



Annual Report & Accounts 2016

First in the Field...

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The Group operates as a holding company with a number of its companies operating across the auctioneering, property, financial and commercial services

The Board of Directors

Ian C Lancaster (Non-Executive Chairman)

Brian E Richardson (Chief Executive)

Dawn M Harrison (Non-Executive Director)

Michael L Scott (Non-Executive Director)

Andrew Douglas (Non-Executive Director)

Adrian R Hill (Non-Executive Director)

Alasdair G Houston (Non-Executive Director)

Margaret Irving (Company Secretary)

List of Advisors

Auditors

KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

Solicitors

Burnetts
6 Victoria Place
Carlisle
CA1 1ES

Bankers

Clydesdale Bank plc
239 Kingstown Road
Kingstown Industrial Estate
Carlisle
CA3 0BQ

Taxation Advisors

Dodd & Co
Fifteen Rosehill
Montgomery Way
Rosehill Estate
Carlisle
CA1 2RW

Notice of Meeting

Notice is hereby given that the One Hundred and Twenty Fourth Annual General Meeting of the Company will be held in the Shepherds Inn, Rosehill, Carlisle on 11 November 2016 at 11.00 am for the following purposes:

1. To receive and consider the Accounts for the financial year ended 30 June 2016 together with the Directors' and Auditor's reports.
2. To approve the payment of Directors' fees as set out in the Accounts.
3. To declare a final dividend of 27 pence per share to be paid on 9 December 2016.
4. To re-elect I C Lancaster as a Director.
5. To re-elect A R Hill as a Director.
6. To re-appoint KPMG LLP as Auditors of the Company to hold office from the conclusion of the meeting at a remuneration to be fixed by the Directors.

Approved by the Board on 7 October 2016 and signed on its behalf by:

Margaret Irving
Company Secretary

Registered Office

Borderway Mart
Rosehill
Carlisle
CA1 2RS

Registered Number

36006

Notes

1. A member of the Company is entitled to appoint a proxy or proxies to attend and, on a poll, to vote instead of him or her. A proxy need not be a member of the Company. To be valid, forms of proxy must be completed, signed and deposited at the registered office of the Company - Borderway Mart, Rosehill, Carlisle - not less than 48 hours before the time appointed for the meeting. Proxy forms are available from the Company Secretary on request.
2. The following information is available for inspection during normal business hours at the registered office of the Company on any weekday from the date of this notice until the date of the Annual General Meeting and for at least 15 minutes before it begins:

Register of interests of Directors in the share capital of the Company;

Copies of contracts of service under which certain Directors of the Company are employed.

Chairman's Statement

Dear Shareholder

Since our last AGM the Group has seen major expansion with the acquisition of John Swan & Sons PLC, operating in the Scottish Borders and Northumberland, together with Michael C L Hodgson, land and estate agents, operating in the South Lakes area.

These acquisitions have been partly funded by the issue of new shares to John Swan shareholders but mainly by bank borrowing which will be repaid over the next few years from the continued divestment of our former finance business and the realisation of surplus property assets.

The addition of the John Swan business increases the throughput of our Auction Marts by one third confirming our position as the UK's largest livestock auctioneers and gives us a geographical base from which to grow our associated Insurance and Land and Property businesses.

As mentioned in my Interim Report the Group faces a challenging economic environment combined with significant opportunities from the development of our property assets and the continued organic growth of our principal businesses.

The financial results for 2016 now have to be prepared in accordance with the new FRS102 Accounting standard which significantly changes the presentation of company accounts and requires the restatement of the previous year's results.

The Group reports an operating profit of £1.01 million on an increased turnover of £14.39 million and profit before tax of £712,000 against a restated figure of £1.52 million for the previous year.

Our farmstock operations at both Harrison & Hetherington and John Swan have performed well gaining market share in a difficult market. Although the recent Brexit decision creates uncertainty for farming we continue to operate successfully for the benefit of all our farming customers.

The Group's Insurance and Land and Property businesses have experienced challenging market conditions which have impacted on the Group's results but we continue to invest – particularly in people – to develop these businesses further.

With the acquisition of John Swan we have acquired a number of property assets which have already shown a substantial gain on revaluation and which will either be developed or sold during the next few years.

Finally may I pay tribute to all our staff as well as to our farmers, clients and shareholders for their continuing contribution to the success of the Group.

Ian C Lancaster
Chairman

7 October 2016

Strategic Report

A profit before tax for the year of £712,000 represents a 53% drop in profitability over the previous year.

Financial Overview

On turnover of £14,386,000 (2015: £13,515,000) operating profit is £1,010,000 (2015: £1,550,000) producing a profit before tax of £712,000 (2015: £1,524,000).

Earnings per share are 16p (2015: 112p), and with a recommended final dividend of 27p per share alongside the interim dividend paid of 8p per share, there will be a total dividend for the year of 35p per share (2015: 35p per share).

The average share price during the period was £27.19 (2015: £25.21).

Total shareholders' funds have marginally increased to £17,378,000 (2015: £17,134,000).

Principal Activities and Business Model

The Group remains focused on our key expertise in Auctioneering, Land and Property, Insurance and Printing with a focus on the farming and rural economy.

The principal activities of the Group during the year were as follows:

H&H Group plc – holding Company.

Harrison & Hetherington – farmstock auctioneers, brokers and valuers.

H&H Land and Property – chartered surveyors, land agents, valuers and quota brokers.

H&H Insurance Brokers – insurance brokers.

H&H Estate Agents – residential sales and letting agents.

H&H Reeds Printers – printers.

H&H Finance – providers of finance for new and used motor vehicles.

Our mission is to be profitable, sustainable and progressive in all our business endeavours for the mutual benefit of our shareholders, customers and staff; and to realise this mission, the Group's strategy embraces a number of business objectives:

- to deliver quality, innovative and value for money products and services to our customers
- to achieve consistent growth
- to maximise operational efficiency
- to exceed the expectations of our customers
- to provide challenging and rewarding employment
- to secure a healthy and safe working environment

Business Review and Results

The results for 2015/16 are presented for the first time using the new FRS102 accounting standards which we are now governed by. These have provided some significant changes to the layout of the accounts and also the restating of the 2014/15 accounts to provide comparatives.

In addition there has been considerable work in bringing in the John Swan & Sons PLC acquisition and integrating the balance sheet and operations into the H&H Group PLC accounts. On acquisition of the John Swan business there was £2.76 million of goodwill generated on acquisition; this goodwill reflected the synergies of combining the livestock auction businesses but also the potential uplift in the value of the property portfolio. Since the acquisition we have also made progress on the property assets acquired and these were valued as at June 2016 at a value £2.004 million more than on acquisition. As this is effectively the crystallisation of some of the hope value reflected in the goodwill number we have taken the decision to impair the goodwill by a corresponding amount. Both the operational and investment property was revalued as part of the triennial valuation in June and the results of this along with the goodwill are shown in notes 4 and 10.

Strategic Report *(continued)*

Group

Purely in the context of the parent company, the Group receives income by way of internal rent and Group Service charges and in respect of expenditure, carries a number of costs, such as insurance and pension contributions, which are not readily attributable to a specific company as well as overseeing the management of the individual businesses and their development.

Auctioneering – Harrison & Hetherington

Harrison & Hetherington – In October 2015 we completed the acquisition of John Swan & Sons PLC which has significantly expanded our livestock auctioneering business in the North East and Scotland with livestock auctions at Wooler and Newtown St Boswells. This strategic acquisition will increase the livestock throughput of the business by 40% in the coming year and provide significant opportunity to further develop sales both through the market and more general livestock trading.

Harrison & Hetherington has continued to perform well and increase market share; the marts have had a very busy year with throughput maintained against a reasonably strong year for livestock prices. As well as developing throughput via the marts, we have also continued to develop purchases and sales direct from farm to farm and also farm to abattoir.

We continue to monitor our debtors carefully and the slaughter sector has again seen several failures in the year. Our tight approach to credit control and policy of insuring debt, where possible, has mitigated the effect of these failures on the business and we continue with our tight policy on credit.

The integration of the Swans business into Harrison & Hetherington is well advanced with a single computer system now installed in Newtown St Boswells and Wooler. We continue to work on integrating the mart operations and processes into the high standards that have been apparent in the Harrison & Hetherington marts.

Property – H&H Land and Property

H&H Land and Property – A change in the management structure created some challenges in the business in the first part of the financial year but the business is now well focused on providing professional advice to the rural sector through the offices at Carlisle and Durham which were joined by a new office in Kendal in December 2015 with the purchase of the Michael CL Hodgson business.

Land sales continue to be affected by the ongoing uncertainty in the wider market but we continue to deal with a significant proportion of the land sales within our trading area which will develop further with the focus of a Kendal office.

We continue to focus on the development of the professional team with young staff joining the business and developing their career with H&H and building strong relationships with the customer base.

Whilst little is known of the effects of Brexit, there will be a totally new agricultural policy for UK farming with a different support mechanism in place. We have been very involved with advice on Agri schemes and are in a good position to support our customers with advice as the information becomes available.

H&H King / Michael CL Hodgson – The estate agency business trading under the H&H King brand was expanded in the year with a new branch opening in Penrith earlier in 2016. This provides us with wider geographical coverage and the new branch has quickly established itself with a significant property portfolio and a good response from customers.

