

**J. SMART & CO. (CONTRACTORS) PLC ANNOUNCES TODAY, FRIDAY 17 NOVEMBER 2023, ITS FULL YEAR
RESULTS FOR THE YEAR TO 31st JULY 2023**

The information contained within this announcement is deemed to constitute inside information as stipulated under the Market Abuse Regulations (EU) No. 596/2014. Upon the publication of this announcement, this inside information is now considered to be in the public domain.

CHAIRMAN'S REVIEW

ACCOUNTS

Headline Group profit for the year before tax, including an unrealised deficit in revalued property and a deficit in revalued financial assets was £105,000 compared with £8,192,000 last year.

As in previous years, our view is that disregarding the movement in the revaluation of the commercial property provides a truer reflection of the Group's performance, which we refer to as underlying profit. The underlying profit before tax for the year was £2,288,000, compared with last year's figure of £7,840,000, as detailed in note 6.

The Board is recommending a Final Dividend of 2.27p, making a total of 3.23p, which compares with 3.23p for the previous year. The Final Dividend will cost the company no more than £904,000.

TRADING ACTIVITIES

Group construction activities, including private residential sales, decreased by 20%. Headline Group profit on continuing operations decreased substantially this financial year, which was mainly due to the decrease in the value of the commercial property portfolio and the absence of profit from investment sales of commercial property, as was the case in the previous year. Underlying profit before tax on continuing operations decreased substantially this year, the previous year having benefitted from an exceptional profit on the investment sale of commercial property.

Trading margins continued to be affected by the rise in the price of construction materials and the prolonged process in obtaining not only statutory approvals, but also simple approvals for utilities and associated infrastructure. This has resulted in all our construction sites experiencing delays and thereby longer programmes.

All of the above has caused an increase in aborted site acquisitions and a lack of contract work being acquired in the Housing Association sector. Overall costs have therefore out-stripped original budgets, which has led to an erosion of profits of recently completed and soon to be completed projects.

The private housing development at Winchburgh, Canal Quarter, is mainly complete. Reservations were encouraging until the end of 2022, but have significantly reduced in 2023. As previously reported, the current economic issues of high interest rates and inflation and the cost of living crisis continues to have an impact on consumer confidence in the private housing sector. The majority of reservations at Winchburgh have converted into sales, but sales have been substantially less than expected. The resultant prolonged sales period and accompanying holding costs, coupled with higher construction costs, partly due to a longer than expected build period, has and will continue to lead to a deterioration in the profitability of this development.

The residential development at Clovenstone Gardens has commenced and construction is progressing well. As previously reported, the first completions are not due until late 2024, so no marketing has yet taken place. As with the development at Winchburgh, the rise in construction costs and the longer than expected programme may result in a decrease in profit levels. It remains to be seen if this will be counter-balanced by positive house sales.

As predicted, commercial property values have fallen due to the decrease in investment yields. However, lettings of both our industrial and office stock remain robust. Rental levels in both sectors have not fallen yet and are still being sought.

industrial stock and office stock remain robust. Rental levels in both sectors have not fallen yet and we are still seeing rental growth, but more so in the industrial sector than the office sector.

The second phase of Cartcosh Industrial Park, developed through the joint venture company, Cartcosh Estates LLP, comprising two medium sized industrial units, is now fully let.

The second phase at Belgrave Point, Bellshill, a large speculative single user industrial unit, is nearly complete and interest is promising. The increased programme, due to delays in utility infrastructure, and increased construction costs, will again impact on profit margins.

As reported in the interim statement, we have not secured any new external contracts with housing associations. A contract has been agreed with a manufacturing company for a new office facility and an industrial unit extension. This contract, just outside Stirling, did commence just prior to the end of the financial year, and is progressing well.

FUTURE PROSPECTS

We have less work in hand in our own private housing at this time than we did last year. We do not have any real prospects of further contract work at present.

We have finally made progress with several planning applications previously stuck in the Scottish planning system, albeit it has taken longer than is necessary. Planning consent was obtained for an industrial development in Bathgate. We have just received approval for a residential development in Fife. We anticipate planning permission being granted for a substantial flatted development in Edinburgh this financial year.

The continuing increases in construction costs, interest rates and inflation and the cost of living crisis all contribute to a high degree of uncertainty as to when any of these sites will commence due to simple viability issues. The lack of urgency in local authorities in processing statutory approvals will undoubtedly delay commencement on site, should we choose to progress these developments. As mentioned above, there will be private housing sales this year, but substantially less than anticipated.

We expect to maintain letting levels in our commercial property portfolio. It is already evident that investment yields have decreased, but rental levels have held steady. Therefore, it remains to be seen whether commercial property values will fall this current financial year.

