assets and liabilities. Effective for accounting periods beginning on or after 1st January 2014.
- IFRS 1 (amended), First Time Adoption relating to government loans with below-market rate of interest. Effective for accounting periods beginning on or after 1st January 2013.
- IFRS 7 (amended), Financial Instruments Disclosures relating to offset of assets and liabilities. Effective for accounting periods beginning on or after 1st January 2013.
- IFRS 9 (amended), Financial Instruments – Classification and Measurement. Effective for accounting periods beginning on or after 1st January 2015.

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

**NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS NOT YET APPLIED (contd.)**

- IFRS 10 Consolidated Financial Statements. Effective for accounting periods beginning on or after 1st January 2013.
- IFRS 11 Joint Arrangements. Effective for accounting periods beginning on or after 1st January 2013.
- IFRS 12 Disclosures of Interests in Other Entities. Effective for accounting periods beginning on or after 1st January 2013.
- IFRS 13 Fair Value Measurement. Effective for accounting periods beginning on or after 1st January 2013.

Also there have been changes to standards resulting from the International Accounting Standards Board's 2009 - 2011 Annual Improvement Programme.

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

**BASIS OF PREPARATION**

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

The accounting policies set out below have been consistently applied to all periods presented in these accounts.

The preparation of financial statements requires management to make estimates and assumptions concerning the future that may affect the application of accounting policies and the reported amounts of assets and liabilities and income and expenses. Management believes that the estimates and assumptions used in the preparation of these accounts are reasonable. However, actual outcomes may differ from those anticipated.

**CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS**

**INVESTMENT PROPERTIES**

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

**LONG-TERM CONTRACT PROVISIONS**

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

**RETIREMENT BENEFIT OBLIGATION**

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

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

**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.

**CAPITAL MANAGEMENT**

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

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

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

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

**INVESTMENT IN JOINT VENTURES**

Joint Ventures are those entities over which the Company has a 50% holding and exercises joint control under a contractual arrangement. The results of Joint Venture undertakings are accounted for using the equity method of accounting. Under this method the investment is initially recorded at cost and is subsequently adjusted to reflect the Group's share of the net profit or loss in the Joint Venture.

The Accounts of the Group's Joint Ventures have been prepared in accordance with UK GAAP. The Group's interest in the assets and liabilities of the Joint Ventures have only been restated in accordance with International Financial Reporting Standards where such restatement is considered material to an understanding of the Group's interest.

**INVESTMENT PROPERTIES**

Investment properties are properties owned by the Group which are held for long-term rental income or for capital appreciation or both. Investment properties are initially recognised at cost and revalued at the Balance Sheet date to fair value as determined by Group Directors in accordance with the RICS Valuation Standards.

Properties under development are stated at cost including attributable overheads.

Gains or losses arising from the changes in fair value are included in the Income Statement in the year in which they arise. In accordance with IAS 40: Investment Property, as the Group uses the fair value model, no depreciation is provided in respect of investment properties including integral plant.

Additions to investment properties consist of costs of a capital nature and, in the case of investment properties under development, includes certain internal staff and associated costs directly attributable to the management of the developments under construction.

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

**INVESTMENT PROPERTIES (contd.)**

Where the Group redevelops an existing property for continued future use as an investment property, the property remains an investment property measured at fair value through the Income Statement.

**PROPERTY, PLANT AND EQUIPMENT**

Items of property, plant and equipment are stated at cost less accumulated depreciation.

Subsequent costs are included in the asset's carrying value or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of them can be measured reliably. All other repairs and maintenance expenditure is charged to the Income Statement as incurred.

The Group assesses at each Balance Sheet date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. Where the carrying value exceeds its recoverable amount the asset is considered impaired and written down accordingly.

**DEPRECIATION**

Depreciation is provided on all items of property, plant and equipment, other than investment properties and freehold land, at rates calculated to write off the cost of each asset over its expected useful life, as follows:

|                               |                                 |
|-------------------------------|---------------------------------|
| Freehold buildings            | - over 40 to 66 years           |
| Plant and machinery           | - 25% to 33 ⅓% reducing balance |
| Office furniture and fittings | - 20% to 33 ⅓% reducing balance |
| Motor vehicles                | - 33 ⅓% reducing balance        |

**INVENTORIES AND WORK IN PROGRESS**

Inventories are valued at the lower of cost and net realisable value.

Land held for development is included at the lower of cost and net realisable value.

Work in progress other than long-term contract work in progress is valued at the lower of cost and net realisable value.

Cost includes materials, on a first-in first-out basis and direct labour plus attributable overheads based on normal operating activity, where applicable. Net realisable value is the estimated selling price less anticipated disposal costs.

**LONG-TERM CONTRACTS**

Amounts recoverable on contracts which are included in debtors are stated at cost as defined above, plus attributable profit to the extent that this is reasonably certain after making provision for maintenance costs, less any losses incurred or foreseen in bringing contracts to completion, and less amounts received as progress payments.

For any contracts where receipts exceed the book value of work done, the excess is included in trade and other payables as payments on account.

**INCOME TAX**

The charge for current UK corporation tax is based on results for the year as adjusted for items that are non-assessable or disallowed and any adjustments for tax payable in respect of previous years. It is calculated using rates that have been enacted or substantially enacted at the Balance Sheet date.

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

**DEFERRED TAXATION**

Deferred tax is provided using the liability method in respect of temporary differences between the carrying value of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is provided on all temporary differences, except in respect of investments in Subsidiaries and Joint Ventures where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is determined using tax rates that have been enacted or substantially enacted by the Balance Sheet date and are expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. It is recognised in the Income Statement except when it relates to items credited or charged directly to Equity, in which case the deferred tax is also dealt with in Equity.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

**PENSIONS**

The Group operates a defined benefit pension scheme, which was closed to new members during the year to 31st July 2003 and which requires contributions to be made to an administered fund.

The obligations of the scheme represent benefits accruing to employees and are measured at discounted present value while scheme assets are measured at their fair value. The discount rate used is the yield on AA credit rated corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

The operating and financial costs of such plans are recognised separately in the Income Statement, service costs are spread systematically over the working lives of the employees concerned and financing costs are recognised in the year in which they arise. Actuarial gains and losses, arising from either experience, differing from previous actuarial assumptions, or changes to those assumptions, are recognised immediately in the Consolidated Statement of Comprehensive Income.

The Group also operates a defined contribution Group Personal Pension Plan for eligible employees. The plan is externally administered and professionally managed. Contributions payable are expensed to the Income Statement as incurred.

**LEASES**

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

**GROUP AS A LESSEE**

In accordance with IAS 40: Investment Property, leases of investment property are assessed on a property by property basis. The Group's investment properties are classified as operating leases and rentals payable are charged to the Income Statement on a straight line basis over the term of the lease.

Other leases are classified as operating leases and rentals payable are charged to the Income Statement on a straight line basis over the term of the lease.

**GROUP AS A LESSOR**

Properties leased out under operating leases are included in investment property, with rental income recognised on a straight line basis over the lease term.



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

**REVENUE**

Revenue, which is stated net of value added tax, represents the invoiced value of goods sold, except in the case of long-term contracts where revenue represents the sales value of work done in the year. The measurement and stage of completion of long-term contracts are based on external valuations issued by the third party surveyors.

Profits on long-term contracts are calculated in accordance with International Financial Reporting Standards and do not relate directly to revenue. Profit on current contracts is only taken at a stage near enough to completion for that profit to be reasonably certain after making provision for contingencies, whilst provision is made for all losses incurred to the accounting date together with any further losses that are foreseen in bringing contracts to completion.

The value of construction work transferred to investment properties is excluded from revenue.

Revenue from investment properties comprises rental income, service charges, insurance receivable and other recoveries, and is disclosed as other operating income in the Income Statement.