The branch at Carlisle continues to have a significant market share in the City and surrounding area. The market for property remains cautious against the background of the uncertain national economy and continuing limitations in the mortgage market.

The acquisition of Michael CL Hodgson in December 2015 has added two new estate agency branches in Kendal and Grange-over-Sands which have a very good reputation and also access to the Lake District property market where values of property are higher.

We now have a network of four estate agency branches providing a good coverage of the Cumbrian market and we are now looking to integrate back office systems and to build upon the brand reputation of H&H and Michael CL Hodgson across the trading area.

Strategic Report *(continued)*

Financial

H&H Insurance Brokers – In last year’s report I mentioned the fiercely competitive insurance sector and premiums remaining flat or reducing. This trend has continued over the last 12 months and impacted on the profitability of the business.

Our focus remains on the farm and rural sectors across the North of England and Scotland. The new marts at Newtown St Boswells and Wooler have provided opportunities to develop our presence in that area and a new office has been opened within the mart at St Boswells to provide a hub in the area for the farming and commercial clients.

Whilst the market remains difficult, the business remains focused on providing its customers with high levels of service and quality insurance cover priced competitively. We continue to monitor customer satisfaction via the independent Feefo web based feedback system and the results over the year remain very encouraging.

H&H Finance – The winding down of the loan book continues with the outstanding debt at the year end down to £1.7 million and continuing to be collected in as forecast. The work in administering the remaining book is carried out by the Cumberland Building Society as part of the agreement when the business was transferred to them and has worked very well with a continued tight control on any overdue debts.

The arrangement has worked well and profits and cash from the remaining loans have flowed in as budgeted with minimal arrears and bad debt.

The winding down of the loan book will continue for a further 2 years and turnover and profitability will progressively decrease from this sector over that time.

Printing

H&H Reeds Printers – The business has continued to focus on efficient production and in the last year has reduced the number of sites it is operating on from three to two, which has provided some saving on costs and greater operational efficiency.

The market for print remains challenging and whilst the business continues to contribute cash to the Group, it has failed to generate an operating profit so further work on costs is required to change this. Since the year end changes to shift arrangements and maintenance contracts on equipment will deliver further significant savings in the coming year.

Traditionally the business has gained its sales through sales staff and recommendation. We have in recent years developed the marketing for the business to a wider audience and have recently been trialling a more focused web based sales approach. This has been successful in extending the geographical reach of the business and providing a focus on higher margin products. This project will now be developed further to build on the success of the trial.

Future Developments

General – The Board continues to look at opportunities to develop our existing businesses and develop further profitable turnover. The H&H brand continues to develop and its reputation, particularly in the farming and rural sector, is an important asset for the Group to build on.

Investment Property – As part of the acquisition of John Swan, several property assets were acquired with longer term development potential, principally land at East Calder and Riccarton in Edinburgh. A planning application is being developed for the land at Riccarton which will be submitted to Edinburgh Council later in the autumn.

Last year I reported on the acquisition of the leasehold interest in the car park site at Rosehill. A planning application is before Carlisle Council to develop the site for a retail foodstore for Pioneer Foods, car parking and commercial business units. Subject to planning, H&H will develop the site and lease the foodstore and business units and operate the car park for users on the Rosehill estate.

A small area of the Harker land has received planning permission for 4 dwellings and this site is presently under offer.

We are also considering options for the former motor auction site which is presently leased on a short term basis to Lloyd Motor Group. Consideration is being given to developing this site for offices if demand can be identified.

Strategic Report *(continued)*

Our People

The Group employs just over 300 staff with the teams at Swans and Michael CL Hodgson joining the business over the last 12 months.

We continue to develop good HR processes across the group which include an appraisal system and training and development opportunities for all staff. As well as recruitment of experienced staff, the Group has a reputation for developing young staff through apprenticeships and we continue to build on this across all the businesses.

Key Performance Indicators

Measurement of performance against strategy and the achievement of business objectives is by means of key performance indicators. Actual performance against key performance indicators for the twelve months to June 2016 is shown below, together with that for 2015 for comparative purposes:

	2016	2015
· Turnover growth	6.4%	(6.1%)
· Return on sales	7%	11%
· Earnings per share	16p	112p
· Return on capital employed	5%	9%
· Gross interest cover	3.5x	7.3x
· Gearing	66%	38%

Principal Risks and Uncertainties

As with any business the Group is not immune to risks and uncertainties; whilst few risks can be eliminated in their entirety, the executive meets regularly with the individual businesses to maintain and review a full set of management procedures aimed at minimising the probability and the severity of specific risks which could impact upon our operating companies.

Across the Group one of the principal risks would be a decrease in the number of customers using our services and buying our products which, in turn, would have an adverse effect upon turnover and profitability. However, as part of our risk management procedures, there are measures in place designed to ensure that existing customers are retained and new customers gained.

The decision of the UK to exit the EU will have medium and long term implications for the business, particularly with the inevitable changes to the Common Agricultural Policy. Whilst the short term effect of the announcement has brought some gain to the export markets through the weakening of £ sterling, changes to agricultural sector policy will have an effect on the business and we need to be very aware of the implications for UK agriculture of any decisions being made. The announcement of continued Government funding at present levels to the sector until 2020 does provide some breathing space and a chance to start planning for the inevitable changes.

Other risks which can be singled out are bad debt within our Farmstock business (where there is credit insurance in place for some primestock buyers), the possibility of an outbreak of a virulent animal disease and the consequences upon our farmstock business, and the failure of IT systems generally. FCA rules also continue to place a heavy requirement upon our insurance brokerage operation and our remaining motor finance book and we work diligently to remain compliant and also use third party consultancy support.

In addition, the Group's Health and Safety Committee has continued to meet throughout the year (with the security of our customers and our staff remaining a high priority) and the maintenance of Group wide business continuity plans continues in an endeavour to be in a position to respond to an event beyond our immediate control and which could cause serious disruption to our operations.

Brian Richardson
Chief Executive

7 October 2016

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 30 June 2016.

Dividends

The Directors have proposed a final ordinary dividend of 27 pence per share in respect of the current financial year. This has not been included within creditors as it was not approved before the year end.

Dividends paid during the year comprise a final dividend of 27 pence per share in respect of the previous year ended 30 June 2015, together with an interim dividend of 8 pence per share in respect of the year ended 30 June 2016.

Directors and Directors' interests

The Directors who held office at the end of the financial year and their interests in the shares of the Company, according to the register of Directors' interests, were as follows:

	Ordinary shares of £1 each in H&H Group plc	
	At 30 June 2016	At 30 June 2015
MTE Cowen (resigned 6 November 2015)	n/a	20,250
DM Harrison	4,366	4,366
AG Houston	1,842	1,842
IC Lancaster	7,604	7,604
ML Scott	5,729	5,729
BE Richardson	604	554
AR Hill	250	250
A Douglas (appointed 6 November 2015)	616	-
Trustee shareholdings		
Employees Trust Fund	209,000	208,000

ML Scott and DM Harrison were trustees of the Employees Trust Fund throughout the year.

IC Lancaster and AR Hill having served three years as Directors, resign in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

According to the register of Directors' Interests, no right to subscribe for shares in or debentures of Group companies was granted to any of the Directors of their immediate families, or exercised by them, during the financial year.

Board Committees

1. The Audit Committee is chaired by IC Lancaster. The remaining members of the Committee are A Douglas and AG Houston. All members are non-executive Directors. Their terms of reference include the review of the Annual and Interim Report and Accounts issued to shareholders, the accounting policies of the Group, compliance with Financial Reporting Standards, internal controls and the planning, scope and conclusions of the external Auditors' programme.
2. The Remuneration Committee is chaired by DM Harrison. The remaining members of the Committee are IC Lancaster and ML Scott. All members are non-executive Directors. Their duties are to review and recommend the basic salary, benefits in kind, terms and conditions of employment including performance related payments and pension benefits of executive Directors and senior executives.
3. Due to the size of the Board, the Nomination Committee comprises the entire Board.

Directors' Report *(continued)*

Political Contributions

The Group made no political contributions during the year (2015: *nil*).

Disclosure of Information to the Auditor

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

Auditor

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

Corporate Governance

Although not obligatory the Group operates within the spirit of the Code of Best Practice set out in the UK Corporate Governance Code. The Board remains committed to the principles of good corporate governance and to achieving high standards of business integrity and professionalism across the Group. Compliance with the Code has also taken into account the needs and resources of the Group.

The Board and Directors

At the date of this report the board had seven members: the non-executive Chairman, five non-executive directors and the Chief Executive. No individual or group of individuals dominates the Board's decision-making and collectively, the non-executive Directors bring a wide range of experience and expertise as they all currently occupy substantive positions in commercial and public life.

The roles of the Chairman and Chief Executive are clearly defined; the Chairman is responsible for ensuring that the Board fulfils its responsibilities to develop the strategy and direction of the business and for providing overall leadership; he is also responsible for chairing the Board meetings, the annual general meeting and the nomination committee. The Chief Executive is responsible for the day to day running of the operations, and with the support of the group executive management team, for implementing the Board's strategy.

