

Annual Report & Accounts

for the year ended 30 June 2017



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BROOKS MACDONALD

Contents

Business performance

Highlights of the year	01
Chairman's statement	02
Chief Executive's review	03-06
Strategic report.....	07-24

Corporate governance

Report of the directors.....	25-26
Statement of directors' responsibilities	27

Consolidated financial statements

Independent auditors' report to the members of Brooks Macdonald Group plc.....	30-36
Consolidated statement of comprehensive income.....	37

Consolidated statement of financial position.....	38
Consolidated statement of changes in equity.....	39
Consolidated statement of cash flows.....	40
Notes to the consolidated financial statements .	41-78

Company financial statements

Company statement of financial position	79
Company statement of changes in equity.....	80
Company statement of cash flows	81
Notes to the company financial statements.....	82-89
Directors and advisers.....	90

Highlights of the year

Financial highlights

+26%

Discretionary funds under management

30 June 2017: £10.456 billion

30 June 2016: £8.301 billion

+19%

Underlying† pre-tax profit

2017: £18.426 million

2016: £15.536 million

-49%

Statutory pre-tax profit

2017: £8.044 million

2016: £15.856 million

+17%

Total dividends per share

2017: 41.0p*

2016: 35.0p

+32%

Underlying† basic earnings per share

2017: 115.76p

2016: 87.92p

-55%

Statutory basic earnings per share

2017: 42.95p

2016: 94.41p

Business highlights

- Growth in underlying profits across all four business segments
- An increased dividend and commitment to a progressive dividend policy, reflecting the board's continued confidence in the strength of the business
- Announced the sale of Braemar Estates, the Group's property management division
- Discretionary funds under management reached £10.5bn with strong organic growth and investment performance
- Continued to invest for the future, delivering our IT system development to migrate our Channel Islands data on to a common platform for the Group
- Reflecting our commitment to treating clients fairly and supporting relationships with our professional intermediaries, proactively dealing with legacy matters arising from the former Spearpoint business
- Expansion of our distribution capability with two new strategic alliances, including our first internationally
- Extended our UK regional footprint with the opening of a new investment management office in Cardiff
- Retained our Defaqto five star ratings for each of our main discretionary services and received the prestigious industry Gold Standard Award for service in discretionary fund management
- Our Leamington Spa and Tunbridge Wells offices won their geographical category in the 2017 Citywire Regional Star Awards

* Including a proposed final dividend of 26.0p per share.

† Excludes finance costs of deferred consideration, changes in fair value of deferred consideration, amortisation of intangible assets, impairment of goodwill and the exceptional costs of resolving legacy matters. A reconciliation between underlying profit before tax and statutory profit before tax is shown in table 2 of the Strategic Report.

Chairman's statement



CS I am pleased to report another year of strong progress. DD

Christopher Knight Chairman

Caroline Connellan joined Brooks Macdonald as Chief Executive in April succeeding Chris Macdonald, who remains on the board in a non-executive capacity. Caroline brings more than 20 years' experience in the financial services industry, most recently as Head of UK Premier and Wealth at HSBC. She joins the group at an exciting point in its development.

Our discretionary funds under management grew substantially during the year, surpassing the significant milestone of £10bn in April 2017 and reaching £10.5bn as at 30 June 2017 (2016: £8.3bn), an increase of 25.9%. This compares to a 10.5% increase in the FTSE UK Private Investor Balanced Index and represents a combination of investment performance (14.5%) and continued organic growth (11.5%).

Underlying profit before tax for the year was £18.4m (2016: £15.5m), an increase of 18.6% on the previous year, representing an underlying profit margin of 20.1% (2016: 19.1%). Underlying earnings per share also increased by 31.7% to 115.76p (2016: 87.92p). Statutory profit before tax for the year fell by 49.3% to £8.0m (2016: £15.9m), predominantly due to the decision to deal proactively with certain legacy matters arising from the former Spearpoint business, as explained in the Chief Executive's Review. We have announced the

sale of Braemar Estates, our property management division, which will enable us to focus on our core businesses.

The board has recommended a final dividend of 26.0p (2016: 23.0p) which, subject to approval by shareholders, will result in total dividends for the year of 41.0p (2016: 35.0p). This represents an increase of 17.1% on the previous year and reaffirms the board's confidence in the strength of the business and our commitment to a progressive dividend policy. The final dividend will be paid on 27 October 2017 to shareholders on the register at the close of business on 29 September 2017.

Richard Spencer and Simon Wombwell are not seeking re-election to the board at this year's AGM, although both will continue as key members of the Group Executive Committee, as Chief Investment Officer and Head of UK Distribution respectively. This will reduce the board to nine, made up of five non-executive directors and four executive directors, a board composition in line with current corporate governance practice.

The financial services industry is going through an unprecedented period of regulatory change, which will have a profound impact on businesses throughout the sector. We recognise the demands this places

on the business and consequently will be increasing investment in regulatory and risk management capabilities as outlined in the Chief Executive's Review below. This will provide a strong foundation, positioning the business for future growth.

The result of the EU referendum in 2016 and the subsequent UK General Election in June 2017 have begun to impact on the UK's macroeconomic outlook and uncertainty surrounding the nature of the UK's future relationship with the EU will persist over the next eighteen months as negotiations with the EU continue. We have already seen a fall in consumer spending. These factors, combined with the global geopolitical risks that have recently begun to weigh on market sentiment, cause us to remain cautious in our external outlook. Nevertheless, the Group is well-positioned to weather any turbulence, with a strong balance sheet (net cash £32.2m (2016: £19.5m)). We are confident that the Group will continue to prosper and deliver high standards of service to our clients as well as value for our shareholders through our investment to support future growth.

**Christopher Knight
Chairman**

20 September 2017

Chief Executive's review



Caroline Connellan Chief Executive

As we continue to invest in the Group, I look forward to building on our success to date and positioning the business to deliver growth into the future.

Introduction

Having taken over as Chief Executive of Brooks Macdonald in April 2017, I am delighted to present my first report covering a year when we have continued to deliver strong underlying Group performance, although statutory profit has fallen principally as a result of the previously announced provision for legacy matters. As a result of the hard work and dedication of all our staff under Chris Macdonald's prior leadership, I have joined a business that is well positioned in the market and I intend to build on this strong foundation.

Since my arrival I have had the opportunity to visit each of our offices, meeting many of the advisers we partner with as well as spending time with our people, listening and learning about the business first-hand. I have been particularly impressed by our culture with its strong emphasis on client relationships and service. This has been fundamental to our growth to date and it will remain central to our success going forward. I would like to thank everyone at Brooks Macdonald for making me feel welcome and Chris for his support during the handover.

Discretionary fund management is our core business and we will be looking for opportunities to grow it further, including enhancing our

offering and service levels, as well as continuing to adapt - given the fast changing external environment - to retain our strong market position. We have already announced additional investment in our regulatory and risk management capabilities to build a stronger platform both now and for delivering sustainable growth in the future. Pursuing greater efficiency in the business is another of my priorities in order to continue to improve our margins. This focus on our core offering and our drive to improve margins has also led to the agreed sale of Braemar Estates, our property management business, expected to complete by the calendar year end.

Growth in funds under management and underlying profit

A conducive market environment for risk assets continued through the year with interest rates across the developed world at highly accommodative levels and inflation subdued. There were bouts of volatility stemming from political risk including the negotiations around Brexit, and the UK, US and French elections, although any equity market sell-off was short lived. Bond returns were more mixed with the US Federal Reserve's decision to increase US interest rates weighing on sentiment. Within the UK, equities with

Chief Executive's review

continued

Growth in funds *continued*

international earnings benefitted from sterling weakness whilst those with a domestic focus underperformed as real wages fell. With heightened valuations across equity markets, geo-political risks and central banks tapering asset purchases, we reduced our overweight position in equities and rebalanced client portfolios accordingly. Within the non-equity space we have reduced our bond holdings given the uncertainty over future interest rate levels and central bank policies.

Against this backdrop, the Group maintained momentum throughout the financial year, achieving annual growth in our discretionary funds under management ("FUM") of 25.9%, to stand at £10.5bn at 30 June 2017 (2016: £8.3bn). Of the £2.2bn increase, £1.0bn (11.5%) was net new business and £1.2bn (14.5%) was investment performance. As a comparison, the FTSE UK Private Investor Balanced Index increased by 10.5% over the year.

Underlying profit before tax for the year was £18.4m (2016: £15.5m), an increase of 18.6% on the previous year, representing an underlying profit margin of 20.1% (2016: 19.1%). Underlying earnings per share also increased by 31.7% to 115.76p (2016: 87.92p). While this is a strong result for the underlying business, statutory profit before tax for the year fell by 49.3% to £8.0m (2016: £15.9m) predominantly due to the provision for legacy matters detailed below, as well as amortisation and an impairment to the goodwill recorded for the Levitas business, although the latter is more than offset by a reduction in deferred consideration. A full reconciliation of underlying and statutory profit can be found in the Strategic Report, and segmental information on underlying and statutory profit is given in note 3 to the consolidated financial statements.

Review of business performance and development

UK Investment Management continues to be our largest and most profitable segment. We have maintained strong new business flows, largely driven by our close relationships with advisers. We remain confident in the growth opportunity and believe there continues to be significant scope to increase the breadth and depth of our adviser relationships and benefit from the continuing trend of professional intermediaries outsourcing investment management.

We continue to add value through our centralised investment process, with portfolios across all risk mandates achieving above-benchmark returns according to Asset Risk Consultants (ARC) private client indices over one, three and five year periods. In November we were, for the second consecutive year, awarded the prestigious industry Gold Standard Award for service in discretionary fund management and we were once again proud to receive five star ratings from Defaqto for each of the main discretionary offerings: our Bespoke Portfolio Service ("BPS"), direct Managed Portfolio Service ("MPS") and our platform MPS. We were successful at the Citywire Regional Star Awards in 2017, with professional advisers voting for our Leamington Spa and Tunbridge Wells offices as winners of their respective geographical categories. We thank our adviser partners for their continued support.

Our UK BPS, a premium and fully personalised offering to private clients, charities and pension funds now represents £6.5bn (62.3% of FUM) and remains our principal offering. The pension opportunity, in particular Self-Invested Personal Pensions ("SIPPs"), continues to be significant,

as does the growth of ISAs and our AIM Portfolio Service. We expect to be able to offer Lifetime ISAs to clients shortly.

Our UK MPS, consisting of ten portfolios with distinct risk profiles and objectives, is available to those investing smaller amounts and allows our investment management capabilities to be accessed by a wider range of individuals through their financial advisers. Assets now exceed £1.2bn (11.6% of FUM), held either directly with us or through a platform. Our MPS proposition has seen rapid growth throughout the year, a trend that we expect to continue as the popularity of model multi-asset portfolios continues to grow.

As a Group, we have maintained the focus on our Strategic Alliances which form a major part of our approach to the adviser market. We are pleased that we have completed two further Strategic Alliances, including our first international partnership with Abacus Financial Consultants based in the UAE. In the UK, we were co-founders of the DFM Alliance, a joint initiative with other leading discretionary fund managers offering advisers a platform for improving client outcomes through information, education and collaboration. We have also continued to invest in our geographic footprint of offices across the UK to deliver high service levels to our local adviser partners and I am delighted to confirm that we opened a new office in Cardiff in July 2017, allowing us to access new growth opportunities in a region we have not previously been able to serve fully.

Our Funds business passed the £1bn milestone of FUM, enjoying its most successful year to date and generating a profit for the first time. It remains our intention to complete the previously announced move of the Funds business into Investment

Chief Executive's review

continued

Review of business *continued*

Management this financial year, subject to regulatory approval. The IFSL Brooks Macdonald Defensive Capital Fund, within the targeted absolute return sector, celebrated an impressive seventh anniversary year, with FUM reaching £393m as at 30 June 2017 (2016: £223m) and now over £425m. The fund received several positive ratings in 2017, including an Elite Rating by FundCalibre and Five Crowns by Financial Express (FE) Crown Fund Ratings based on its performance. Our Multi-Asset Funds also saw significant growth during the year. Earlier this year, the partners of North Row Capital LLP, in which the Group held a 60% stake, decided to terminate the fund, resulting in an impairment loss of £0.2m (2016: £0.4m).

Our International business based in the Channel Islands delivered good growth, with discretionary FUM increasing by 13.4% from £1.3bn to £1.5bn over the past year and having doubled since acquisition in 2012. Whilst we have seen local professional intermediary relationships impacted to some extent by the legacy matters referred to below, the successful restructuring of BM Retirement Services International ("BMRSI") to a restricted financial planning business in the Channel Islands, the expansion of our distribution efforts to include international advisers and our work to build business flow from South Africa have all borne fruit this past year. We have now largely completed the move away from advisory work and our discretionary fund management offering has performed well, winning the award for Best International Discretionary Fund Manager at the International Fund and Product Awards. Together with the actions we are taking to deal proactively with the legacy matters, we start the coming year in a stronger position.

Financial Planning also had a strong year, driven in part by a number of

one-off pension advice opportunities, generating record revenue and profits. We continue to focus on delivering a comprehensive independent financial planning service to private clients and on seeking new opportunities to support future growth.

Sale of our Property Management business

We recently completed a review of Braemar Estates and have taken the decision to sell the business, enabling us to focus more closely on our core offerings. This will allow us to operate with a more streamlined business and will contribute over time to improved margins. We exchanged contracts on 20 September 2017 and on completion of the sale, which is expected by the calendar year end, the Group's property management division will cease to exist. Investment management of the Ground Rents Income Fund will be retained by Funds.

In the financial year completed, Braemar Estates represented 3.2% of the Group's revenue (£2.9m), 0.7% of its underlying profit (£126,000), 1.4% of its statutory profit (£112,000) and -0.6% of its net assets (Braemar has net liabilities of £0.5m). The sale price is £1.9m, with an initial 50% to be paid on completion and the remainder deferred, payable over a two-year period from the completion date.

Legacy matters arising from the former Spearpoint business

As announced in July, following a detailed review, we decided to deal proactively with certain legacy matters arising from the former Spearpoint business which we acquired in 2012. These matters relate to a number of discretionary portfolios formerly managed by Spearpoint, now managed by our International business, and a Dublin-based fund, for which Spearpoint acted as investment manager. While we accept no legal

liability, we have a deep commitment to treating customers fairly and seeking to protect our clients' best interests. We believe that by taking this action it will assist us in building stronger relationships with professional intermediaries in the Channel Islands and their clients. We are now in contact with the relevant parties. We anticipate that this action will cost £6.5m and have made a provision for it accordingly. As this is an exceptional cost it is not included in our underlying profit for the year.

Investment in our infrastructure

Our IT system development was delivered as planned at the end of June 2017. This involved the migration of data from two legacy systems in the Channel Islands on to a common platform shared with our UK portfolio management business. As part of this process we consolidated our two back office functions into one, based in the City of London, to serve all clients of the Group moving forwards. As a consequence, our Guernsey-based back office will close in September, resulting in the redundancy of the impacted staff. The redundancy costs were provided for in the financial year completed. Some further post migration work remains, which will complete by the calendar year end.

We are continuing to review the opportunity to align and simplify processes and take further actions to deliver economies of scale as the Group grows. We will continue to invest further in our infrastructure to support our investment teams, to enhance our service to clients and to facilitate the ease of interactions with the intermediaries we work with, as well as delivering broader efficiencies. The appointment of a Chief Operating Officer will be an important step in ensuring we can grow our business materially and sustainably, whilst pursuing greater efficiency and progressively improving our margins.

Chief Executive's review

continued

Investing in our risk management framework

The investment management industry is currently experiencing a period of significant regulatory change and the Group has been preparing for the introduction of MiFID II, Senior Managers and Certification Regime ("SMCR") and the General Data Protection Regulation ("GDPR"), amongst other changes. Extension of the SMCR to investment firms is expected in 2018, with the Group included within the 'Enhanced Regime' as we are now categorised as a significant investment firm for prudential purposes under FCA rules. This categorisation has also increased the regulatory reporting requirements for the Group more broadly.

Given this context and to position the business for future growth, it is important that we now invest more broadly in our regulatory and risk management capabilities. We announced in July an increase in our capabilities, including the appointment of a Chief Risk Officer, to provide the support needed to our investment teams and ensure that we can continue to meet and exceed the expectations of our clients and regulators, as well as the aforementioned plan to appoint a Chief Operating Officer. This will result in a much stronger platform for delivering sustainable growth in the future. These investments are expected to result in additional operating expenditure of approximately £4m in the next financial year, of which approximately £2m will recur in subsequent years.

Outlook

As we continue to invest in the Group, I look forward to building on our success to date and positioning the business to deliver growth into the future. To achieve this, our principal focus will be on delivering value for our clients and partners through enhancing the services we provide, improving business efficiency and continuing to adapt to the fast changing competitive and regulatory environment.

During the financial year we have seen further consolidation across the sector given the need for investment in technology and in response to regulatory changes. We expect this to continue as companies seek scale and cost savings. We strongly believe in our future as an independent discretionary fund manager and will continue to look at acquisition opportunities when they arise, to complement our organic growth plans.

We have started our new financial year with positive momentum and we look forward with confidence notwithstanding our relative caution around markets and client sentiment.

I would like to reiterate my thanks to everyone at Brooks Macdonald for their welcome, and for their hard work and commitment to the business.

Caroline Connellan
Chief Executive

20 September 2017

Strategic report

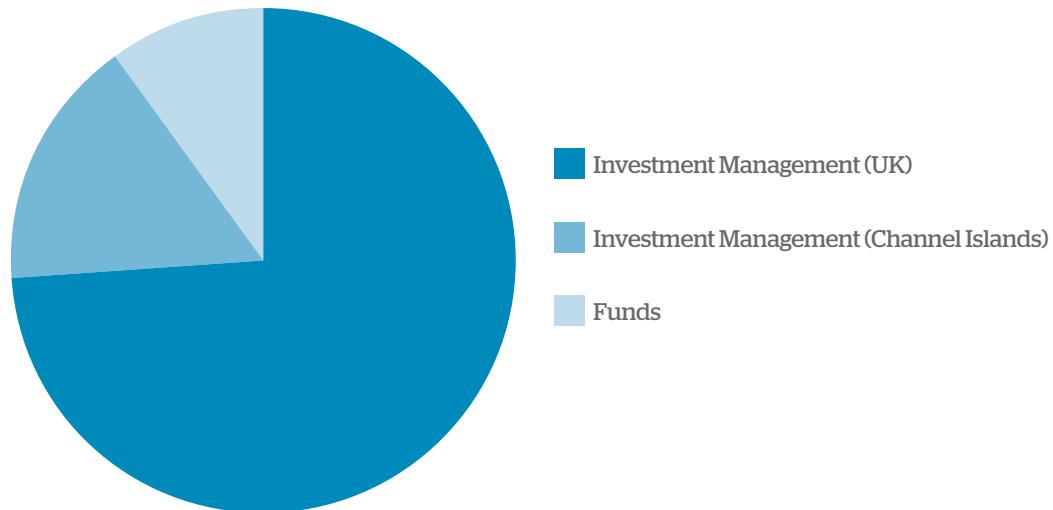
The market and our services

We are an independent investment management firm providing a wide range of investment and wealth management services to private clients, pension funds, charities, professional intermediaries and trustees. Our successful business model works to provide bespoke investment solutions with high-quality professional staff delivering outstanding client service, investment excellence and value for money from each of our nine UK based offices and two offshore offices in Jersey and Guernsey. In addition we have a property management business based in Hale and an investment service business based in the City of London.

A summary of our services

Brooks Macdonald managed £10.5 billion for its clients as of 30 June 2017, making us one of the leading private client investment managers. We provide discretionary investment management solutions to private clients, families, charities and trustees. We also provide financial planning advice to high net-worth families and employment benefits consultancy to small and medium sized enterprises. Through our funds we provide multi asset and specialist fund products to the retail sector and we have a property management service for private individuals, institutions and property fund managers.

A breakdown of the split of the discretionary funds under management (“FUM”) is shown in the graph below:



Strategic report

continued

The market and our services *continued*

One of the key performance indicators is the growth in the discretionary funds under management in total across all parts of the Group which are reported on a quarterly basis throughout the year. The increase in the year is analysed in the table below.

	2017 £m	2016 £m
Opening discretionary FUM	8,301	7,413
Net new discretionary business	951	863
Investment growth	1,204	25
Total FUM growth	2,155	888
Closing FUM	10,456	8,301
Organic growth (net of markets) %	11.5	11.6
Total growth %	25.9	12.0

Group performance

The Group's overall performance for the year is detailed in table 1 below.

Table 1

	2017 £m (unless stated)	2016 £m (unless stated)
Total revenue	91.7	81.4
Operating costs	(83.7)	(67.8)
Net financial income and gains	0.0	2.3
Statutory profit before tax	8.0	15.9
Underlying profit before tax ¹	18.5	15.5
Underlying earnings per share	115.76p	87.92p
Dividends per share ²	41.0p	35.0p
Underlying margin ³	20.1%	19.1%

¹ A reconciliation between underlying profit before tax and profit before tax is shown in table 2.

² The total interim dividend and the final dividend proposed for the financial year.

³ Underlying profit as a percentage of total revenue.

Total revenue

Total Group revenue grew by 12.7% during the year compared to 4.8% in 2016, reflecting the strong growth in FUM within the Investment Management segment of the Group together with increased revenue in both the Financial Planning and Funds and Property Management segments as highlighted in more detail in note 3 to the consolidated financial statements.

Operating costs

As in previous years, the major component of the Group's operating costs is our staff, comprising 54.6% of administrative expenses (2016: 57.1%). During the year we saw an increase in the average number of employees from 472 to 500. Of the total staff costs, 30.8% (2016: 27.2%) were variable costs. We have continued to invest in our IT systems across all parts of the Group, to support our investment teams and to enhance the service offered to our clients. At the end of the year we delivered our large IT project to provide a common portfolio management platform across both the UK and Channel Islands, involving the migration of data from two legacy systems. The new system will provide increased consistency and capacity across the Group and with the planned closure of our Guernsey-based back office in September 2017 it will enable us to deliver further operational efficiencies. Some additional post migration work remains to be completed over the course of the next financial year and we will continue to take additional action to align and simplify processes so that we benefit from further economies of scale.