Rental income from investment property leased out under an operating lease is recognised in the Income Statement on a straight line basis over the term of the lease.

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

**FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised on the Group's Statement of Financial Position when the Group becomes a party to the contractual provision of the instrument. The principal treasury objective is to provide sufficient liquidity to meet operational cash requirements. The Group operates controlled treasury policies which are monitored by the Board to ensure that the needs of the Group are met as they arise.

**AVAILABLE FOR SALE FINANCIAL ASSETS**

Financial assets available for sale represent investments in quoted shares which are recognised at fair value at the year end. The movement in fair value is transferred directly to Equity and shown in a separately designated Fair Value Reserve.

**TRADE AND OTHER RECEIVABLES**

Trade and other receivables are recognised at invoiced value less provisions for impairment. A provision for impairment of trade receivables is established where there is objective evidence that the Group will not be able to collect all amounts due according to the terms of the receivables concerned.

**CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash in hand, deposits with banks and other short-term highly liquid investments with original maturities of three months or less.

**TRADE AND OTHER PAYABLES**

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

**DIVIDENDS**

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

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 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 (loss)/profit.

|   | External<br>Revenue | Internal<br>Revenue | Total<br>Revenue | Operating<br>(Loss)/Profit |              |
|---|---------------------|---------------------|------------------|----------------------------|--------------|
|   | £000                | £000                | £000             | 2012<br>£000               | 2011<br>£000 |
| <b>2012</b>                                     |                     |                     |                  |                            |              |
| Construction activities . . .                   | 24,684              | 3,329               | 28,013           | (25)                       | —            |
| Investment activities . . .                     | 5,518               | —                   | 5,518            | (660)                      | —            |
|   | <u>30,202</u>       | <u>3,329</u>        | <u>33,531</u>    | <u>(685)</u>               | <u>—</u>     |
| <b>2011</b>                                     |                     |                     |                  |                            |              |
| Construction activities . . .                   | 17,001              | 2,587               | 19,588           | —                          | 51           |
| Investment activities . . .                     | 5,523               | —                   | 5,523            | —                          | 39           |
|   | <u>22,524</u>       | <u>2,587</u>        | <u>25,111</u>    | <u>—</u>                   | <u>90</u>    |
| <b>OPERATING (LOSS)/PROFIT</b>                  |                     |                     |                  | (685)                      | 90           |
| Share of results of Joint Ventures              |                     |                     |                  | (15)                       | 42           |
| Finance and investment income.                  |                     |                     |                  | 755                        | 524          |
| <b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAX</b> |                     |                     |                  | <u>55</u>                  | <u>656</u>   |

Internal revenue relates to own work capitalised, all other internal transactions are eliminated on consolidation. The Company had sales under construction activities from two customers amounting to £10,721,000.

#### OTHER SEGMENTAL INFORMATION

|                                      | Non-Current<br>Asset Additions<br>£000 | Depreciation<br>£000 | Segment<br>Assets<br>£000 | Segment<br>Liabilities<br>£000 |
|--------------------------------------|--|----------------------|---------------------------|--------------------------------|
| <b>2012</b>                          |  |                      |                           |                                |
| Construction activities . . .        | 230                                    | 363                  | 26,223                    | 5,016                          |
| Investment activities . . .          | 3,423                                  | —                    | 77,022                    | 7,917                          |
| Joint Ventures . . .                 | —                                      | —                    | 997                       | —                              |
|                                      |  |                      | <u>104,242</u>            | <u>12,933</u>                  |
| Allocation of corporation tax debtor |  |                      | (805)                     | (805)                          |
|                                      |  |                      | <u>103,437</u>            | <u>12,128</u>                  |
| <b>2011</b>                          |  |                      |                           |                                |
| Construction activities . . .        | 363                                    | 426                  | 26,796                    | 4,267                          |
| Investment activities . . .          | 5,487                                  | —                    | 89,282                    | 15,263                         |
| Joint Ventures . . .                 | —                                      | —                    | 1,012                     | —                              |
|                                      |  |                      | <u>117,090</u>            | <u>19,530</u>                  |
| Allocation of corporation tax debtor |  |                      | (1,114)                   | (1,114)                        |
|                                      |  |                      | <u>115,976</u>            | <u>18,416</u>                  |

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 3. OTHER OPERATING INCOME

|   | 2012<br>£000 | 2011<br>£000 |
|---|--------------|--------------|
| Rental income . . . . .                           | 5,316        | 5,334        |
| Less: Joint Ventures' income . . . . .            | (316)        | (312)        |
|   | <u>5,000</u> | <u>5,022</u> |
| Service charges and insurance receivable. . . . . | 518          | 501          |
|   | <u>5,518</u> | <u>5,523</u> |
| Direct property costs . . . . .                   | (2,121)      | (2,060)      |
| Net rental income . . . . .                       | <u>3,397</u> | <u>3,463</u> |

Direct property costs included £620,000 (2011, £569,000) in respect of investment properties that did not generate rental income in the year.

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

Staff costs during the year amounted to:

|  |               |              |
|--|---------------|--------------|
| Wages, salaries and short term benefits. . . . . | 9,005         | 7,088        |
| Social security costs . . . . .                  | 877           | 665          |
| Post-employment benefits . . . . .               | 822           | 836          |
|  | <u>10,704</u> | <u>8,589</u> |

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

|  | No.        | No.        |
|--|------------|------------|
| Construction and related services. . . . . | 244        | 187        |
| Office and management . . . . .            | 25         | 26         |
|  | <u>269</u> | <u>213</u> |

Directors' remuneration:

|  | £000       | £000       |
|--|------------|------------|
| – Salaries and short term benefits . . . . . | 601        | 635        |
| – Post-employment benefits . . . . .         | 67         | 76         |
| – Fees . . . . .                             | –          | –          |
|  | <u>668</u> | <u>711</u> |

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

Key management is comprised solely of the Directors of the Company.

#### 5. OPERATING (LOSS) / PROFIT

This is stated after charging/(crediting):

|  |        |       |
|--|--------|-------|
| Cost of inventories recognised as an expense . . . . .         | 16,169 | 9,696 |
| Staff costs (per note 4) . . . . .                             | 10,704 | 8,589 |
| Hire of plant and machinery . . . . .                          | 332    | 451   |
| Depreciation of owned assets . . . . .                         | 363    | 426   |
| Profit on disposal of property, plant and equipment . . . . .  | (6)    | (16)  |
| Auditors' remuneration and expenses – audit services . . . . . | 120    | 119   |

The auditors' fees for the Parent Company are £52,000 (2011, £51,000).

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 6. INCOME FROM INVESTMENTS

|   | 2012<br>£000 | 2011<br>£000 |
|---|--------------|--------------|
| Available for sale financial assets . . . . . | 128          | 140          |

#### 7. FINANCE INCOME

|   |            |            |
|---|------------|------------|
| Receivable: Interest on short term deposits . . . . . | 96         | 123        |
| Other interest . . . . .                              | 7          | 10         |
| Pension scheme . . . . .                              | 490        | 251        |
|   | <u>593</u> | <u>384</u> |

#### 8. TAXATION

|   |            |              |
|---|------------|--------------|
| UK Corporation Tax  |            |              |
| Current tax on income for the year . . . . .                  | 620        | 991          |
| Corporation tax over provided in previous years . . . . .     | –          | (20)         |
|   | <u>620</u> | <u>971</u>   |
| Deferred taxation (note 21) . . . . .                         | (34)       | (1,329)      |
|   | <u>586</u> | <u>(358)</u> |
| Current Tax Reconciliation                                    |            |              |
| Profit on ordinary activities before tax . . . . .            | 55         | 656          |
| Share of losses/(profits) of Joint Ventures . . . . .         | 15         | (42)         |
|   | <u>70</u>  | <u>614</u>   |
| Current tax at 25.33% (2011, 27.33%) . . . . .                | 18         | 168          |
| Effects of:   |            |              |
| Expenses not deductible for tax purposes . . . . .            | 15         | 5            |
| Depreciation in excess of capital allowances . . . . .        | 1          | 32           |
| Non taxable income . . . . .                                  | (32)       | (38)         |
| Effect of indexation allowances . . . . .                     | 915        | (214)        |
| Effect of change on tax rate . . . . .                        | (331)      | (291)        |
| Adjustments to tax charge in respect of prior years . . . . . | –          | (20)         |
|   | <u>586</u> | <u>(358)</u> |

The rate of corporation tax reduced from 26% to 24% during the year. The effective rate of tax has been calculated as the average rate applicable over the period.