The Board met six times during the year, it has a formal schedule of matters specifically reserved to it for decision, including corporate strategy, approval of budgets and ongoing financial results, new Board appointments, proposals for dividend payments and capital expenditure projects. Directors are sent a pack of Board papers prior to each Board meeting and with access to the Chief Executive and company secretary are therefore provided with full and timely access to all relevant information ensuring effective leadership and control of the Group for the benefit of shareholders, customers and staff.

The Articles of Association of the Group require that non-executive directors present themselves for re-election at intervals of no more than three years.

Directors' Report *(continued)*

Internal Control

The Directors acknowledge their responsibility for the system of internal control and the management of all forms of business risk which continues to be an important factor in the protection of value for our shareholders. Any system can only be designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against failing to achieve objectives or material misstatement or loss.

The Board delegates risk assessment and the identification of mitigating action to the individual operating company management teams with the assistance of the Group Accountant. A wide range of corporate policies deal, amongst other things, with corporate governance, management accounting, financial reporting, environment and social responsibility, health and safety, information technology, and risk management generally. In addition, the individual operating company boards provide monthly reports on performance and engage in regular dialogue with the Chief Executive on progress.

Key business risks are identified and evaluated and the effectiveness of financial controls and processes is monitored. Any changes in the status and control of risks are notified to the Board.

The audit committee reviews the adequacy of internal financial controls and deals with matters raised by the external auditors and reports to the Board accordingly. The external auditors have the opportunity for direct access to the Committee without the executive Directors being present.

The health & safety of our staff, customers and visitors remains of utmost importance and our appointed safety, fire and first aid officers, are provided with training, access to appropriate equipment and opportunities to discuss their roles beyond legislative requirements.

Compliance with the requirements of the Financial Conduct Authority, the Department for Business Innovation and Skills and various other professional and regulatory bodies complements the existing internal control systems across the Group.

Relations with Shareholders

The Board values the opinions of shareholders and as such, encourages the occasion of the Annual General Meeting as an opportunity for individual shareholders to share their views.

By order of the Board

Margaret Irving
Company Secretary

7 October 2016

Statement of Directors' Responsibilities in Respect of the Strategic Report, the Directors' Report and the Financial Statements

The directors are responsible for preparing the Strategic Report, the Directors' 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 they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the Group's profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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



KPMG LLP
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's report to the members of H&H Group plc

We have audited the financial statements of H&H Group plc for the year ended 30 June 2016 set out on pages 15 to 61. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the 'Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 June 2016 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of H&H Group plc *(continued)*

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

Nick Plumb (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Quayside House

110 Quayside

Newcastle upon Tyne

NE1 3DX

7 October 2016

Consolidated Profit and Loss Account

for the year ended 30 June 2016

	Note	2016 £000	2015 £000
Turnover	3	14,386	13,515
Operating costs		(16,226)	(12,504)
Other operating income	4	2,850	539
Operating profit		1,010	1,550
Transfer of trade		-	217
Interest receivable and other similar income		22	5
Interest payable and other similar charges	8	(320)	(248)
Profit on ordinary activities before taxation	3-8	712	1,524
Tax on profit on ordinary activities	9	(537)	(356)
Profit for the financial year		175	1,168

Other Comprehensive Income

for year ended 30 June 2016

	Note	2016 £000	2015 £000
Profit for the year		175	1,168
Other comprehensive income			
Revaluation of tangible fixed assets	12	191	-
Re-measurement of the net defined benefit liability	26	(768)	158
Income tax on other comprehensive income	9	119	(49)
Other comprehensive income for the year, net of income tax		(458)	109
Total comprehensive income for the year		(283)	1,277

Consolidated Balance Sheet

at 30 June 2016

	Note	2016 £000	2015 £000	2015 £000
Fixed assets				
Goodwill	10	2,377		1,571
Other intangible assets	11	190		119
Tangible assets	12	14,973		12,043
Investment property	13	5,047		830
Investments	14	5		5
		22,592		14,568
Current assets				
Stocks	15	841	701	
Debtors (including £574,000 (2015: £2,687,000) due in more than one year)	16	10,340	11,778	
		11,181	12,479	
Creditors: amounts falling due within one year	18	(8,492)	(9,004)	
Net current assets		2,689		3,475
Total assets less current liabilities		25,281		18,043
Creditors: amounts falling due after more than one year	19	(5,675)		(189)
Provisions for liabilities				
Deferred tax liability	21	(374)		(78)
Other provisions	22	(85)		-
Pension liabilities	26	(1,769)		(642)
Net assets		17,378		17,134
Capital and reserves				
Called up share capital	23	1,078		1,040
Revaluation reserve		3,612		3,427
Other reserves		866		-
Profit and loss account		11,822		12,667
Shareholders' funds		17,378		17,134

These financial statements were approved by the Board of Directors on 7 October 2016 and were signed on its behalf by:

Brian Richardson
Chief Executive

Ian C Lancaster
Chairman

Company registered number: 36006

Company Balance Sheet

at 30 June 2016

	Note	2016 £000	2015 £000	2015 £000
Fixed assets				
Other Intangible assets	11	7		4
Tangible assets	12	405		504
Investment property	13	11,653		10,911
Investments	14	12,493		3,258
				<hr/>
		24,558		14,677
Current assets				
Debtors	16	240		255
		<hr/>		<hr/>
		240		255
Creditors: amounts falling due within one year	18	(7,824)		(8,333)
		<hr/>		<hr/>
Net current liabilities				(8,078)
Total assets less current liabilities				<hr/>
		16,974		6,599
Creditors: amounts falling due after more than one year	19	(5,615)		(174)
Provisions for liabilities				
Deferred tax liability	21	(237)		-
Other provisions	22	(85)		-
Pension liabilities	26	(110)		(642)
		<hr/>		<hr/>
Net assets		10,927		5,783
		<hr/>		<hr/>
Capital and reserves				
Called up share capital	23	1,078		1,040
Other reserves		866		-
Profit and loss account		8,983		4,743
		<hr/>		<hr/>
Shareholders' funds		10,927		5,783
		<hr/>		<hr/>

These financial statements were approved by the Board of Directors on 7 October 2016 and were signed on its behalf by:

Brian Richardson
Chief Executive

Ian C Lancaster
Chairman

Company registered number: 36006

Consolidated Statement of Changes in Equity

	Called up share capital	Revaluation reserve	Other reserves	Profit and loss account	Total share- holder's equity
	£000	£000	£000	£000	£000
Balance at 1 July 2014	1,040	3,429	-	11,752	16,221
Total comprehensive income for the period					
Profit or loss	-	-	-	1,168	1,168
Other comprehensive income	-	-	-	109	109
Total comprehensive income for the period	-	-	-	1,277	1,277
Transactions with owners, recorded directly in equity: Dividends	-	-	-	(364)	(364)
Total contributions by and distributions to owners	-	-	-	(364)	(364)
Transfer	-	(2)	-	2	-
Balance at 30 June 2015	1,040	3,427	-	12,667	17,134
Balance at 1 July 2015	1,040	3,427	-	12,667	17,134
Total comprehensive income for the period					
Profit or loss	-	-	-	175	175
Other comprehensive income	-	191	-	(649)	(458)
Total comprehensive income for the period	-	191	-	(474)	(283)
Transactions with owners, recorded directly in equity Issue of shares	38	-	866	-	904
Dividends	-	-	-	(377)	(377)
Total contributions by and distributions to owners	38	-	866	(377)	527
Transfer	-	(6)	-	6	-
Balance at 30 June 2016	1,078	3,612	866	11,822	17,378

Company Statement of Changes in Equity

	Called up share capital	Other reserves	Profit and loss account	Total share- holder's equity
	£000	£000	£000	£000
Balance at 1 July 2014	1,040	-	4,267	5,307
Total comprehensive income for the period				
Profit or loss	-	-	731	731
Other comprehensive income	-	-	109	109
Total comprehensive income for the period	-	-	840	840
Transactions with owners, recorded directly in equity: Dividends	-	-	(364)	(364)
Total contributions by and distributions to owners	-	-	(364)	(364)
Balance at 30 June 2015	1,040	-	4,743	5,783
Balance at 1 July 2015	1,040	-	4,743	5,783
Total comprehensive income for the period				
Profit or loss	-	-	4,261	4,261
Other comprehensive income	-	-	356	356
Total comprehensive income for the period	-	-	4,617	4,617
Transactions with owners, recorded directly in equity Issue of shares	38	866	-	904
Dividends	-	-	(377)	(377)
Total contributions by and distributions to owners	38	866	(377)	527
Balance at 30 June 2016	1,078	866	8,983	10,927