At this stage it is difficult to assess what the headline profit will be for the year to 31st July 2024. If commercial property values fall further, we may make a headline loss. Profits will continue to be eroded by the lack of external contracting work, the lack of recovery of overhead costs, the increase in material costs and prolonged programmes due to statutory approval delays.

Mr Roy Anderson, Managing Director of our subsidiary Thomas Menzies (Builders) Limited, retires at the end of 2023. He served your company diligently for 34 years and I wish him a long and happy retirement.

This is the first full reporting year for the new Task Force Climate-Related Financial Disclosures (TCFD) standards. It has taken a significant amount of time, effort and work with our consultant, Beyond Green, to develop an updated Sustainability Policy incorporating the required TCFD Reporting. I would like to thank all our employees involved in the process. Special mention must be made of the efforts of Head of HR, Lynsey Mackenzie, Head of Commercial Development, Jane Oliver and our Chief Buyer, John Sharp in this regard.

16th November 2023

DAVID W SMART
Chairman

PERFORMANCE REVIEW

Construction activities

	2023	2022
	£000	£000
Revenue	5,961	7,430
Operating loss	(2,720)	(2,487)

Construction revenue in the year has significantly decreased again this year due mainly to fallen turnover in the areas of civil engineering undertaken by Subsidiary Company, Thomas Menzies (Builders) Limited and in work on construction of industrial units. As noted in the previous year we completed the work for our Joint Venture, Gartcosh Estates LLP at phase 2 of their development consisting of 2 industrial units and undertook no new construction work of industrial units for third parties in the year.

During the year there were sales of private house sales at our development at Canal View, Winchburgh a development of 64 dwellings consisting of flats and terrace houses. In total 9 properties were sold in the year. Revenue from private house sales due to these sales increased from that of the previous year.

We commenced construction at our site in Clovenstone, Wester Hailes, Edinburgh. This site is a development of 45 flats. Private house sales at this development are not expected until the year to 31st July 2026. There is also an element of social housing at this site being 24 flats for Prospect Community Housing. During the year there was a small amount of revenue earned against this contract.

During the year we also commenced construction of commercial property for a third party and again a small amount of revenue was earned against this contract.

Full details of construction revenue is given in note 3 to the financial statements.

Construction material costs continue to remain high due to the continuing impact of Brexit, global unrest, inflation rate increases and the overall demand for goods and services causing increases in material and labour costs. The Group continues to monitor costs on construction contracts, with the finance and surveyor teams liaising to ensure accurate recording of cost to contracts and monitoring of actual costs against anticipated costs and anticipated revenue to ensure projects remain on course. The Directors continue to fully appraise contracts, at various stages, prior to acceptance to ascertain the likely outcome of the contract. These appraisals are conducted prior to land bank acquisitions, commencement of construction and then during the lifetime of the contract to its completion.

Overheads continue to remain relatively constant over time, the Directors do continue to monitor these with a view to achieving any savings on costs were possible. However, with reduced revenue levels the recoverability of overhead is difficult.

The increased material construction costs together with increased labour costs has resulted in margins being reduced which impacts on the recoverability of overheads incurred by the Group and has resulted in the increased operating loss incurred in the year.

Investment activities

	2023	2022
	£000	£000
Revenue from investment properties	7,011	6,983
Profit on sale of investment properties	-	6,055
Net (deficit)/surplus on valuation of investment properties	(2,164)	473
Operating profit from investment properties	2,063	10,309
Income from financial assets	58	63
(Loss)/profit on sale of financial assets	(15)	17
Net deficit on valuation of financial assets	(19)	(121)
Share of (losses)/profits in Joint Ventures	(36)	254

Revenue for investment properties marginally increased in the year (2022, increased by 6%). There have been movements by tenants in and out of properties in the year but overall both occupancy levels and rental growth have remained fairly static. Recoverability of revenue for investment properties continues to remain high and the Group has suffered little in the way of defaulting tenants.

The office and retail development at Winchburgh was completed and handed over to our investment property company at the start of the financial year. On completion of the build a tenant for the office was in place but we have still to lease any of the industrial units, although a tenant is lined up to take up occupancy of one of the units in the near future. Work continues on phase 2 at our industrial site at Bellshill for the construction of one 53,735 square foot unit and the work now includes an office fit out within the unit which has resulted in an extension to the duration of the build.

Service charges and insurance receivable revenue have remained unchanged from the previous year due to the limited movements in occupancy in the year (2022, increased by 4%). Service charges remain dependent on costs incurred in the year that can be recovered and varies from year to year.

There were no disposals of properties in the year, compared to the previous year when the Group sold three of its industrial estates for £24,032,000 which generated a profit on sale of £6,055,000.

This year the Group has suffered a deficit on the revaluation of investment property portfolio of £2,164,000, due mainly to decreasing yields.