In addition to amounts charged to the Income Statement, a deferred tax credit of £937,000 (2011, charge – (£601,000)) relating to actuarial (losses)/ gains on defined benefit pension scheme has been recognised directly to Equity.

Also a deferred tax credit of £5,000 (2011, charge – (£45,000)) relating to the movement in fair value of available for sale financial assets has been recognised directly to Equity.

In calculating the deferred tax assets and liabilities the Company and Group has adopted IAS 12 (revised), Income Tax relating to Deferred Tax and the recovery of underlying assets in the accounts to 31st July 2012 although mandatory adoption thereof is not required until the year to 31st July 2013.

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

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 9. (LOSS)/ PROFIT FOR THE FINANCIAL YEAR

|  | 2012<br>£000 | 2011<br>£000 |
|--|--------------|--------------|
| Dealt with in the accounts of the Parent Company . . . . .   | 590          | 3,529        |
| Retained by Subsidiary and Joint Venture Companies . . . . . | (1,121)      | (2,515)      |
|  | <u>(531)</u> | <u>1,014</u> |

#### 10. DIVIDENDS

|  |              |              |
|--|--------------|--------------|
| 2010 Final Dividend of 9.60p per 10p share . . . . .                           | –            | 968          |
| 2011 Interim Dividend of 4.60p per 10p share. . . . .                          | –            | 464          |
| 2011 Final Dividend of 9.70p per 10p share . . . . .                           | 978          | –            |
| 2012 Interim Dividend of 0.92p per 2p share . . . . .                          | 462          | –            |
|  | <u>1,440</u> | <u>1,432</u> |
| Proposed 2012 Final Dividend of 1.98p per 2p share (2011, 9.70p per 10p share) | <u>980</u>   | <u>978</u>   |

The proposed Final Dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

#### 11. (LOSS)/ EARNINGS PER SHARE

|                                  | (Loss)/Profit<br>attributable<br>to Equity<br>shareholders<br>£000 | Basic<br>(Loss)/<br>Earnings<br>per share |
|----------------------------------|--|---|
| Year to 31st July 2012 . . . . . | <u>(531)</u>   | <u>(1.06)p</u>                            |
| Year to 31st July 2011 . . . . . | <u>1,014</u>   | <u>2.01p</u>                              |

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

On 21st December 2011 there was a subdivision of the Company's shares resulting in 5 New Ordinary Shares of 2p for 1 Old Ordinary Share of 10p. The earnings per share calculation for the year to 31st July 2011 is based on the number of New Ordinary Shares of 2p effectively in issue at that date.

The weighted average number of shares in issue as at 31st July 2012 amounted to 50,201,047 (2011, 50,410,000).

There is no difference between basic and diluted (loss)/earnings per share.

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

## NOTES TO THE ACCOUNTS (contd.)

31st July 2012

### 12. PROPERTY, PLANT AND EQUIPMENT

#### (a) GROUP

|   | Land and<br>buildings<br>Freehold<br>£000 | Plant,<br>equipment<br>and vehicles<br>£000 | Total<br>£000 |
|---|---|---|---------------|
| Cost:                                       |   |   |               |
| At 1st August 2011 . . . . .                | 739                                       | 5,452                                       | 6,191         |
| Additions . . . . .                         | —   | 230   | 230           |
| Transfer to investment properties . . . . . | (25)                                      | —   | (25)          |
| Disposals . . . . .                         | —   | (136)                                       | (136)         |
| At 31st July 2012 . . . . .                 | <u>714</u>                                | <u>5,546</u>                                | <u>6,260</u>  |
| Depreciation:                               |   |   |               |
| At 1st August 2011 . . . . .                | 462                                       | 4,439                                       | 4,901         |
| Provided during year . . . . .              | 16  | 347   | 363           |
| Disposals . . . . .                         | —   | (126)                                       | (126)         |
| At 31st July 2012 . . . . .                 | <u>478</u>                                | <u>4,660</u>                                | <u>5,138</u>  |
| Net book value:                             |   |   |               |
| At 31st July 2012 . . . . .                 | <u>236</u>                                | <u>886</u>                                  | <u>1,122</u>  |
| Cost:                                       |   |   |               |
| At 1st August 2010 . . . . .                | 739                                       | 5,438                                       | 6,177         |
| Additions . . . . .                         | —   | 363   | 363           |
| Disposals . . . . .                         | —   | (349)                                       | (349)         |
| At 31st July 2011 . . . . .                 | <u>739</u>                                | <u>5,452</u>                                | <u>6,191</u>  |
| Depreciation:                               |   |   |               |
| At 1st August 2010 . . . . .                | 446                                       | 4,340                                       | 4,786         |
| Provided during year . . . . .              | 16  | 410   | 426           |
| Disposals . . . . .                         | —   | (311)                                       | (311)         |
| At 31st July 2011 . . . . .                 | <u>462</u>                                | <u>4,439</u>                                | <u>4,901</u>  |
| Net book value:                             |   |   |               |
| At 31st July 2011 . . . . .                 | <u>277</u>                                | <u>1,013</u>                                | <u>1,290</u>  |

As referred to in the Report of the Directors, the Group's non-investment heritable properties were revalued at 31st July 2012. This revaluation which has not been incorporated into these accounts, showed a net surplus over the cost of those properties after depreciation of £1,688,000 as at 31st July 2012.

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 12. PROPERTY, PLANT AND EQUIPMENT (contd.)

##### (b) COMPANY

|                                    | Land and<br>buildings<br>Freehold<br>£000 | Plant,<br>equipment<br>and vehicles<br>£000 | Total<br>£000 |
|------------------------------------|---|---|---------------|
| Cost:                              |   |   |               |
| At 1st August 2011 . . . . .       | 179                                       | 2,516                                       | 2,695         |
| Additions . . . . .                | —   | 211   | 211           |
| Disposals . . . . .                | —   | (122)                                       | (122)         |
| Group transfer disposals . . . . . | —   | (14)  | (14)          |
| At 31st July 2012 . . . . .        | <u>179</u>                                | <u>2,591</u>                                | <u>2,770</u>  |
| Depreciation:                      |   |   |               |
| At 1st August 2011 . . . . .       | 92  | 1,990                                       | 2,082         |
| Provided during year . . . . .     | 3   | 214   | 217           |
| Disposals . . . . .                | —   | (113)                                       | (113)         |
| Group transfer disposals . . . . . | —   | (12)  | (12)          |
| At 31st July 2012 . . . . .        | <u>95</u>                                 | <u>2,079</u>                                | <u>2,174</u>  |
| Net book value:                    |   |   |               |
| At 31st July 2012 . . . . .        | <u>84</u>                                 | <u>512</u>                                  | <u>596</u>    |
| Cost:                              |   |   |               |
| At 1st August 2010 . . . . .       | 179                                       | 2,404                                       | 2,583         |
| Additions . . . . .                | —   | 236   | 236           |
| Disposals . . . . .                | —   | (124)                                       | (124)         |
| At 31st July 2011 . . . . .        | <u>179</u>                                | <u>2,516</u>                                | <u>2,695</u>  |
| Depreciation:                      |   |   |               |
| At 1st August 2010 . . . . .       | 89  | 1,866                                       | 1,955         |
| Provided during year . . . . .     | 3   | 228   | 231           |
| Disposals . . . . .                | —   | (104)                                       | (104)         |
| At 31st July 2011 . . . . .        | <u>92</u>                                 | <u>1,990</u>                                | <u>2,082</u>  |
| Net book value:                    |   |   |               |
| At 31st July 2011 . . . . .        | <u>87</u>                                 | <u>526</u>                                  | <u>613</u>    |

As referred to in the Report of the Directors, the Company's non-investment heritable properties were revalued at 31st July 2012. This revaluation which has not been incorporated into these accounts, showed a net surplus over the cost of those properties after depreciation of £1,342,000 as at 31st July 2012.