Strategic report

continued

Group performance *continued*

Operating costs *continued*

We continue to operate in an increasingly regulated environment and we have again strengthened our legal, risk and compliance departments by additional recruitment over the last financial year. In 2017, we saw the costs of the levy paid to the Financial Services Compensation Scheme ("FSCS") stabilise at £0.5m (2016: £0.5m).

Net financial income and gains

When the Group makes an acquisition it typically structures the deal whereby there are deferred payments to the vendors over a number of years against pre-agreed funds under management targets. Where these targets change due to unpredictable variables such as new business, client retention and market movements then the value of the deferred consideration changes and these fair value adjustments are made through the Consolidated Statement of Comprehensive Income.

During the year one of the original FUM targets for Levitas was not achieved, resulting in a reduction in the amount payable to the vendors of the business. Accordingly, as more fully explained in note 21 to the consolidated financial statements, there was a fair value reduction of £2.2m (2016: £3.6m) resulting in a gain to consolidated income. As well as a reduction in the deferred consideration payable, this lower level of FUM has resulted in an impairment charge of £2.0m to the carrying value of goodwill in respect of Levitas as detailed in note 13 to the consolidated financial statements.

As disclosed more fully in note 16 to the consolidated financial statements, the partners of North Row Capital LLP, in which the Group held a 60% interest, decided to terminate the fund resulting in an impairment loss of £0.2m (2016: £0.4m).

Included in the total net financial income and gains for the year is both the fair value reduction for Levitas and the impairment charge to goodwill, together with other financial income, costs and the Group's share of joint venture results as detailed on the Consolidated Statement of Comprehensive Income and the accompanying notes.

Underlying profit before tax

Underlying profit before tax and underlying earnings per share are non GAAP alternative performance measures, considered by the board to be a better reflection of true business performance than looking at the Group's results on a statutory basis only. These measures are widely used by research analysts covering the Company. Underlying results exclude expenditure falling into the categories explained below and a full reconciliation between underlying profit and the profit attributable to shareholders is provided in the following table.

Table 2: Reconciliation of underlying profit before tax to statutory profit before tax

	2017 £m	2016 £m
Underlying profit before tax	18.4	15.5
Amortisation of intangible assets	(3.9)	(2.6)
Finance cost of deferred consideration	(0.2)	(0.6)
Changes in fair value of deferred consideration	2.2	3.6
Impairment of carrying value of goodwill	(2.0)	-
Exceptional costs of resolving legacy matters	(6.5)	-
Statutory profit before tax	8.0	15.9

Amortisation of intangible assets (note 13)

As explained in notes 2(d) and 2(m), client relationship intangible assets and contracts acquired with fund managers are created in the course of acquiring funds under management. The total amortisation charge for the year of £3.9m (2016: £2.6m) associated with these and other intangible assets has been excluded from underlying profit as the directors consider these costs can distort the results of a particular period. During the year the Group completed a large software project in order to provide a more fully integrated investment management system covering both the onshore and offshore businesses, with an improved client portal and client relationship management system. This resulted in an increase in the software amortisation charge of £1.2m as part of the overall increase in amortisation of intangible assets for the year of £1.3m.

Strategic report

continued

Group performance *continued*

Finance cost and changes in fair value of deferred consideration

When the Group makes acquisitions of both corporate entities and teams of fund managers in the course of acquiring funds under management the typical structure of the acquisition, in order to continue to incentivise and motivate the vendors, is to make deferred payments over a period of time based on the retention and growth in funds under management. The initial estimated fair value of the deferred payments will be based on future projections of funds under management and where the actual payment is different from the original estimates then charges or credits will be made in arriving at the profit before tax. The directors consider that the effect of these changes to the original projected payments can distort the results of a particular period and have therefore excluded them from underlying profit.

Initial estimates of the deferred cash payments are recognised in the financial statements at their present value based on an inherent rate of implied interest. The difference between the discounted present value of deferred consideration and the estimated future cash payment is recognised as a charge over the duration of the deferral period in arriving at profit before tax. The directors consider that this charge, which is a non-cash item, can distort the results of a particular period and have therefore excluded the charge from underlying profit.

Impairment in carrying value of goodwill

As explained in note 13 to the consolidated financial statements, goodwill is reviewed annually for impairment based on the carrying value of the asset compared to its expected recoverable amount. As a result of a lower level of FUM in Levitas, resulting in reduction in the deferred consideration as detailed above, there has been an impairment to the carrying value of £2.0m due to a reduction in the estimated value-in-use of the business. The directors consider that this charge, which is a non-cash item, can distort the results of a particular period and have therefore excluded the charge from underlying profit.

Exceptional costs of resolving legacy matters

As detailed in note 24 to the consolidated financial statements we have decided to deal with two legacy matters arising from the former Spearpoint business in the Channel Islands which we acquired in 2012. These matters relate to the investment management of a number of discretionary client portfolios and a Dublin-based fund and we have decided to make a provision of £6.5m in order to resolve them. The board consider that this is an exceptional item relating to historic matters and its impact on statutory profit does not give a true reflection of the underlying performance of the Group.

Cash resources and regulatory capital

The Group is cash generative and, as detailed in the Consolidated Statement of Cash Flows, there was an increase in cash resources at the year end of £12.7m to £32.2m (2016: £19.5m). The Group had no borrowings at 30 June 2017 (2016: £nil).

As required under Financial Conduct Authority (FCA) rules and those of both Jersey and Guernsey Financial Services Commissions we perform a regular Internal Capital Adequacy Assessment Process (ICAAP) and Adjusted Net Liquid Asset (ANLA) calculation which includes performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that the Group needs to hold. Surplus levels of capital are forecast taking into account investment requirements and proposed dividends to ensure that appropriate buffers are maintained. The Group's Pillar 3 disclosures are published annually on our website (www.brooksmacdonald.com).

Segmental review

The Group reports its results in four key operating segments: Investment Management; Financial Planning; Funds and Property Management; and International.

Investment management

The UK based investment management service continues to remain the core part of the Group contributing 71.7% (2016: 72.1%) of the Group revenue. Investment Management principally provides discretionary investment management to private investors, pension funds, charities and trusts through BPS and MPS. Despite considerable changes within the industry and volatility within the financial markets we have continued to grow FUM as shown in the table on page 8.

Strategic report

continued

Group performance *continued*

Segmental review *continued*

Financial planning

The Financial Planning business continues to deliver both fee based financial advice to high net-worth families, and employee benefit consultancy to small and medium sized employers throughout the UK. The division remains a major introducer of new investment management funds to the investment management part of the Group and it was the growth in this area which was the major contributor to the 19% increase in revenue and the profit for the year of £0.3m compared to the previous year's loss of £0.1m.

Funds and property management

The funds business continues to grow in scale with total FUM increased by 45.6% to £1,159m (2016: £796m) at 30 June 2017. This growth was achieved organically through net new investment across the range of funds with the Defensive Capital Fund now over £400m FUM.

The Property Management business had another improved year with an increase in revenue of 16.4% over the previous year and reported a profit for the year compared to breakeven in 2016.

International

The business saw an increase of FUM during the year of 13.4% to £1.5bn (2016: £1.3bn) with new business from a number of sources and the first strategic alliance with an overseas introducer in Dubai together with increased flows from South Africa.

Revenue in the year increased by 8.4% although increased legal costs continuing to deal with some legacy matters and the closure costs of £0.3m associated with the transfer of the operations department from Guernsey to London have resulted in a fall in underlying profit to £0.5m (2016: £0.8m).

Following the results of a review we have decided to deal proactively with certain legacy matters where the former Spearpoint business acted as investment manager to a number of discretionary clients and to a Dublin based fund. As well as these issues consuming management time, the Group was incurring associated costs, so in order to treat our clients fairly and to protect their best interests we have made a provision during the year of £6.5m in order to resolve these matters, resulting in a statutory loss before tax for the year of £6.6m (2016: £0.4m profit).

Since the acquisition of the Channel Islands business discretionary FUM have grown from £0.6bn to over £1.5bn at 30 June 2017 and following the satisfactory resolution of the former Spearpoint matters the board believes that the business will see an increase in profit in the next financial year.

Group and consolidation adjustments

The costs charged through this segment represent the costs of running the Group's parent company, including the costs of the board members, the costs of running the plc and other central costs which are not directly related to the trading segments of the Group.

Consolidation adjustments, impairment of goodwill, amortisation of client relationship intangible assets and changes in the fair value of deferred consideration in respect of the Company's assets are included within this segment.

Corporate governance

The board's primary focus is to ensure the business is successful in the long-term for the benefit of our shareholders and other stakeholders. The board had eight meetings during the year and met informally on a number of occasions. As part of the preparation for each board meeting written papers are prepared on the progress of the each part of the Group together with updates on the progress of agreed strategic initiatives.

The board includes the Chairman, the Deputy Chairman and three other non-executive directors. It considers Colin Harris, the Senior Independent Director, Diane Seymour-Williams and Richard Price to be independent. Biographies of each of the directors are available on the Brooks Macdonald Group website (www.brooksmacdonald.com).

Strategic report

continued

Corporate governance *continued*

The board is supported in its work by four committees: the Audit Committee; the Nominations Committee; the Remuneration Committee; and the Risk and Compliance Committee. The detailed terms of reference of each of the committees are also available on the Brooks Macdonald Group website. Commentary on the work of each of the committees is set out below.

Audit Committee

The key responsibilities of the Audit Committee are:

- to review the Group's accounting procedures and internal financial controls;
- to review the reporting of financial and other information to the shareholders of the Company and to monitor the integrity of the financial statements;
- to review the effectiveness of the external audit process and the independence and objectivity of the external auditors; and
- to report to the board on how it has discharged its responsibilities.

The membership of the committee comprises Richard Price (Chairman), Christopher Knight and Colin Harris. The board is satisfied that all members of the committee have recent and relevant financial experience. In addition, committee meetings are normally attended by the Group Chief Executive, the Finance Director and by representatives of the external auditors by way of invitation. The committee meets with representatives of the external auditors without management present at least once a year.

The committee met five times during the year with meetings structured around the financial calendar of the Company. The committee considered the significant financial and audit issues, the judgements made in connection with the financial statements and reviewed the narrative within the Annual Report and Accounts and the Half Yearly Financial Report.

Specifically, the committee discussed the provision of £6.5m for the exceptional costs relating to the resolution of legacy matters in the International business summarised in note 24 to the consolidated financial statements and the impairment charge of £2.0m in respect of the carrying value of the Levitas cash generating unit as disclosed in note 13 to the consolidated financial statements.

The committee also agreed the audit fee shown in note 7 to the financial statements and reviewed the audit engagement letter.

Nominations Committee

The Nominations Committee was established as a committee of the board on 13 March 2017 with Christopher Knight as Chairman and the Company's three non-executive directors, Colin Harris, Diane Seymour-Williams and Richard Price, as members. Chris Macdonald was appointed a member of the committee on 11 April 2017 on his retirement as Chief Executive and his becoming a non-executive director. Since then the committee has met on one occasion.

The terms of reference have been approved by the Group board and will be reviewed regularly. Responsibilities of the committee include evaluating the effectiveness of the Group board taking into consideration its structure, size and composition (including the skills, knowledge, experience and diversity) and for making recommendations to the Group board with regard to any changes. It is also responsible for succession planning for directors and other senior executives, taking into account the challenges and opportunities facing the Group, and the skills and expertise needed on the board in the future. An important part of this is to consider the diversity of the Group board and senior management in all respects, including gender.

Prior to the formal establishment of the committee the same group of non-executive directors (excluding Chris Macdonald) were responsible for planning for the appointment of a successor to Chris Macdonald as Chief Executive. The planning process involved consideration of the role and of the experience and attributes the role required, the appointment of recruitment consultants, the assessment of and interviews with internal and external candidates, leading to the decision in October 2016 to appoint Caroline Connellan as the next Chief Executive.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee

The Remuneration Committee comprises Diane Seymour-Williams (Chair), Christopher Knight and Colin Harris. The committee, following consultation with the Chief Executive, determines the specific remuneration packages for each executive director and certain senior executives including base salary, annual bonus, long-term incentives, benefits and terms of employment. The committee met on six occasions during the year and is wholly responsible for determining the remuneration of the Chief Executive and senior risk and compliance staff. The committee is also responsible for setting the broad parameters for the annual base salary review for all staff across the Group and reviews all awards made under the long-term incentive schemes.

Remuneration policy

Brooks Macdonald recognises the importance of its directors and employees to the success of the Group and consequently the remuneration policy is designed to be market competitive in order to attract, retain and motivate high-calibre individuals. The committee has reviewed the numerous regulatory changes and guidelines to ensure that the remuneration policies across the business are compliant where appropriate. External third party data is used to validate rather than to benchmark the total reward.

The remuneration policy, which applies to directors and employees of the Group, is based on the following key principles:

- designed to encourage the retention of staff through deferred variable compensation, where appropriate;
- to ensure a market competitive balanced package of benefits;
- inclusion of both annual and long term elements;
- fair for both the director/employee and the Company with some element of discretion;
- differentiation by merit and performance;
- an emphasis on variable, performance driven remuneration bonus payments funded from retained profits;
- compliant with financial services rules and regulations;
- alignment with shareholders' interests with significant long term equity participation; and
- clarity, transparency and fairness of process.

The current remuneration package for an executive director has four main elements: basic salary and benefits, profit related bonus, long-term equity based incentives and pension. The total reward is designed to include a balance of fixed and variable pay with an element of deferral.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

The remuneration of directors in 2017 and 2016 is set out in the table below. Executive director remuneration includes legacy Long Term Incentive Scheme ("LTIS") awards made in 2013 and 2012 that vested in the year.

Single total figure of remuneration for each director

£'000	Salary and fees		Taxable benefits		Annual bonus ¹		Long term incentive schemes		Pension related benefits		Sharesave		Total	
	2017	2016	2017	2016	2017	2016	2017 ³	2016 ⁴	2017	2016	2017	2016	2017	2016
Executives														
C Connellan (appointed 11 April 2017)	62	-	1	-	220 ²	-	-	-	9	-	-	-	292	-
N I Holmes	184	169	3	3	160	192	45	82	24	25	-	-	416	471
S J Jackson	195	191	7	5	96	144	45	79	-	-	4	-	347	419
A W Shepherd	204	200	4	3	160	176	68	79	-	-	-	-	436	458
R H Spencer	195	191	5	4	136	132	39	46	-	-	-	-	375	373
S P Wombwell	201	197	6	5	96	120	45	66	-	-	-	-	348	388
C A J Macdonald (resigned 10 April 2017)	203	257	1	3	150	240	78	93	-	-	-	-	432	593
	1,244	1,205	27	23	1,018	1,004	320	445	33	25	4	-	2,646	2,702
Non-executives														
C J Knight (Chairman)	109	92	-	-	-	-	-	-	-	-	-	-	109	92
C A J Macdonald (Deputy Chairman appointed 11 April 2017)	17	-	-	-	-	-	-	-	-	-	-	-	17	-
C R Harris (Senior independent director)	58	50	-	-	-	-	-	-	-	-	-	-	58	50
D Seymour-Williams	49	46	-	-	-	-	-	-	-	-	-	-	49	46
R Price	49	46	-	-	-	-	-	-	-	-	-	-	49	46
Total	1,526	1,439	27	23	1,018	1,004	320	445	33	25	4	-	2,928	2,936

Notes

¹ The annual bonus represents the cash amount receivable for the relevant financial year. An additional amount of 20% for each executive director is deferred and awarded by way of ordinary shares under the terms of the LTIS as disclosed below in table 2.

² The annual bonus includes an amount of £100,000 on commencement of employment in lieu of a sacrificed bonus granted to Caroline Connellan by her previous employer for which she was no longer eligible immediately following her appointment as Chief Executive of the Group.

³ The amounts represent the value vested in the year from three-year LTIS awards arising from the deferred element of the 2013 annual bonus together with any additional awards made on similar terms. The awards satisfied the performance conditions requiring an increase in the diluted earnings per share of the Company of at least 2% per annum more than the increase in the RPI over the period of three financial years starting with the financial year in which the date of the grant falls and ending with the financial year in which the third anniversary of the date of the grant falls. The vesting date was 1 November 2016 and the closing market price on that day was £17.84.

⁴ The amounts represent the value vested in the year from three-year LTIS awards arising from the deferred element of the 2012 annual bonus together with any additional awards made on similar terms. The awards satisfied the performance conditions requiring an increase in the diluted earnings per share of the Company of at least 2% per annum more than the increase in the RPI over the period of three financial years starting with the financial year in which the date of the grant falls and ending with the financial year in which the third anniversary of the date of the grant falls. The vesting date was 25 October 2015 and the market price on that date was £17.34.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Notes to the single total figure of remuneration for each director table

Salary and fees

Basic salary is paid monthly in cash through payroll determined by the committee and any changes are implemented from 1 July each year or when an individual changes position or responsibility. In deciding appropriate levels the committee considers salaries throughout the Group and information on comparable companies of a similar size and complexity provided by advisers to the committee. The views of the Chief Executive are taken into consideration when setting the salary of other directors. The base salaries of executive directors were increased on 1 July 2016 by a total of 2.0% compared to an overall average increase for all employees of 3.7%.

Non-executive directors' fees

The non-executive directors' fees were similarly reviewed and increased with the approval of the executive board members to reflect their additional responsibilities and commitments as the Group grows.

The Chairman's fee was increased from £92,000 to £115,000 on 1 October 2016 and the basic non-executive director's fee was increased from £42,000 to £46,000 on 1 October 2016. Non-executive directors also receive an additional responsibility fee of £4,000 per annum in recognition of their chairing a committee. Colin Harris receives an additional fee of £10,000 for being the Senior Independent Director.

Chris Macdonald was appointed to the board as an additional non-executive director on 11 April 2017 and receives an annual fee of £75,000 for his services.

Taxable benefits

Benefits are provided to the directors to complement the remuneration package and may include, for example private medical insurance for directors and their dependants, death in service cover, critical illness and permanent health insurance, annual medicals, Save As You Earn scheme, and the provision of interest free season ticket loans.

Taxable benefits are the provision of private medical insurance for the executives and their dependants and the provision of interest free season ticket loans as disclosed in note 34 to the consolidated financial statements.

Annual bonus

Awards to executive directors and some other senior employees of the Group of profit related bonuses are made from a pool of profits of 5-15% of the Group pre-tax profit after the payment of all bonuses to all other staff.

The committee determines the overall size of the pool based on the performance of the Group against a number of key performance indicators including the growth in profits, the movement in funds under management, various internal client service metrics and the performance against budget of each of the operating divisions.

The total payment to executive directors in respect of the year ended 30 June 2017, including the amounts deferred into shares but excluding Chris Macdonald who resigned during the year, represents 10.1% (2016: 8.8%) of Group pre-tax profit. The total bonus payment to all senior employees who participate in this scheme is 15.6% (2016: 12.2%).

Awards to individual executive directors are determined by the committee following objectives and measures proposed by chief executive, taking into account a number of financial and non-financial factors. These are intended to give a broad assessment of the annual performance objectives of each director, including the results of the business, investment performance, net new business, management of risks facing the Group and cost control within each individual's area of responsibility.

The Remuneration Committee has decided that 20% of the bonus awarded will be made in shares deferred for a period of three years under a Long Term Incentive Scheme ("LTIS"). In addition, directors may choose to defer a further amount of any bonus awarded, up to a maximum of 20%, making 40% in total, into shares under the LTIS.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Long Term Incentive Scheme

The Remuneration Committee has made additional awards under the LTIS to certain executive directors and senior employees. The additional awards are subject to the same performance and other conditions as those applying to the deferred profit related bonus share options.

The LTIS awards reported are the historic awards vesting at the end of the three year cycle valued using the share price on the date of the vesting. In addition to the deferred element of the annual bonus described above the executive directors are awarded rights to acquire ordinary shares. The scheme has performance conditions attached to the deferred award, requiring a minimum growth in the diluted earnings per share of the Group of 2% per annum above the increase in the Retail Price Index (“RPI”) over the three year period.

In the case of a ‘bad’ leaver, all unvested awards will normally lapse. A ‘bad’ leaver is a director who leaves other than on retirement, redundancy, due to ill health or on the sale of the business unless the committee determines otherwise.

The committee may seek the recovery of awards at any time before the vesting of awards (malus) or within three years of vesting (clawback) if it determines that the financial results of the Company were materially misstated, if the Group is subject to a material adverse event (for example regulatory censure) or if an error was made in the calculation of the awards.

The Group established an employee benefit trust (“EBT”) on 3 December 2010 in order to acquire ordinary shares in the Company in connection with the deferred share element of the profit related bonus under the LTIS as detailed above. The EBT is also used for other long-term awards to members of the board and senior employees of the Group.

Pension related benefits

Executive directors may participate in the pension arrangements of the Group or receive cash in lieu of pension. The Group’s contributions in respect of executive directors are currently 15% of base salary.

Sharesave

This benefit is the value of the discount on the Sharesave options granted in the year.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Directors' interests in shares

At 30 June 2017, directors' shareholdings were as set out in table 1.

Table 1: Directors' shareholdings and interest in shares at 30 June 2017

Number of shares or options	Beneficially owned shares	Interest in shares				Total
		LTIS ¹	Sharesave	EMI schemes	CSOP	
Executives						
C M Connellan (appointed 11 April 2017)	-	-	-	-	-	-
N I Holmes	63,293	21,934	-	- ²	2,067	24,001
S J Jackson	30,534	17,781	2,333	-	2,067	22,181
A W Shepherd	50,153	23,153	727	-	2,067	25,947
R H Spencer	229,848	11,298	1,455	-	1,959	14,712
S P Wombwell	54,189	16,329	1,298	-	2,067	19,694
Non-executives						
C J Knight (Chairman)	71,585	-	-	-	-	-
C A J Macdonald (Deputy Chairman) (appointed 11 April 2017)	239,248	12,024	649	-	-	12,673
C R Harris (Senior Independent Director)	6,086	-	-	-	-	-
D Seymour-Williams	5,000	-	-	-	-	-
R Price	-	-	-	-	-	-
Total	749,936	102,519	6,462	-	10,227	119,208

Notes

¹ In the year ended 30 June 2017 further awards were made to the executive directors under the LTIS together with the deferred element of the annual bonus award. The £ value of the awards are shown below in table 2 and the actual number of shares awarded will be determined based on the share price at the grant date in October 2017.