Consolidated Cash Flow Statement

for the year ended 30 June 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		175	1,168
<i>Adjustments for</i>			
Depreciation, amortisation and impairment		2,940	731
Transfer of trade		-	(217)
Change in value of investment property	4	(2,534)	(350)
Interest receivable and similar income		(22)	(5)
Interest payable and similar charges	8	320	248
Gain on sale of tangible fixed assets	4	(100)	(36)
Taxation	9	537	356
Contribution to defined benefit pension scheme		(151)	(105)
		1,165	1,790
Decrease/(increase) in trade and other debtors		1,886	(1,043)
Increase in stocks		(124)	(12)
(Decrease)/increase in trade and other creditors		(1,517)	51
Increase in amounts receivable on finance contracts		3,543	6,829
Decrease in provisions		-	(12)
		4,953	7,603
Dividends paid		(377)	(364)
Tax paid		(228)	(355)
Net cash from operating activities		4,348	6,884
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets / investment property		299	-
Interest received		22	1
Transfer of trade		70	77
Acquisition of subsidiaries		(8,659)	-
Acquisition of tangible fixed assets / investment property		(638)	(999)
Net cash from investing activities		(8,906)	(921)
Cash flows from financing activities			
Proceeds from new loan	20	8,221	-
Interest paid		(242)	(205)
Repayment of borrowings		(2,330)	(6,750)
Payment of finance lease liabilities		(166)	(123)
Net cash from financing activities		5,483	(7,078)
Net increase/(decrease) in cash and cash equivalents		925	(1,115)
Cash and cash equivalents at 1 July		(6,368)	(5,253)
Cash and cash equivalents at 30 June	17	(5,443)	(6,368)

Company Cash Flow Statement

for the year ended 30 June 2016

	Note	2016 £000	2015 £000
Cash flows from operating activities			
Profit for the year		4,261	731
<i>Adjustments for</i>			
Depreciation, amortisation and impairment		102	105
Dividends received		(3,996)	(800)
Change in value of investment property		(654)	(350)
Fair value through profit or loss gain		-	(4)
Interest payable and similar charges		205	162
Gain on sale of tangible fixed assets		-	(7)
Taxation		197	63
Contribution to defined benefit pension scheme		(109)	(105)
		6	(205)
Increase in trade and other debtors		(9)	(160)
(Decrease)/increase in trade and other creditors		(186)	621
Decrease in provisions		-	(13)
		(189)	243
Dividends paid		(377)	(364)
Tax paid		(10)	(10)
Net cash outflow from operating activities		(576)	(131)
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets		-	24
Acquisition of subsidiaries	2	(8,246)	-
Acquisition of tangible fixed assets / investment property	12, 13	(94)	(472)
Dividend received		3,996	800
Net cash (to)/from investing activities		(4,344)	352
Cash flows from financing activities			
Proceeds from new loan	20	8,221	-
Interest paid		(146)	(127)
Repayment of borrowings		(2,330)	(121)
Repayment of finance lease liabilities		(97)	(96)
Net cash from/(to) financing activities		5,648	(344)
Net increase/(decrease) in cash and cash equivalents		728	(123)
Cash and cash equivalents at 1 July		(1,402)	(1,279)
Cash and cash equivalents at 30 June	17	(674)	(1,402)

1 Accounting policies

H&H Group plc (the “Company”) is a company limited by shares and incorporated and domiciled in the UK.

These Group and parent company financial statements were prepared in accordance with Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (“FRS102”) as issued in August 2014. The amendments to FRS102 issued in July 2015 and effective immediately have been applied. The presentation currency of these financial statements is sterling. All amounts in the financial statements have been rounded to the nearest £1,000.

An explanation of how the transition to FRS102 has affected financial position and financial performance of the Group is provided in note 30.

FRS102 grants certain first-time adoption exemptions from the full requirements of FRS102. The following exemptions have been taken in these financial statements:

- Business combinations – Business combinations that took place prior to 1 July 2014 have not been restated.
- Lease incentives – for leases commenced before 1 July 2014 the Group and Company continued to account for lease incentives under previous UK GAAP.

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

1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: investment property and tangible fixed assets measured in accordance with the revaluation model.

1.2 Going concern

Further information on the Group’s business activities together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Group, its cash flow, liquidity position and borrowing facilities are described in note 20 of the financial statements. In addition, note 27 of the financial statements also includes the Group’s objectives, policies and processes for managing its capital; its financial instruments; and its exposure to credit risk and liquidity risk.

The Group meets its day to day working capital requirements through an overdraft facility and various bank facilities. Having reviewed these facilities and the Group’s forecasts and projections, which take account of reasonably possible changes in trading performance, 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.

1.3 Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 30 June 2016. A subsidiary is an entity that is controlled by the parent. The results of subsidiary undertakings are included in the consolidated profit and loss account from the date that control commences until the date that control ceases. Control is established when the Company has the power to govern the operating and financial policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable.

In the parent financial statements, investments in subsidiaries are carried at cost less impairment.

Notes (continued)

1 Accounting policies (continued)

1.4 Classification of financial instruments issued by the Group

In accordance with FRS102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

1.5 Basic financial instruments

Trade and other debtors / creditors

Trade and other debtors are recognised initially at transaction price less attributable transaction costs. Trade and other creditors are recognised initially at transaction price plus attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses in the case of trade debtors. If the arrangement constitutes a financing transaction, for example if payment is deferred beyond normal business terms, then it is measured at the present value of future payments discounted at a market rate of instrument for a similar debt instrument.

Interest-bearing borrowings classified as basic financial instruments

Interest-bearing borrowings are recognised initially at the present value of future payments discounted at a market rate of interest. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

1.6 Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses subject to the revaluation of land and buildings.

Where parts of an item of tangible fixed assets have different useful lives, they are accounted for as separate items of tangible fixed assets, for example land is treated separately from buildings.

Leases in which the entity assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. All other leases are classified as operating leases. Leased assets acquired by way of finance lease are stated on initial recognition at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, including any incremental costs directly attributable to negotiating and arranging the lease. At initial recognition a finance lease liability is recognised equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The present value of the minimum lease payments is calculated using the interest rate implicit in the lease. Lease payments are accounted for as described at 1.14 below.

The company assesses at each reporting date whether tangible fixed assets (including those leased under a finance lease) are impaired.

Notes (continued)

1 Accounting policies (continued)

1.6 Tangible fixed assets (continued)

Depreciation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of each part of an item of tangible fixed assets. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated. The estimated useful lives are as follows:

Freehold land	-	nil
Freehold buildings (office developments)	-	50 years (straight line)
Leasehold improvements	-	life of lease
Plant and machinery	-	15 years (straight line) 15% (reducing balance)
Motor vehicles	-	4 years (straight line)
Fixtures and fittings	-	15% (reducing balance)
Office equipment	-	5 years (straight line)
Computer hardware	-	3 years (straight line)

Depreciation methods, useful lives and residual values are reviewed if there is an indication of a significant change since last annual reporting date in the pattern by which the company expects to consume an asset's future economic benefits.

Revaluation

Freehold land and buildings are stated at fair value less any subsequent accumulated depreciation and impairment losses. Gains on revaluation are recognised in other comprehensive income and accumulated in the revaluation reserve. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease previously recognised in profit or loss.

Losses arising on revaluation are recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity, in respect of that asset. Any excess is recognised in profit or loss.

1.7 Business combinations

Business combinations are accounted for using the purchase method as at the acquisition date, which is the date on which control is transferred to the entity.

At the acquisition date, the Group recognises goodwill at the acquisition date as:

- the fair value of the consideration (excluding contingent consideration) transferred; plus
- estimated amount of contingent consideration (see below); plus
- the fair value of the equity instruments issued; plus
- directly attributable transaction costs; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities and contingent liabilities assumed.

FRS102.35 grants certain exemptions from the full requirements of FRS102 in the transition period. The Company and Group elected not to restate business combinations that took place prior to 1 July 2014. In respect of acquisitions prior to 1 July 2014, goodwill is included on the basis of its deemed cost, which represents the amount recorded under old UK GAAP. Intangible assets previously included in goodwill, are not recognised separately.

1.8 Intangible assets, goodwill and negative goodwill

Goodwill

Goodwill is stated at cost less any accumulated amortisation and accumulated impairment losses. Goodwill is allocated to cash-generating units or group of cash-generating units that are expected to benefit from the synergies of the business combination from which it arose.

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Intangible assets, goodwill and negative goodwill *(continued)*

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

The cost of intangible asset acquired in a business combination are capitalised separately from goodwill if the fair value can be measured reliably at the acquisition date.

Amortisation

Amortisation is charged to the profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- brands 10 years
- software 5 years

Goodwill is amortised on a straight line basis over its useful life. Goodwill has no residual value. The finite useful life of goodwill is estimated on an acquisition by acquisition basis and is generally between 10 and 20 years.

The company reviews the amortisation period and method when events and circumstances indicate that the useful life may have changed since the last reporting date.

Goodwill and other intangible assets are tested for impairment in accordance with Section 27 Impairment of assets when there is an indication that goodwill or an intangible asset may be impaired.

1.9 Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are recognised initially at cost.

Subsequent to initial recognition

- i. investment properties whose fair value can be measured reliably without undue cost or effort are held at fair value. Any gains or losses arising from changes in the fair value are recognised in profit or loss in the period that they arise; and
- ii. no depreciation is provided in respect of investment properties applying the fair value model.

If a reliable measure is not available without undue cost or effort for an item of investment property, this item is thereafter accounted for as tangible fixed assets in accordance with section 17 until a reliable measure of fair value becomes available.