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 13. INVESTMENT PROPERTIES

|   | Land and<br>buildings<br>Freehold<br>£000 | Land and<br>buildings<br>Leasehold<br>£000 | Total<br>£000 |
|---|---|--|---------------|
| Cost or valuation:                                    |   |  |               |
| At 1st August 2011 . . . . .                          | 64,699                                    | 7,887                                      | 72,586        |
| Additions . . . . .                                   | 3,400                                     | 23   | 3,423         |
| Transfer from property, plant and equipment . . . . . | 25  | –  | 25            |
| Transfer to inventories . . . . .                     | (1,555)                                   | –  | (1,555)       |
| Transfers . . . . .                                   | 1,035                                     | (1,035)                                    | –             |
| Deficit on valuation . . . . .                        | (3,770)                                   | (272)                                      | (4,042)       |
| At 31st July 2012 . . . . .                           | <u>63,834</u>                             | <u>6,603</u>                               | <u>70,437</u> |
| Cost or valuation:                                    |   |  |               |
| At 1st August 2010 . . . . .                          | 67,731                                    | 6,829                                      | 74,560        |
| Additions . . . . .                                   | 4,456                                     | 1,031                                      | 5,487         |
| Disposals . . . . .                                   | (2,125)                                   | –  | (2,125)       |
| Transfers . . . . .                                   | (42)                                      | 42   | –             |
| Deficit on valuation . . . . .                        | (5,321)                                   | (15)                                       | (5,336)       |
| At 31st July 2011 . . . . .                           | <u>64,699</u>                             | <u>7,887</u>                               | <u>72,586</u> |

The Group's completed investment properties were valued on the basis of market value on 31st July 2012 in accordance with the RICS Valuation Standards by J. M. Smart, MRICS and D. W. Smart, MRICS both of whom are Directors of the Parent Company. Open market value represents the estimated amount for which property should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction, and does not account for costs of disposals.

In accordance with IAS 40: Investment Property, completed investment properties are revalued annually and the aggregate surplus or deficit is taken to the Income Statement and no depreciation is provided in respect of these properties.

The Group had obligations of £1,162,000 in respect of developments and repair costs of investment properties at the Balance Sheet date.



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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 14. INVESTMENTS

|  | <i>Group</i> |              | <i>Company</i> |            |
|--|--------------|--------------|----------------|------------|
|  | 2012         | 2011         | 2012           | 2011       |
|  | £000         | £000         | £000           | £000       |
| Shares in Subsidiaries at Cost . . . . . | —            | —            | 708            | 708        |
| Joint Ventures . . . . .                 | 997          | 1,012        | 25             | 25         |
|  | <u>997</u>   | <u>1,012</u> | <u>733</u>     | <u>733</u> |

##### (a) JOINT VENTURES

|  | <i>Group</i> |              |
|--|--------------|--------------|
|  | 2012         | 2011         |
|  | £000         | £000         |
| Share of Assets:                           |              |              |
| Share of Non-Current Assets . . . . .      | 3,241        | 3,241        |
| Share of Current Assets . . . . .          | 1,693        | 1,988        |
|  | <u>4,934</u> | <u>5,229</u> |
| Share of Liabilities:                      |              |              |
| Share of Non-Current Liabilities . . . . . | —            | —            |
| Share of Current Liabilities . . . . .     | 3,937        | 4,217        |
|  | <u>3,937</u> | <u>4,217</u> |
| Share of Net Assets . . . . .              | <u>997</u>   | <u>1,012</u> |
| Turnover . . . . .                         | 67           | —            |
| Cost of Sales . . . . .                    | (328)        | (178)        |
| Net rental incomes . . . . .               | 316          | 312          |
| Net operating expenses . . . . .           | (25)         | (35)         |
| Operating profit . . . . .                 | 30           | 99           |
| Finance income . . . . .                   | 1            | 1            |
| Finance costs . . . . .                    | (3)          | (4)          |
| Profit before tax . . . . .                | 28           | 96           |
| Taxation . . . . .                         | (43)         | (54)         |
| (Loss)/Profit after tax . . . . .          | <u>(15)</u>  | <u>42</u>    |

The Group's share of retained profits in the Joint Ventures at 31st July 2012 amounted to £972,000 (2011, £987,000).

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 14. INVESTMENTS (contd.)

##### (a) JOINT VENTURES (contd.)

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

| <i>Name of Joint Venture</i>                | <i>Jointly managed with</i>     | <i>Issued Share capital</i>   | <i>Issued shares held<br/>by J. Smart &amp; Co.<br/>(Contractors) PLC</i> |
|---|---------------------------------|---|---|
| Edinburgh Industrial<br>Estates Limited     | EDI (Industrial) Limited        | 50,000 ordinary £1<br>shares split equally<br>into A & B shares<br>and ranking equally<br>in all respects | 25,000 B Shares   |
| Prestonfield Development<br>Company Limited | Westerwood<br>Limited           | 2 ordinary £1 shares<br>split equally into A & B<br>shares and ranking<br>equally in all respects         | 1 B Share   |
| Northrigg Limited                           | William Sanderson               | 2 ordinary £1<br>shares split equally<br>into A & B shares<br>and ranking equally<br>in all respects      | 1 A Share   |
| Duff Street Limited                         | Kiltane Developments<br>Limited | 100 ordinary £1<br>shares split equally<br>into A & B shares<br>and ranking equally<br>in all respects    | 50 A Shares   |
| Invertiel Developments<br>Limited           | Macdonald Estates PLC           | 100 ordinary £1<br>shares split equally<br>into A & B shares<br>and ranking equally<br>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.

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 14. INVESTMENTS (contd.)

##### (b) SUBSIDIARIES

At 31st July 2012 the Company held the entire issued share capital of the following companies, all of which are registered in and operate in Scotland:

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

#### 15. AVAILABLE FOR SALE FINANCIAL ASSETS

|                    | <i>Group</i> |       |
|--------------------|--------------|-------|
|                    | 2012         | 2011  |
|                    | £000         | £000  |
| Listed investments | 2,988        | 3,018 |

Fair value movement on shares held at 31st July 2012 before tax amounted to £57,000 (2011, £236,000).