² On 9 November 2016 Nicholas Holmes exercised his options over 6,000 ordinary shares of 1p each under the terms of the EMI scheme award dated 17 October 2007 at an option price of £2.905 per share. The closing market price for the shares on 9 November 2016 was £17.25.

Table 2: Monetary value of awards made under LTIS

	Deferred bonus £'000	Additional awards £'000	Total £'000
Executives			
C M Connellan (appointed 11 April 2017)	30	-	30
N I Holmes	40	40	80
S J Jackson	24	20	44
A W Shepherd	40	40	80
R H Spencer	34	20	54
S P Wombwell	24	20	44
Total	192	140	332

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Directors' interests in shares *continued*

Table 3: LTIS

	Plan cycle	Performance period end date	Vesting date	At 1 July 2016	Number of options		
					Granted in the year	Exercised in the year	At 30 June 2017
NI Holmes	2012-15	30.06.2015	25.10.2015	4,724	-	-	4,724
	2013-16	30.06.2016	01.11.2016	2,528	-	-	2,528
	2014-17	30.06.2017	14.10.2017	4,958	-	-	4,958
	2015-18	30.06.2018	29.10.2018	4,527	-	-	4,527
	2016-19	30.06.2019	09.11.2019	-	5,197	-	5,197
S J Jackson	2012-15	30.06.2015	25.10.2015	4,567	-	-	4,567
	2013-16	30.06.2016	01.11.2016	2,528	-	-	2,528
	2014-17	30.06.2017	14.10.2017	3,896	-	-	3,896
	2015-18	30.06.2018	29.10.2018	3,483	-	-	3,483
	2016-19	30.06.2019	09.11.2019	-	3,307	-	3,307
A W Shepherd	2012-15	30.06.2015	25.10.2015	4,567	-	-	4,567
	2013-16	30.06.2016	01.11.2016	3,791	-	-	3,791
	2014-17	30.06.2017	14.10.2017	4,958	-	-	4,958
	2015-18	30.06.2018	29.10.2018	4,876	-	-	4,876
	2016-19	30.06.2019	09.11.2019	-	4,961	-	4,961
R H Spencer	2012-15	30.06.2015	25.10.2015	2,677	-	-	2,677
	2013-16	30.06.2016	01.11.2016	2,186	-	-	2,186
	2014-17	30.06.2017	14.10.2017	2,338	-	-	2,338
	2015-18	30.06.2018	29.10.2018	2,148	-	-	2,148
	2016-19	30.06.2019	09.11.2019	-	1,949	-	1,949
S P Wombwell	2012-15	30.06.2015	25.10.2015	3,780	-	-	3,780
	2013-16	30.06.2016	01.11.2016	2,528	-	-	2,528
	2014-17	30.06.2017	14.10.2017	4,108	-	-	4,108
	2015-18	30.06.2018	29.10.2018	2,960	-	-	2,960
	2016-19	30.06.2019	09.11.2019	-	2,953	-	2,953
C A J Macdonald	2010-13	30.06.2013	27.10.2013	4,112	-	(4,112)	-
	2013-16	30.06.2016	01.11.2016	4,372	-	(4,372)	-
	2014-17	30.06.2017	14.10.2017	4,533	-	-	4,533
	2015-18	30.06.2018	29.10.2018	3,947	-	-	3,947
	2016-19	30.06.2019	09.11.2019	-	3,544	-	3,544
Total				89,092	21,911	(8,484)	102,519

In succession to Chris Macdonald, Caroline Connellan was appointed as Chief Executive Officer of the Group on 11 April 2017 and the following LTIS awards were made on 21 August 2017 part in lieu of sacrificed awards granted to Caroline Connellan by her previous employer which have lapsed as a result of her appointment as Chief Executive of the Company (the "Outgoing Awards"). Accordingly, the vesting dates of part of the LTIS awards coincide with the vesting dates of the Outgoing Awards, had they not lapsed.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Directors' interests in shares *continued*

	Performance period end date	Vesting date	Number of options
CM Connellan (appointed 11 April 2017)	13.03.2018	13.03.2018	4,163
	13.03.2019	13.03.2019	2,312

In addition a further LTIS incentive award was granted on 21 August 2017 to Caroline Connellan as part of the remuneration agreed on the commencement of her appointment as detailed below.

	Performance period end date	Vesting date	Number of options
CM Connellan (appointed 11 April 2017)	10.04.2020	10.04.2020	7,458

Table 4: Sharesave

	Plan cycle	Grant date	Exercise price ¹ £	Vesting date	At 1 July 2016	Number of options		
						Granted in the year	Exercised in the year	At 30 June 2017
N I Holmes	2014-17	21.05.14	13.86	01.06.17	1,298	-	(1,298) ²	-
S J Jackson	2014-17	21.05.14	13.86	01.06.17	1,298	-	-	1,298
	2017-20	17.05.17	17.38	01.06.20	-	1,035	-	1,035
A W Shepherd	2015-18	22.05.15	12.37	01.06.18	727	-	-	727
R H Spencer	2015-18	22.05.15	12.37	01.06.18	1,455	-	-	1,455
S P Wombwell	2014-17	21.05.14	13.86	01.06.17	1,298	-	-	1,298
C A J Macdonald	2014-17	21.05.14	13.86	01.06.17	649	-	-	649
Total					6,725	1,035	(1,298)	6,642

Notes

¹ The exercise price represents a 20% discount to the market price on the day on which the pricing of the awards is set under the rules of the scheme.

² On 6 June 2017 Nick Holmes exercised 1,298 shares maturing under the 2014 Sharesave Scheme at option price of £13.86. The closing mid market price for the shares on 6 June 2017 was £24.60.

Table 5: CSOP

	Plan cycle	Grant date	Exercise price £	Vesting date	At 1 July 2016	Number of options		
						Granted in the year	Exercised in the year	At 30 June 2017
N I Holmes	2013-16	21.11.13	14.52	21.11.16	2,067	-	-	2,067
S J Jackson	2013-16	21.11.13	14.52	21.11.16	2,067	-	-	2,067
A W Shepherd	2013-16	21.11.13	14.52	21.11.16	2,067	-	-	2,067
R H Spencer	2013-16	21.11.13	14.52	21.11.16	1,087	-	-	1,087
	2015-18	29.10.15	17.19	29.10.18	872	-	-	872
S P Wombwell	2013-16	21.11.13	14.52	21.11.16	2,067	-	-	2,067
Total					10,227	-	-	10,227

Notes

¹ As part of the remuneration agreed on the commencement of her employment, Caroline Connellan was made a CSOP award of 1,491 shares on 18 August 2017 at an exercise price of £20.11 with a vesting date of 18 August 2020.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Sharesave Scheme

All directors are entitled to take part in the HMRC approved Brooks Macdonald Group Sharesave Scheme on the same terms as all other employees. Annual invitations to participate in the scheme, which commences each year on 1 June, are sent to directors and option grants are made at 80% of the closing mid market price on the day of the offer.

Enterprise Management Incentive Scheme ("EMI")

The Brooks Macdonald Group Enterprise Management Incentive Scheme (EMI) was adopted by the shareholders of the Company on 11 February 2005.

Options granted can be exercised if there has been an increase in the diluted earnings per share of the Company of at least 2% per annum more than the increase in the RPI over the period of three financial years starting with the financial year in which the date of grant falls and ending with the financial year in which the third anniversary of the date of grant falls.

Options may not normally be exercised before the third anniversary of the date of the grant and expire on the tenth anniversary of the grant. Due to the increase in the size of the Company it is no longer eligible under HMRC rules to grant options under this EMI scheme and the last options were awarded to directors of the group board under this scheme on 17 October 2007.

Company Share Option Plan ("CSOP")

Following discussions regarding remuneration structures and incentives schemes for senior employees and directors the Company decided to set up a CSOP which was approved by shareholders at the annual general meeting on 17 October 2013 and by HMRC on 21 November 2013.

The scheme is a discretionary scheme whereby employees or directors are granted an option to purchase the Company's shares in the future at a price set on the date of the grant. The maximum award under the terms of the scheme for an individual at any one time is a total market value of £30,000. There are performance conditions attaching to the scheme similar to those in place for the EMI Scheme above whereby there must be an increase in the diluted earnings per share of the Company of 2% more than the increase in the RPI over the three years starting with the financial year in which the option is granted.

Dilution

Not more than 15% of the issued ordinary share capital of the Company (adjusted for bonus and rights issues) will be issued for all EMI and share incentive schemes operated by the Company in any ten year rolling period. The Company satisfies the various equity-based schemes it operates using a combination of market purchased, newly issued and treasury shares.

Service contracts for executive directors

The Company has service contracts with its executive directors with a notice period of 12 months and it is Company policy that such contracts should not normally contain periods of more than 12 months.

External appointments

Executive directors are encouraged to take on external appointments as non-executive directors but are discouraged from taking more than one other position given the time commitment. Prior approval of any new appointment is required by the board with any fees in excess of £15,000 per annum paid to the Company.

Non-executive directors

Non-executive directors have a letter of appointment rather than contracts of employment. The executive directors are responsible for determining the fees of the non-executive directors who do not receive pension or other benefits from the Group and do not participate in any Group incentive schemes.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Plans for 2017/18

The committee has reviewed the remuneration policy in relation to senior executive directors, including those on the Group board during the year and have sought external advice from New Bridge Street, a part of AON. In particular, consideration was given to how well the existing policy was linked with strategy; the alignment of management interests with those of shareholders; and quanta. The committee consulted with major shareholders on a new remuneration structure and policy for these senior executive directors. This review and consultation occurred at a time when there were considerable developments in the debate amongst shareholders and their representatives, government and advisory bodies. As a result of feedback and in recognition of the ongoing industry debate, the committee resolved to introduce changes to the annual bonus arrangements with effect for the 2017/18 financial year and, during the course of that year, to review further the arrangements for an equity based long-term incentive scheme to replace the current Long Term Incentive Scheme.

The overriding objectives remain for the policy to be linked to the Group's strategy, aligned with shareholders' interests with significant long term equity participation with both annual and long term elements and to be compliant with the relevant FCA regulations and other guidance. The scheme will be aligned with the board's appetite for risk and aims to be fair for both employee and Company with due regard to market competitiveness, whilst retaining some element of discretion.

The changes agreed by the committee in relation to the annual bonus for senior executive directors are:

- The existing uncapped profit-sharing arrangement is replaced with a bonus structure under which participants have a defined maximum opportunity, set as a percentage of salary, which will not exceed 150% of salary for any executive.
- The bonus will be based on the following three measures in 2017/18:
 - Underlying profit before tax (40%);
 - Net organic growth in funds under management (20%); and
 - Personal/strategic objectives (40%).
- It is expected that the personal/strategic weighting is reduced in future years but, for 2017/18, a higher weighting is appropriate as the new CEO undertakes a thorough review of the business and its strategy, begins to implement it and as the Group prepares for the challenges resulting from MiFID II. The actual targets and objectives are commercially sensitive and therefore will not be disclosed in advance; however, the committee will seek to report the targets in next year's report and provide commentary on how any bonus was arrived at.
- For financial metrics, a sliding scale of targets will be set around the budget for the year and account will be taken of market consensus.
- One third of any bonus earned will be deferred in shares for 2 years.
- Robust malus and clawback provisions will apply to any bonus earned, including the deferred element.

The committee has also considered the obligations of the Group under CRD IV to comply with the Remuneration Code under the FCA SYSC 19A Handbook. In accordance with the FCA's guidance, the Group has dis-applied certain remuneration provisions relating to variable pay on the grounds of proportionality. These are the provisions known as the 'pay-out process' rules.

Strategic report

continued

Risk and Compliance Committee

The Group's risk management framework is designed to ensure risks are identified, managed and reported effectively at every level. At business-unit level, first-line systems and controls are employed to ensure business activities are conducted in compliance with internal policies and procedures. First-line supervision teams carry out monitoring of business activities on a day-to-day basis. In the second line of defence, an independent compliance monitoring function carries out further checks independent of the business. Output from both first and second line monitoring is reported to the relevant management committee and management information is reported to the business-level risk committees, the Executive Risk Management Committee, and the Risk and Compliance committee through the Group's escalation policy. The risk function works with each business unit and central functions to implement a programme of risk and control self assessments to improve the identification and understanding of risk in the first line. Identified risks at each business unit are tracked in a business-level risk register and used as the basis for a consolidated risk register that provides the Risk and Compliance Committee with an overview of the key risks across the organisation.

The membership of the Risk and Compliance Committee comprises: Colin Harris (Chair), Christopher Knight, Richard Price and Diane Seymour-Williams. Business managers and representatives from the legal, risk and compliance functions attend committee meetings as necessary to report on monitoring output, the results of risk and control assessments, key regulatory changes and developments, as well as changes to the risk register. The Risk and Compliance Committee is principally responsible for monitoring identified risks and the effectiveness of mitigating action, keeping risk assessment processes under review, reviewing the impact of key regulatory changes on the Group, assessing material breaches of risk limits and regulations as well as reviewing client complaints.

The Risk and Compliance Committee met on two occasions during the year ended 30 June 2017.

The Group's risk management framework is subject to ongoing review. The Group has been investing to meet the requirements of key regulatory changes, such as MiFID II, the General Data Protection Regulation and the Senior Managers & Certification Regime, and will continue to do so in the coming year. As a priority, the Group will be focusing on enhancing its risk management framework and increasing its capabilities with the appointment of a Chief Risk Officer.

The principal risks identified as having a potential material impact on the Group are detailed below, together with the principal means of mitigation.

Financial risks

The Group's principal financial risks relate to credit risk, liquidity risk and market risk and the measures and policies for the management of those risks are set out in note 31 to the consolidated financial statements. Further details on capital management processes can be found in note 32.

Strategic report

continued

Risk and Compliance Committee *continued*

Non-financial risks

The significant non-financial risks faced by the Group have been reviewed by the committee, which believes they remain broadly the same as in previous years and are as follows:

Reputational risk

Impact

The Group has a growing reputation as a provider of high quality investment and wealth management services. There is a risk that significant damage to reputation could lead to the loss of existing clients as well as impacting on the ability to attract new clients, which would lead to a fall in financial income. Such risk could arise from events such as poor investment performance, poor client service or regulatory censure.

Mitigation

This risk is minimised by ensuring the Group maintains a culture of high ethical and professional standards whilst focussing on delivering a first class service to all of our clients and intermediaries. The Group maintains separate, independent risk and compliance departments, which ensures conformity with the regulations of its key regulators, as well as relevant statutes, in all of our dealings with our clients.

Regulatory risk

Impact

The sector in which the Group operates is heavily regulated and any breach of regulations could lead to fines or disciplinary action against the Group or its staff. Through the business activities of its subsidiaries the Group is exposed to regulatory risks including those associated with the provision of investment and financial advice, the holding and custody of client money and assets, the suitability of its investment portfolios and financial crime.

Mitigation

The Group monitors compliance with existing law and regulations and keeps abreast of future changes to assess the likely business impact and to ensure that the Group has sufficient resources to implement any necessary changes. The Group continued to invest in its Risk and Compliance functions during the year and is committed to further adding to the capabilities of these functions, in order to meet the challenges posed by future regulatory changes such as MIFID II, GDPR, etc.

People risk

Impact

Our business is dependent on client relationships with our staff. Operating in a competitive market there is a risk of loss of existing clients due to poor performance or service, a failure to respond to changes in the market place, or the loss of key investment professionals. The retention of staff who are not investment professionals e.g. those in Group and central functions is also a risk for the organisation.

Mitigation

To minimise this risk, the Group continues to invest in its employees and monitors developments in the marketplace in which it operates to ensure that the Group continues to offer a wide range of services. Recruitment policies are designed to attract high quality staff and the Group regularly reviews and validates its remuneration packages and contractual arrangements and motivation is measured through a sentiment index. Structured training is provided by the Group's learning & development team.

Cyber and data security risk

Impact

The Group holds approximately 40,000 client records in its systems containing personal data and financial data related to the Group's clients. The Group represents a target for hackers and is at significant risk of attack.

Mitigation

The Group's systems employ firewalls and other technological security features to prevent unauthorised access. User identification and password details are required in order to access the Group's network and systems. Individual user access is restricted to specific areas of the network relevant to the user's job role. As such, any access would be likely to be limited to specific areas of the network. Regular technological security checks are undertaken to validate the access rights of existing users. The IT system is duplicated in two remote data centres and data is carried over dark fibre connections. Data records are updated to provide a recovery point objective of one hour and a recovery time objective of one hour.

Strategic report

continued

Risk and Compliance Committee *continued*

Non-financial risks *continued*

Outsourcing risk

Impact

Where key systems are provided by outsourced providers, there is a risk of failure of the outsourcing partners or external suppliers. There are further risks in the on-boarding of outsourcing partners and ongoing support from them. The Group's most significant outsourcing risk relates to its IT network infrastructure, which is provided by an outsourced service provider.

Mitigation

Due diligence takes place prior to the commencement of any outsourcing or supplier relationship, to maintain a robust procurement process and good contract governance. We keep our key outsourcing partners under review and have in place procedures to regularly assess the performance of such suppliers as well as identifying suitable and viable alternatives. The Company has required that its outsourced IT services provider agrees contracts with third-party services providers that would allow for contracts to be novated immediately to Brooks Macdonald in the event of a business failure of the outsourced service provider.

Operational risk

Impact

There is a risk that the Group suffers a loss of business resulting from inadequate systems or controls, failed internal processes or human error.

Mitigation

The Group's risk-management framework comprises ongoing monitoring, the application of detective and preventative controls and reporting of operational incidents by both the first and second line teams. The risk function works with businesses to conduct risk and control assessments, and external auditors and third party consultancies provide further ad hoc assurance.

Portfolio mandate risk

Impact

There is a risk that the Group breaches its investment mandates, agreed limits, investment objectives or client specified restrictions and benchmarks for its discretionary investment management clients.

Mitigation

The Group uses a centralised investment proposition through which asset allocation is determined for a range of risk profiles. Investment managers have some flexibility within the asset allocation model but are monitored to ensure individual portfolios do not fall outside the broad asset allocation model. Portfolios are also monitored by a dedicated team using specialist portfolio risk management tools to ensure individual portfolios do not fall outside the permitted asset allocation model.

Report of the directors

The directors present herewith their annual report, together with the audited financial statements of the Group for the year ended 30 June 2017.

Results and dividends

The profit before taxation for the year ended 30 June 2017 was £8,044,000 (2016: £15,856,000) and the profit after taxation was £5,814,000 (2016: £12,739,000).

The Company paid an interim dividend during the year of 15p (2016: 12.0p) per share. The directors recommend a final dividend of 26.0p (2016: 23.0p) per share. This results in total dividends for the year of 41.0p (2016: 35.0p) per ordinary share. These dividends amount to a total distribution to shareholders of £5,545,000 (2016: £4,715,000) in the year.

Directors and their interests

The directors of the Company, who were in office during the year and up to the date of signing the financial statements, are listed below together with their beneficial interests in the share capital of the Company.

	At 30 June 2017 Number of shares	At 30 June 2016 Number of shares
Chairman C J Knight	71,585	71,585
Executives		
C Connellan (appointed 11 April 2017)	-	-
N I Holmes	63,293	55,995
S J Jackson	30,534	30,534
A W Shepherd	50,153	50,153
R H Spencer	229,848	229,848
S P Wombwell	54,189	54,189
Non-executives		
C A J Macdonald	239,248	230,764
C R Harris	6,086	6,086
R Price	-	-
D Seymour-Williams	5,000	5,000

Details of share options held by the directors at the beginning and the end of the year can be found within the Remuneration Committee report on pages 13 to 21.

Retirement and re-appointment of directors

All of the directors of the Group board will retire by rotation at the annual general meeting and are eligible to nominate themselves for re-election.

Richard Spencer and Simon Wombwell will not be seeking re-election to the board.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors and these remain in force at the date of the report.

Employment policies

Employees are encouraged to identify and become involved with the financial performance of the Group and are rewarded by involvement in profit sharing arrangements.

Employees also have the opportunity to participate in the Group's share incentive plans.

The Group considers that communication with our employees is very important and indeed vital for the success of the Group. Employees are informed of important issues by electronic mail and seminars.

The Group considers that regular training is extremely important. This is achieved by the provision of in-house and external training courses and the training team provide a number of continuing professional development activities. All members of staff are encouraged to report their specific training needs to their line managers, which are then co-ordinated through the central Learning and Development department.

The Group operates a graduate training scheme in respect of its trainee investment fund managers and financial planning consultants.

The Group is an equal opportunities employer. All job applicants and employees are treated fairly and on merit, regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation.

Applications from disabled persons are always considered and where employees become disabled efforts are made to continue their employment within the Group by providing training and the supply of equipment if necessary so that they are able to continue their role.

All members of staff have the option to take an interest free annual season ticket loan. To retain the Group's employees and to improve staff morale, the Group recognises the need for employees to have an appropriate work-life balance. Long serving employees are entitled to additional annual leave dependent on their length of service.

Under the terms of the Pensions Act 2008, on commencing employment all eligible employees are 'auto-enrolled' into the Group pension scheme.