1.10 Stocks

Stocks are stated at the lower of cost and estimated selling price less costs to complete and sell. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the stocks, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured stocks and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes (continued)

1 Accounting policies (continued)

1.11 Impairment excluding stocks and investment properties

Financial assets (including trade and other debtors)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than investment property and stocks are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing is allocated to cash-generating units, or ("CGU") that are expected to benefit from the synergies of the combination. For the purpose of goodwill impairment testing, if goodwill cannot be allocated to individual CGUs or groups of CGUs on a non-arbitrary basis, the impairment of goodwill is determined using the recoverable amount of the acquired entity in its entirety, or if it has been integrated then the entire group of entities into which it has been integrated.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

1.12 Employee benefits

Defined contribution plans and other long term employee benefits

A defined contribution plan is a post-employment benefit plan under which the company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The entity's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. The fair value of any plan assets is deducted. The entity determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate as determined at the beginning of the annual period to the net defined benefit liability (asset) taking account of changes arising as a result of contributions and benefit payments

Notes *(continued)*

1 Accounting policies *(continued)*

1.12 Employee benefits *(continued)*

Defined benefit plans *(continued)*

The discount rate is the yield at the balance sheet date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to the terms of the entity's obligations. A valuation is performed annually by a qualified actuary using the projected unit credit method. The entity recognises net defined benefit plan assets to the extent that it is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

Changes in the net defined benefit liability arising from employee service rendered during the period, net interest on net defined benefit liability, and the cost of plan introductions, benefit changes, curtailments and settlements during the period are recognised in profit or loss.

Remeasurement of the net defined benefit liability/asset is recognised in other comprehensive income in the period in which it occurs.

1.13 Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services (including lease finance – see above) to third party customers. Where the Group acts as sales agent (for example in the marts, auction rooms and estate agency businesses) turnover represents the commission earned only.

1.14 Expenses

Operating lease

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease unless the payments to the lessor are structured to increase in line with expected general inflation; in which case the payments related to the structured increases are recognised as incurred. Lease incentives received are recognised in profit and loss over the term of the lease as an integral part of the total lease expense.

Finance lease

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability using the rate implicit in the lease. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Interest receivable and Interest payable

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method that are recognised in the profit and loss account.

Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable are recognised in profit or loss as they accrue, using the effective interest method. Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Notes *(continued)*

1 **Accounting policies** *(continued)*

1.15 **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on timing differences which arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements. The following timing differences are not provided for: differences between accumulated depreciation and tax allowances for the cost of a fixed asset if and when all conditions for retaining the tax allowances have been met; and differences relating to investments in subsidiaries, to the extent that it is not probable that they will reverse in the foreseeable future and the reporting entity is able to control the reversal of the timing difference. Deferred tax is not recognised on permanent differences arising because certain types of income or expense are non-taxable or are disallowable for tax or because certain tax charges or allowances are greater or smaller than the corresponding income or expense.

Deferred tax is provided in respect of the additional tax that will be paid or avoided on differences between the amount at which an asset (other than goodwill) or liability is recognised in a business combination and the corresponding amount that can be deducted or assessed for tax. Goodwill is adjusted by the amount of such deferred tax.

Deferred tax is measured at the tax rate that is expected to apply to the reversal of the related difference, using tax rates enacted or substantively enacted at the balance sheet date. For non-depreciable assets that are measured using the revaluation model, or investment property that is measured at fair value, deferred tax is provided at the rates and allowances applicable to the sale of the asset/property. Deferred tax balances are not discounted.

Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 **Acquisitions in the current period**

On 14 October 2015, the Group acquired all of the shares of John Swan & Sons plc and John Swan Limited for £8,222,000 excluding acquisition expenses. The company acts as auctioneers, livestock agents, valuers and estate agents operating livestock auction marts in Newton St Boswells and Wooler. The trade of the John Swan entities were hived up into Harrison and Hetherington Limited, a subsidiary of the Group, on 1 January 2016. The business contributed revenue pre-hive up of £350,000.

On 27 November 2015 the Group acquired all of the shares of Michael CL Hodgson Limited for £568,000. The company is an estate agent. The trade of Michael CL Hodgson Limited was immediately hived up into H&H Land and Property Limited, a subsidiary of the Group.

Notes (continued)

2 Acquisitions and disposal of businesses (continued)

Effect of acquisition

The acquisition of John Swan & Sons plc had the following effect on the Company's/Group's assets and liabilities.

	Book values	Fair value adjustments	Recognised values on acquisition
	£000	£000	£000
Acquiree's net assets at the acquisition date:			
Tangible fixed assets	2,646	212	2,858
Investment properties	813	821	1,634
Stocks	7	-	7
Trade and other debtors	4,133	(130)	4,003
Bank overdraft	(643)	-	(643)
Pension scheme liabilities	(478)	-	(478)
Trade and other creditors	(1,552)	(34)	(1,586)
Deferred tax liabilities	79	20	99
	<hr/>	<hr/>	<hr/>
Net identifiable assets and liabilities	5,005	889	5,894
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Total cost of business combination:			
Consideration paid:			
Initial cash price paid			7,316
Equity instruments issued			905
Costs directly attributable to the business combination			433
			<hr/>
Total consideration			8,654
			<hr/> <hr/>
Goodwill on acquisition			2,760
			<hr/> <hr/>

Management used an external valuer to value the tangible fixed assets and investment properties at the point of acquisition. A gain of £1,033k beyond book value has been recognised for this.

The Group reviewed outstanding trade debtors and have increased the bad debt provision by £130k for amounts expected to be irrecoverable.

The Group identified additional costs of £34k not accrued at the acquisition date, an additional accrual has been recognised accordingly.

The expected useful life of goodwill stemming from this acquisition is 20 years, which was considered appropriate given the significant history of the acquired entities.

Notes (continued)

2 Acquisitions and disposal of businesses (continued)

Effect of acquisition

The acquisition of Michael CL Hodgson had the following effect on the Company's/Group's assets and liabilities.

	Book values	Fair value adjustments	Recognised values on acquisition
	£000	£000	£000
Acquiree's net assets at the acquisition date:			
Tangible fixed assets	16	-	16
Intangible assets	-	63	63
Stocks	9	-	9
Trade and other debtors	100	-	100
Cash	227	-	227
Trade and other creditors	(141)	-	(141)
Deferred tax liabilities	(2)	-	(2)
	<hr/>	<hr/>	<hr/>
Net identifiable assets and liabilities	209	63	272
	<hr/>	<hr/>	<hr/>
Total cost of business combination:			
Consideration paid:			
Initial cash price paid			478
Contingent consideration expected to be paid			85
Costs directly attributable to the business combination			14
			<hr/>
Total consideration			577
			<hr/> <hr/>
Goodwill on acquisition			305
			<hr/> <hr/>

The Michael CL Hodgson Limited brand has been retained by the Group post acquisition. The brand has been valued using the royalty relief method to estimate the fair value of licencing an equivalent brand for 10 years.

There were no further fair value adjustments.

The expected useful life of goodwill stemming from this acquisition is 10 years.

Notes (continued)

3 Analysis of turnover

	2016 £000	2015 £000
H&H Group Limited	16	10
Harrison & Hetherington Limited	6,489	5,613
H&H Finance Limited	327	825
H&H Land and Property Limited	2,896	2,662
H&H Insurance Brokers Limited	1,316	1,410
H&H Reeds Printers Limited*	2,992	2,995
John Swan & Sons Limited	6	-
John Swan Limited	344	-
	14,386	13,515

*All turnover is generated from services with the exception of H&H Reeds Printers Limited turnover that relates to the provision of goods. Turnover above is shown after elimination of intra-group transactions.

4 Other operating income

	2016 £000	2015 £000
Rents receivable	216	153
Net gain on disposal of tangible fixed assets	100	36
Fair value adjustments for investment property (note 13)	2,534	350
	2,850	539

5 Expenses and auditor's remuneration

	2016 £000	2015 £000
<i>Included in profit/loss are the following:</i>		
Depreciation – owned assets	556	505
– leased assets	76	74
Amortisation of goodwill	255	152
Impairment of goodwill	2,004	-
Rentals payable for the hire of assets under operating leases	244	246
Transfer of trade	-	217

Notes (continued)

5 Expenses and auditor's remuneration (continued)

	2016 £000	2015 £000
<i>Auditors' remuneration:</i>		
Audit of these financial statements	7	4
Amounts receivable by auditors and their associates in respect of: Audit of financial statements of subsidiaries pursuant to such legislation	30	22
Other services	2	80
	<hr/>	<hr/>

6 Staff numbers and costs

The average number of persons employed by the Group and Company (including Directors but excluding part time employees) during the year, analysed by category, was as follows:

	Group and Company Number of Employees	
	2016	2015
Management	14	14
Professional	21	21
Sales	47	34
Administration	71	60
Operations	58	57
	<hr/>	<hr/>
	211	186
	<hr/> <hr/>	<hr/> <hr/>

In addition 92 (2015: 87) part-time staff were employed.

The aggregate payroll costs of these persons were as follows:

	2016 £000	2015 £000
Wages and salaries	6,144	5,578
Social security costs	599	544
Other pension costs (note 26)	194	189
	<hr/>	<hr/>
	6,937	6,311
	<hr/> <hr/>	<hr/> <hr/>

All employment contracts rest with H&H Group plc, the parent Company; however, payroll costs are recharged to trading subsidiaries as appropriate.

Notes (continued)

7 Remuneration of Directors

	2016	2015
	£000	£000
Directors' emoluments		
- Fees	63	62
- Other emoluments	162	173
- Company contributions to money purchase pension schemes	6	6
- Benefits in kind	17	15
	248	256

The emoluments of the highest paid Director were £173,702 (2015: £184,201). Company pension contributions of £6,378 (2015: £6,283) were made to a personal pension scheme on his behalf.