#### 16. INVENTORIES

|                               | <i>Group</i>  |              | <i>Company</i> |              |
|-------------------------------|---------------|--------------|----------------|--------------|
|                               | 2012          | 2011         | 2012           | 2011         |
|                               | £000          | £000         | £000           | £000         |
| Long-term contract balances   | 5,173         | 2,998        | 5,102          | 2,874        |
| Land held for development     | 5,208         | 3,880        | 5,208          | 3,880        |
| Raw materials and consumables | 182           | 126          | 26             | 26           |
| Finished goods                | 91            | 74           | —              | —            |
|                               | <u>10,654</u> | <u>7,078</u> | <u>10,336</u>  | <u>6,780</u> |

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

|  |            |             |            |            |
|--|------------|-------------|------------|------------|
| Aggregate amount of costs incurred and recognised profits less recognised losses to date | 15,740     | 5,649       | 14,550     | 5,588      |
| Advances received  | (15,078)   | (5,691)     | (13,600)   | (5,256)    |
| Net value of contracts in progress   | <u>662</u> | <u>(42)</u> | <u>950</u> | <u>332</u> |

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 17. TRADE AND OTHER RECEIVABLES

|  | <i>Group</i> |              | <i>Company</i> |              |
|--|--------------|--------------|----------------|--------------|
|  | 2012         | 2011         | 2012           | 2011         |
|  | £000         | £000         | £000           | £000         |
| <b>CURRENT ASSETS:</b>                     |              |              |                |              |
| Trade debtors . . . . .                    | 1,411        | 1,949        | 330            | 565          |
| Amounts owed by Subsidiaries . . . . .     | —            | —            | 3,358          | 2,624        |
| Other receivables . . . . .                | 400          | 117          | 419            | 4            |
| Prepayments and accrued income . . . . .   | 455          | 504          | 373            | 432          |
| Amounts recoverable on contracts . . . . . | 664          | 444          | 561            | 256          |
| Loans to Joint Venture companies . . . . . | 3,991        | 4,361        | 3,991          | 4,361        |
|  | <u>6,921</u> | <u>7,375</u> | <u>9,032</u>   | <u>8,242</u> |

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

#### 18. BANK

The bank has been granted guarantees and letters of offset by each member of the Group in favour of the bank on account of all other members of the Group as a continuing security for all monies, obligations and liabilities owing or incurred to the bank.

#### 19. TRADE AND OTHER PAYABLES

##### CURRENT LIABILITIES:

|   |              |              |              |              |
|---|--------------|--------------|--------------|--------------|
| Payments received on account . . . . .          | —            | 123          | —            | 123          |
| Trade creditors . . . . .                       | 1,701        | 1,414        | 1,346        | 1,081        |
| Amounts owed to Subsidiaries . . . . .          | —            | —            | 188          | 37           |
| Other taxes and social security costs . . . . . | 299          | 342          | 171          | 139          |
| Other creditors and accruals . . . . .          | 1,961        | 2,497        | 1,055        | 1,353        |
|   | <u>3,961</u> | <u>4,376</u> | <u>2,760</u> | <u>2,733</u> |

#### 20. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise of bank balances and cash, available for sale financial assets, trade receivables and trade payables. The amounts presented in relation to trade receivables are net of allowances for doubtful receivables.

The carrying amount of these assets approximates to their fair value.

##### CREDIT RISK

In relation to the Group's financial assets, the Group has no significant concentration of credit risk, as exposure is spread over a large number of counterparties and customers.

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

NOTES TO THE ACCOUNTS (contd.)

31st July 2012

### 21. DEFERRED TAXATION

#### DEFERRED TAX ASSETS GROUP

|  | Retirement<br>Benefit<br>Obligations<br>£000 | Other<br>£000 | Total<br>£000  |
|--|--|---------------|----------------|
| As at 1st August 2010 . . . . .                  | 363  | 356           | 719            |
| Credited/(Charged) to Income Statement . . . . . | 1,519  | (103)         | 1,416          |
| Charged to Equity . . . . .                      | <u>(1,882)</u>                               | <u>–</u>      | <u>(1,882)</u> |
| As at 31st July 2011 . . . . .                   | –  | 253           | 253            |
| Charged to Income Statement . . . . .            | (1,874)                                      | (39)          | (1,913)        |
| Credited to Equity . . . . .                     | <u>2,217</u>                                 | <u>–</u>      | <u>2,217</u>   |
| As at 31st July 2012 . . . . .                   | <u>343</u>                                   | <u>214</u>    | <u>557</u>     |

#### COMPANY

|  | Retirement<br>Benefit<br>Obligations<br>£000 | Other<br>£000 | Total<br>£000  |
|--|--|---------------|----------------|
| As at 1st August 2010 . . . . .                  | 363  | 207           | 570            |
| Credited/(Charged) to Income Statement . . . . . | 1,519  | (151)         | 1,368          |
| Charged to Equity . . . . .                      | <u>(1,882)</u>                               | <u>–</u>      | <u>(1,882)</u> |
| As at 31st July 2011 . . . . .                   | –  | 56            | 56             |
| Charged to Income Statement . . . . .            | (1,874)                                      | (12)          | (1,886)        |
| Credited to Equity . . . . .                     | <u>2,217</u>                                 | <u>–</u>      | <u>2,217</u>   |
| As at 31st July 2012 . . . . .                   | <u>343</u>                                   | <u>44</u>     | <u>387</u>     |

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 21. DEFERRED TAXATION

##### DEFERRED TAX LIABILITIES (contd.) GROUP

|   | Accelerated<br>Capital<br>Allowances<br>£000 | Fair Value<br>Reserve<br>£000 | Valuation<br>Surplus on<br>Investment<br>Properties<br>£000 | Retirement<br>Benefit<br>Obligations<br>£000 | Other<br>Timing<br>Differences<br>£000 | Total<br>£000 |
|---|--|-------------------------------|---|--|--|---------------|
| At 1st August 2010                        | 1,549  | 32                            | 2,300   | –  | 120                                    | 4,001         |
| Charged/(Credited) to Equity              | –  | 45                            | –   | (1,281)                                      | –                                      | (1,236)       |
| (Credited)/Charged to Income<br>Statement | (19)   | –                             | (1,580)   | 1,696  | (10)                                   | 87            |
| At 31st July 2011                         | 1,530  | 77                            | 720   | 415  | 110                                    | 2,852         |
| Charged/(Credited) to Equity              | –  | (5)                           | –   | 1,280  | –                                      | 1,275         |
| Credited to Income Statement              | (83)   | –                             | (155)   | (1,695)                                      | (14)                                   | (1,947)       |
| At 31st July 2012                         | 1,447  | 72                            | 565   | –  | 96                                     | 2,180         |

##### COMPANY

|   |  |  |  |         |      |         |
|---|--|--|--|---------|------|---------|
| At 1st August 2010                      |  |  |  | –       | 89   | 89      |
| Credited to Equity                      |  |  |  | (1,281) | –    | (1,281) |
| Charged/(Credited) to Income Statement. |  |  |  | 1,696   | (8)  | 1,688   |
| At 31st July 2011                       |  |  |  | 415     | 81   | 496     |
| Charged to Equity                       |  |  |  | 1,280   | –    | 1,280   |
| Credited to Income Statement            |  |  |  | (1,695) | (13) | (1,708) |
| At 31st July 2012                       |  |  |  | –       | 68   | 68      |

#### 22. SHARE CAPITAL

|  | 2012       |       | 2011       |       |
|--|------------|-------|------------|-------|
|  | Number     | £000  | Number     | £000  |
| Issued and fully paid ordinary shares of 2p each<br>(2011, 10p each) |            |       |            |       |
| At start of year – ordinary 10p shares                               | 10,082,000 | 1,008 | 10,082,000 | 1,008 |
| Subdivision of shares on 21st December 2011                          | 40,328,000 | –     | –          | –     |
|  | 50,410,000 | 1,008 | 10,082,000 | 1,008 |
| Purchased and cancelled  | 938,000    | 19    | –          | –     |
| At end of year   | 49,472,000 | 989   | 10,082,000 | 1,008 |

During the year to 31st July 2012 the Company purchased for cancellation 938,000 ordinary shares of 2p each with a nominal value of £19,000 for a consideration of £751,000.

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.