Report of the directors

continued

Substantial shareholdings

As at 1 September 2017, the Company had received notification of substantial interests in its shares of 3% or more as follows:

Substantial shareholdings	Number of shares	Percentage holding
Liontrust Asset Management	2,789,425	20.22
Octopus Investments	1,614,536	11.70
Hargreave Hale	1,235,517	8.96
Aberdeen Standard Investments	780,484	5.66
Artemis Investment Management	708,028	5.13
J M Gumpel	675,692	4.90
Invesco Asset Management	472,401	3.42

Events since the end of the year

Details of events after the reporting date are set out in note 36 to the consolidated financial statements.

Independent auditors

The Audit Committee has recommended to the board of directors that the incumbent auditor, PricewaterhouseCoopers LLP, be reappointed.

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming annual general meeting.

Each of the directors in office at the date of signing this report confirms that, so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware. Each director has taken all reasonable steps that he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Annual general meeting

The 2017 annual general meeting will be held on 24 October 2017 at 72 Welbeck Street, London, W1G 0AY. The notice of the meeting together with details of the resolutions proposed and explanatory notes have been distributed separately to shareholders and can also be found on the Group's website.

On behalf of the board of directors,

S J Jackson
Finance Director

20 September 2017

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. 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 the Company and of the profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union and IFRSs issued by IASB have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess a company's performance, business model and strategy.

Each of the directors, whose names and functions are listed in the Report of the Directors confirm that, to the best of their knowledge:

- the Group and Company financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and the Report of the Directors include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

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Financial statements

Consolidated financial statements	
Independent auditors' report to the members of Brooks Macdonald Group plc	30-36
Consolidated statement of comprehensive income.....	37
Consolidated statement of financial position....	38
Consolidated statement of changes in equity ...	39
Consolidated statement of cash flows.....	40
Notes to the consolidated financial statements .	41-78
Company financial statements	
Company statement of financial position	79
Company statement of changes in equity.....	80
Company statement of cash flows	81
Notes to the company financial statements.....	82-89
Directors and advisers	90

Independent auditors' report

to the members of Brooks Macdonald Group plc

Report on the audit of the financial statements

Opinion

In our opinion, Brooks Macdonald Group plc's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 30 June 2017 and of the group's profit, and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the group and parent company statements of financial position as at 30 June 2017, the group statement of comprehensive income, the group and parent company statements of cash flows, and the group and parent company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



- Overall group materiality: £727,000 (2016: £778,000), based on 5% of profit before tax, adjusted by the provision for resolving legacy matters.
- Overall company materiality: £502,000 (2016: £432,000), based on 1% of net assets.
- The group has four business segments, Investment Management, Financial Planning, Funds and Property Management, and International, consisting of 21 legal entities operating in the UK and Channel Islands.
- We audited the complete financial information of three legal entities, due to their size and specific scope on a further three legal entities.
- Taken together, our audit work accounted for more than 84% of group revenues and 97% of group profit before tax and 81% of group total assets.
- Valuation of Levitas goodwill and related deferred consideration
- Completeness of the provision for resolving legacy matters
- Recognition of investment management fee revenue

Independent auditors' report

to the members of Brooks Macdonald Group plc | *continued*

Report on the audit of the financial statements *continued*

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Independent auditors' report

to the members of Brooks Macdonald Group plc | *continued*

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of Levitas goodwill and related deferred consideration</p> <p><i>Refer to note 2 Principal accounting policies, note 13 Intangible assets and note 21 Deferred consideration.</i></p> <p>The valuation of the Levitas Investment Management Limited ('Levititas') cash generating unit requires management to make a number of significant judgements which may materially affect the valuation, such as forecasted funds under management ('FUM'), and related cash-flows, discount and growth rates, in order to calculate the 'value in use'. Forecasted FUM also drives management's fair valuation of deferred consideration payable, initially recognised at the time of acquisition.</p> <p>The Levitas goodwill represents £9.3m of the group's intangible assets after recognising a £2.0m impairment loss during the year. The deferred consideration at the balance sheet date was £3.4m, with a gain of £2.2m recognised during the year in relation to the decrease in fair value.</p> <p>The size of the balances and the significant degree of judgement involved in the group's valuations makes this a key audit matter.</p>	<p>We obtained management's impairment review of the Levitas goodwill and performed the following:</p> <ul style="list-style-type: none"> • We evaluated management's valuation methodology against the requirements in IAS 36 'Impairment of assets'. • We obtained the 5-year forecasted FUM and related revenues and expenses that were board approved and challenged the drivers of the forecasted FUM and considered the accuracy of management's forecasting process, with reference to historic results. • We tested and challenged the reasonableness of key assumptions including the discount rate and long term growth rates using available market information. • We tested management's sensitivity analysis to determine the impact of changes in the key assumptions. • We evaluated the appropriateness of the impairment disclosures included in the group financial statements. <p>We performed the following procedures over management's deferred consideration fair valuation:</p> <ul style="list-style-type: none"> • We agreed the basis of the calculation to the contractual terms and evaluated management's valuation methodology against the requirements in IFRS 13 'Fair value'. • We tested the mathematical accuracy of management's calculation, agreed the FUM at the 2017 contractual measurement date to the external administrator statement and agreed cash payments during the year to bank statements. • We agreed forecasted FUM up to the final contractual measurement date (November 2018) to management's forecasted FUM which we tested as part the goodwill impairment testing. • We reviewed the disclosures made in the financial statements to determine their adequacy. <p>Based on the work performed above, management's impairment review and deferred consideration valuation approaches are reasonable.</p>

Independent auditors' report

to the members of Brooks Macdonald Group plc | *continued*

Key audit matter	How our audit addressed the key audit matter
<p>Completeness of the provision for legacy matters</p> <p><i>Refer to note 2 Principal accounting policies and note 24 Provisions.</i></p> <p>The group recognised a provision of £6.5m in relation to legacy matters in the International business. The size of the provision makes this a key audit matter.</p> <p>Management is required to make estimates in respect of the completeness of the provision in accordance with IAS 37 'provisions, contingent liabilities and contingent assets'.</p>	<p>We performed the following procedures in relation to the completeness of the provision for legacy matters:</p> <ul style="list-style-type: none"> • We understood the nature of the legacy matters and assessed management's accounting treatment in line with the IAS 37 conditions to recognise a provision. • We understood from management and board members the rationale for estimating the amount of provision to be recognised. • We evaluated the methodology used, and the supporting evidence to calculate the provision. • We read correspondence with legal advisors, consultants and regulators, as well as the group's press releases, for any matters which we were not previously made aware of and which could indicate that the provision may not be complete. • We reviewed the disclosures made in the financial statements to determine their adequacy. <p>On the basis of the procedures performed the provision recognised appears reasonable.</p>
<p>Recognition of investment management fee income</p> <p><i>Refer to note 2 Principal accounting policies and note 4 Revenue.</i></p> <p>Investment management fee income is generated by the Brooks Macdonald Asset Management Limited ('BMAM') and Brooks Macdonald Asset Management (International) Limited ('BMI') entities and is included within portfolio management fee income in the notes to the financial statements. The investment management fee income component represents 57% of the group's £91.7m total revenue. This is a key audit matter due to its size and the significant audit effort involved in testing this revenue stream.</p> <p>The fees are calculated by applying each client's fee rate to their FUM. The calculation is largely automated, however there are a number of inherent risks including the interpretation and manual input of key contractual terms and the completeness and valuation of funds under management, which could result in errors.</p>	<p>We performed the following procedures in relation to investment management fee income:</p> <ul style="list-style-type: none"> • We understood and evaluated the design and implementation of key controls, including relevant Information Technology (IT) controls, in place around the investment management fee process. • We tested IT general controls over the BMAM portfolio management system and relevant automated controls over the mathematical accuracy of the investment management fee calculation and the pricing data feed used to value FUM. • For BMI, we tested the accuracy of fees, by recalculating the fee for a sample of clients. <p>For both BMAM and BMI:</p> <ul style="list-style-type: none"> • We agreed, for a sample, fee rates input into the systems to client contracts. • We tested a sample of management's FUM reconciliations to external custodians. • We tested the valuation of a sample of assets against independent market prices. • We reconciled the fees calculated by the portfolio management systems to the general ledger postings and investigated material differences. <p>Our testing did not identify any evidence of material misstatement.</p>

Independent auditors' report

to the members of Brooks Macdonald Group plc | *continued*

We determined that there were no key audit matters applicable to the company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the group, the accounting processes and controls, and the industry in which the group operates.

The group is composed of the company, incorporated in the UK, and subsidiary entities in the UK and Channel Islands. The group's accounting process is structured around a centralised finance function in the UK.

In establishing the overall approach to the audit of the group, we considered our assessment of the risk of material misstatement. We determined that three entities (Brooks Macdonald group plc, Brooks Macdonald Asset Management Limited and Brooks Macdonald Asset Management (International) Limited) generated significant activities or balances to the results of the group through the consideration of various factors such as their contribution to the group's profit before tax and to provide sufficient evidence over each line item in the group's financial statements. We supplemented this with additional testing over certain balances (such as cash, property, plant and equipment and trade and other receivables and payables) which were recognised within entities not fully in scope of the group audit. Taken together, our audit work accounted for more than 84% of group revenues and 97% of group profit before tax and 81% of group total assets.

We determined the audit work that needed to be performed by us, as the group engagement team, or by local PwC network firms. Where the work was performed by a local audit team, we determined the level of involvement we needed to have in the audit work to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the group financial statements as a whole. In connection with this year's audit the group team met with the local Channel Islands audit team leader and held regular discussions with the team throughout the audit process.

The group consolidation, financial statement disclosures and a number of group items, including valuation of goodwill and intangibles, share based payments, expense recharges and the provision for resolving legacy matters were audited by the group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£727,000 (2016: £778,000).	£502,000 (2016: £432,000).
How we determined it	5% of profit before tax, adjusted for the provision for resolving legacy matters.	1% of net assets.
Rationale for benchmark applied	We have adjusted profit before tax for the provision for resolving legacy matters of £6.5m, which we consider to be an exceptional and non-recurring item. Due to its size, this item distorts the basis of the calculation.	1% of net assets is a commonly used industry benchmark for holding entities such as the company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £36,000 (group audit) (2016: £39,000) and £25,000 (company audit) (2016: £22,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Independent auditors' report

to the members of Brooks Macdonald Group plc | *continued*

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Report of the Directors, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Report of the Directors

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Report of the Directors for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Report of the Directors.

Independent auditors' report

to the members of Brooks Macdonald Group plc | *continued*

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Opinion

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Natasha McMillan (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

20 September 2017

Consolidated statement of comprehensive income

for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Revenue	4	91,716	81,399
Administrative costs		(83,704)	(67,794)
Realised gain on investments	5	4	20
Other gains and losses	6	266	2,857
Operating profit	7	8,282	16,482
Finance income	9	70	58
Finance costs	9	(263)	(577)
Share of results of joint venture	16	(45)	(107)
Profit before tax		8,044	15,856
Taxation	10	(2,230)	(3,117)
Profit for the year attributable to equity holders of the Company		5,814	12,739
Other comprehensive income/(expense):			
Items that may be reclassified subsequently to profit or loss			
Revaluation of available for sale financial assets	15	3	(6)
Revaluation reserve recycled to profit or loss	15	6	-
Total comprehensive income for the year		5,823	12,733
Earnings per share			
Basic	11	42.95p	94.41p
Diluted	11	42.76p	94.07p

The accompanying notes on pages 41 to 78 form an integral part of the consolidated financial statements.

Consolidated statement of financial position

for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	13	62,648	65,849
Property, plant and equipment	14	3,203	3,309
Available for sale financial assets	15	658	1,715
Investment in joint venture	16	-	207
Trade and other receivables	18	-	150
Deferred tax assets	17	1,271	551
Total non-current assets		67,780	71,781
Current assets			
Trade and other receivables	18	22,693	23,958
Financial assets at fair value through profit or loss	19	1,185	1,000
Cash and cash equivalents	20	32,183	19,478
Total current assets		56,061	44,436
Total assets		123,841	116,217
Liabilities			
Non-current liabilities			
Deferred consideration	21	(1,720)	(5,290)
Deferred tax liabilities	17	(3,415)	(3,951)
Other non-current liabilities	22	(157)	(114)
Total non-current liabilities		(5,292)	(9,355)
Current liabilities			
Trade and other payables	23	(21,169)	(18,844)
Current tax liabilities		(2,082)	(2,142)
Deferred tax liabilities	17	-	(84)
Provisions	24	(9,592)	(2,784)
Total current liabilities		(32,843)	(23,854)
Net assets		85,706	83,008
Equity			
Share capital	26	138	137
Share premium account	26	37,101	35,997
Other reserves	27	6,480	5,517
Retained earnings	27	41,987	41,357
Total equity		85,706	83,008

The consolidated financial statements on pages 37 to 78 were approved by the Board of Directors and authorised for issue on 20 September 2017, signed on their behalf by:

C M Connellan

Chief Executive

S J Jackson

Finance Director

Company registration number: 4402058

The accompanying notes on pages 41 to 78 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2017

	Share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total equity £'000
Balance at 1 July 2015	136	35,600	5,101	33,327	74,164
Comprehensive income					
Profit for the year	-	-	-	12,739	12,739
Other comprehensive income:					
Revaluation reserve recycled	-	-	(6)	-	(6)
Total comprehensive income	-	-	(6)	12,739	12,733
Transactions with owners					
Issue of ordinary shares	1	397	-	-	398
Share-based payments	-	-	943	-	943
Share-based payments transfer	-	-	(806)	806	-
Purchase of own shares by employee benefit trust	-	-	-	(1,143)	(1,143)
Tax on share options	-	-	285	-	285
Dividends paid (note 12)	-	-	-	(4,372)	(4,372)
Total transactions with owners	1	397	422	(4,709)	(3,889)
Balance at 30 June 2016	137	35,997	5,517	41,357	83,008
Comprehensive income					
Profit for the year	-	-	-	5,814	5,814
Other comprehensive income:					
Revaluation of available for sale financial asset	-	-	3	-	3
Revaluation reserve recycled	-	-	6	-	6
Total comprehensive income	-	-	9	5,814	5,823
Transactions with owners					
Issue of ordinary shares	1	1,104	-	-	1,105
Share-based payments	-	-	1,237	-	1,237
Share-based payments transfer	-	-	(724)	724	-
Purchase of own shares by employee benefit trust	-	-	-	(786)	(786)
Tax on share options	-	-	441	-	441
Dividends paid (note 12)	-	-	-	(5,122)	(5,122)
Total transactions with owners	1	1,104	954	(5,184)	(3,125)
Balance at 30 June 2017	138	37,101	6,480	41,987	85,706

The accompanying notes on pages 41 to 78 form an integral part of the consolidated financial statements.

Consolidated statement of cash flow

for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Cash generated from operations	25	24,521	17,536
Taxation paid		(3,186)	(2,773)
Net cash generated from operating activities		21,335	14,763
Cash flows from investing activities			
Purchase of property, plant and equipment	14	(892)	(751)
Purchase of intangible assets	13	(2,651)	(3,265)
Purchase of available for sale financial assets	15	(5)	(500)
Deferred consideration paid	21	(1,580)	(3,901)
Finance income	9	70	58
Purchase of financial assets at fair value through profit or loss	19	-	(1,000)
Proceeds of sale of property, plant and equipment		13	3
Proceeds of sale of available for sale asset	15	1,219	-
Investment in joint venture	16	(1)	(86)
Net cash used in investing activities		(3,827)	(9,442)
Cash flows from financing activities			
Proceeds of issue of shares		1,105	398
Purchase of own shares by employee benefit trust		(786)	(1,143)
Dividends paid to shareholders	12	(5,122)	(4,372)
Net cash used in financing activities		(4,803)	(5,117)
Net increase in cash and cash equivalents		12,705	204
Cash and cash equivalents at beginning of year		19,478	19,274
Cash and cash equivalents at end of year	20	32,183	19,478

The accompanying notes on pages 41 to 78 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2017

1. General information

Brooks Macdonald Group plc ("the Company") is the parent company of a group of companies ("the Group"), which offers a range of investment management services and related professional advice to private high net worth individuals, charities and trusts. The Group also provides financial planning as well as offshore fund management and administration services and acts as fund manager to regulated OEICs, providing specialist funds in the property and structured return sectors and managing property assets on behalf of these funds and other clients.

The Company is a public limited company, incorporated and domiciled in the United Kingdom under the Companies Act 2006 and listed on AIM. The address of its registered office is 72 Welbeck Street, London, W1G 0AY.

2. Principal accounting policies

The general accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

a) Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared on the historical cost basis, except for the revaluation of available for sale financial assets and financial assets at fair value through profit or loss such that they are measured at their fair value.

At the time of approving the financial statements, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

b) Basis of consolidation

The Group's financial statements are a consolidation of the financial statements of the Company and its subsidiaries. The underlying financial statements of the subsidiaries are prepared for the same reporting year as the Company, using consistent accounting policies. Subsidiaries and structured entities are all entities controlled by the Company, deemed to exist where the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of the subsidiaries are included from the date on which control is transferred to the Group to the date that control ceases.

All intercompany transactions and balances between group companies are eliminated on consolidation.

The Group has disclosed all of its subsidiary undertakings in note 41 of the parent company's financial statements.

c) Changes in accounting policies

The Group's accounting policies that have been applied in preparing these financial statements are consistent with those disclosed in the Annual Report and Accounts for the year ended 30 June 2016, except as explained below.

New accounting standards, amendments and interpretations adopted in the period

In the year ended 30 June 2017, the Group did not adopt any new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC) that have had a material impact on the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

c) Changes in accounting policies *continued*

Other new standards, amendments and interpretations listed in the table below were newly adopted by the Group but have not had a material impact on the amounts reported in these financial statements. They may however impact the accounting for future transactions and arrangements.

Standard, Amendment or Interpretation	Effective date
Equity method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016
Accounting for acquisitions of interests in joint operations (amendments to IFRS 11)	1 January 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	1 January 2016
Annual improvements (2012-2014 cycle)	1 January 2016
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations, which have not been applied in preparing these financial statements, have been issued and are effective for annual periods beginning after 1 July 2016:

Standard, Amendment or Interpretation	Effective date
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	1 January 2017 [†]
Disclosure initiative (amendments to IAS 7)	1 January 2017 [†]
Revenue from contracts with customers (IFRS 15)	1 January 2018
Financial instruments (IFRS 9)	1 January 2018
Clarification and measurement of share-based payment transactions (amendments to IFRS 2)	1 January 2018 [†]
Leases (IFRS 16)	1 January 2019 [†]
Annual improvements (2014-2016 cycle) - IFRS 12	1 January 2017 [†]
Annual improvements (2014-2016 cycle) - IFRS 1 and IAS 28	1 January 2018 [†]
Uncertainty over income tax treatments (IFRIC 23)	1 January 2019 [†]

[†] Not yet endorsed for use in the EU

The impact of these changes is currently being reviewed and there is no intention to early adopt.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 could change how and when revenue is recognised. The primary impact is expected to be around the recognition of performance fees. Under IFRS 15, the Group will be required to make an assessment as to whether the work performed to earn such fees constitutes the transfer of services and, therefore, fulfils any performance obligation(s). If so, these fees can be recognised when charged; if not, the fees can only be recognised in the period the services are provided.

The Group currently recognises these when the probability of meeting the performance criteria is virtually certain. Some client agreements may need to be amended to ensure that any performance criteria are fully documented, but based upon a preliminary assessment the Group does not expect a material change to the recognition of its revenue arising from these revenue streams.

The Group is still in the process of making an impact assessment and as yet any further impact has not been quantified.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

c) Changes in accounting policies *continued*

IFRS 9 'Financial Instruments'

IFRS 9 changes the classification and measurement of financial assets. Financial assets will be classified into one of three categories: amortised cost, fair value through profit or loss (FVTPL) or fair value through other comprehensive income (FVOCI). The held to maturity, loans and receivables and available for sale categories available under IAS 39 have been removed. In addition, the classification criteria for allocating financial assets between categories are different under IFRS 9. There is no material change to the classification of financial liabilities.

The Group does not expect the new classification bases to have a material impact on its financial assets. Those currently carried at amortised cost (including cash and cash equivalents, trade and other receivables) will continue to be classified as such. Some of the Group's available for sale assets may be reclassified as FVTPL under IFRS 9 where the Group does not collect all contractual cash flows. Other available for sale assets comprise preference share holdings and these will likely be classified as FVOCI as the Group's intention is to collect all contractual cash flows, being solely payments of principal and interest.

IFRS 16 'Leases'

IFRS 16 will require the recognition of a right-of-use asset and associated lease liability for the office premises that are leased by the Group. The asset would be depreciated over the lease term and the liability would accrue interest, resulting in a front-loaded expense profile.

This accounting treatment contrasts with the current treatment for operating leases, where no asset or liability is recognised and the lease payments are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease. The total cost of the lease over the lease term is expected to be unchanged under the new standard.

d) Critical accounting estimates and judgements

The preparation of financial information requires the use of assumptions, estimates and judgements about future conditions. Use of currently available information and application of judgement are inherent in the formation of estimates. Actual results in the future may differ from those reported. In this regard, the directors believe that the accounting policies where judgement is necessarily applied are those that relate to the measurement of intangible assets, deferred consideration, the estimation of the fair value of share-based payments and client compensation provisions.

The underlying assumptions made are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised only if the revision affects both current and future periods.

Further information about key assumptions and sources of estimation uncertainty are set out below.

Intangible assets

The Group has acquired client relationships and the associated investment management contracts as part of business combinations, through separate purchase or with newly employed teams of fund managers (as described in note 13). In assessing the fair value of these assets the Group has estimated their finite life based on information about the typical length of existing client relationships. Contracts acquired with fund managers and acquired client relationship contracts are amortised on a straight line basis over their estimated useful lives, ranging from 5 to 20 years.

Goodwill recognised as part of a business combination is reviewed annually for impairment, or when a change in circumstances indicates that it might be impaired. The recoverable amounts of cash generating units are determined by value in use calculations, which require the use of estimates to derive the projected future cash flows attributable to each unit. Details of the more significant assumptions are given in note 13.