Income from our financial assets has decreased from that of the previous year. There were a number of acquisitions in the year to our portfolio and disposals on which the Group suffered a loss of £15,000. The impact of world and domestic events on the financial markets resulted in a deficit of £19,000 on the fair value of our financial assets being recorded this year.

The share of the results in our Joint Ventures is a loss of £36,000 which is due to the effect of accounting for a revaluation deficit on the industrial development owned by Gartcosh Estates LLP.

Group results and financial position

	2023	2022
	£000	£000
Profit before tax	105	8,192
Net bank position	8,214	20,795
Net assets	125,467	124,676

Overall the Group has earned a profit before tax in the year but it is significantly reduced from the profit earned in the previous year due to the operating loss on the construction activities of the Group and the accounting for the deficit on the revaluation of investment properties. The significant movement in the profit for this year and the profit in the previous year is also due to the profit earned on sale of the investment properties in the previous year and the accounting for the impact of the revaluation deficit on investment properties in each year. If these are excluded then in the current year the Group generated a profit of £2,269,000 compared to £1,664,000 in the previous year. The movement of £605,000 arises mainly from the increased operating profit earned on the Group's investment activities less the increased loss on the construction activities and the increase in finance income on short-term deposits with banks, interest on loans to Joint Ventures and interest earned on the Group's Retirement Benefit asset.

Our net bank position, which comprises monies held on deposit, cash and cash equivalents and the netting of our bank overdraft has decreased in the year. This is due to the cash outflows on our current private housing and own industrial developments currently in progress. Overall, the Group continues to be net debt-free.

The Group's net assets have increased by £791,000, the main impact being the movement in the Group's pension scheme surplus of £4,902,000 and the increase in our inventories of private housing for sale net of the decrease in cash and cash equivalents. The profit generated in the year as discussed above and the accounting for share buy backs and dividends paid to shareholders in the year also impact on the net assets.

Area of principal risk or uncertainty and impact

Mitigating actions and controls

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

- Maintain long-term relationships with social housing providers, resulting from high standards of service, quality and post construction care thus giving the Group an advantage over other builders when contracts are awarded on criteria other than cost only.
- Identify potential build sites or include the provider within private housing developments in relation to the element of affordable housing required.
- When workload is reduced workforce can be diverted to the Group's own commercial and private residential developments.
- Continue to acquire land for development for either private housing developments or for resale to social housing providers as part of a construction contract.
- Develop new areas of construction activities.
- Develop new joint venture opportunities.

Decline in home buyer confidence, due to bank interest rates, availability of affordable mortgages and cost of living crisis resulting in stalling of private house sales.

- Building developments in popular residential areas.
- Building high quality specification homes with attention to detail which sets them apart from other new build homes and therefore makes them more attractive to buyers.
- Building a range of homes within a development thus providing choice to buyers.
- Programming commencement of new build housing projects to market conditions.
- Providing sales incentives.
- Considering the letting of built homes at market rates.

Social housing sector and the housing market in general is highly competitive with tight margins.

- We are an 'all trades' contractor who employs our own personnel in all basic building trades who are supervised by site agents who are long serving employees of the Group and who have been promoted through their trades, thus ensuring control of labour costs on contracts.
- We have invested heavily in plant and the maintenance thereof and therefore limit our costs on contracts by utilising own plant as opposed to incurring higher costs of hiring plant.
- Subcontractors employed by the Group are specialists in their fields and in the main subcontractors have previously been used by the Group therefore quality of work and reliability is known. No labour only