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 23. STATEMENT OF CHANGES IN EQUITY

##### GROUP

|  | Share<br>Capital<br>£000 | Capital<br>Redemption<br>Reserve<br>£000 | Fair Value<br>Reserve<br>£000 | Retained<br>Earnings<br>£000 | Total<br>£000  |
|--|--------------------------|--|-------------------------------|------------------------------|----------------|
| As at 1st August 2010  | 1,008                    | —  | 216                           | 95,317                       | 96,541         |
| Total recognised Income and Expense                          | —                        | —  | —                             | 2,260                        | 2,260          |
| Fair value adjustment  | —                        | —  | 236                           | —                            | 236            |
| Tax on fair value adjustment                                 | —                        | —  | (45)                          | —                            | (45)           |
| <b>Total comprehensive income</b>                            | <b>—</b>                 | <b>—</b>                                 | <b>191</b>                    | <b>2,260</b>                 | <b>2,451</b>   |
| <b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b> |                          |  |                               |                              |                |
| Shares purchased and cancelled                               | —                        | —  | —                             | —                            | —              |
| Transfer to capital redemption reserve                       | —                        | —  | —                             | —                            | —              |
| Dividends  | —                        | —  | —                             | (1,432)                      | (1,432)        |
| <b>Total transactions with owners</b>                        | <b>—</b>                 | <b>—</b>                                 | <b>—</b>                      | <b>(1,432)</b>               | <b>(1,432)</b> |
| As at 31st July 2011   | 1,008                    | —  | 407                           | 96,145                       | 97,560         |
| Total recognised Income and Expense                          | —                        | —  | —                             | (4,111)                      | (4,111)        |
| Fair value adjustment  | —                        | —  | 46                            | —                            | 46             |
| Tax on fair value adjustment                                 | —                        | —  | 5                             | —                            | 5              |
| <b>Total comprehensive income</b>                            | <b>—</b>                 | <b>—</b>                                 | <b>51</b>                     | <b>(4,111)</b>               | <b>(4,060)</b> |
| <b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b> |                          |  |                               |                              |                |
| Shares purchased and cancelled                               | (19)                     | —  | —                             | (732)                        | (751)          |
| Transfer to capital redemption reserve                       | —                        | 19                                       | —                             | (19)                         | —              |
| Dividends  | —                        | —  | —                             | (1,440)                      | (1,440)        |
| <b>Total transactions with owners</b>                        | <b>(19)</b>              | <b>19</b>                                | <b>—</b>                      | <b>(2,191)</b>               | <b>(2,191)</b> |
| As at 31st July 2012   | 989                      | 19                                       | 458                           | 89,843                       | 91,309         |

Capital Redemption Reserve relates to the nominal value of issued shares purchased and cancelled by the Company.

Fair Value Reserve relates to the fair value movement on available for sale financial assets.

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 23. STATEMENT OF CHANGES IN EQUITY (contd.)

##### COMPANY

|  | Share<br>Capital<br>£000 | Capital<br>Redemption<br>Reserve<br>£000 | Retained<br>Earnings<br>£000 | Total<br>£000  |
|--|--------------------------|--|------------------------------|----------------|
| As at 1st August 2010 . . . . .                              | 1,008                    | –  | 19,417                       | 20,425         |
| Total recognised Income and Expense . . . . .                | –                        | –  | 4,775                        | 4,775          |
| <b>Total comprehensive income . . . . .</b>                  | <b>–</b>                 | <b>–</b>                                 | <b>4,775</b>                 | <b>4,775</b>   |
| <b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b> |                          |  |                              |                |
| Shares purchased and cancelled. . . . .                      | –                        | –  | –                            | –              |
| Transfer to capital redemption reserve . . . . .             | –                        | –  | –                            | –              |
| Dividends. . . . .   | –                        | –  | (1,432)                      | (1,432)        |
| <b>Total transactions with owners . . . . .</b>              | <b>–</b>                 | <b>–</b>                                 | <b>(1,432)</b>               | <b>(1,432)</b> |
| As at 31st July 2011 . . . . .                               | 1,008                    | –  | 22,760                       | 23,768         |
| Total recognised Income and Expense . . . . .                | –                        | –  | (2,990)                      | (2,990)        |
| <b>Total comprehensive income . . . . .</b>                  | <b>–</b>                 | <b>–</b>                                 | <b>(2,990)</b>               | <b>(2,990)</b> |
| <b>TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY</b> |                          |  |                              |                |
| Shares purchased and cancelled. . . . .                      | (19)                     | –  | (732)                        | (751)          |
| Transfer to capital redemption reserve . . . . .             | –                        | 19                                       | (19)                         | –              |
| Dividends. . . . .   | –                        | –  | (1,440)                      | (1,440)        |
| <b>Total transactions with owners . . . . .</b>              | <b>(19)</b>              | <b>19</b>                                | <b>(2,191)</b>               | <b>(2,191)</b> |
| As at 31st July 2012 . . . . .                               | 989                      | 19                                       | 17,579                       | 18,587         |

|  | Notes |                |
|--|-------|----------------|
| Profit for financial year . . . . .                        | 9     | 590            |
| Actuarial loss on defined benefit pension scheme . . . . . | 27    | (4,517)        |
| Deferred taxation on actuarial loss . . . . .              | 21    | 937            |
| Total recognised Income and Expense . . . . .              |       | <b>(2,990)</b> |

Capital Redemption Reserve relates to the nominal value of issued shares purchased and cancelled by the Company.



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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 24. NOTES TO THE STATEMENT OF CASH FLOWS

##### GROUP

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

|   | 2012<br>£000 | 2011<br>£000 |
|---|--------------|--------------|
| Profit before tax . . . . .                                     | 55           | 656          |
| Share of losses/(profits) from Joint Ventures . . . . .         | 15           | (42)         |
| Depreciation . . . . .  | 363          | 426          |
| Unrealised valuation deficit on investment properties. . . . .  | 4,042        | 5,336        |
| Profit on sale of property, plant and equipment . . . . .       | (6)          | (16)         |
| Profit on sale of investment properties . . . . .               | –            | (1,929)      |
| Profit on sale of available for sale financial assets . . . . . | (34)         | –            |
| Change in retirement benefits . . . . .                         | (1,367)      | (1,157)      |
| Interest received . . . . .                                     | (103)        | (133)        |
| Change in inventories . . . . .                                 | (2,021)      | 246          |
| Change in receivables . . . . .                                 | 454          | (743)        |
| Change in payables . . . . .                                    | (414)        | (693)        |
| <b>NET CASH GENERATED FROM OPERATIONS</b> . . . . .             | <u>984</u>   | <u>1,951</u> |

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

|                                     |              |               |
|-------------------------------------|--------------|---------------|
| Cash and cash equivalents . . . . . | 9,761        | 21,704        |
| Bank overdraft . . . . .            | (4,465)      | (10,954)      |
| Net position . . . . .              | <u>5,296</u> | <u>10,750</u> |

##### (c) ANALYSIS OF NET FUNDS

|                                     | At 1st August<br>2011<br>£000 | Cash<br>Flow<br>£000 | Other<br>£000 | At 31st July<br>2012<br>£000 |
|-------------------------------------|-------------------------------|----------------------|---------------|------------------------------|
| Cash and cash equivalents . . . . . | 21,704                        | (11,943)             | –             | 9,761                        |
| Bank overdraft . . . . .            | (10,954)                      | 6,489                | –             | (4,465)                      |
| Net funds . . . . .                 | <u>10,750</u>                 | <u>(5,454)</u>       | <u>–</u>      | <u>5,296</u>                 |

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 25. NOTES TO THE STATEMENT OF CASH FLOWS

##### COMPANY

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

|  | 2012<br>£000   | 2011<br>£000 |
|--|----------------|--------------|
| Profit before tax . . . . .                                      | 581            | 3,662        |
| Depreciation . . . . .   | 217            | 231          |
| Loss/(Profit) on sale of property, plant and equipment . . . . . | 2              | (7)          |
| Change in retirement benefits . . . . .                          | (1,367)        | (1,157)      |
| Interest received . . . . .                                      | (7)            | (10)         |
| Change in inventories . . . . .                                  | (3,556)        | 113          |
| Change in receivables . . . . .                                  | (790)          | 998          |
| Change in payables . . . . .                                     | 26             | 486          |
| <b>NET CASH GENERATED FROM OPERATIONS</b> . . . . .              | <u>(4,894)</u> | <u>4,316</u> |