Deferred consideration

As described in note 21, the Group has a deferred consideration balance in respect of the acquisition of Levitas Investment Management Services Limited in July 2014. Deferred consideration is recognised at its fair value, being an estimate of the amount that will ultimately be payable in future periods. This has been calculated allowing for estimated growth in the acquired funds, discounted by the estimated cost of capital.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

d) Critical accounting estimates and judgements *continued*

Share-based payments

The Group operates various share-based payment schemes in respect of services received from certain employees. Estimating the fair value of these share-based payments requires the Group to apply an appropriate valuation model and determine the inputs to that model (note 28). The charge to the Consolidated Statement of Comprehensive Income in respect of share-based payments is calculated using assumptions about the number of eligible employees that will leave the Group and the number of employees that will satisfy the relevant performance conditions. These estimates are reviewed regularly.

Provisions

The Group may receive complaints from clients in relation to the services provided. Complaints are assessed on a case-by-case basis and provisions are made where it is judged to be likely that compensation will be paid. The accounting policy for provisions and contingent liabilities is outlined in note 2(p).

e) Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the underlying financial performance of the Group. These include material items of income or expense that are shown separately due to the significance of their nature and amount.

f) Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured at the fair value of the aggregate amount of the consideration transferred at the acquisition date, irrespective of the extent of any minority interest. Acquisition costs are charged to the Consolidated Statement of Comprehensive Income in the year of acquisition.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions at the acquisition date. If the business combination is achieved in stages, the fair value of the Group's previously held equity interest is re-measured at the acquisition date and the difference is credited or charged to the Consolidated Statement of Comprehensive Income. Identifiable assets and liabilities assumed on acquisition are recognised in the Consolidated Statement of Financial Position at their fair value at the date of acquisition.

Any contingent consideration to be paid by the Group to the vendor is recognised at its fair value at the acquisition date. Subsequent changes to the fair value of contingent consideration are recognised in accordance with IAS 39 in the Consolidated Statement of Comprehensive Income.

Goodwill is initially measured at cost, being the excess of the consideration transferred over the acquired company's net identifiable assets acquired and liabilities assumed. If the consideration is lower than the fair value of the net assets acquired, the difference is recognised as a gain on a bargain purchase in the Consolidated Statement of Comprehensive Income.

Impairment

Goodwill and other intangible assets with an indefinite life are tested annually for impairment. For the purposes of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquisition are assigned to those units. The carrying amount of each cash generating unit is compared to its recoverable amount, which is determined using a discounted future cash flow model.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

g) Fees, commissions and interest

Portfolio management fees and financial services commission

Portfolio management and other advisory and custody services are billed in arrears but are recognised over the period the service is provided. Fees are calculated on the basis of a percentage of the value of the portfolio over the period. Dealing charges are levied at the time a deal is placed for a client. Fees are only recognised when the fee amount can be estimated reliably and it is probable that the fee will be receivable. Amounts are shown net of rebates paid to significant investors.

Performance fees are earned from some clients when contractually agreed performance levels are exceeded within specified performance measurement periods. They are only recognised, at the end of these performance periods, when a reliable estimate of the fee can be made and it virtually certain that it will be received.

Advisory fees

Advisory fees are charged to clients using an hourly rate or by a fixed fee arrangement and are recognised over the period the service is provided. Commissions receivable and payable are accounted for in the period in which they are earned.

Fund management fees

Where amounts due are conditional on the successful completion of fund raising for investment vehicles, revenue is recognised where, in the opinion of the directors, there is reasonable certainty that sufficient funds have been raised to enable the successful operation of that investment vehicle. Amounts due on an annual basis for the management of third party investment vehicles are recognised on a time apportioned basis.

Property management fees

Property management fees are charged using a fixed fee agreement. Fees are recognised over the contractual period.

Interest

Interest receivable is recognised on an accruals basis.

h) Cash and cash equivalents

Cash comprises cash in hand and call deposits held with banks. Cash equivalents comprise short-term, highly liquid investments, with a maturity of less than three months from the date of acquisition.

i) Share-based payments

Equity-settled schemes

The Group engages in equity-settled share-based payment transactions in respect of services received from certain employees. The fair value of the services received is measured by reference to the fair value of the shares or share options on the grant date. This cost is then recognised in the Consolidated Statement of Comprehensive Income over the vesting period, with a corresponding credit to equity.

The fair value of the options granted is determined using option pricing models, which take into account the exercise price of the option, the current share price, the risk free rate of interest, the expected volatility of the Company's share price over the life of the award and other relevant factors.

j) Segmental reporting

The Group determines and presents operating segments based on the information that is provided internally to the Group board of directors, which is the Group's chief operating decision maker.

k) Fiduciary activities

The Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

The Group holds money on behalf of some clients in accordance with the client money rules of the Financial Conduct Authority. Such monies and the corresponding liability to clients are not included within the Consolidated Statement of Financial Position as the Group is not beneficially entitled thereto.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

d) Property, plant and equipment

All property, plant and equipment is included in the Consolidated Statement of Financial Position at historical cost less accumulated depreciation and impairment. Costs include the original purchase cost of the asset and the costs attributable to bringing the asset into a working condition for its intended use.

Provision is made for depreciation to write off the cost less estimated residual value of each asset, using a straight line method, over its expected useful life as follows:

Fixtures and fittings	3 to 6.67 years
Equipment	5 years
Leasehold improvements	over the term of the lease
Motor vehicles	4 years

The assets' residual values and useful economic lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Gains and losses arising on disposal are determined by comparing the proceeds with the carrying amount. These are included in the Consolidated Statement of Comprehensive Income.

m) Intangible assets

Amortisation of intangible assets is charged to administrative expenses in the Consolidated Statement of Comprehensive Income on a straight line basis over the estimated useful lives of the assets (4 to 20 years).

Acquired client relationship contracts and contracts acquired with fund managers

Intangible assets are recognised where client relationship contracts are either separately acquired or acquired with investment managers who are employed by the Group. These are initially recognised at cost and are subsequently amortised on a straight line basis over their estimated useful economic life. Separately acquired client relationship contracts are amortised over 15 to 20 years and those acquired with investment managers over 5 years. Both types of intangible asset are reviewed annually to determine whether there exists an indicator of impairment or an indicator that the assumed useful economic life has changed.

Computer software

Costs incurred on internally developed computer software are initially recognised at cost and when the software is available for use, the costs are amortised on a straight line basis over an estimated useful life of four years. Initial research costs and planning prior to a decision to proceed with development of software are recognised in the statement of profit and loss when incurred.

Goodwill

Goodwill arising as part of a business combination is initially measured at cost, being the excess of the fair value of the consideration transferred over the Group's interest in the net fair value of the separately identifiable assets, liabilities and contingent liabilities of the subsidiary at date of acquisition. In accordance with IFRS 3 'Business Combinations', goodwill is not amortised but is reviewed annually for impairment and is therefore stated at cost less any provision for impairment of value. Any impairment is recognised immediately in the Consolidated Statement of Comprehensive Income and is not subsequently reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. On acquisition, any goodwill acquired is allocated to cash generating units for the purposes of impairment testing. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the Consolidated Statement of Comprehensive Income.

n) Investments in joint ventures

A joint venture is an entity in which the Group holds a long-term interest and is jointly controlled by the Group and one or more third parties under a contractual agreement. Under the equity method of accounting, interests in joint ventures are initially recognised at cost in the Consolidated Statement of Financial Position and subsequently adjusted to reflect changes in the Group's share of the net assets of the entities. The Group's share of the results of joint ventures is included in the Consolidated Statement of Comprehensive Income.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

n) Investments in joint ventures *continued*

If the Group's share of the losses of a joint venture equals or exceeds its investment, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture.

o) Financial investments

The Group classifies financial assets in the following categories: fair value through profit or loss; available for sale; loans and receivables; and held-to-maturity. The classification is determined by management on initial recognition of the financial asset, which depends on the purpose for which it was acquired.

Fair value through profit or loss

Financial instruments are classified as fair value through profit or loss if they are either held for trading or specifically designated in this category on initial recognition. Assets in this category are initially recognised at fair value and subsequently re-measured, with gains or losses arising from changes in fair value being recognised in the Consolidated Statement of Comprehensive Income.

Available for sale

Available for sale financial assets are non-derivatives that are either specifically designated in this category or are not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available for sale financial assets are initially recognised at fair value and are subsequently revalued based on the current bid prices of the assets as quoted in active markets. Changes in fair value are recognised directly in equity, through the Consolidated Statement of Changes in Equity, with the exception of impairment losses which are recognised in the Consolidated Statement of Comprehensive Income. The cumulative gain or loss recognised in equity is recycled to the Consolidated Statement of Comprehensive Income when an available for sale financial asset is derecognised or impaired.

Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except where they have maturities of more than 12 months after the end of the reporting period, in which case they are classified as non-current assets. The Group's loans and receivables are recognised within 'trade and other receivables'.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinate payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are measured at amortised cost.

p) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, where it is probable that it will result in an outflow of economic benefits and can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Where the outflow is not probable or cannot be reliably measured, the potential obligation is disclosed as a contingent liability in the financial statements.

Insurance recoveries relating to legal fees are recognised when, and only when, it is virtually certain that reimbursement will be received if the corresponding obligation is settled. Reimbursements received are disclosed net in the Consolidated Statement of Comprehensive Income and gross in the Consolidated Statement of Financial Position.

Client compensation

Complaints are assessed on a case-by-case basis and provisions for compensation are made where it is judged necessary.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

q) Foreign currency translation

The Group's functional and presentational currency is the Pound Sterling. Foreign currency transactions are translated using the exchange rate prevailing at the transaction date. At the reporting date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the prevailing rates on that date. Foreign exchange gains and losses resulting from settlement of such transactions and from the translation of period-end monetary assets and liabilities are recognised in the Consolidated Statement of Comprehensive Income.

r) Retirement benefit costs

Contributions in respect of the Group's defined contribution pension scheme are charged to the Consolidated Statement of Comprehensive Income as they fall due.

s) Taxation

Tax on the profit for the year comprises current and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled based on tax rates (and laws) that have been enacted or substantively enacted at the reporting date.

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

t) Trade receivables

Trade receivables are initially recognised and subsequently measured at the original invoice amount less an allowance for any amounts that are expected to be uncollectable. Doubtful debts are provided for when the collection of the full amount is no longer probable, whilst bad debts are immediately written off when identified.

u) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. These are classified as current liabilities if payment is due within 12 months or less (or in the normal operating cycle of the business if longer). Otherwise, they are presented as non-current liabilities in the Consolidated Statement of Financial Position.

Trade payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

v) Operating lease payments

Rent payments due under operating leases are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease. Where leases include lease incentives such as rent-free periods, the benefit of these incentives is recognised over the lease term as a reduction in the rental expense.

w) Financial instruments

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement. Financial instruments are recognised in the Consolidated Statement of Financial Position at fair value when the Group becomes a party to the contractual provisions of the instrument.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

2. Principal accounting policies *continued*

x) Employee Benefit Trust ("EBT")

The Company provides finance to an EBT to purchase the Company's shares on the open market in order to meet its obligation to provide shares when an employee exercises certain options or awards made under the Group's share-based payment schemes. The administration and finance costs connected with the EBT are charged to the Consolidated Statement of Comprehensive Income. The cost of the shares held by the EBT is deducted from equity. A transfer is made between other reserves and retained earnings over the vesting periods of the related share options or awards to reflect the ultimate proceeds receivable from employees on exercise. The trustees have waived their rights to receive dividends on the shares.

The EBT is considered to be a Structured Entity, as defined in note 35. In substance, the activities of the trust are being conducted on behalf of the Group according to its specific business needs, in order to obtain benefits from its operation. On this basis, the assets held by the trust are consolidated into the Group's financial statements.

y) Share capital

Ordinary share capital is classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases its own equity share capital (treasury shares) the consideration paid, including any directly incremental costs (i.e. net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included within equity attributable to the Company's equity holders.

z) Dividend distribution

The dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividend is authorised and no longer at the discretion of the Company. Final dividends are recognised when approved by the Company's shareholders at the annual general meeting and interim dividends are recognised when paid.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

3. Segmental information

For management purposes the Group's activities are organised into four operating divisions: Investment Management, Financial Planning, Funds and Property Management and International. The Group's other activity, offering nominee and custody services to clients, is included within Investment management. These divisions are the basis on which the Group reports its primary segmental information to the Group board of directors, which is the Group's chief operating decision maker. In accordance with IFRS 8 'Operating Segments', disclosures are required to reflect the information which the board of directors uses internally for evaluating the performance of its operating segments and allocating resources to those segments. The information presented in this note is consistent with the presentation for internal reporting.

Revenues and expenses are allocated to the business segment that originated the transaction. Revenues and expenses that are not directly originated by a particular business segment are reported as Group and consolidation adjustments. Sales between segments are carried out at arm's length. Centrally incurred expenses are allocated to business segments on an appropriate pro-rata basis. Segmental assets and liabilities comprise operating assets and liabilities, those being the majority of the balance sheet.

Year ended 30 June 2017	Investment Management £'000	Financial Planning £'000	Funds and Property Management £'000	International £'000	Group & consolidation adjustments £'000	Total £'000
Total segment revenue	66,038	5,211	8,483	12,583	-	92,315
Inter segment revenue	(321)	(222)	(56)	-	-	(599)
External revenue	65,717	4,989	8,427	12,583	-	91,716
Underlying profit before tax	21,134	275	587	452	(4,022)	18,426
Finance cost of deferred consideration	-	-	-	-	(263)	(263)
Changes in fair value of deferred consideration	-	-	-	-	2,230	2,230
Amortisation of intangible assets	(2,235)	(6)	(18)	(506)	(1,098)	(3,863)
Goodwill impairment	-	-	-	-	(1,986)	(1,986)
Exceptional costs of resolving legacy matters	-	-	-	(6,500)	-	(6,500)
Profit before tax	18,899	269	569	(6,554)	(5,139)	8,044
Taxation						(2,230)
Profit for the year						5,814

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

3. Segmental information *continued*

Year ended 30 June 2016*	Investment Management £'000	Financial Planning £'000	Funds and Property Management £'000	International £'000	Group & consolidation adjustments £'000	Total £'000
Total segment revenue	58,949	4,387	6,896	11,605	-	81,837
Inter segment revenue	(238)	(136)	(64)	-	-	(438)
External revenue	58,711	4,251	6,832	11,605	-	81,399
Underlying profit before tax	19,100	(57)	(558)	800	(3,749)	15,536
Finance cost of deferred consideration	-	-	-	(78)	(499)	(577)
Changes in fair value of deferred consideration	3	-	-	225	3,343	3,571
Amortisation of intangible assets	(1,252)	(3)	(33)	(576)	(810)	(2,674)
Profit before tax	17,851	(60)	(591)	371	(1,715)	15,856
Taxation						(3,117)
Profit for the year						12,739

* Re-presented to show the segmental underlying profit before tax and a reconciliation between underlying profit and statutory profit by segment.

a) Geographic analysis

The Group's operations are located in the United Kingdom and the Channel Islands. The following table presents external revenue analysed by the geographical location of the group entity providing the service.

	2017 £'000	2016 £'000
United Kingdom	79,133	69,794
Channel Islands	12,583	11,605
Total revenue	91,716	81,399

b) Major clients

The Group is not reliant on any one client or group of connected clients for the generation of revenues.

4. Revenue

	2017 £'000	2016* £'000
Portfolio management fee income	77,352	69,273
Financial services commission	94	125
Advisory fees	5,843	5,169
Fund management fees	5,505	4,322
Property management fees	2,922	2,510
Total revenue	91,716	81,399

* Comparative information has been re-presented to bring the prior year headings in line with the current year.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

5. Realised gain on investments

During the year ended 30 June 2017, the Group realised a net gain of £4,000 (2016: £20,000) on disposal of investments. This comprised of a gain of £13,000 on the investment in the Braemar Group PCC Limited Student Accommodation Cell and a loss of £9,000 on the investment in GLI Finance Limited redeemable preference shares. The £20,000 gain in the year ended 30 June 2016 related to the final disposal of the Group's investment in Sancus Holdings Limited, through the voluntary winding up of the company.

6. Other gains and losses

Other gains and losses represent the net changes in the fair value of the Group's financial instruments recognised in the Consolidated Statement of Comprehensive Income.

	2017 £'000	2016 £'000
Impairment of goodwill (note 13)	(1,986)	-
Impairment of available for sale financial assets (note 15)	-	(311)
Impairment of investment in joint venture (note 16)	(163)	(400)
Gain/(loss) from changes in fair value of financial assets at fair value through profit or loss (note 19)	185	(3)
Gain from changes in fair value of deferred consideration (note 21)	2,230	3,571
Other gains and losses	266	2,857

7. Operating profit

Operating profit is stated after charging:

	2017 £'000	2016 £'000
Staff costs (note 8)	45,679	38,716
Auditors' remuneration (see below)	420	380
Financial Services Compensation Scheme Levy (see below)	459	475
Depreciation (note 14)	989	969
Amortisation (note 13)	3,863	2,674
Impairment of goodwill (note 13)	1,986	-
Exceptional cost of resolving legacy matters (note 24)	6,500	-

A more detailed analysis of auditors' remuneration is provided below:

	2017 £'000	2016 £'000
Fees payable to the Company's auditors for the audit of the consolidated Group and parent company financial statements	102	56
Fees payable to the Company's auditors and its associates for other services:		
- Audit of the Company's subsidiaries pursuant to legislation	138	230
- Audit-related assurance services	179	70
- Other services	1	24
Total auditors' remuneration	420	380

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

7. Operating profit *continued*

Financial Services Compensation Scheme levies

Administrative costs for the year ended 30 June 2017 include a charge of £459,000 (2016: £475,000) in respect of the Financial Services Compensation Scheme (“FSCS”) levy. This comprises the Group’s estimated levy for the 2017/18 scheme year of £621,000 and a net rebate of £162,000 for the 2016/17 scheme year.

8. Employee information

a) Staff costs

	2017 £'000	2016 £'000
Wages and salaries	38,912	33,491
Social security costs	4,197	3,053
Other pension costs	1,312	1,145
Share-based payments	1,258	1,027
Total staff costs	45,679	38,716

Pension costs relate entirely to a defined contribution scheme.

b) Number of employees

The average monthly number of employees during the year, including directors, was as follows:

	2017	2016
Professional staff	191	190
Administrative staff	309	282
Total staff	500	472

c) Key management compensation

The compensation of the key management personnel of the Group, defined as the Group board of directors including both the executives and non-executives, is set out below.

	2017 £'000	2016 £'000
Short-term employee benefits	2,571	2,466
Post-employment benefits	33	25
Share-based payments	320	445
Total compensation	2,924	2,936

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

8. Employee information *continued*

d) Directors' emoluments

Further details of directors' emoluments are included within the Remuneration Committee report on pages 13 to 21.

	2017 £'000	2016 £'000
Salaries and bonuses	2,262	2,209
Non-executive directors' fees	282	234
Benefits in kind	27	23
	2,571	2,466
Pension contributions	33	25
Amounts receivable under long term incentive schemes	320	445
Total directors' remuneration	2,924	2,936

The aggregate amount of gains made by directors on the exercise of share options during the year was £161,000 (2016: £109,000). Retirement benefits are accruing to two directors (2016: one) under a defined contribution pension scheme.

The remuneration of the highest paid director during the year was as follows:

	2017 £'000	2016 £'000
Remuneration and benefits in kind	368	500
Amounts receivable under long term incentive schemes	68	93
Total remuneration	436	593

The amount of gains made by the highest paid director on the exercise of share options during the year was nil (2016: £25,000).

9. Finance income and finance costs

	2017 £'000	2016 £'000
Finance income		
Dividend income	43	-
Bank interest on deposits	27	58
Total finance income	70	58
Finance costs		
Finance cost of deferred consideration	263	577
Total finance costs	263	577

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

10. Taxation

The tax charge on profit for the year was as follows:

	2017 £'000	2016 £'000
UK Corporation Tax at 19.75% (2016: 20.00%)	3,648	3,262
Under provision in prior years	167	448
Total current tax	3,815	3,710
Deferred tax credits	(1,026)	(259)
Research and development tax credit	(433)	-
Effect of change in tax rate on deferred tax	(126)	(334)
Income tax expense	2,230	3,117

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the time apportioned tax rate applicable to profits of the consolidated entities in the UK as follows:

	2017 £'000	2016 £'000
Profit before taxation	8,044	15,856
Profit multiplied by the standard rate of tax in the UK of 19.75% (2016: 20.00%)	1,590	3,171
Tax effect of:		
- Lower tax rates in other countries in which the Group operates	-	(77)
- Overseas tax losses not available for UK tax purposes	955	-
- Disallowable expenses	149	238
- Impairment charges	424	143
- Non-taxable income	(433)	(472)
- Losses utilised (no deferred tax thereon)	(63)	-
- Research and development tax credit	(433)	-
- Change in rate of Corporation Tax applicable to deferred tax	(126)	(334)
- Under provision in prior years	167	448
Tax charge for the year	2,230	3,117

Non-taxable income includes the gain from changes in fair value of deferred consideration.

During the year, the Group made a claim for research and development tax relief in relation to qualifying expenditure on software development incurred in the years ended 30 June 2014 and 30 June 2015. This resulted in a reduction in the Corporation Tax liabilities in the respective years, and a repayment of £433,000 (2016: £nil) from HMRC. The Group will consider whether claims can also be made for qualifying expenditure incurred in the year ended 30 June 2016 and thereafter in due course.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

10. Taxation *continued*

The deferred tax credits for the year arise from:

	2017 £'000	2016 £'000
Share option reserve	194	(185)
Accelerated capital allowances	84	35
Amortisation of acquired client relationship contracts	409	409
Unused overseas trading losses	339	-
Deferred tax credits	1,026	259

On 1 April 2017, the standard rate of Corporation Tax in the UK was reduced to 19%. As a result the effective rate of Corporation Tax applied to the taxable profit for the year ended 30 June 2017 is 19.75% (2016: 20.00%).