One director (2015: one) had benefits accruing under the Group's money purchase pension scheme.

8 Interest payable and similar charges

	2016	2015
	£000	£000
On bank overdrafts	112	128
On bank loans	167	10
On committed money market loans	-	66
Finance charges payable in respect of finance lease and hire purchase contracts	9	9
Net interest expense on net defined benefit liabilities	32	35
	320	248

Notes (continued)

9 Taxation

Total tax expense recognised in the profit and loss account, other comprehensive income and equity

	£000	2016 £000	2015 £000	£000
Current tax				
Current tax on income for the period		25		225
Adjustments in respect of prior periods		-		3
		<hr/>		<hr/>
Total current tax		25		228
Deferred tax (see note 21)				
Origination and reversal of timing differences	593		128	
Change in tax rate	(81)		-	
	<hr/>		<hr/>	
Total deferred tax		512		128
		<hr/>		<hr/>
Total tax		537		356
		<hr/> <hr/>		<hr/> <hr/>

	£000	2016 £000	£000	£000	2015 £000	£000
	Current Tax	Deferred Tax	Total Tax	Current Tax	Deferred Tax	Total Tax
Recognised in Profit and loss account	25	512	537	228	128	356
Recognised in other comprehensive income	-	(119)	(119)	-	(49)	(49)
Recognised directly in equity	-	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total tax	25	393	418	228	79	307
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

9 Taxation (continued)

Reconciliation of effective tax rate

	2016 £000	2015 £000
Profit for the year	175	1,168
Total tax expense	537	356
Profit excluding taxation	712	1,524
Tax using the UK corporation tax rate of 20% (2015: 20.75%)	142	316
Reduction in tax rate on deferred tax balances	(81)	-
Non-deductible expenses	476	37
Adjustment in respect of prior years	-	3
Total tax expense included in profit or loss	537	356

Factors that may affect future tax charges

Reductions in the UK corporation tax rate from 23% to 21% (effective 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the future current tax charge accordingly.

Notes (continued)

10 Goodwill

	Goodwill £000
Group	
Cost	
At beginning of year	3,096
Additions (see note 2)	3,065
	<hr/>
At end of year	6,161
	<hr/> <hr/>
Amortisation	
At beginning of year	1,525
Charge in year	255
Impairment in year	2,004
	<hr/>
At end of year	3,784
	<hr/> <hr/>
Net book value	
At 30 June 2016	2,377
	<hr/>
At 30 June 2015	1,571
	<hr/> <hr/>

As detailed in note 2, during the year the Group acquired John Swan & Sons plc and its subsidiary. The assets of the acquired group included land and buildings which had development potential in the future. These assets were valued as at the date of acquisition. Since the acquisition these properties have been revalued again to take account of further progress with the potential development of certain of these sites with gains of £2,004,000 being recognised in respect of these properties. Following this revaluation management have performed an impairment review of the remaining goodwill in respect of the acquisition and have impaired the goodwill by £2,004,000.

11 Other Intangible assets

Group	Software £000	Brand £000	Total £000
Cost			
At beginning of year	277	-	277
Additions	57	-	57
Acquisitions through business combinations (see note 2)	-	63	63
Disposals	(32)	-	(32)
At end of year	302	63	365
Amortisation			
At beginning of year	158	-	158
Charge in year	46	3	49
Disposal	(32)	-	(32)
At end of year	172	3	175
Net book value			
At 30 June 2016	130	60	190
At 30 June 2015	119	-	119
Software £000			
Company			
Cost			
At beginning of year			26
Additions			5
Disposals			(1)
At end of year			30
Amortisation			
At beginning of year			22
Charge in year			2
Disposal			(1)
At end of year			23
Net book value			
At 30 June 2016			7
At 30 June 2015			4

12 Tangible fixed assets

Group	Freehold land and buildings £000	Motor vehicles £000	Plant, fittings and computers £000	Total £000
Cost or valuation				
At beginning of year	10,170	957	3,241	14,368
Acquisitions through business combinations	2,630	83	161	2,874
Additions	18	174	437	629
Disposals	-	(304)	(160)	(464)
Revaluation	191	-	-	191
At end of year	13,009	910	3,679	17,598
Depreciation				
At beginning of year	104	419	1,802	2,325
Charge for year	47	210	375	632
Disposals	-	(188)	(144)	(332)
At end of year	151	441	2,033	2,625
Net book value				
At 30 June 2016	12,858	469	1,646	14,973
At 30 June 2015	10,066	538	1,439	12,043

Notes (continued)

12 Tangible fixed assets (continued)

At 30 June 2016 the net carrying amount of plant, fittings and computers leased under a finance lease was £442,000 (2015: £420,000). Depreciation for the year on these assets was £76,000 (2015: £74,000).

Revaluation

Freehold land and buildings are valued by independent valuers every 3 years. The last valuation was carried out on 30 June 2016.

The fair value was measured using RICS Professional Standards, January 2014. Key assumptions of this calculation are shown below:

Fair value has been assessed on the following basis:

- Operational, non-specialised properties to Existing Use Value;
- Operational specialised properties to Depreciated Replacement Cost;
- Surplus properties or those held for investment at Market Value.

The following information relates to tangible fixed assets carried on the basis of revaluation.

Land and Buildings	Group	
	2016 £000	2015 £000
At fair value	12,762	10,170
Aggregate depreciation thereon	-	(104)
Net book value	12,762	10,066
Historical cost net book value	9,150	6,639

Notes (continued)

12 Tangible fixed assets (continued)

Group Land and buildings includes an amount of £12,219,000 which is not depreciated (2015: £9,900,605).

Company	Plant, fittings and computers £000
Cost or valuation	
At beginning of year	1,037
Additions	1
Disposals	(11)
At end of year	1,027
Depreciation	
At beginning of year	533
Charge for year	100
Disposals	(11)
At end of year	622
Net book value At 30 June 2016	405
At 30 June 2015	504

At 30 June 2016 the net carrying amount of plant, fittings and computers leased under a finance lease was £298,000 (2015: £351,000). Depreciation for the year on these assets was £53,000 (2015: £62,000).

13 Investment property

Group	2016 £000
Balance at 1 July 2015	830
Additions	115
Acquisitions through business combinations (note 2)	1,634
Disposals	(66)
Net gain from fair value adjustments (note 4)	2,534
Balance at 30 June 2016	5,047
Historical cost net book value	2,328

Notes (continued)

13 Investment property (continued)

Company	2016 £000
Balance at 1 July 2015	10,911
Additions	88
Net gain/(loss) from fair value adjustments	654
Balance at 30 June 2016	11,653
Historical cost net book value	7,224

£5,022,000 (2015: £1,205,000) (Company: £11,628,000 (2015: £11,286,000)) of investment property fair value is based on a valuation by an external, independent valuer, having an appropriate recognised professional qualification and recent experience in the location and class of property being valued.

Any gain or loss arising from a change in fair value is recognised in profit or loss.

14 Fixed asset investments

Group	Other Investments £000	Total £000
Cost and net book value		
At beginning and end of year	5	5

Notes (continued)

14 Fixed asset investments (continued)

Company	Subsidiary undertaking £000	Other investments £000	Total £000
Cost			
At beginning of year	3,268	5	3,273
Additions	9,235	-	9,235
At end of year	12,503	5	12,508
Provisions			
At beginning of year	15	-	15
Impairment	-	-	-
	15	-	15
Net book value At 30 June 2016	12,488	5	12,493
At 30 June 2015	3,253	5	3,258

	Country of incorporation	Class and percentage of shares held %
Subsidiary undertakings		
Harrison & Hetherington Limited ¹	England	100.0
Beacon Borderway Limited ²	England	100.0
Borderway Farmstock Limited ²	England	100.0
H&H Finance Limited ¹	England	100.0
H&H Land and Property Limited ¹	England	100.0
H&H Insurance Brokers Limited ¹	England	100.0
H&H King Limited ²	England	100.0
H&H Motor Auctions Limited ²	England	100.0
Harrison & Hetherington (Scotland) Limited ²	Scotland	100.0
H&H Borderway Limited ²	England	100.0
A&D Printers Limited ²	England	100.0
H&H Reeds Printers Limited ¹	England	100.0*
John Swan & Sons Limited (formerly John Swan & Son plc)	Scotland	100.0
John Swan Limited	Scotland	100.0**
Michael CL Hodgson Limited	England	100.0

	Company	
	2016 £	2015 £
Other investments (Group and Company)		
Other unlisted investments	4,500	4,500

Notes *(continued)*

14 Fixed asset investments *(continued)*

- 1 See strategic report (page 5) for principal activities.
- 2 Dormant throughout current year
- * Held indirectly through ownership of A&D Printers Limited
- ** Held indirectly through ownership of John Swan & Sons Limited

Other unlisted investments consist of ordinary shares in companies at cost less provisions for diminution in value.