	<ul style="list-style-type: none"> subcontractors are employed. In house architectural technicians and surveyors provide pre-contract design advice to resolve potential technical problems with the build and therefore potential costs. Detailed appraisals of contract pre-land acquisition and pre-construction.
Reduction in rental demand for investment properties may result in a fall in property valuations.	<ul style="list-style-type: none"> Only commence speculative developments after careful assessment of the market. Continue to invest in property sectors which are robust. Restricting our operations to the central belt of Scotland being the area of the country with which we are most familiar. Continually maintain and refurbish existing properties to retain existing tenants and attract new tenants and improvements to our properties for improved economic and climate efficiencies. Provide necessary financial incentives to retain existing tenants at end of current leases and attract new tenants.
Reduction in demand for UK real estate from investors may result in a fall in valuations within our investment property portfolio, this could result in delays in investment decisions which could impact on our activities.	<ul style="list-style-type: none"> The Directors regularly review the property market to ascertain if changes in the overall market present specific risks or opportunities to the Group. Restricting our operations to the central belt of Scotland being the area of the country with which we are most familiar.
Political events and policies result in uncertainty until final decisions have been made and the impact of decisions are known, this could result in delays in investment decisions which could impact on our activities. Including Local Government processes slowing down our ability to commence new building projects.	<ul style="list-style-type: none"> Before any decisions are taken by the Directors in any area of the Group's activities the level of uncertainty and range of potential outcomes arising from political events and policies are considered. Monitor Government guidelines and new legislations announcements to ensure the Group remains up to date with legislation. Continue to pursue contacts at Local Government to obtain necessary consents and planning approval.
Reduction of financial resources.	<ul style="list-style-type: none"> Ensure resources are not over committed and only undertake commercial and private housing developments after due consideration of the financial impact on the Group's financial resources. Build up resources to ensure the Group has sufficient finance for working capital requirements and financing of commercial and private housing developments. Spread cash reserves over several banks taking account of the strength of the bank and interest rates attainable. Invest resources in equities also taking account of the security of the investment and the yields attainable.
Failure to evolve business practices and operations in response to climate change.	<ul style="list-style-type: none"> Continue to monitor all requirements relating to the construction industry in relation to improvements in buildings to ensure they comply with current and emerging requirements. Review of designs for new buildings to ensure they are as energy efficient as possible. Procurement of building materials from sustainable sources. Investment in energy saving measures within our investment property portfolio. Establishment of Sustainability Committee to develop the Group's sustainability strategy with the commitment to reduce the Group's carbon emissions in line with science-based carbon reduction targets. Employ the services of external specialists and consultants for their expertise.
Unforeseen national and global events including world conflicts and natural disasters.	<ul style="list-style-type: none"> Establish strong relationships with suppliers and subcontractors to ascertain impact on their potential supply chains. Build up financial resources to ensure the Group has sufficient funds for future working capital requirements. Establish continuity plans for all areas of operations.
Impact of cost of living crisis, increased inflation and bank interest rates.	<ul style="list-style-type: none"> Retain strong control over costs on construction contracts. Remunerate onsite and office based employees with competitive rates of pay and benefits.

CONSOLIDATED INCOME STATEMENT for the year ended 31st July 2023

	Notes	2023 £000	2022 £000 <i>Restated Note 1</i>
REVENUE	3	12,972	14,413
Cost of sales		(6,922)	(8,850)

GROSS PROFIT		6,050	5,563
Other operating income	4	74	29
Administrative expenses		(4,617)	(4,298)
OPERATING PROFIT BEFORE PROFIT ON SALE AND NET (DEFICIT)/SURPLUS ON VALUATION OF INVESTMENT PROPERTIES		1,507	1,294
Profit on sale of investment properties		-	6,055
Net (deficit)/surplus on valuation of investment properties	9	(2,164)	473
OPERATING (LOSS)/PROFIT		(657)	7,822
Share of (loss)/profits in Joint Ventures		(36)	254
Income from financial assets		58	63
(Loss)/profit on sale of financial assets		(15)	17
Net deficit on valuation of financial assets		(19)	(121)
Finance income		786	141
Finance costs		(12)	(12)
Gain on remeasurement of subsidiary company		-	28
PROFIT BEFORE TAX	6	105	8,192
Taxation	5	95	(1,571)
PROFIT FOR YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS		200	6,621
EARNINGS PER SHARE			
Basic and diluted	8	0.49p	15.90p

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31st July 2023**

	2023 £000	2022 £000
PROFIT FOR YEAR	200	6,621
OTHER COMPREHENSIVE INCOME		
Items that will not be subsequently reclassified to Income Statement:		
Remeasurement gains on defined benefit pension scheme	4,330	7,219
Deferred taxation on remeasurement gains on defined benefit pension scheme	(1,083)	(1,804)
TOTAL ITEMS THAT WILL NOT BE SUBSEQUENTLY RECLASSIFIED TO INCOME STATEMENT	3,247	5,415
TOTAL OTHER COMPREHENSIVE INCOME	3,247	5,415
TOTAL COMPREHENSIVE INCOME FOR YEAR, NET OF TAX	3,447	12,036
ATTRIBUTABLE TO EQUITY SHAREHOLDERS	3,447	12,036

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
as at 31st July 2023**

	Share Capital £000	Capital Redemption Reserve £000	Retained Earnings £000	Total £000
As at 1st August 2021	840	168	114,729	115,737
Profit for year	-	-	6,621	6,621
Other comprehensive gain	-	-	5,415	5,415
TOTAL COMPREHENSIVE INCOME FOR YEAR	-	-	12,036	12,036
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY				
Shares purchased and cancelled	(22)	-	(1,727)	(1,749)
Transfer to Capital Redemption Reserve	-	22	(22)	-
Dividends	-	-	(1,348)	(1,348)
TOTAL TRANSACTIONS WITH OWNERS	(22)	22	(3,097)	(3,097)

As at 31st July 2022

	818	190	123,668	124,676
Profit for year	-	-	200	200
Other comprehensive gain	-	-	3,247	3,247
TOTAL COMPREHENSIVE INCOME FOR YEAR	-	-	3,447	3,447

TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY

Shares purchased and cancelled	(16)	-	(1,329)	(1,345)
Transfer to Capital Redemption Reserve	-	16	(16)	-
Dividends	-	-	(1,311)	(1,311)
TOTAL TRANSACTIONS WITH OWNERS	(16)	16	(2,656)	(2,656)

As at 31st July 2023

	802	206	124,459	125,467
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION**as at 31st July 2023**

	Notes	2023 £000	2022 £000
NON-CURRENT ASSETS			
Property, plant and equipment		1,670	1,207
Investment properties	9	81,389	77,777
Investments in Joint Ventures		1,496	1,532
Financial assets		1,225	1,069
Trade and other receivables		3,010	3,010
Retirement benefit surplus		19,998	15,096
Deferred tax assets		13	13
		<u>108,801</u>	<u>99,704</u>
CURRENT ASSETS			
Inventories		17,760	12,454
Contract assets		33	16
Corporation tax asset		274	-
Trade and other receivables		2,352	2,442
Monies held on deposit		49	48
Cash and cash equivalents		18,656	31,796
		<u>39,124</u>	<u>46,756</u>
TOTAL ASSETS		<u>147,925</u>	<u>146,460</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		8,842	8,172
Lease liabilities		212	212
		<u>9,054</u>	<u>8,384</u>
CURRENT LIABILITIES			
Trade and other payables		2,912	2,306
Lease liabilities		1	1
Corporation tax liability		-	44
Bank overdraft		10,491	11,049
		<u>13,404</u>	<u>13,400</u>
TOTAL LIABILITIES		<u>22,458</u>	<u>21,784</u>
NET ASSETS		<u>125,467</u>	<u>124,676</u>
EQUITY			
Called up share capital		802	818
Capital redemption reserve		206	190
Retained earnings		124,459	123,668
TOTAL EQUITY		<u>125,467</u>	<u>124,676</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31st July 2023**

	2023 £000	2022 £000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit after tax	200	6,621
Tax (credit)/charge for year	(95)	1,571
Profit before tax	<u>105</u>	<u>8,192</u>
<i>Adjustments for:</i>		

Share of losses/(profits) from Joint Ventures	36	(254)
Depreciation	445	399
Unrealised deficit/(surplus) on valuation of investment properties	2,164	(473)
Unrealised deficit on valuation of financial assets	19	121
Profit on sale of property, plant and equipment	(74)	(29)
Loss on derecognition of asset	42	-
Profit on sale of investment property	-	(6,055)
Loss/(profit) on sale of financial assets	15	(17)
Gain on remeasurement of subsidiary company	-	(28)
Change in retirement benefits	(41)	(14)
Interest received	(786)	(20)
Interest paid	12	12
Change in inventories	(5,306)	(4,584)
Change in contract assets	(17)	230
Change in receivables	187	503
Change in payables	606	(1,113)
CASH OUTFLOW FROM OPERATING ACTIVITIES	(2,593)	(3,130)
Tax paid	(636)	(914)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(3,229)	(4,044)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	(978)	(380)
Additions to investment properties	(48)	(54)
Expenditure on own work capitalised - investment properties	(5,728)	(2,167)
Proceeds of sale of property, plant and equipment	102	48
Proceeds of sale of investment property	-	24,032
Purchase of financial assets	(368)	(47)
Proceeds of sale of financial assets	178	58
Monies held on deposit	(1)	-
Acquisition of investment in Subsidiary - net cash acquired	-	97
Interest received	158	20
Loan to Joint Ventures	-	(1,440)
Investment in Joint Ventures	-	(50)
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(6,685)	20,117
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest costs on leases	(12)	(12)
Purchase of own shares	(1,345)	(1,749)
Dividends paid	(1,311)	(1,348)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	(2,668)	(3,109)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(12,582)	12,964
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	20,747	7,783
CASH AND CASH EQUIVALENTS AT END OF YEAR	8,165	20,747

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.

BASIS OF PREPARATION

The financial information in this announcement has been extracted from the Group's Annual Report and Statement of Accounts for the year to 31st July 2023 and is prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and in accordance with UK adopted international accounting standards. Whilst the financial information included in this preliminary announcement has been computed in accordance with International Financial Reporting Standards (IFRS), this announcement does not itself contain sufficient information to comply with IFRS and the financial information set out does not constitute the Company or Groups statutory accounts for the years to 31st July 2023 or 31st July 2022.

The statutory consolidated accounts for the year to 31st July 2023 have been reported on by the Independent Auditor, their report was unqualified and did not draw attention to any matters by way of emphasis and it does not contain a statement under S498 (2) or S498 (3) of the Companies Act 2006. The statutory consolidated accounts for the year to 31st July 2023 will be delivered to the Registrar of Companies following the Company's Annual General Meeting.