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

|                                     |              |              |
|-------------------------------------|--------------|--------------|
| Cash and cash equivalents . . . . . | 1,045        | 7,971        |
| Bank overdraft . . . . .            | —            | —            |
|                                     | <u>1,045</u> | <u>7,971</u> |

##### (c) ANALYSIS OF NET FUNDS

|                                     | At 1st August<br>2011<br>£000 | Cash<br>Flow<br>£000 | Other<br>£000 | At 31st July<br>2012<br>£000 |
|-------------------------------------|-------------------------------|----------------------|---------------|------------------------------|
| Cash and cash equivalents . . . . . | 7,971                         | (6,926)              | —             | 1,045                        |
| Bank overdraft . . . . .            | —                             | —                    | —             | —                            |
|                                     | <u>7,971</u>                  | <u>(6,926)</u>       | <u>—</u>      | <u>1,045</u>                 |

#### 26. FUTURE CAPITAL EXPENDITURE

There were no amounts of Capital Expenditure relating to Property, plant and equipment contracted for at 31st July 2012 or 31st July 2011.

The Group's share of Capital Expenditure contracted for by its Joint Ventures as at 31st July 2012 amounted to £nil (2011, £nil).

**27. RETIREMENT BENEFIT OBLIGATIONS**

The Group operates a defined benefit scheme for its employees which was closed to new members during the year to 31st July 2003. The scheme's assets are held separately from the assets of the Group and are administered and managed professionally. The last completed triennial actuarial valuation of the scheme was made at 1st November 2009 by an independent qualified Actuary. A Statement of Funding Principles has been agreed with the scheme trustees and based on these principles the technical provisions at this valuation reveals a deficit of £3,400,000, representing a funding level of 86.1%. It has also been agreed with the scheme trustees that the employer contributions to the scheme will continue at the level of 63.6% of pensionable salaries and employee contributions at 3%. The total net pension charge for the year was £608,000 (2011, £654,000). The actuarial valuation has been updated to take account of the requirements of IAS 19: Employee Benefits, in order to assess the assets and liabilities of the scheme at 31st July 2012.

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

|                                       | 2012           | 2011           | 2010           |
|---------------------------------------|----------------|----------------|----------------|
| Valuation method                      | Projected Unit | Projected Unit | Projected Unit |
| Discount rate                         | 3.9%           | 5.3%           | 5.4%           |
| Inflation rate - Retail price index   | 2.4%           | 3.5%           | 3.4%           |
| Inflation rate - Consumer price index | 1.6%           | 3.0%           | —              |
| Salary increases                      | 2.6%           | 4.0%           | 4.9%           |
| Pension increases                     | 1.5%–2.6%      | 2.4%–3.5%      | 2.4%–3.4%      |

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

|                         |      |      |      |
|-------------------------|------|------|------|
| Man currently aged 65   | 22.2 | 22.1 | 22.6 |
| Woman currently aged 65 | 24.4 | 24.2 | 25.5 |
| Man currently aged 45   | 23.5 | 23.5 | 24.6 |
| Woman currently aged 45 | 25.9 | 25.8 | 27.4 |

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

The rates of return for each class were determined as follows:

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

As at 31st July 2012 the actual return on plan assets amounted to £131,000 (2011, £2,802,000).

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 27. RETIREMENT BENEFIT OBLIGATIONS (contd.)

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

|  | Long term rate<br>of return<br>expected at<br>31st July 2012 | Value at<br>31st July 2012<br>£000 | Long term rate<br>of return<br>expected at<br>31st July 2011 | Value at<br>31st July 2011<br>£000 | Long term rate<br>of return<br>expected at<br>31st July 2010 | Value at<br>31st July 2010<br>£000 |
|--|--|------------------------------------|--|------------------------------------|--|------------------------------------|
| Equities . . . . .                               | 6.5%   | 17,366                             | 8.3%   | 19,706                             | 8.6%   | 16,386                             |
| Bonds . . . . .                                  | 3.9%   | 1,712                              | 5.3%   | 1,726                              | 5.4%   | 2,040                              |
| Gilts . . . . .                                  | 2.5%   | 1,985                              | 3.9%   | 1,006                              | 4.2%   | 517                                |
| Other . . . . .                                  | 0.5%   | 4,014                              | 0.5%   | 2,172                              | 0.5%   | 2,689                              |
| Market value<br>of assets . . . . .              |  | 25,077                             |  | 24,610                             |  | 21,632                             |
| Present value of<br>scheme liabilities . . . . . |  | (26,567)                           |  | (22,950)                           |  | (22,976)                           |
| Scheme (deficit)/surplus . . . . .               |  | (1,490)                            |  | 1,660                              |  | (1,344)                            |
| Related deferred tax . . . . .                   |  | 343                                |  | (415)                              |  | 363                                |
| Net pension<br>(liability)/surplus . . . . .     |  | (1,147)                            |  | 1,245                              |  | (981)                              |

Investments are in mixed management funds, split being 69% equity investments and 31% bonds, gilts, cash and other assets.

The following amounts are incorporated into the financial statements:

|   | 2012<br>£000 | 2011<br>£000 |
|---|--------------|--------------|
| Amounts included in operating (loss)/profit:            |              |              |
| Current service cost . . . . .                          | (520)        | (577)        |
| Past service cost . . . . .                             | —            | —            |
| Total included within operating (loss)/profit . . . . . | (520)        | (577)        |
| Amounts included in finance income:                     |              |              |
| Expected return on assets . . . . .                     | 1,705        | 1,487        |
| Interest cost . . . . .                                 | (1,215)      | (1,236)      |
| Total included as net finance income . . . . .          | 490          | 251          |

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 27. RETIREMENT BENEFIT OBLIGATIONS (contd.)

|  | 2012           | 2011         |
|--|----------------|--------------|
| Amounts included in Consolidated Statement of Comprehensive Income:      | £000           | £000         |
| Actual return less assumed return on assets . . . . .                    | (1,574)        | 1,315        |
| Experience gains and losses arising on scheme liabilities . . . . .      | 122            | (480)        |
| Changes in assumptions underlying the valuation of liabilities . . . . . | (3,065)        | 1,012        |
| Total actuarial (loss)/gain . . . . .                                    | <u>(4,517)</u> | <u>1,847</u> |

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

|                                 |               |               |
|---------------------------------|---------------|---------------|
| As at 1st August 2011 . . . . . | 22,950        | 22,976        |
| Current service cost . . . . .  | 520           | 577           |
| Interest cost . . . . .         | 1,215         | 1,236         |
| Charges paid . . . . .          | (34)          | (32)          |
| Benefit payments . . . . .      | (1,027)       | (1,275)       |
| Actuarial loss/(gain) . . . . . | 2,943         | (532)         |
| As at 31st July 2012 . . . . .  | <u>26,567</u> | <u>22,950</u> |

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

|  |               |               |
|--|---------------|---------------|
| As at 1st August 2011 . . . . .          | 24,610        | 21,632        |
| Employer contributions . . . . .         | 1,334         | 1,416         |
| Employee contributions . . . . .         | 63            | 67            |
| Benefits paid . . . . .                  | (1,027)       | (1,275)       |
| Charges paid . . . . .                   | (34)          | (32)          |
| Expected return on plan assets . . . . . | 1,705         | 1,487         |
| Actuarial (loss)/gain . . . . .          | (1,574)       | 1,315         |
| As at 31st July 2012 . . . . .           | <u>25,077</u> | <u>24,610</u> |