In addition to the change in the rate of UK Corporation Tax disclosed above, the Finance (No.2) Act 2015, which was substantively enacted in October 2015, will further reduce the main rate to 17% in 2020. Deferred tax assets and liabilities are calculated at the rate that is expected to be in force when the temporary differences unwind, but limited to the extent that such rates have been substantively enacted. The tax rate used to determine the deferred tax assets and liabilities is therefore 17% (2016: 18%) and will be reviewed in future years subject to new legislation.

11. Earnings per share

The directors believe that underlying earnings per share provide a truer reflection of the Group's performance in the year. Underlying earnings per share are calculated based on 'underlying earnings', which is defined as earnings before finance costs of deferred consideration, changes in the fair value of deferred consideration, goodwill impairment, amortisation of intangible assets and the exceptional costs of resolving legacy matters. The tax effect of these adjustments has also been considered.

Earnings for the year used to calculate earnings per share as reported in these consolidated financial statements were as follows:

	2017 £'000	2016 £'000
Reported earnings attributable to ordinary shareholders	5,814	12,739
Goodwill impairment (note 13)	1,986	-
Finance cost of deferred consideration (note 21)	263	577
Changes in fair value of deferred consideration (note 21)	(2,230)	(3,571)
Amortisation of intangible assets (note 13)	3,863	2,674
Exceptional costs of resolving legacy matters (note 24)	6,500	-
Tax impact of adjustments	(525)	(556)
Underlying earnings attributable to ordinary shareholders	15,671	11,863

Basic earnings per share is calculated by dividing earnings attributable to ordinary shareholders by the weighted average number of shares in issue throughout the year. Diluted earnings per share represents the basic earnings per share adjusted for the effect of dilutive potential shares issuable on exercise of employee share options under the Group's share-based payment schemes, weighted for the relevant period.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

11. Earnings per share *continued*

The weighted average number of shares in issue during the year was as follows:

	2017 Number of shares	2016 Number of shares
Weighted average number of shares in issue	13,537,222	13,493,316
Effect of dilutive potential shares issuable on exercise of employee share options	59,872	48,220
Diluted weighted average number of shares in issue	13,597,094	13,541,536

Earnings per share for the year attributable to equity holders of the Company were:

	2017 (p)	2016 (p)
Based on reported earnings:		
Basic earnings per share	42.95	94.41
Diluted earnings per share	42.76	94.07
Based on underlying earnings:		
Basic earnings per share	115.76	87.92
Diluted earnings per share	115.25	87.60

12. Dividends

Amounts recognised as distributions to equity holders of the Company in the year were as follows:

	2017 £'000	2016 £'000
Final dividend paid for the year ended 30 June 2016 of 23.0p (2015: 20.5p) per share	3,101	2,758
Interim dividend paid for the year ended 30 June 2017 of 15.0p (2016: 12.0p) per share	2,021	1,614
Total dividends	5,122	4,372
Final dividend proposed for the year ended 30 June 2017 of 26.0p (2016: 23.0p) per share	3,524	3,101

The interim dividend of 15.0p (2016: 12.0p) per share was paid on 21 April 2017.

A final dividend for the year ended 30 June 2017 of 26.0p (2016: 23.0p) per share was declared by the board of directors on 20 September 2017 and is subject to approval by the shareholders at the Company's annual general meeting. It will be paid on 27 October 2017 to shareholders who are on the register at the close of business on 29 September 2017. In accordance with IAS 10 'Events After the Reporting Period', the aggregate amount of the proposed dividend expected to be paid out of retained earnings is not recognised as a liability in these financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

13. Intangible assets

	Goodwill £'000	Computer software £'000	Acquired client relationship contracts £'000	Contracts acquired with fund managers £'000	Total £'000
Cost					
At 1 July 2015	36,006	1,816	32,747	3,522	74,091
Additions	-	3,265	-	-	3,265
At 30 June 2016	36,006	5,081	32,747	3,522	77,356
Additions	-	2,651	-	-	2,651
Adjustment in respect of prior periods	-	-	(2)	(1)	(3)
At 30 June 2017	36,006	7,732	32,745	3,521	80,004
Accumulated amortisation and impairment					
At 1 July 2015	-	398	5,938	2,497	8,833
Amortisation charge	-	132	2,177	365	2,674
At 30 June 2016	-	530	8,115	2,862	11,507
Amortisation charge	-	1,328	2,200	335	3,863
Impairment	1,986	-	-	-	1,986
At 30 June 2017	1,986	1,858	10,315	3,197	17,356
Net book value					
At 1 July 2015	36,006	1,418	26,809	1,025	65,258
At 30 June 2016	36,006	4,551	24,632	660	65,849
At 30 June 2017	34,020	5,874	22,430	324	62,648

a) Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill at 30 June 2017 comprises £3,550,000 in respect of the Braemar Group Limited ("Braemar") CGU, £21,243,000 in respect of the Brooks Macdonald Asset Management (International) Limited, Brooks Macdonald Retirement Services (International) Limited and DPZ (collectively "Brooks Macdonald International") CGU and £9,227,000 in respect of the Levitas Investment Management Services Limited ("Levitias") CGU.

Goodwill is reviewed annually for impairment and its recoverability has been assessed at 30 June 2017 by comparing the carrying amount of the CGUs to their expected recoverable amount, estimated on a value-in-use basis. The value-in-use of each CGU has been calculated using pre-tax discounted cash flow projections based on the most recent budgets approved by the relevant subsidiary company boards of directors, covering a period of five years. Cash flows are then extrapolated beyond the forecast period using an expected long-term growth rate.

Based on a value-in-use calculation, the recoverable amount of the Levitas CGU at 30 June 2017 was £9,319,000. This was lower than the carrying amount of the CGU, reflecting both a reduction in forecast funds under management growth and an increase in the discount rate applied, indicating that it should be impaired. An impairment loss of £1,986,000 (2016: £nil) has been recognised against the goodwill attributable to the CGU and is shown in the Consolidated Statement of Comprehensive Income within other gains and losses.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

13. Intangible assets *continued*

a) Goodwill *continued*

The key underlying assumptions of the calculation are the discount rate, the growth in funds under management of the Levitas funds and the long-term growth rate of the business. A pre-tax discount rate of 10% (2016: 8%) has been used, based on the Group's assessment of the risk-free rate of interest and specific risks pertaining to Levitas. Annual funds under management growth rates of between 5% and 18% are forecast in the next five financial years, the period covered by the most recent forecasts, which reflect historic actual growth and planned management activities, which are considered to be achievable given current market and industry trends. A 2% long-term growth rate is applied to cash flows beyond the forecast period and is considered prudent in the context of the long-term average growth rate for the funds industry in which the CGU operates.

Reasonably possible changes in the key assumptions and the impact of these changes on the calculated recoverable amount are:

- A 1% change in the pre-tax discount rate would result in a £1,041,000 change in the recoverable amount.
- A 10% change in the forecast funds under management would result in a £630,000 change in the recoverable amount.
- A 0.5% change in the long-term average growth rate would result in a £489,000 change in the recoverable amount.

As the Levitas CGU has been impaired in the year, any future adverse change in any of the key assumptions would cause the CGU's carrying amount to exceed its recoverable amount, and an additional impairment would then be recognised.

Based on a value-in-use calculation, the recoverable amount of the Brooks Macdonald International CGU at 30 June 2017 was £42,043,000, indicating that there is no impairment. The key underlying assumptions of the calculation are the discount rate, the short-term growth in earnings and the long-term growth rate of the business. A pre-tax discount rate of 10% has been used, based on the Group's assessment of the risk-free rate of interest and specific risks relating to Brooks Macdonald International. Annual earnings growth rates of between 18% and 48% are forecast over the next five financial years, the period covered by the most recent forecasts, which reflect historic actual growth and planned management actions and are considered to be achievable given current market and industry trends. The 2% long-term growth rate applied is considered prudent in the context of the long-term average growth rate for the funds, investment management and financial planning industries in which the CGU operates.

The key assumptions inherent in the value-in-use calculations for the Braemar CGU were a pre-tax discount rate of 11%, annual revenue growth rates ranging from 10% to 28% and a long-term growth rate of 2%.

Headroom exists in the calculations of the respective recoverable amounts of the Brooks Macdonald International and Braemar CGUs over the carrying amounts of the goodwill allocated to them. On this basis, the directors have concluded that there is no impairment. The directors consider that no reasonably foreseeable change in any of the key assumptions would result in an impairment of goodwill, given the margin by which the estimated recoverable amounts of the CGUs exceed the carrying amounts of the goodwill allocated to each.

b) Computer software

Computer software costs are amortised on a straight line basis over an estimated useful life of four years. Costs incurred on internally developed computer software are initially recognised at cost and when the software is available for use, the costs are amortised on a straight line basis over an estimated useful life of four years.

c) Acquired client relationship contracts

This asset represents the fair value of future benefits accruing to the Group from acquired client relationship contracts. The amortisation of client relationships is charged to the Consolidated Statement of Comprehensive Income on a straight line basis over their estimated useful lives (15 to 20 years).

d) Contracts acquired with fund managers

This asset represents the fair value of the future benefits accruing to the Group from contracts acquired with fund managers. Payments made to acquire such contracts are stated at cost and amortised on a straight line basis over an estimated useful life of five years.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

14. Property, plant and equipment

	Motor vehicles £'000	Fixtures and fittings £'000	Equipment and leasehold improvements £'000	Total £'000
Cost				
At 1 July 2015	60	2,092	7,342	9,494
Additions	-	19	732	751
Disposals	(27)	-	-	(27)
At 30 June 2016	33	2,111	8,074	10,218
Additions	-	52	840	892
Disposals	(25)	-	-	(25)
At 30 June 2017	8	2,163	8,914	11,085
Accumulated depreciation				
At 1 July 2015	28	1,266	4,661	5,955
Disposals	(15)	-	-	(15)
Depreciation charge	9	232	728	969
At 30 June 2016	22	1,498	5,389	6,909
Disposals	(16)	-	-	(16)
Depreciation charge	2	196	791	989
At 30 June 2017	8	1,694	6,180	7,882
Net book value				
At 1 July 2015	32	826	2,681	3,539
At 30 June 2016	11	613	2,685	3,309
At 30 June 2017	-	469	2,734	3,203

15. Available for sale financial assets

	2017 £'000	2016 £'000
At beginning of year	1,715	1,532
Additions	5	500
Reclassification of loan (non-cash transfer)	150	-
Net gain/(loss) from changes in fair value	1	(6)
Accumulated loss on revaluation reserve recycled	6	-
Disposals	(1,219)	-
Impairment loss	-	(311)
At end of year	658	1,715

At 1 July 2016, the Group held investments of 1,426,793.64 class B ordinary shares, representing an interest of 10.88% in Braemar Group PCC Limited Student Accommodation Cell ("Student Accommodation fund"); 750,000 zero dividend preference shares in GLI Finance Limited ("GLIF"), an AIM-listed company incorporated in Guernsey; and 500,000 redeemable preference shares in an unlisted company incorporated in the UK.

The Student Accommodation Fund was promoted by Brooks Macdonald Funds Limited, a subsidiary of the Company. In May 2016 the shareholders of the fund approved a resolution to sell the underlying property portfolio of the fund to a third party and in the year ended 30 June 2017 the shares were compulsorily redeemed by the fund. A gain of £13,000 was realised on receipt of the final redemption monies of £484,000. During the year, the Group also disposed of its holding in GLIF at a market value of £735,000, realising a loss of £9,000. The net gain of £4,000 has been recognised in the Consolidated Statement of Comprehensive Income for the year ended 30 June 2017 within realised gain on investments (note 5).

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

15. Available for sale financial assets *continued*

In addition, accumulated losses of £6,000 in respect of GLIF were realised upon disposal and the revaluation reserve was recycled through Other Comprehensive Income.

During the year ended 30 June 2017, the Group acquired an offshore bond at a cost of £5,000. A revaluation gain due to a change in the fair market value of the bond of £3,000 was recognised within Other Comprehensive Income.

The Group also converted an existing loan of £150,000, issued by Brooks Macdonald Asset Management (International) Limited to a third party, into redeemable preference share capital during the year. The loan was previously included within trade and other receivables as a non-current asset and has been reclassified as an available for sale financial asset. The preference shares carry an entitlement to a fixed preferential dividend at a rate of 8% per annum.

In the year ended 30 June 2016 an impairment loss of £311,000 was recognised in relation to the investment in the Student Accommodation Fund, reflecting the permanent diminution in the net asset value of the fund. No impairment losses were recognised in the Consolidated Statement of Comprehensive Income during the year ended 30 June 2017.

The table below provides an analysis of the financial instruments that, subsequent to initial recognition, are measured at fair value. These are grouped into the following levels within the fair value hierarchy, based on the degree to which the inputs used to determine the fair value are observable:

- Level 1 - derived from quoted prices in active markets for identical assets or liabilities at the measurement date;
- Level 2 - derived from inputs other than quoted prices included within level 1 that are observable, either directly or indirectly; and
- Level 3 - derived from inputs that are not based on observable market data.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
At 1 July 2016	744	-	971	1,715
Additions	-	-	5	5
Reclassification of loan (non cash transfer)	-	-	150	150
Net (loss)/gain from changes in fair value	(15)	-	16	1
Revaluation reserve recycled	6	-	-	6
Disposals	(735)	-	(484)	(1,219)
At 30 June 2017	-	-	658	658
Comprising:				
Offshore bond	-	-	8	8
Unlisted redeemable preference shares	-	-	650	650
Total	-	-	658	658

Unlisted preference shares are valued using a perpetuity income model which is based upon the preference dividend cash flows. Offshore bonds are valued using the value of the underlying securities, some of which are illiquid and therefore prices are not readily available in the market.

A 1% reduction in the value of available for sale financial assets would result in a £7,000 reduction to total comprehensive income.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

16. Investment in joint venture

Brooks Macdonald Funds Limited, a subsidiary of Brooks Macdonald Group plc, holds a 60% interest in North Row Capital LLP, a UK Limited Liability Partnership. The Group has joint control over the partnership, with the remaining interest owned by two individual partners who developed the investment approach behind the IFSL North Row Liquid Property Fund. The fund was launched in February 2014 and offers investors liquid exposure to global real estate markets.

	2017 £'000	2016 £'000
At beginning of year	207	628
Working capital advanced in the year	1	86
Impairment loss	(163)	(400)
Share of loss of joint venture	(45)	(107)
At end of year	-	207

During the year ended 30 June 2017, the carrying amount of the Group's investment in North Row Capital LLP has been further reduced to an estimated recoverable amount of £nil by recognising an impairment loss of £163,000 (2016: £400,000) against the investment in joint venture. The expense is included within other gains and losses in the Condensed Consolidated Statement of Comprehensive Income. The impairment arose as the forecast future cash flows from the partnership were estimated to accumulate slower than originally anticipated and as a result the Group will not realise a return on its investment in the joint venture.

The partners decided to terminate the fund and the application was approved by the FCA on 17 March 2017. Clients were informed on 24 March 2017. Dealing within the Fund was suspended on 25 April 2017 and the final report and financial statements for the Fund are to be prepared by 30 September 2017.

17. Deferred income tax

Deferred income tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. An analysis of the Group's deferred assets and deferred tax liabilities is shown below.

	2017 £'000	2016 £'000
Deferred tax assets		
Deferred tax assets to be settled after more than 12 months	688	190
Deferred tax assets to be settled within 12 months	583	361
Total deferred tax assets	1,271	551
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	(3,415)	(3,951)
Deferred tax liabilities to be settled within 12 months	-	(84)
Total deferred tax liabilities	(3,415)	(4,035)

The gross movement on the deferred income tax account during the year was as follows:

	2017 £'000	2016 £'000
At 1 July	(3,484)	(4,104)
Credit to the Statement of Comprehensive Income	1,152	593
Credit recognised in equity	188	27
At 30 June	(2,144)	(3,484)

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

17. Deferred income tax *continued*

The change in deferred income tax assets and liabilities during the year was as follows:

	Share-based payments £'000	Trading losses carried forward £'000	Total £'000
Deferred tax assets			
At 1 July 2015	709	-	709
Charge to the Statement of Comprehensive Income	(185)	-	(185)
Charge to equity	27	-	27
At 30 June 2016	551	-	551
Charge to the Statement of Comprehensive Income	193	339	532
Charge to equity	188	-	188
At 30 June 2017	932	339	1,271

The carrying amount of the deferred tax asset is reviewed at each reporting date and is only recognised to the extent that it is probable that future taxable profits of the Group will allow the asset to be recovered.

	Accelerated capital allowances £'000	Intangible asset amortisation £'000	Total £'000
Deferred tax liabilities			
At 1 July 2015	119	4,694	4,813
Credit to the Statement of Comprehensive Income	(35)	(743)	(778)
At 30 June 2016	84	3,951	4,035
Credit to the Statement of Comprehensive Income	(84)	(536)	(620)
At 30 June 2017	-	3,415	3,415

18. Trade and other receivables

	2017 £'000	2016 £'000
Non-current assets		
Loans receivable	-	150
Total non-current trade and other receivables	-	150
Current assets		
Trade receivables	1,723	5,939
Other receivables	1,187	2,518
Prepayments and accrued income	19,783	15,501
Total current trade and other receivables	22,693	23,958

At 30 June 2016 there was a non-current loan receivable outstanding, issued by Brooks Macdonald Asset Management (International) Limited to a third party for £150,000. During the year the loan was converted into redeemable preference shares and has been re-classified as an available for sale financial asset (note 15).

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

19. Financial assets at fair value through profit or loss

	2017 £'000	2016 £'000
At beginning of year	1,000	3
Additions	-	1,000
Gain/(loss) from change in fair value	185	(3)
At end of year	1,185	1,000

These investments are classified as Level 1 as defined in note 15.

20. Cash and cash equivalents

	2017 £'000	2016 £'000
Cash at bank	32,128	19,437
Cash held in employee benefit trust	55	41
Total cash and cash equivalents	32,183	19,478

Cash and cash equivalents are distributed across a range of financial institutions with high credit ratings in accordance with the Group's treasury policy. Cash at bank comprises current accounts and immediately accessible deposit accounts.

21. Deferred consideration

Deferred consideration is split between non-current liabilities (see below) and provisions within current liabilities (note 24) to the extent that it is due for payment within one year of the reporting date. It reflects the directors' best estimate of amounts payable in the future in respect of certain client relationships and subsidiary undertakings that were acquired by the Group. Deferred consideration is measured at its fair value based on discounted expected future cash flows. The movements in the total deferred consideration balance during the year were as follows:

	2017 £'000	2016 £'000
At 1 July	6,931	13,826
Finance cost of deferred consideration	263	577
Fair value adjustments	(2,230)	(3,571)
Payments made during the year	(1,580)	(3,901)
At 30 June	3,384	6,931
Analysed as:		
Amounts falling due within one year	1,664	1,641
Amounts falling due after more than one year	1,720	5,290
Total deferred consideration	3,384	6,931

No additions to deferred consideration were recognised in the year. Payments totalling £1,580,000 (2016: £3,901,000) were made during the year to the vendors of Levitas. Full details of the Levitas acquisition are disclosed in note 13 of the 2015 Annual Report and Accounts.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

21. Deferred consideration *continued*

A total reduction in the fair value of deferred consideration of £2,230,000 (2016: £3,571,000) was recognised during the year, all in respect of Levitas (2016: £3,343,000), with a corresponding gain recognised within other gains and losses in the Consolidated Statement of Comprehensive Income. The amount payable is based on the incremental growth in FUM of the TM Levitas funds, measured at annual intervals. As forecast growth was not achieved during year, the FUM forecast was subsequently revised and the estimated future deferred consideration payments reduced accordingly. Adjustments made in the year ended 30 June 2016 also included a reduction in the fair value of the deferred consideration attributable to DPZ by £225,000 and to JPAM by £3,000, to the amount of the final payments made to the vendors. The deferred consideration relating to these acquisitions was fully paid as at 30 June 2016.

Deferred consideration is classified as Level 3 within the fair value hierarchy, as defined in note 15.

Amounts falling due after more than one year from the reporting date are presented in non-current liabilities as shown below:

	2017 £'000	2016 £'000
At 1 July	5,290	9,442
Finance cost of deferred consideration	263	498
Fair value adjustments	(2,230)	(3,343)
Transfer to current liabilities	(1,603)	(1,307)
At 30 June	1,720	5,290

During the year, no deferred consideration was recognised on acquisitions. An amount of £1,603,000 (2016: £1,307,000), representing deferred consideration payable in respect of the acquisition of Levitas, was transferred to provisions within current liabilities. A range of final outcomes for the expected total deferred consideration payable cannot be estimated as the future value of the funds under management is dependent on several unpredictable variables, including client retention and market movements.

22. Other non-current liabilities

Other non-current liabilities relate to employer's National Insurance contributions arising from share option awards under the LTIS scheme.

	2017 £'000	2016 £'000
At 1 July	114	95
Additional liability in respect of LTIS awards	51	76
Transfer to current liabilities	(8)	(57)
At 30 June	157	114

The additional liability was recognised during the year of £51,000 (2016: £76,000) in respect of existing LTIS awards, granted in previous years, that are expected to vest in the future. During the year, an amount of £8,000 (2016: £57,000) was transferred to current liabilities, reflecting awards that are expected to vest within the next 12 months.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

23. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	3,025	4,870
Other taxes and social security	2,345	2,509
Other payables	361	219
Accruals and deferred income	15,438	11,246
Total trade and other payables	21,169	18,844

Included within accruals and deferred income in 2017 is an accrual of £366,000 (2016: £179,000) in respect of employer's National Insurance contributions arising from share option awards under the LTIS (note 28b) and an accrual of £307,000 (2016: £nil) in respect of redundancy costs relating to the closure of the Guernsey back office.

The options have been valued using a Black Scholes model based on the market price of the Company's shares at the grant date (note 28). The total charge to the Consolidated Statement of Comprehensive Income for the year for employer's National Insurance contributions arising from share option awards under the LTIS (note 28b) was £228,000 (2016: £84,000).