15 Stocks

	Group	
	2016	2015
	£000	£000
Work in progress	663	523
Raw materials and finished goods	178	178
	<hr/> 841 <hr/>	<hr/> 701 <hr/>

Notes (continued)

16 Debtors

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Trade debtors	7,983	5,823	28	25
Amounts receivable on finance contracts by:				
- Harrison & Hetherington Limited	-	22	-	-
- H&H Borderway Finance Limited	1,727	5,248	-	-
Prepayments and accrued income	630	685	212	206
Deferred Tax Asset (note 21)	-	-	-	24
	10,340	11,778	240	255
Due within one year	9,766	9,091	240	255
Due after more than one year	574	2,687	-	-
	10,340	11,778	240	255

Finance contracts debtors analysis:

Net investment in

Hire purchase
Other finance debtors

Group	
2016 £000	2015 £000
1,583	4,929
144	341
1,727	5,270

Of which the amount due after more than one year

Original asset value of vehicles on which hire purchase and finance lease agreements were made during the year

Aggregate capital rentals received

Group	
2016 £000	2015 £000
574	2,687
-	-
3,398	6,404

Notes (continued)

17 Cash and cash equivalents/ bank overdrafts

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Cash at bank and in hand	-	-	-	-
Bank overdrafts	(5,443)	(6,368)	(674)	(1,402)
Cash and cash equivalents per cashflow statements	(5,443)	(6,368)	(674)	(1,402)

18 Creditors: amounts falling due within one year

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Bank overdrafts	5,443	6,368	674	1,402
Bank loan	477	123	477	123
Trade creditors	1,047	1,042	-	-
Amounts owed to Group undertakings	-	-	6,372	6,553
Corporation tax	69	224	24	10
Other taxation and social security	567	451	35	5
Accruals and deferred income	760	679	146	144
Obligations under finance leases and hire purchase contracts	129	117	96	96
	8,492	9,004	7,824	8,333

The bank overdrafts and committed money market loans are secured by cross guarantees and debentures and charges over certain of the Group's freehold property and finance assets.

At 30 June 2016 the group was holding £1,219,145 (2015: £1,386,565) on behalf of its clients. This cash balance has been excluded from the cash at bank and in hand balance, and has been offset against the associated creditor balance.

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Bank loans	5,599	61	5,599	61
Obligations under finance lease and hire purchase contracts	76	128	16	113
	5,675	189	5,615	174

20 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortised cost.

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Creditors falling due within less than one year				
Secured bank overdraft	5,443	6,368	674	1,402
Secured bank loans	477	123	477	123
Finance lease liabilities	129	117	96	96
	6,049	6,608	1,247	1,621
Creditors falling due more than one year				
Secured bank loans	5,599	61	5,599	61
Finance lease liabilities	76	128	16	113
	5,675	189	5,615	174

Terms and debt repayment schedule

On 24 July 2015 the Company entered into a new facility arrangement to finance the purchase of John Swan & Sons plc. This agreement includes Facility 'A' and Facility 'B' for £6,221,000 and £2,000,000 respectively. Facility 'B' had been repaid by the year end.

Bank loans comprise Facility 'A' and the company's historic facility for £595,000. All loans are denominated in GBP.

Facility 'A'

The Facility 'A' bank facility is repayable over 5 years in quarterly instalments. The facility is secured against the company's assets and bears interest at a variable rate based on LIBOR and the level of drawdown. At the year end the outstanding liability is £6,014,000 (2015: £nil) and the interest rate was 3.34% (2015: nil).

Historic facility

The historic facility is repayable in November 2016 in quarterly instalments. The facility is secured against the company's assets and bears interest at a variable rate based on LIBOR plus 3.5%. At the year end the outstanding liability is £62,000 (2015: £185,000) and the interest rate was 4.09% (2015: 4.07%).

Finance lease liabilities

The Group and company hold a number of finance lease arrangements for plant and equipment ranging from 1 to 7 years outstanding as at 30 June 2016. The finance leases are secured against the corresponding assets and bear interest at variable rates. At the year end the Group's outstanding liability is £205,000 (2015: £245,000) (company £112,000 (2015: £209,000)).

All finance leases are denominated in GBP.

Notes (continued)

20 Interest-bearing loans and borrowings (continued)

The maturity of obligations under finance leases and hire purchase contracts is as follows:

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Within one year	129	117	96	96
In the second to fifth years	76	128	16	113
Over five years	-	-	-	-
	205	245	112	209

The maturity of bank debt is as follows:

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Within one year	5,920	6,491	1,151	1,525
In the second to fifth years	5,599	61	5,599	61
Over five years	-	-	-	-
	11,519	6,552	6,750	1,586

21 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2016	2015	2016	2015	2016	2015
	£000	£000	£000	£000	£000	£000
Accelerated capital allowances	-	-	117	98	117	98
Employee benefits	(354)	(128)	-	-	(354)	(128)
Unused tax losses	(219)	(33)	-	-	(219)	(33)
Other	(5)	(3)	835	144	830	141
Tax (assets) / liabilities	(578)	(164)	952	242	374	78

Notes (continued)

21 Deferred tax assets and liabilities (continued)

Company	Assets		Liabilities		Net	
	2016 £000	2015 £000	2016 £000	2015 £000	2016 £000	2015 £000
Accelerated capital allowances	(1)	(7)	-	-	(1)	(7)
Employee benefits	(22)	(128)	-	-	(22)	(128)
Unused tax losses	(30)	(33)	-	-	(30)	(33)
Other	-	-	290	144	290	144
Tax (assets) / liabilities	(53)	(168)	290	144	237	(24)

22 Other provisions

	Group		Company	
	2016 £000	2015 £000	2016 £000	2015 £000
Contingent consideration	85	-	85	-

The movements in contingent consideration are as follows:

	2016 £000	2015 £000
At beginning of year	-	12
Utilised during year	-	(12)
Arising on acquisition	85	-
At end of year	85	-

23 Called up share capital

	2016 £000	2015 £000
Allotted, called up and fully paid		
1,078,453 (2015: 1,040,000) ordinary shares of £1 each	1,078	1,040

During the year 38,453 shares were issued as part of the consideration in the acquisition of John Swan & Son Plc. The fair value of the shares issued was £905,000. The premium arising on the share was recorded in other reserves.

24 Contingent liabilities

At 30 June 2016 the Company was party to unlimited cross guarantees with its subsidiary undertakings.

The Company has given an indemnity for personal guarantees made by the Directors of the wholly owned subsidiary H&H Insurance Brokers Limited to insurance companies under certain agency agreements.

Notes (continued)

25 Commitments

The Group and the Company had contracted capital commitments of £nil at the end of the current year (2015: nil).

Non-cancellable operating lease rentals are payable as follows:

Group	2016		2015	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	180	13	156	42
Between one and five years	338	30	422	10
More than five years	100	-	20	-
	618	43	598	52

Company	2016		2015	
	Land and buildings £000	Other £000	Land and buildings £000	Other £000
Less than one year	27	-	27	-
Between one and five years	108	-	108	-
More than five years	24	-	51	-
	159	-	186	-

Notes (continued)

26 Pension scheme

The Group operates two defined contribution pension schemes; a self invested pension plan for executive Directors and a Group scheme available for employees. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £194,000 (2015: £189,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

The Group also operates two defined benefit pension schemes providing benefits based on final pensionable pay.

Group and Company Scheme

The Harrison & Hetherington Limited Senior Staff Pension and Assurance Scheme which became paid up with effect from 28 February 2001, i.e. members are earning no further benefits and no further members are being admitted. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 30 June 2013 and updated to 30 June 2016 to take account of the requirements of FRS102.

Net pension (liability)/asset

	2016 £000
Defined benefit obligation	(25,073)
Plan assets	24,963
Net pension liability	(110)

Movements in present value of defined benefit obligation

	2016 £000
At 1 July 2015	22,483
Interest expense	827
Remeasurement: actuarial losses	3,183
Benefits paid	(1,420)
At 30 June 2016	25,073

Movements in fair value of plan assets

	2016 £000
At 1 July 2015	21,841
Interest income	805
Remeasurement: return on plan assets less interest income	3,628
Contributions by employer	109
Benefits paid	(1,420)
At 30 June 2016	24,963

Notes (continued)

26 Pension scheme (continued)

Expense recognised in the profit and loss account

	2016 £000	2015 £000
Net interest on net defined benefit liability	22	35
Total expense recognised in profit or loss	22	35

The fair value of the plan assets and the return on those assets were as follows:

	2016 Fair value %	2015 Fair value %
Indexed linked gilts	4	4
Corporate bonds	6	6
Deferred Annuity policies	58	55
Guaranteed Annuity policies	32	35
	2016 £000	2015 £000
Actual return on plan assets	4,433	1,771

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2016 %	2015 %
Discount rate	2.80	3.80
Future salary increases	5.00	5.00
Retail prices index	3.00	3.25

In valuing the liabilities of the pension fund at 30 June 2016, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.7 years (male), 25.1 years (female).
- Future retiree upon reaching 65: 24.5 years (male), 27.0 years (female).

Notes (continued)

26 Pension scheme (continued)

Group Scheme

A subsidiary of the Group operates a defined benefit pension scheme, the John Swan Limited Retirement Benefits Scheme. This scheme was closed to new members and to future accrual for existing members on 30 April 2012.

The assets of the defined benefit scheme are held separately from those of the company in an independently administered fund. Contributions to the scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The most recent valuation was at 1 May 2013. This valuation showed that the market value of the scheme's assets was £6,003,000 and that the actuarial value of those assets represented 82% of the benefits that had accrued to members. The last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 May 2013 and was updated to 30 June 2016 to take account of the requirements of FRS102.