The financial information for the year to 31st July 2022 is derived from the statutory accounts for that year which were

submitted to the Registrar of Companies and upon which the Company's auditor provided an unqualified audit report. The audit report did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report and did not contain a statement under S498 (2) or S498 (3) of the Companies Act 2006.

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE IN THE YEAR TO 31st JULY 2023

The following new standards and amendments to standards and interpretations relevant to the Group have been issued by the International Accounting Standards Board and are mandatory for the first time for the financial year to 31st July 2023:

- IFRS3 (amended): Business Combinations
- IAS 37 (amended): Provisions, Contingent Liabilities and Contingent Assets.

None of the above amendments to standards had a significant impact on the Group's financial statements.

NEW STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS NOT YET APPLIED

There have been no new standards, amendments to standards and interpretations relevant to the Group which have been issued by the International Accounting Standards Board, but are not yet effective for the Group at the date of these financial statements.

BASIS OF PREPARATION

The financial statements 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, available for sale financial assets and assets held by the defined benefit pension scheme.

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

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 financial statements are reasonable. However, actual outcomes may differ from those anticipated.

GOING CONCERN

The financial statements have been prepared on a going concern basis. The Directors have prepared a number of cashflows scenarios taking account of trading activities around construction projects in hand and anticipated projects, land acquisitions, rental income, investment property acquisitions and disposals and other capital expenditure. In each scenario reviewed by the Directors the Group remains cash positive with no reliance on external funding and therefore remains net debt-free. The net assets of the Group are £125,467,000 at 31st July 2023 and the Group's net current assets amount to £25,720,000. Taking all of the information the Directors currently have they are of the opinion that the Company and Group are well placed to manage its financial and business risks and have a reasonable expectation that the Company and Group have adequate financial resources to continue in operational existence for a period of at least twelve months from the date of approval of these financial statements and therefore consider the adoption of the going concern basis as appropriate for the preparation of these financial statements.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

INVESTMENT PROPERTIES

Investment properties are revalued annually by the Directors in accordance with the RICS Valuation Standards. The valuations are subjective due to, among other factors, the individual nature of the property, its location and the expected future rental income. As a result, the valuation of the Group's investment property portfolio incorporated into the financial statements is subject to a degree of uncertainty and is made on the basis of assumptions which may prove to be inaccurate, particularly in periods of volatility or low transaction flow in the property market. The Directors have requested a third party external valuer to value the Group's investment property portfolio. The valuations prepared by the Director and the external valuers are compared to ensure that there are no material variations between the valuations.

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

RETIREMENT BENEFIT OBLIGATION

The valuation of the retirement benefit obligation is dependent upon a series of assumptions, mainly discount rates, mortality rates, investment returns, salary inflation and the rate of pension increases, which are determined after taking expert advice from the Group's Actuary. If different assumptions were used then this could materially affect the results disclosed in the financial statements. These are set out in note 30 of the financial statements. The Group has concluded that the trust deed relating to the defined benefit scheme grants the unconditional right to any surplus of the scheme on the full settlement of the scheme liabilities to the Group and therefore have concluded that any surplus on the scheme can be incorporated into the Group and Company financial statements. Advice on the Group's right to a surplus arising on the pension scheme was sought in the year to 31st July 2022 from a firm of lawyers who specialise in this area. Their advice was that the Group had an unconditional right to the surplus based on the original Trust Deed and Deed of Variation and therefore the full surplus arising on the calculation thereof under IAS 19 (amended): Employee Benefits should be accounted for in the financial statements.

PRIOR PERIOD RESTATEMENT

When the Group was first established, it was for the purposes of construction of homes in both the private and social housing sectors. In 1977, the Group acquired the Investment Property subsidiary, C. & W. Assets Limited and overtime this subsidiary has continually grown, both with regards to annual income generated and the value of assets

held by the Group. Historically, the Group considered the investment property activities to be a non-core activity of the Group and so the Group presented investment property activity income as Other Operating Income in the Consolidated Income Statement with associated costs within Administration expenses. Given the continual growth in investment property activities, the Directors have revisited this judgement and after having considered the investment property activities, capital employed and business prospects, have concluded that investment property activities are a core part of the Group. This change in judgement lead to rental income from investment property for the year to 31st July 2022 in the Consolidated Income Statement and related notes to the financial statements re-presented as Revenue, with the associated direct costs being re-presented as Cost of Sales. Accordingly, notes 2, 3 and 4 have been restated to reflect this change. The change of judgement has no impact on the net profit for the year to 31st July 2022 or the net assets as at 31st July 2022.

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. The chief operating decision maker has identified two distinct areas of activities in the Group being construction activities and investment property activities.