24. Provisions

	Client compensation £'000	Exceptional costs of resolving legacy matters £'000	Deferred consideration £'000	FSCS levy £'000	Total £'000
At 1 July 2015	701	-	4,384	389	5,474
Charge to the Statement of Comprehensive Income	125	-	-	475	600
Finance cost of deferred consideration	-	-	79	-	79
Fair value adjustments	-	-	(228)	-	(228)
Transfer from non-current liabilities	-	-	1,307	-	1,307
Utilised during the year	(153)	-	(3,901)	(394)	(4,448)
At 30 June 2016	673	-	1,641	470	2,784
Charge to the Statement of Comprehensive Income	208	6,500	-	621	7,329
Transfer from non-current liabilities	-	-	1,603	-	1,603
Utilised during the year	(74)	-	(1,580)	(470)	(2,124)
At 30 June 2017	807	6,500	1,664	621	9,592

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

24. Provisions *continued*

a) Client compensation

Client compensation provisions relate to the potential liability arising from client complaints against the Group. Complaints are assessed on a case by case basis and provisions for compensation are made where judged necessary. The amount recognised within provisions for client compensation represents management's best estimate of the potential liability. The timing of the corresponding outflows is uncertain as these are made as and when claims arise.

b) Exceptional costs of resolving legacy matters

Following a review into legacy matters arising from the former Spearpoint business, which was acquired by the Group in 2012, a provision of £6,500,000 (2016: £nil) was recognised for costs of resolving these including associated expenses. These matters relate to a number of discretionary portfolios formerly managed by Spearpoint, now managed by Brooks Macdonald Asset Management (International) Limited, and a Dublin-based fund, for which Spearpoint acted as investment manager.

c) Deferred consideration

Deferred consideration has been included within provisions as a current liability to the extent that it is due for payment within one year of the reporting date. The amount outstanding at 30 June 2017 was £1,664,000 (2016: £1,641,000) and relates entirely to the Levitas acquisition. The amount of deferred consideration included within provisions is due to be settled in November 2017. Subsequent annual payments will be made in November of each year until the final payment in November 2020, with the final amount being calculated in November 2018.

An amount of £1,603,000 (2016: £1,307,000) was transferred from non-current liabilities, representing payments made during the year and provisions for amounts falling due within one year of the reporting date. Provisions of £1,580,000 (2016: £3,901,000) were utilised during the year on payment of £1,580,000 to the vendors of Levitas (2016: £1,247,000 to the vendors of Levitas; £524,000 to the vendor of JPAM; and £2,130,000 to the vendors of DPZ).

d) FSCS levy

Following confirmation by the FSCS in April 2017 of its final industry levy for 2017/18, the Group has made a provision of £621,000 (2016: £470,000) for its estimated share. This includes a supplementary levy of £100,000 that is likely to be raised in January 2018.

25. Reconciliation of operating profit to net cash inflow from operating activities

	2017 £'000	2016 £'000
Operating profit	8,282	16,482
Adjustments for:		
Depreciation of property, plant and equipment	989	969
(Gain)/Loss on sale of fixed assets	(4)	9
Gain on sale of available for sale financial assets	(4)	-
Available for sale reserve recycled	6	-
Amortisation of intangible assets	3,863	2,674
Other gains and losses	(266)	(2,857)
Decrease/(increase) in receivables	1,265	(2,706)
Increase in payables	2,325	1,950
Increase in provisions	6,785	53
Increase in non-current liabilities	43	19
Share-based payments	1,237	943
Net cash inflow from operating activities	24,521	17,536

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

26. Share capital and share premium account

The movements in share capital and share premium during the year were as follows:

	Number of shares	Exercise price (p)	Share capital £'000	Share premium account £'000	Total £'000
At 1 July 2015	13,660,220		136	35,600	35,736
Shares issued:					
- on exercise of options	19,400	215.0 - 290.5	-	53	53
- to Sharesave Scheme	29,550	1,054.0 - 1,386.0	1	344	345
At 30 June 2016	13,709,170		137	35,997	36,134
Shares issued:					
- on exercise of options	11,857	290.5 - 1,452.0	-	103	103
- to Sharesave Scheme	72,373	1,172.0 - 1,400.0	1	1,001	1,002
At 30 June 2017	13,793,400		138	37,101	37,239

The total number of ordinary shares issued and fully paid at 30 June 2017 was 13,793,400 (2016: 13,709,170) with a par value of 1p per share.

Shares issued on exercise of options and to Sharesave Scheme members resulted in a £1,000 increase in share capital in the year ended 30 June 2017 (2016: £1,000).

Employee Benefit Trust

The Group established an employee benefit trust ("EBT") on 3 December 2010 to acquire ordinary shares in the Company to satisfy awards under the Group's Long Term Incentive Scheme (note 28b). At 30 June 2017, the EBT held 243,465 (2016: 228,208) 1p ordinary shares in the Company, acquired for a total consideration of £3,816,000 (2016: £3,376,000) with a market value of £5,820,000 (2016: £3,774,000). They are classified as treasury shares in the Consolidated Statement of Financial Position, their cost being deducted from retained earnings within shareholders' equity.

27. Other reserves and retained earnings

Other reserves are comprised of the following balances:

	2017 £'000	2016 £'000
Share option reserve	6,285	5,331
Merger reserve	192	192
Available for sale reserve	3	(6)
Total other reserves	6,480	5,517

a) Share option reserve

The share option reserve represents the cumulative charge to the Consolidated Statement of Comprehensive Income for the Group's equity settled share-based payment schemes, as described in note 28.

b) Merger reserve

The merger reserve arises when the consideration and nominal value of the shares issued during a merger and the fair value of assets transferred during the business combination differ.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

27. Other reserves and retained earnings *continued*

c) Available for sale reserve

The available for sale reserve reflects the changes in fair value of available for sale assets. Upon sale of the corresponding asset, the accumulated gain or loss is recycled through the Consolidated Statement of Comprehensive Income as a gain or loss on disposal.

The movements in other reserves during the year were as follows:

	2017 £'000	2016 £'000
Share option reserve		
At beginning of the year	5,331	4,909
Share-based payments	1,237	943
Transfer to retained earnings	(724)	(806)
Tax on share-based payments	441	285
At end of the year	6,285	5,331
Available for sale reserve		
At beginning of the year	(6)	-
Revaluation of available for sale financial assets	3	(6)
Recycling of reserve due to impairment	6	-
At end of the year	3	(6)

The movements in retained earnings during the year were as follows:

	2017 £'000	2016 £'000
At beginning of the year	41,357	33,327
Profit for the financial year	5,814	12,739
Purchase of own shares by Employee Benefit Trust	(786)	(1,143)
Transfer from share option reserve	724	806
Dividends paid	(5,122)	(4,372)
At end of the year	41,987	41,357

28. Equity-settled share-based payments

All share options granted to employees under the Group's equity-settled share-based payment schemes are valued using a Black Scholes model, based on the market price of the Company's shares at the grant date and annualised volatility of up to 50%, covering the period to the end of the contractual life. Volatility has been estimated on the basis of the Company's historical share price subsequent to flotation. The risk-free annual rate of interest is deemed to be the yield on a gilt edged security with a maturity term of 3 years, ranging from 0.17% to 2.00%.

For options granted during the year, the Black Scholes model was based on the market price of the Company's shares at each respective grant date and volatility of 26% to 27% with a dividend yield of 1.77% to 1.79%, an expected vesting period of three years and a risk-free annual rate of interest of between 0.17% and 0.34%.

The share options issued under the various equity-settled share-based payment schemes have been valued at prices ranging from £2.31 to £16.33 per share. The charge to the Consolidated Statement of Comprehensive Income for the year in respect of these was £1,237,000 (2016: £943,000). The weighted average remaining contractual life of all equity-settled share-based payment schemes at 30 June 2017 was 1.32 years (2016: 1.48 years). The weighted average share price of all options exercised during the year was £10.45 (2016: £17.71). The total charge to the Consolidated Statement of Comprehensive Income for the year for all share-based payment schemes was £1,465,000 (2016: £1,027,000).

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

28. Equity-settled share-based payments *continued*

The exercise price and fair value of share options granted during the year was as follows:

	Exercise price (p)	Fair value (p)	Number of options
Company Share Option Plan	1,725	268	31,728
Long Term Incentive Scheme	-	1,633	69,637
Employee Sharesave Scheme	1,738	648	67,590

a) Enterprise Management Incentive Scheme ('EMI')

Under the approved EMI Scheme, certain employees hold options to subscribe for shares in the Company at prices ranging from 215p to 775p. Options are conditional on the employee completing three years' service (the vesting period) and are exercisable three years from the grant date. The options have a contractual option term of seven years from the date they become exercisable. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

	2017		2016	
	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)
At 1 July	20,353	4.83	39,753	3.81
Exercised in the year	(6,000)	2.905	(19,400)	2.73
At 30 June	14,353	5.64	20,353	4.83

The number of share options outstanding at the reporting date was as follows:

Scheme year (grant date)	Exercise price (£)	Vesting period	2017 Number of options	2016 Number of options
2007	2.905	2010 - 2017	6,250	12,250
2010	7.75	2013 - 2020	8,103	8,103
All years			14,353	20,353

At 30 June 2017, all options are able to be exercised.

b) Long Term Incentive Scheme ('LTIS')

The Company has made annual awards under the LTIS to executive directors and other senior executives. The conditional awards, which vest three years after the grant date, are subject to the satisfaction of specified performance criteria, measured over a three year performance period. All such conditional awards are made at the discretion of the Remuneration Committee.

	2017 Number of options	2016 Number of options
At 1 July	208,739	198,291
Granted in the year	69,637	60,671
Exercised in the year	(27,038)	(45,794)
Forfeited in the year	(6,551)	(4,429)
At 30 June	244,787	208,739

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

28. Equity-settled share-based payments *continued*

b) Long Term Incentive Scheme ('LTIS') *continued*

The number of share options outstanding at the reporting date was as follows:

Scheme year (grant date)	Exercise price (£)	Vesting period	2017 Number of options	2016 Number of options
2010	-	2013	6,438	10,550
2011	-	2014	6,517	6,863
2012	-	2015	25,985	26,285
2013	-	2016	18,173	40,795
2014	-	2017	60,806	64,156
2015	-	2018	57,909	60,090
2016	-	2019	68,959	-
All years			244,787	208,739

At 30 June 2017, options for schemes up to and including the 2013 scheme have vested and are able to be exercised.

c) Employee Benefit Trust

Brooks Macdonald Group plc established an employee benefit trust ("EBT") on 3 December 2010 to acquire ordinary shares in the Company to satisfy awards under the LTIS. All finance costs and administration expenses connected with the EBT are charged to the Consolidated Statement of Comprehensive Income as they accrue. The EBT has waived its rights to dividends. The following table shows the number of shares held by the EBT that have not yet vested unconditionally.

	2017 Number of shares	2016 Number of shares
At 1 July	228,208	207,532
Acquired in the year	42,295	66,470
Exercised in the year	(27,038)	(45,794)
At 30 June	243,465	228,208

d) Company Share Option Plan ('CSOP')

The Company has established a Company Share Option Plan ("CSOP"), which was approved by HMRC in November 2013. The CSOP is a discretionary scheme whereby employees or directors are granted an option to purchase the Company's shares in the future at a price set on the date of the grant. The maximum award under the terms of the scheme is a total market value of £30,000 per recipient. The performance conditions attached to the scheme require an increase in the diluted earnings per share of the Company of 2% more than the increase in the RPI over the three years starting with the financial year in which the option is granted.

	2017		2016	
	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)
At 1 July	81,264	15.67	39,927	14.16
Granted in the year	31,728	16.66	42,501	17.11
Exercised in the year	(5,857)	14.52	-	-
Forfeited in the year	(4,487)	17.21	(1,164)	17.19
At 30 June	102,648	16.14	81,264	15.67

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

28. Equity-settled share-based payments *continued*

d) Company Share Option Plan ('CSOP') *continued*

The number of share options outstanding at the reporting date was as follows:

Scheme year (grant date)	Exercise price (£)	Vesting period	2017 Number of options	2016 Number of options
2013	14.52	2016	13,953	19,810
2014	13.81	2017	21,204	21,204
2015	17.19	2018	38,309	40,250
2016	17.25	2019	29,182	-
All years			102,648	81,264

At 30 June 2017, options for the 2013 scheme have vested and are able to be exercised.

e) Employee Sharesave Scheme

Under the scheme, employees can contribute up to £500 a month over a three year period to acquire shares in the Company. At the end of the savings period, employees can elect to receive shares or receive their savings in cash.

	2017		2016	
	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)
At 1 July	225,889	13.32	223,664	12.86
Granted in the year	67,590	17.38	54,837	14.00
Exercised in the year	(74,371)	13.83	(31,494)	11.60
Forfeited in the year	(19,355)	13.34	(21,118)	12.79
At 30 June	199,753	14.51	225,889	13.32

The number of share options outstanding at 30 June 2017 was as follows:

Scheme year (grant date)	Exercise price (p)	Vesting period	2017 Number of options	2016 Number of options
2013	1,172.0	2016	-	920
2014	1,386.0	2017	7,916	85,153
2015	1,237.0	2018	76,697	84,979
2016	1,400.0	2019	47,860	54,837
2017	1,738.0	2020	67,280	-
All years			199,753	225,889

At 30 June 2017, options for the 2014 scheme have vested and are able to be exercised.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

29. Lease commitments

The Group leases various office premises under non-cancellable operating lease arrangements. The future aggregate minimum payments in relation to these leases, which are not recognised as liabilities in the financial statements, are analysed by their contractual payment dates as follows:

	2017 £'000	2016 £'000
Within one year	1,949	1,966
After one year but not more than five years	4,312	4,469
After five years	137	-
Total future minimum lease payments	6,398	6,435

30. Discretionary funds under management

The Group holds client money and assets on behalf of clients in accordance with the client money rules of the Financial Conduct Authority. Such money and the corresponding liabilities to clients are not shown in the Consolidated Statement of Financial Position as the Group is not beneficially entitled thereto. The total market value of client money and assets held is shown below:

	2017 £'000	2016 £'000
Client money bank accounts	751,595	773,899
Client assets under management	9,704,108	7,528,077
Total client funds under management	10,455,703	8,301,976

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

31. Financial risk management

The Group has identified the financial risks arising from its activities and has established policies and procedures as part of a formal structure for managing risk, including establishing risk lines, reporting lines, mandates and other control procedures. The structure is reviewed regularly. The Group does not use derivative financial instruments for risk management purposes.

a) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due.

The primary objective of the Group's treasury policy is to manage short-term liquidity requirements and to ensure that the Group maintains a surplus of immediately realisable assets over its liabilities, such that all known and potential cash obligations can be met.

The table below shows the cash inflows and outflows from the Group under non-derivative financial assets and liabilities, together with cash and bank balances available on demand.

At 30 June 2017	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 6 years £'000	Financial assets with no fixed repayment date £'000	Total £'000
Cash flows from financial assets						
Available for sale financial assets	-	-	-	-	658	658
Financial assets at fair value through profit or loss	-	-	-	-	1,185	1,185
Cash and balances at bank	32,183	-	-	-	-	32,183
Trade receivables	-	1,723	-	-	-	1,723
Other receivables	-	13,987	179	-	-	14,166
	32,183	15,710	179	-	1,843	49,915
Cash flows from financial liabilities						
Trade payables	-	3,025	-	-	-	3,025
Other financial liabilities	-	23,599	2,628	2,341	-	28,568
	-	26,624	2,628	2,341	-	31,593
Net liquidity gap	32,183	(10,914)	(2,449)	(2,341)	1,843	18,322

At 30 June 2016	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 6 years £'000	Financial assets with no fixed repayment date £'000	Total £'000
Cash flows from financial assets						
Available for sale financial assets	-	-	-	-	1,715	1,715
Financial assets at fair value through profit or loss	-	-	-	-	1,000	1,000
Cash and balances at bank	19,478	-	-	-	-	19,478
Trade receivables	-	5,939	-	-	-	5,939
Other receivables	-	7,028	133	-	-	7,161
	19,478	12,967	133	-	2,715	35,293
Cash flows from financial liabilities						
Trade payables	-	4,870	-	-	-	4,870
Other financial liabilities	-	13,182	2,314	5,874	-	21,370
	-	18,052	2,314	5,874	-	26,240
Net liquidity gap	19,478	(5,085)	(2,181)	(5,874)	2,715	9,053

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

31. Financial risk management *continued*

b) Market risk

Interest rate risk

The Group may elect to invest surplus cash balances in short-term cash deposits with maturity dates not exceeding three months. Consequently, the Group has a limited exposure to interest rate risk due to fluctuations in the prevailing level of market interest rates.

A 1% fall in the average monthly interest rate receivable on the Group's cash and cash equivalents would have the impact of reducing interest receivable and therefore profit before taxation by £322,000 (2016: £195,000). An increase of 1% would have an equal and opposite effect.

Foreign exchange risk

The Group does not have any material exposure to transactional foreign currency risk and therefore no analysis of foreign exchange risk is provided.

Price risk

Price risk is the risk that the fair value of the future cash flows from financial instruments will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). The Group is exposed to price risk through its holdings of equity securities and other financial assets, which are measured at fair value in the Consolidated Statement of Financial Position (notes 15 and 19). A 1% fall in the value of these financial instruments would have the impact of reducing total comprehensive income by £18,000 (2016: £27,000) and profit before tax by £12,000 (2016: £10,000). An increase of 1% would have an equal and opposite effect.

c) Credit risk

The Group may elect to invest surplus cash balances in highly liquid money market instruments with maturity dates not exceeding three months. The difference between the fair value and the net book value of these instruments is not material. To reduce the risk of a counterparty default, the Group deposits the rest of its funds in approved, high quality banks. At 30 June 2017 there was no significant concentration of credit risk in any particular counterparty (2016: none).

Assets exposed to credit risk recognised on the Consolidated Statement of Financial Position total £32,183,000 (2016: £19,478,000), being the Group's total cash and cash equivalents.

Trade receivables with a carrying amount of £1,723,000 (2016: £5,939,000) are neither past due nor impaired. Trade receivables have no external credit rating as they relate to individual clients, although the value of investments held in each individual client's portfolio is always in excess of the total value of the receivable. All trade receivables fall due within three months (2016: three months).

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

32. Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves of the Company. Total capital at 30 June 2017 was £85,706,000 (2016: £83,008,000). Regulatory capital is derived from the Group Internal Capital Adequacy Assessment Process (ICAAP), which is a requirement of the Capital Requirements Directive. The ICAAP draws on the Group's risk management process which is embedded within the individual businesses, function heads and executive committees within the Group.

The Group's objectives when managing capital are to comply with the capital requirements set by the Financial Conduct Authority, to safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain a strong capital base to support the development of the business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management. The Group's 2017 ICAAP will be approved in October 2017. There have been no capital requirement breaches during the year. Brooks Macdonald Group plc's Pillar III disclosure is presented on our website at www.brooksmacdonald.com.

33. Guarantees and contingent liabilities

A claim for unspecified losses has been made by a client against Brooks Macdonald Financial Consulting Limited, a subsidiary of the Group, in relation to alleged negligent financial advice. The claimant has not yet advised the quantum of their claim so it is not possible to reliably estimate the potential impact of a ruling in their favour. There remains significant uncertainty surrounding the claim and the Group's legal advice indicates that it is not probable that the claim will be upheld, therefore no provision for any liability has been recognised at this stage.

Brooks Macdonald Asset Management Limited, a subsidiary company of the Group, has an agreement with the Royal Bank of Scotland plc to guarantee settlement for trading with CREST stock on behalf of clients. The Group holds client assets to fund such trading activity.

Additional levies by the Financial Services Compensation Scheme may give rise to further obligations based on the Group's income in the current or previous years. Nevertheless, the ultimate cost to the Group of these levies remains uncertain and is dependent upon future claims resulting from institutional failures.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

34. Related party transactions

Certain directors have taken advantage of the Group's interest-free season ticket loan facility which is available to all employees. The directors who have such loans are as follows:

	Loan balance		Maximum amount	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
S J Jackson	6	5	10	10

Transactions between the Company and its subsidiaries, which are related parties, are eliminated on consolidation. The Company's individual financial statements include the amounts attributable to subsidiaries. These amounts are disclosed in aggregate in the relevant company financial statements and in detail in the following table:

	Amounts owed by related parties		Amounts owed to related parties	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Braemar Estates (Residential) Limited	-	-	252	81
Braemar Facilities Management Limited	5	5	-	-
Braemar Group Limited	661	661	-	-
Brooks Macdonald Asset Management Limited	-	-	10,011	9,456
Brooks Macdonald Asset Management (International) Limited	-	-	1	-
Brooks Macdonald Financial Consulting Limited	-	-	2,026	475
Brooks Macdonald Funds Limited	1,126	1,252	-	-
Brooks Macdonald Nominees Limited	-	-	2,583	2,583
Levitas Investment Management Services Limited	9	9	-	-
North Row Capital LLP	1	6	-	-

All of the above amounts are interest-free and, with the exception of the subordinated loan to Braemar Group Limited, are repayable on demand.

The Group manages a number of collective investment funds that are considered related parties. At 30 June 2017, financial assets at fair value through profit or loss included an investment of 563,689.4025 class A units (2016: 563,689.4025 class A units) in the IFSL Brooks Macdonald Balanced Fund (note 19). At 30 June 2016, available for sale financial assets included an investment of 1,426,793.64 class B ordinary shares in Braemar Group PCC Limited Student Accommodation Cell (note 15) which was disposed of during the current year. These transactions were conducted on an arm's length basis.

The Group holds a 60% interest in North Row Capital LLP, a joint venture, details of which are given in note 16.

Notes to the consolidated financial statements

for the year ended 30 June 2017 | *continued*

35. Interest in unconsolidated structured entities

Structured entities are those entities that have been designed so that voting or similar rights are not the dominant factor in deciding who has control, such as when any voting rights relate to administrative tasks only, or when the relevant activities are directed by means of contractual arrangements. The Group's interests in consolidated and unconsolidated structured entities are described below.