Analysis of movement in scheme (deficit)/surplus:

|                                 |                |              |
|---------------------------------|----------------|--------------|
| As at 1st August 2011 . . . . . | 1,660          | (1,344)      |
| Current service cost . . . . .  | (520)          | (577)        |
| Past service cost . . . . .     | —              | —            |
| Contributions . . . . .         | 1,397          | 1,483        |
| Other finance income . . . . .  | 490            | 251          |
| Actuarial (loss)/gain . . . . . | (4,517)        | 1,847        |
| As at 31st July 2012 . . . . .  | <u>(1,490)</u> | <u>1,660</u> |

Cumulative actuarial gains and losses recognised in Equity:

|  |                |              |
|--|----------------|--------------|
| At beginning of year . . . . .                         | 1,346          | (501)        |
| Net actuarial (loss)/gain recognised in year . . . . . | (4,517)        | 1,847        |
| Cumulative (loss)/gain . . . . .                       | <u>(3,171)</u> | <u>1,346</u> |

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

### NOTES TO THE ACCOUNTS (contd.)

31st July 2012

#### 27. RETIREMENT BENEFIT OBLIGATIONS (contd.)

|  | 2012    | 2011  | 2010  | 2009    | 2008    |
|--|---------|-------|-------|---------|---------|
| History of experience gains and losses:                                  |         |       |       |         |         |
| Difference between actual return and assumed return on assets            |         |       |       |         |         |
| Amount (£000)  | (1,574) | 1,315 | 1,284 | (1,086) | (1,193) |
| Percentage of market value of scheme assets                              | 6.3%    | 5.3%  | 5.9%  | 5.9%    | 6.9%    |
| Experience gains and losses arising on scheme liabilities                |         |       |       |         |         |
| Amount (£000)  | 122     | (480) | 1,736 | (166)   | (140)   |
| Percentage of market value of scheme liabilities                         | 0.5%    | 2.1%  | 7.6%  | 0.7%    | 0.8%    |
| Total amounts included in Consolidated Statement of Comprehensive Income |         |       |       |         |         |
| Amount (£000)  | (4,517) | 1,847 | 2,489 | (4,553) | 1,381   |
| Percentage of market value of scheme liabilities                         | 17.0%   | 8.1%  | 10.8% | 19.8%   | 7.5%    |

The contribution expected to be paid by the Group during the financial year ending 31st July 2013 amounts to £1,305,000.

In the year to 31st July 2003 the Group commenced operation of a defined contribution Group Personal Pension Plan for eligible employees. The plan is externally administered and managed professionally by AEGON UK. The net contribution to the plan for the year was £132,000 (2011, £108,000).

#### 28. CONTINGENT LIABILITIES

The Company and certain of its Subsidiaries have, in the normal course of business, entered into counter-indemnities in respect of performance bonds relating to their contracts. As at 31st July 2012 these amounted to £1,300,000.

#### 29. OPERATING LEASE ARRANGEMENTS

##### GROUP – AS LESSEE

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

|                                 | 2012<br>£000 | 2011<br>£000 |
|---------------------------------|--------------|--------------|
| Within one year                 | 72           | 68           |
| In two – five years exclusively | 233          | 227          |
| After five years                | 65           | 93           |
|                                 | <u>370</u>   | <u>388</u>   |

##### GROUP – AS LESSOR

Gross property rental income earned in the year amounted to £5,316,000 (2011, £5,334,000). At the Balance Sheet date, the Group had contracted with its tenants for the following future minimum lease payments:

|                                 |               |               |
|---------------------------------|---------------|---------------|
| Within one year                 | 4,806         | 4,735         |
| In two – five years exclusively | 13,806        | 14,147        |
| After five years                | 7,601         | 8,653         |
|                                 | <u>26,213</u> | <u>27,535</u> |

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

### NOTES TO THE ACCOUNTS (contd.)

31st JULY 2012

#### 30. RELATED PARTY TRANSACTIONS

##### (a) SUBSIDIARIES

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

|   | 2012<br>£000                            | 2011<br>£000      | 2012<br>£000                              | 2011<br>£000      |
|---|---|-------------------|---|-------------------|
| <b>SUBSIDIARY</b>                       | <b>Sale of goods<br/>and services</b>   |                   | <b>Purchase of goods<br/>and services</b> |                   |
| McGowan & Co. (Contractors) Limited .   | 112                                     | 117               | 892                                       | 636               |
| Cramond Real Estate Company Limited .   | —                                       | —                 | —   | —                 |
| Thomas Menzies (Builders) Limited .     | 79                                      | 67                | 20  | 30                |
| Concrete Products (Kirkcaldy) Limited . | 43                                      | 38                | 19  | 7                 |
| C. & W. Assets Limited .                | 954                                     | 977               | —   | —                 |
|   | <u>          </u>                       | <u>          </u> | <u>          </u>                         | <u>          </u> |
| <b>SUBSIDIARY</b>                       | <b>Amounts owed<br/>by Subsidiaries</b> |                   | <b>Amounts owed<br/>to Subsidiaries</b>   |                   |
| McGowan & Co. (Contractors) Limited .   | —                                       | —                 | 183                                       | 37                |
| Cramond Real Estate Company Limited .   | —                                       | —                 | —   | —                 |
| Thomas Menzies (Builders) Limited .     | —                                       | 1                 | 1   | —                 |
| Concrete Products (Kirkcaldy) Limited . | —                                       | —                 | 4   | —                 |
| C. & W. Assets Limited .                | 3,358                                   | 2,623             | —   | —                 |
|   | <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 Company and its Joint Ventures were as follows:

Prestonfield Development Company Limited – during the year the Company was repaid £200,000 (2011, £325,000) and advanced £nil (2011, £665,000) of the loan due from the Joint Venture company. As at 31st July 2012 the loan outstanding due from Prestonfield Development Company Limited amounted to £2,775,000 (2011, £2,975,000). The Company received no dividends in the year from the Joint Venture Company (2011, £665,000).

Northrigg Limited – during the year there were no transactions with this company. As at 31st July 2012 the loan outstanding due from Northrigg Limited amounted to £176,000 (2011, £176,000).

Duff Street Limited – during the year the Company received interest from the Joint Venture company amounting to £6,000 (2011, £8,000) on the loan to Duff Street Limited. As at 31st July 2012, £3,000 of this interest remained outstanding (2011, £4,000). Construction costs invoiced in the year to Duff Street Limited amounted to £1,000 (2011, £40,000). During the year the Company was repaid £180,000 (2011, £70,000) and advanced £nil (2011, £10,000) of the loan due from the Joint Venture company. As at 31st July 2012 the loan outstanding due from Duff Street Limited amounted to £920,000 (2011, £1,100,000).

Invertiel Developments Limited – during the year the Company advanced £10,000 (2011, £20,000) of the loan due from the Joint Venture company. As at 31st July 2012 the loan outstanding due from Invertiel Developments Limited amounted to £120,000 (2011, £110,000).

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 Ventures.

**30. RELATED PARTY TRANSACTIONS (contd.)**

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

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

During the year to 31st July 2012 the Group purchased materials amounting to £653,000 (2011 – £251,000) from these companies and sold materials and services amounting to £271,000 (2011 – £42,000) to these companies.

As at 31st July 2012 the Group owed these companies £54,000 (2011 – £31,000) and was owed £157,000 (2011 – £15,000).

**(d) DIRECTORS' REMUNERATION**

The remuneration of the Directors, who are the only key management of the Company, is set out in note 4 to the accounts with further information contained in the audited part of the Report on Directors' Remuneration.

**(e) DIRECTORS' DIVIDENDS**

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

|                         | 2012 | 2011 |
|-------------------------|------|------|
|                         | £000 | £000 |
| J. M. Smart . . . . .   | 34   | 34   |
| A. D. McClure . . . . . | 5    | 8    |
| L. E. Glenday . . . . . | 6    | 6    |
| D. W. Smart . . . . .   | 339  | 109  |
| A. H. Ross . . . . .    | 1    | –    |