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

	Revenue	Operating (Loss)/Profit	
		2023	2022
	£000	£000	£000
2023			
Construction activities	5,961	(2,720)	-
Investment property activities	7,011	2,063	-
	<u>12,972</u>	<u>(657)</u>	<u>-</u>
2022			
Construction activities	7,430	-	(2,487)
Investment property activities	6,983	-	10,309
	<u>14,413</u>	<u>-</u>	<u>7,822</u>
OPERATING (LOSS)/PROFIT		(657)	7,822
Share of results in Joint Ventures		(36)	254
Finance and investment income		844	221
Finance and investment costs		(46)	(133)
Gain on remeasurement of subsidiary company		-	28
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		<u>105</u>	<u>8,192</u>

The Group had sales from construction activities from two customers amounting to £1,281,000 and £753,000 respectively (2022, sales from construction activities from two customers amounting to £2,051,000 and £1,387,000 respectively).

OTHER SEGMENTAL INFORMATION

	Non-Current Asset Additions	Depreciation	Segment Assets	Segment Liabilities
	£000	£000	£000	£000
2023				
Construction activities	978	398	47,195	17,964
Investment property activities	5,776	47	100,192	5,452
Joint Ventures	-	-	1,496	-
			<u>148,883</u>	<u>23,416</u>
Allocation of corporation tax creditor			(958)	(958)
			<u>147,925</u>	<u>22,458</u>
2022				
Construction activities	380	351	36,679	16,744
Investment property activities	2,221	48	109,748	6,539
Joint Ventures	-	-	1,532	-
			<u>147,959</u>	<u>23,283</u>
Allocation of corporation tax creditor			(1,499)	(1,499)
			<u>146,460</u>	<u>21,784</u>

3. REVENUE

The Group derives its revenue from contracts with customers for the transfer of goods over time in relation to construction contracts and also at point in time in relation to housing sales. This is consistent with the revenue information that is disclosed for Construction Activities segment under IFRS 8: Operating Segments.

Construction contracts are generally for social housing or industrial and commercial properties. The Group provides a complete service including architectural and surveyor services from the pre-contract design through to completion.

	£000	£000 <i>Restated Note 1</i>
Disaggregation of Revenue		
Construction activities		
Social housing	397	9
Civil engineering	3,223	4,330
Industrial	77	1,387
Commercial	97	-
General construction	4	42
Private house sales	2,163	1,662
	<u>5,961</u>	<u>7,430</u>
Investment property activities		
Rental income	6,186	6,158
Service charges and insurance receivable	824	824
Sundry income	1	1
	<u>7,011</u>	<u>6,983</u>
Total Revenue	<u>12,972</u>	<u>14,413</u>

The transaction price allocated to unsatisfied performance obligations in respect of construction activities as at 31st July 2023 are as set out below:

Social housing	3,829	-
Civil engineering	457	422
Industrial	-	-
Commercial	2,965	-

The Directors expect that 82% (2022, 100%) of the transaction price allocated to the unsatisfied contracts as at 31st July 2023 will be recognised as revenue in the year to 31st July 2024. The Directors expect that the remain 18% which relates to social housing and commercial property will be recognised as revenue in the year to 31st July 2025.

The Group does not include in Revenue the value of work done in the year which relates to own work capitalised on the Group's Investment Properties, in the year to 31st July 2023 this amounted to £5,728,000 (2022, £2,167,000).

4. OTHER OPERATING INCOME

	2023 £000	2022 £000 <i>Restated Note 1</i>
Profit on disposal of property, plant and equipment	<u>74</u>	<u>29</u>

5. TAXATION

	2023 £000	2022 £000
UK Corporation Tax		
Current tax on income for the year	358	997
Corporation tax over provided in previous years	(40)	(4)
	<u>318</u>	<u>993</u>
Deferred taxation	(413)	578
	<u>95</u>	<u>1,571</u>
Current Tax Reconciliation		
Profit on ordinary activities before tax	105	8,192
Share of losses/(profits) of Joint Ventures	36	(254)
Gain on remeasurement of subsidiary company	-	(28)
	<u>141</u>	<u>7,910</u>
Current tax at 21.01% (2022, 19.00%)	30	1,503
Effects of:		
Expenses not deductible for tax purposes	490	124
Ineligible depreciation	-	(1,189)
Non-taxable income including revaluation surplus	(567)	(103)
Chargeable gains	-	752
Effect of change in tax rate	(90)	547
Adjustment to corporation tax charge in respect of prior years	(40)	(4)
Adjustment to deferred tax charge in respect of prior years	80	(30)
Deferred tax not recognised	2	(29)
	<u>95</u>	<u>1,571</u>

The Financial Statements for the year ended 31st July 2023 have been prepared on the basis of the accounting policies set out on pages 18 to 21.

The Finance Act 2020, which received Royal assent on 22nd July 2020, states that the corporation tax rate for the financial year commencing 1st April 2020 is 19%. The Finance Act 2021, which received Royal assent on 24th May 2021, states that the corporation tax rate for the financial year commencing 1st April 2023 is 25%.