The only consolidated structured entity is the Brooks Macdonald Group Employee Benefit Trust, details of which are given in note 26.

The Group has interests in structured entities as a result of contractual arrangements arising from the management of assets on behalf of its clients. Assets under management within the Funds and property management segment include those managed within structured entities. These structured entities consist of unitised vehicles such as Open Ended Investment Companies (OEICs) which entitle investors to a percentage of the vehicle's net asset value. The structured entities are financed by the purchase of units or shares by investors. As fund manager, the Group does not guarantee returns on its funds or commit to financially support its funds. Where external finance is raised, the Group does not provide a guarantee for the repayment of any borrowings. The business activity of all structured entities, in which the Group has an interest, is the management of assets in order to maximise investment returns for investors from capital appreciation and/or investment income. The Group earns a management fee from its structured entities, based on a percentage of the entity's net asset value.

The main risk the Group faces from its interest in FUM managed on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities total £1,034m (2016: £625m). Included in revenue on the consolidated statement of comprehensive income is management fee income of £4,463,000 (2016: £3,027,000) from unconsolidated structured entities managed by the Group.

36. Events since the end of the year

Since the end of the financial year, the Group has agreed to dispose of the entire share capital of two subsidiary companies, Braemar Estates (Residential) Limited and Braemar Facilities Management Limited, to Rendall & Rittner Limited. The disposal exchanged on 20 September 2017 and is expected to complete on 1 December 2017. Consideration will comprise an initial amount payable on completion plus a deferred amount payable over a two-year period from the completion date.

Braemar Estates (Residential) Limited provides property management and advisory services and its subsidiary, Braemar Facilities Management Limited, provides on-site management services to some of the units managed by its parent. Both subsidiaries are included within the Funds and Property Management reporting segment (see note 3).

Company statement of financial position

as at 30 June 2017

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Investment in subsidiaries	41	64,646	65,610
Available for sale financial assets	42	500	971
Total non-current assets		65,146	66,581
Current assets			
Trade and other receivables	43	1,820	2,121
Financial assets at fair value through profit or loss	44	1,180	994
Cash and cash equivalents		2,684	1,831
Total current assets		5,684	4,946
Total assets		70,830	71,527
Liabilities			
Non-current liabilities			
Deferred consideration	45	(1,720)	(5,290)
Total non-current liabilities		(1,720)	(5,290)
Current liabilities			
Trade and other payables	46	(18,892)	(16,429)
Total current liabilities		(18,892)	(16,429)
Net assets		50,218	49,808
Equity			
Share capital	48	138	137
Share premium account	48	37,101	35,997
Share option reserve		5,901	4,767
Retained earnings		7,078	8,907
Total equity		50,218	49,808

The Company financial statements were approved by the board of directors and authorised for issue on 20 September 2017, signed on their behalf by:

C M Connellan

Chief Executive

S J Jackson

Finance Director

Company registration number: 4402058

The accompanying notes on pages 82 to 89 form an integral part of the Company financial statements.

Company statement of changes in equity

for the year ended 30 June 2017

	Share capital £'000	Share premium account £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2015	136	35,600	4,404	4,983	45,123
Comprehensive income					
Profit for the year (note 39)	-	-	-	8,859	8,859
Total comprehensive income	-	-	-	8,859	8,859
Transactions with owners					
Issue of ordinary shares	1	397	-	-	398
Share based payments	-	-	943	-	943
Share based payments transfer	-	-	(580)	580	-
Purchase of own shares by employee benefit trust	-	-	-	(1,143)	(1,143)
Dividends paid (note 40)	-	-	-	(4,372)	(4,372)
Total transactions with owners	1	397	363	(4,935)	(4,174)
Balance at 30 June 2016	137	35,997	4,767	8,907	49,808
Comprehensive income					
Profit for the year (note 39)	-	-	-	3,976	3,976
Total comprehensive income	-	-	-	3,976	3,976
Transactions with owners					
Issue of ordinary shares	1	1,104	-	-	1,105
Share-based payments	-	-	1,237	-	1,237
Share based payments transfer	-	-	(103)	103	-
Purchase of own shares by employee benefit trust	-	-	-	(786)	(786)
Dividends paid (note 40)	-	-	-	(5,122)	(5,122)
Total transactions with owners	1	1,104	1,134	(5,805)	(3,566)
Balance at 30 June 2017	138	37,101	5,901	7,078	50,218

The accompanying notes on pages 82 to 89 form an integral part of the Company financial statements.

Company statement of cash flows

for the year ended 30 June 2017

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Cash generated from operations	47	6,752	9,419
Net cash generated from operating activities		6,752	9,419
Cash flows from investing activities			
Investment in subsidiaries	41	-	(250)
Purchase of available for sale financial assets	42	-	(500)
Proceeds of sale of available for sale financial assets	42	484	-
Purchase of financial assets at fair value through profit and loss	44	-	(1,000)
Deferred consideration paid	45	(1,580)	(1,247)
Net cash used in investing activities		(1,096)	(2,997)
Cash flows from financing activities			
Proceeds of issue of shares		1,105	398
Purchase of own shares by employee benefit trust		(786)	(1,143)
Dividends paid to shareholders	40	(5,122)	(4,372)
Net cash used in financing activities		(4,803)	(5,117)
Net increase in cash and cash equivalents		853	1,305
Cash and cash equivalents at beginning of year		1,831	526
Cash and cash equivalents at end of year		2,684	1,831

The accompanying notes on pages 82 to 89 form an integral part of the Company financial statements.

Notes to the company financial statements

for the year ended 30 June 2017

37. Principal accounting policies

General information

Brooks Macdonald Group plc ("the Company") is the parent company of a group of companies. The Company is a public limited company, incorporated and domiciled in the United Kingdom under the Companies Act 2006 and listed on AIM. The address of its registered office is 72 Welbeck Street, London, W1G 0AY.

Statement of compliance

The individual financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Developments in reporting standards and interpretations

Developments in reporting standards and interpretations are set out in note 2 to the consolidated financial statements. The principal accounting policies adopted are set out below:

a) Basis of preparation

The financial statements have been prepared on the historical cost basis, except for the revaluation of investments such that they are measured at their fair value.

At the time of approving the financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own Statement of Comprehensive Income for the financial year.

b) Investments in subsidiary companies

Where the Company has investments in subsidiary companies; whereby one entity (the "subsidiary") is controlled by another entity (the "parent"), the investments are stated at cost less, where appropriate, provision for impairment. The carrying values of investments in subsidiary companies are reviewed annually to determine whether any indicator of impairment exists. Any impairment is recognised immediately in the Income Statement and is not subsequently reversed.

c) Subsidiary company guarantees and contingent liabilities

As required by section 479C of the Companies Act, the Company guarantees all outstanding liabilities to which its unaudited subsidiary companies are subject at the end of the financial year. Where the outflow is not probable or cannot be reliably measured, the potential obligation is disclosed as a contingent liability in the financial statements.

d) Retirement benefit costs

Contributions in respect of the Group's defined contribution pension scheme are recognised in the Income Statement as they fall due.

e) Employee Benefit Trust

Where the Company holds its own equity shares through an Employee Benefit Trust these shares are shown as a reduction in shareholders' equity. Any consideration paid or received for the purchase or sale of these shares is shown as a reduction in the reconciliation of movements in shareholders' funds. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of these shares.

38. Critical accounting judgements and key sources of estimation and uncertainty

The critical accounting judgement and key source of estimation and uncertainty arise from the calculation and valuation of deferred consideration in relation to the Company's acquisition of Levitas Investment Management Services Limited in July 2014. This is described in note 37(b) to the Company financial statements.

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

39. Profit for the year

Brooks Macdonald Group plc reported profit after tax for the year ended 30 June 2017 of £3,976,000 (2016: £8,859,000). Auditors' remuneration is disclosed in note 7 of the consolidated financial statements. The average monthly number of employees during the year was 10 (2016: 10). Directors' emoluments are set out in note 8 of the consolidated financial statements.

40. Dividends

Details of the Company's dividends paid and proposed, subject to approval at the annual general meeting, are set out in note 12 of the consolidated financial statements.

41. Investment in subsidiaries and related undertakings

Net book value	Group undertakings £'000
At 1 July 2015	64,462
Additions:	
- Investment in subsidiary	250
- Capital contribution relating to share-based payments	898
At 30 June 2016	65,610
Additions:	
- Capital contribution relating to share-based payments	1,022
- Impairment of subsidiary	(1,986)
At 30 June 2017	64,646

During the year, the Company recognised an impairment in relation to a subsidiary company, Levitas Investment Management Services Limited. Based on a value-in-use calculation, the recoverable amount of the Levitas CGU at 30 June 2017 was £9,319,000. This falls short of the carrying amount of the Company's investment in Levitas Investment Management Services Limited and reflects both the reduction in forecast funds under management growth and an increase in the discount rate, indicating that it should be impaired. An impairment loss of £1,986,000 (2016: £nil) has been recognised against the investment in subsidiary.

In the year ended 30 June 2016, the Company invested £250,000 in the ordinary share capital of Brooks Macdonald Retirement Services (International) Limited. The capital contribution relating to share-based payments reflects the share options granted by the Company to employees of its subsidiary undertakings.

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

41. Investment in subsidiaries and related undertakings *continued*

Details of the Company's subsidiary undertakings at 30 June 2017, all of which were 100% owned and included in the consolidated financial statements, are provided below:

Company	Type of shares and par value	Country of incorporation	Nature of business
Braemar Estates (Mortgages & Finance) Limited	Ordinary £1	UK	Dormant
Braemar Estates (Residential) Limited	Ordinary £1	UK	Property management
Braemar Facilities Management Limited	Ordinary £1	UK	Property management
Braemar Group Limited	Ordinary 1p	UK	Investment management
Brooks Macdonald Asset Management Limited	Ordinary £1	UK	Investment management
Brooks Macdonald Asset Management (International) Limited	Ordinary 1p & Preference £1	Channel Islands	Investment management
Brooks Macdonald Asset Management (Tunbridge Wells) Limited	Ordinary £1	UK	Non-trading
Brooks Macdonald Financial Consulting Limited	Ordinary 5p	UK	Financial consulting
Brooks Macdonald Funds Limited	Ordinary £1	UK	Fund management
Brooks Macdonald Investment Services Limited	Ordinary £1	UK	Dormant
Brooks Macdonald Nominees Limited	Ordinary £1	UK	Non-trading
Brooks Macdonald Retirement Services (International) Limited	Ordinary £1	Channel Islands	Retirement planning
Brooks Macdonald Tax Services Limited	Ordinary £1	UK	Dormant
JGHP Limited	Ordinary £1	UK	Non-trading
JPAM Limited	Ordinary £1	UK	Non-trading
Levitas Investment Management Services Limited	Ordinary £1	UK	Fund Sponsor
Project Morzine III Limited	Ordinary 50p	UK	Dormant
Long Income REIT Limited	Ordinary 50p	UK	Dormant
Secure Nominees Limited	Ordinary £1	Channel Islands	Non-trading
UK Farming Limited	Ordinary 50p	UK	Agricultural land investment

The registered office for all subsidiaries is 72 Welbeck Street, London, W1G 0AY except for the following:

Company	Registered office
Braemar Estates (Mortgages & Finance) Limited	Richmond House, Heath Road, Hale, Altrincham, WA14 2XP
Braemar Estates (Residential) Limited	Richmond House, Heath Road, Hale, Altrincham, WA14 2XP
Braemar Facilities Management Limited	Richmond House, Heath Road, Hale, Altrincham, WA14 2XP
Braemar Group Limited	Richmond House, Heath Road, Hale, Altrincham, WA14 2XP
Brooks Macdonald Asset Management (International) Limited	1st Floor, Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey, GY1 2HH
Brooks Macdonald Retirement Services (International) Limited	1st Floor, Liberation House, Castle Street, St. Helier, Jersey, JE2 3AT
Secure Nominees Limited	West Suite 2, Royal Chambers, St Julian's Avenue, St Peter Port, Guernsey, GY1 2HH

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

41. Investment in subsidiaries and related undertakings *continued*

Brooks Macdonald Group plc has guaranteed the liabilities of the following subsidiaries in order that they qualify for the exemption from audit under Section 479A of the Companies Act 2006 in respect of the year ended 30 June 2017:

Braemar Estates (Residential) Limited
 Braemar Facilities Management Limited
 Braemar Estates (Mortgages & Finance) Limited
 Braemar Group Limited
 Brooks Macdonald Asset Management (Tunbridge Wells) Limited
 Brooks Macdonald Nominees Limited
 JGHP Limited
 JPAM Limited
 Levitas Investment Management Services Limited
 UK Farming Limited

As a condition of the exemption, the Company has guaranteed the year-end liabilities of the relevant subsidiaries until they are settled in full. The liabilities of the subsidiaries at 30 June 2017 were £1,209,000. No guarantee was made for the liabilities of subsidiaries in the prior year.

Associated undertakings of the Company and its subsidiaries also include a 60% interest in a joint venture as shown below:

Entity	Type of interest	Country of incorporation	Nature of business
North Row Capital LLP	Members' capital	UK	Investment research

The registered office of North Row Capital LLP is 72 Welbeck Street, London, W1G 0AY. During the year, the investment value in the Group financial statements was impaired to nil. See note 16 within the consolidated financial statements for further details.

42. Available for sale financial assets

	2017 £'000	2016 £'000
At 1 July	971	782
Additions	-	500
Net gain/(loss) from changes in fair value	13	-
Disposals	(484)	-
Impairment loss	-	(311)
At 30 June	500	971

The Company holds an investment of 500,000 redeemable preference shares in an unlisted company incorporated in the UK. These were acquired in the year ended 30 June 2016 at a cost of £500,000. The preference shares are redeemable at par any time after five years from the date of issue (8 April 2016) and bear an entitlement to a fixed preferential dividend of 8% per annum of the nominal value of the shares. At 30 June 2017, the fair value of the preference shares was estimated at £500,000 (2016: £500,000) based on a discounted cash flow analysis.

At 30 June 2016 the Company also held an investment of 1,426,793.64 class B ordinary shares, representing an interest of 10.88%, in Braemar Group PCC Limited Student Accommodation Cell ("Student Accommodation Fund"). The Student Accommodation Fund was promoted by Brooks Macdonald Funds Limited, a subsidiary of the Company. In May 2016 the shareholders of the fund approved a resolution to sell the underlying property portfolio of the fund to a third party and in the year ended 30 June 2017 the shares were compulsorily redeemed by the fund. A gain of £13,000 was recognised on receipt of the final redemption monies of £484,000.

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

42. Available for sale financial assets *continued*

During the year ended 30 June 2016 an impairment loss of £311,000 was recognised in the Income Statement in relation to the investment in the Student Accommodation Fund, reflecting the permanent diminution in the net asset value of the fund. No impairment losses in relation to available for sale financial assets were recognised in the Income Statement during the year ended 30 June 2017.

An analysis of these financial instruments and the level within the fair value hierarchy into which they are categorised is provided within note 15 of the consolidated financial statements.

43. Trade and other receivables

	2017 £'000	2016 £'000
Amounts owed by subsidiary undertakings	1,803	1,934
Other receivables	-	25
Prepayments and accrued income	17	162
At 30 June	1,820	2,121

Amounts owed by subsidiary companies are unsecured, interest-free and repayable on demand.

44. Financial assets at fair value through profit or loss

	2017 £'000	2016 £'000
At beginning of year	994	-
Adjustment in respect of prior periods	1	-
Additions	-	1,000
Gain/(loss) from changes in fair value	185	(6)
At 30 June	1,180	994

These investments are classified as Level 3 as defined in note 15 to the consolidated financial statements. All investments were designated as fair value through profit or loss upon initial recognition.

45. Deferred consideration

Deferred consideration is split between non-current liabilities and other payables within current liabilities (note 46) to the extent that it is due for payment within one year of the reporting date. It reflects the directors' best estimate of amounts payable in the future in respect of certain client relationships and subsidiary undertakings that were acquired by the Group. Deferred consideration is measured at its fair value based on discounted expected future cash flows. The amount outstanding at 30 June 2017 of £1,720,000 (2016: £5,290,000) related exclusively to amounts payable in respect of the acquisition of Levitas. Payments of £1,580,000 (2016: £1,247,000) were made to the vendors of Levitas during the year.

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

46. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	147	144
Amounts owed to subsidiary undertakings	14,674	12,596
Other payables	1,863	1,641
Accruals and deferred income	2,208	2,048
At 30 June	18,892	16,429

Amounts owed to subsidiary companies are unsecured, interest-free and are repayable on demand. Included in other payables is £1,664,000 (2016: £1,641,000) which is the directors' best estimate of the deferred consideration payable in respect of the client relationships and subsidiary undertakings that were acquired by the Company in 2015.

47. Reconciliation of operating profit to net cash inflow from operating activities

	2017 £'000	2016 £'000
Operating profit	3,976	8,859
Adjustments for:		
Impairment of available for sale financial assets	-	311
Impairment of subsidiary	1,986	-
Changes in fair value of financial assets at fair value through profit or loss	(185)	6
Revaluation of financial assets	(13)	-
Changes in fair value of deferred consideration	(2,230)	(3,343)
Decrease/(increase) in receivables	301	(275)
Increase in payables	2,705	3,816
Share based payments	212	45
Net cash inflow from operating activities	6,752	9,419

48. Share capital and share premium account

The movements in share capital and share premium during the year were as follows:

	Number of shares	Share capital £'000	Share premium account £'000	Total £'000
At 1 July 2015	13,660,220	136	35,600	35,736
Shares issued	48,950	1	397	398
At 30 June 2016	13,709,170	137	35,997	36,134
Shares issued	84,230	1	1,104	1,105
At 30 June 2017	13,793,400	138	37,101	37,239

The total number of ordinary shares, issued and fully paid at 30 June 2017, was 13,793,400 (2016: 13,709,170) with a par value of 1p per share. Excluding 243,465 (2016: 228,208) treasury shares held by the Employee Benefit Trust (see below), the Company had 13,549,935 (2016: 13,480,962) ordinary 1p shares in issue as at 30 June 2017. Details of the shares issued are given in note 26 of the consolidated financial statements.

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

48. Share capital and share premium account *continued*

Employee Benefit Trust

The Company established an employee benefit trust ("EBT") on 3 December 2010 to acquire ordinary shares in the Company to satisfy awards under the Group's Long Term Incentive Scheme (see note 28b to the consolidated financial statements). All finance costs and administration expenses connected with the Trust are charged to the Statement of Comprehensive Income as they accrue. The EBT has waived its rights to dividends.

During the year, the EBT received instructions to exercise 27,038 (2016: 45,794) options. The cost of the shares released on exercise of these options amounted to £346,000 (2016: £558,000). At 30 June 2017, the number of shares held by the EBT was 243,465 (2016: 228,208) with a market value of £5,820,000 (2016: £3,775,000) acquired for a total consideration of £3,816,000 (2016: £3,376,000). These shares are presented as treasury shares in the Group financial statements and their cost is deducted from retained earnings within shareholders' equity.

The Company has made annual awards under the LTIS to executive directors and other senior executives. The conditional awards, which vest three years after the grant date, are subject to the satisfaction of specified performance criteria, measured over a three year performance period. All such conditional awards are made at the discretion of the Remuneration Committee.

49. Lease commitments

The Company leases various office premises under non-cancellable operating lease arrangements. The future aggregate minimum payments in relation to these leases, which are not recognised as liabilities in the financial statements, are analysed by their contractual payment dates as follows:

	2017 £'000	2016 £'000
Within one year	1,773	1,745
After one year but not more than five years	3,148	4,445
Total future minimum lease payments	4,921	6,190

50. Related party transactions

The remuneration of key personnel of the Company, defined as the Company's directors, is set out below:

	2017 £'000	2016 £'000
Short-term employee benefits	2,571	2,466
Post-employment benefits	33	25
Share-based payments	320	445
Total compensation	2,924	2,936

Dividends totalling £281,000 (2016: £562,000) were paid in the year in respect of ordinary shares held by key management personnel and their close family members.

Notes to the company financial statements

for the year ended 30 June 2017 | *continued*

50. Related party transactions *continued*

During the year, the Company entered into the following transactions with its subsidiaries:

	2017 £'000	2016 £'000
Dividends received:		
- Brooks Macdonald Asset Management Limited	8,046	9,759
Total transactions with subsidiaries	8,046	9,759

The Company's balances with fellow group companies at 30 June 2017 are set out in note 34 to the consolidated financial statements. One director took advantage of the Group's interest-free season ticket loan facility, details of which are disclosed in the same note. All transactions with fellow group companies are carried out at arm's length and all outstanding balances are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts in respect of any of the amounts due from fellow group companies.

51. Financial risk management objectives and policies

The financial risk management objectives and policies applied by the Company are in line with those of the Group as disclosed in note 31 to the consolidated financial statements.

Offices

Cardiff

3 Ty Nant Court
Morganstown
Cardiff
CF15 8LW

Edinburgh

10 Melville Crescent
Edinburgh
EH3 7LU

Guernsey

West Suite 2
Royal Chambers
St Julians Avenue
St Peter Port
GY1 2HH

Hale

Richmond House
Heath Road
Hale
Cheshire
WA14 2XP

Hampshire

The Long Barn
Dean Estate
Wickham Road
Fareham
Hampshire
PO17 5BN

Jersey

Liberation House
Castle Street
St. Helier
Jersey
JE2 3AT

London

72 Welbeck Street
London
W1G 0AY

John Stow House
18 Bevis Marks
London
EC3A 7JB

Leamington Spa

36 Hamilton Terrace
Holly Walk
Leamington Spa
Warwickshire
CV32 4LY

Manchester

1 Marsden Street
Manchester
M2 1HW

Taunton

4 Heron Gate
Hankridge Way
Taunton
TA1 2LR

Tunbridge Wells

2 Mount Ephraim Road
Tunbridge Wells
Kent
TN11EE

York

Howard House
3 St. Mary's Court
Blossom Street
York
YO24 1AH