The effective corporation tax rate is 21.01% (2022, 19.00%) being the average rate applicable over the period. Deferred tax provisions have been calculated using the 25% rate.

In addition to amounts charged to the Income Statement, a deferred tax charge of £1,083,000 (2022, £1,804,000) relating to actuarial gains on the defined benefit pension scheme has been recognised directly to Equity.

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

6. PROFIT BEFORE TAX FOR THE FINANCIAL YEAR

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

	2023	2022
	£000	£000
Profit before tax	105	8,192
Deficit/(surplus) on valuation of investment properties	2,164	(473)
Deficit on valuation of financial assets	19	121
	<u>2,288</u>	<u>7,840</u>

7. DIVIDENDS

	2023	2022
	£000	£000
2021 Final Dividend of 2.27p per share	-	948
2022 Interim Dividend of 0.96p per share	-	400
2022 Final Dividend of 2.27p per share	923	-
2023 Interim Dividend of 0.96p per share	388	-
	<u>1,311</u>	<u>1,348</u>

The Board is proposing a Final Dividend of 2.27p per share (2022, 2.27p) which will cost the Company no more than £904,000.

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

8. EARNINGS PER SHARE

	2023	2022
	£000	£000
Profit attributable to Equity shareholders	200	6,621
Basic earnings per share	<u>0.49p</u>	<u>15.90p</u>

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

The weighted average number of shares for the year to 31st July 2023 amounted to 40,572,000 (2022, 41,638,000). There is no difference between basic and diluted earnings per share.

9. INVESTMENT PROPERTIES

	Land and buildings Freehold	Land and buildings Leasehold	Right-of-use Asset	Total
	£000	£000	£000	£000
Cost or valuation:				
At 1st August 2022	67,907	9,657	213	77,777
Additions	5,776	-	-	5,776
Deficit on valuation	(1,692)	(472)	-	(2,164)
At 31st July 2023	<u>71,991</u>	<u>9,185</u>	<u>213</u>	<u>81,389</u>

Cost or valuation:

At 1st August 2021	75,744	17,103	213	93,060
Additions	2,218	3	-	2,221
Disposals	(9,303)	(8,674)	-	(17,977)
(Deficit)/surplus on valuation	(752)	1,225	-	473
At 31st July 2022	67,907	9,657	213	77,777

Right-of-use Asset relates to a ground lease on which the Group has built investment properties. The rent paid by the Group to the lessee for the ground is a set annual rent and is not contingent on rents received by the Group from tenants and therefore the lease falls within the definition of IFRS 16: Leases.

Valuation Process

The Group's investment properties are valued by David W Smart, MRICS, who is a Director of the Parent Company, on the basis of fair value, in accordance with the RICS Valuation - Global Standards 2017, incorporating the International Valuations Standards, and RICS Professional Standards UK January 2014 (revised April 2015). The Directors also requested a third party external valuer to value the Group's investment property portfolio. The valuations prepared by the Director and the external valuers are compared to ensure that there are no variations outside of acceptable valuation differences.

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

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

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

The Group considers all of its investment properties fall within 'Level 3' of the fair value hierarchy as described by IFRS 13: Fair Value Measurement. Level 3 valuations are those using inputs for the asset or liability that are not based on observable market data. The main unobservable inputs relate to estimated rental value and equivalent yield. There have been no transfers of properties in the fair value hierarchy in the financial year.

The table below summarises the key unobservable inputs used in the valuation of the Group's Freehold and Leasehold investment properties:

		Estimated Rental Value £ per sq ft			Equivalent Yield %		
	£000	Low	Average	High	Low	Average	High
Fair Value at 31st July 2023							
Investment							
Commercial	21,285	11.00	16.00	21.00	8.04	9.40	11.29
Industrial	59,891	4.75	7.82	10.89	7.24	7.98	9.95
Fair Value at 31st July 2022							
Investment							
Commercial	22,113	11.00	15.25	19.50	6.78	8.60	10.57
Industrial	55,451	4.75	7.75	10.75	6.00	7.19	9.06

The following table illustrates the impact of changes in the key unobservable inputs (in isolation) on the fair value of the Group's Freehold and Leasehold investment properties:

		5% change in estimated rental value		25bps change in equivalent Yield	
	£000	Increase	Decrease	Decrease	Increase
	£000	£000	£000	£000	£000
Fair Value at 31st July 2023					
Investment					
Commercial	21,285	1,171	(1,171)	653	(620)
Industrial	59,891	2,713	(2,713)	1,828	(1,713)
Fair Value at 31st July 2022					
Investment					
Commercial	22,113	1,183	(1,183)	696	(658)
Industrial	55,451	2,511	(2,511)	1,785	(1,667)

The Group had commitments of £2,623,000 (2022, £6,133,000) in respect of future developments and repair costs of investment properties at the Statement of Financial Position date.

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