Net pension (liability)/asset

	2016
	£000
Defined benefit obligation	(8,133)
Plan assets	6,474
	<hr/>
Net pension (liability) asset	(1,659)
	<hr/> <hr/>

Movements in present value of defined benefit obligation

	2016
	£000
At 14 October 2015 (as at date of acquisition)	6,910
Interest expense	190
Remeasurement: actuarial losses	1,132
Benefits paid	(99)
	<hr/>
At 30 June 2016	8,133
	<hr/> <hr/>

Movements in fair value of plan assets

	2016
	£000
At 14 October 2015 (as at date of acquisition)	6,432
Interest income	177
Remeasurement: return on plan assets less interest income	(81)
Contributions by employer	45
Benefits paid	(99)
	<hr/>
At 30 June 2016	6,474
	<hr/> <hr/>

Expense recognised in the profit and loss account

	2016
	£000
Net interest on net defined benefit liability	13
	<hr/>
Total expense recognised in profit or loss	13
	<hr/> <hr/>

Notes (continued)

26 Pension scheme (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2016 Fair value %
Pooled Investment Vehicles	90
Insurance policies	8
Cash and cash deposits	2
	<hr/> <hr/>
	2016 £000 96

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2016 %
Discount rate	2.9
Retail price inflation	3.1
Consumer price inflation	2.1
Pension increases – RPI maximum 5%	3.0
Deferred pension revaluation (CPI 5% cap)	2.1

In valuing the liabilities of the pension fund at 30 June 2016, mortality assumptions have been made as indicated below.

The assumptions relating to longevity underlying the pension liabilities at the balance sheet date are based on standard actuarial mortality tables and include an allowance for future improvements in longevity. The assumptions are equivalent to expecting a 65-year old to live for a number of years as follows:

- Current pensioner aged 65: 22.0 years (male), 24.3 years (female).
- Future retiree upon reaching 65: 23.8 years (male), 26.3 years (female).

Notes (continued)

27 Financial instruments

27 (a) Carrying amount of financial instruments

The carrying amounts of the financial assets and liabilities include

	Group		Company	
	2016	2015	2016	2015
	£000	£000	£000	£000
Financial assets				
Trade debtors	7,983	5,823	28	25
Amounts receivable on finance contracts	1,727	5,270	-	-
Financial liabilities				
Bank overdraft	5,443	6,368	674	1,402
Bank loans	6,076	184	6,076	184
Trade creditors	1,047	1,042	-	-
Accruals	760	679	146	144
Obligations under finance leases and hire purchase contracts	205	245	112	209

There is no material difference between the book value of financial assets and liabilities noted above, and their fair value. All other financial assets and liabilities are measured at amortised cost.

Notes *(continued)*

27 Financial instruments

27 (a) Carrying amount of financial instruments *(continued)*

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The Group procures credit insurance against a number of customers based on the perceived risk of default.

Liquidity risk and capital management

Liquidity risk is the risk that the Group will not be able to access the necessary funds to finance their operations. As detailed in note 20 the Group finances itself in the long term from loan balances. The day to day working capital requirements of the Group are supported by these loan and overdraft facilities.

Market risk

Market risk is the risk that changes in market prices, such as interest rates, will affect the Group's results. The Group's exposure to interest rate risk is principally where its borrowings are at a variable interest rate. See note 20.

The Group does not experience significant exposure to commodity price risk or foreign exchange rates.

28 Related parties

Group

The Group has a related party relationship with its subsidiaries. Transactions between the Company and its subsidiaries have been eliminated on consolidation.

Due to the nature of the Group's activities, certain Directors and their related businesses regularly enter into transactions with the Group on normal commercial terms.

Transactions with key management personnel

Total compensation of key management personnel (including the directors) in the year amounted to £863,161 (2015: £688,087).

Company

Identity of related parties with which the Group has transacted

The Company owes money to its subsidiary undertakings. As at 30 June 2016 subsidiary undertakings are owed £6,372,000 (2015: £6,553,000). Amounts due to subsidiary undertakings are repayable upon demand and unsecured.

Total compensation of key management personnel (including the directors) in the year amounted to £249,923 (2015: £236,514).

29 Accounting estimates and judgements

The preparation of financial statements requires the Directors to make judgements, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The key areas requiring the use of estimates and judgements which may significantly affect the financial statements are considered to be:

Valuation of Investments

The Company holds a significant value in respect of Investments in Group companies. In line with the accounting policies set out in note 1 these investments are held at cost less impairment. A provision would therefore be made if the Directors did not believe the carrying value of the investments was not fully recoverable giving consideration to the Company's best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. This therefore takes accounts of the net assets of the subsidiary and its potential future earnings.

Recoverability of trade debtors

An assessment as to the ability of the Company to recover trade debtors is made at each financial period end. A provision is made for any amounts that are not considered to be recoverable. Due to the nature of this provision an estimate is made as to the amounts that will be recoverable which involves judgement based on knowledge of the customer and the level of uncertainty as to whether the customer has sufficient funds to pay these amounts.

Valuation of WIP

An assessment as to the ability of the Company to recover the value of all WIP for above its carrying value is made at each financial period end. The provision levels are considered and adjusted as necessary to account for any amounts that are not considered to be recoverable. Due to the nature of this provision an estimate is made as to the amounts that will be recoverable which involves judgement based on knowledge of the WIP held and relationship with the client.

Valuation and classification of land & buildings

The Group holds significant value in land & buildings. In line with the accounting policies set out in note 1 land & buildings are classified as either investment properties or property, plant and equipment based on both current usage and the Directors planned usage in the future. The use of each element of land & buildings also impacts the assessment of Fair Value in line with the assumptions in note 12. The valuation of land & buildings was performed by an independent valuer and is based on the condition of assets as at 30 June 2016. These valuations include significant estimates on the likelihood of favourable outcomes on planning applications.

30 Explanation of transition to FRS102 from old UK GAAP

As stated in note 1, these are the Group's and Company's first financial statements prepared in accordance with FRS102.

The accounting policies set out in note 1 have been applied in preparing the financial statements for the year ended 30 June 2016 and the comparative information presented in these financial statements for the year ended 30 June 2015.

Group

In preparing its FRS102 balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS102 has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Notes (continued)

30 Explanation of transition to FRS102 from old UK GAAP (continued)

Reconciliation of equity

Group	Note	UK GAAP	1 July 2014 Effect of transition to FRS102	FRS102	UK GAAP	30 June 2015 Effect of transition to FRS102	FRS102
		£000	£000	£000	£000	£000	£000
Fixed assets							
Goodwill		1,723	-	1,723	1,571	-	1,571
Other Intangible assets	a	-	69	69	-	119	119
Tangible fixed assets	a,b	12,186	(549)	11,637	12,642	(599)	12,043
Investment Properties	b	-	480	480	-	830	830
Investments		5	-	5	5	-	5
		13,914	-	13,914	14,218	350	14,568
Current assets							
Stocks		689	-	689	701	-	701
Debtors	c	17,424	99	17,523	11,778	-	11,778
		18,113	99	18,212	12,479	-	12,479
Creditors: amounts due within one year	d	(14,520)	(74)	(14,594)	(8,937)	(67)	(9,004)
Net current assets		3,593	25	3,618	3,542	(67)	3,475
Total assets less current liabilities		17,507	25	17,532	17,760	283	18,043
Creditors: amounts falling due after more than one year		(429)	-	(429)	(189)	-	(189)
Provisions for liabilities							
Deferred tax liability	c	(27)	27	-	(62)	(16)	(78)
Other provisions		(12)	-	(12)	-	-	-
Pension liability	c	(670)	(200)	(870)	(514)	(128)	(642)
Net assets		16,369	(148)	16,221	16,995	139	17,134
Capital and reserves							
Called up share capital		1,040	-	1,040	1,040	-	1,040
Revaluation reserve		3,429	-	3,429	3,427	-	3,427
Profit and loss account		11,900	(148)	11,752	12,528	139	12,667
Shareholders' equity		16,369	(148)	16,221	16,995	139	17,134

Notes *(continued)*

30 Explanation of transition to FRS102 from old UK GAAP *(continued)*

Notes to the reconciliation of equity

- a) Reclassification of software from tangible fixed assets to intangible fixed assets.*
- b) Reclassification of land and buildings from tangible fixed assets to investment properties.*
- c) Adjustment to deferred tax to classify all deferred tax balances together rather than net against certain captions. In addition deferred tax liability recognised in respect of revaluation gains on land and buildings.*
- d) Accrual for holiday pay.*

Notes (continued)

30 Explanation of transition to FRS102 from old UK GAAP (continued)

Reconciliation of profit for 30 June 2015

	Note	UK GAAP £000	30 June 2015 Effect of transition to FRS102 £000	FRS102 £000
Turnover		13,515	-	13,515
Operating costs	a	(12,507)	3	(12,504)
Other operating income	a,b	153	386	539
Operating profit		1,161	389	1,550
Transfer of trade		217	-	217
Profit on sale of fixed assets	c	36	(36)	-
Interest receivable and similar income	d	1	4	5
Interest payable and similar charges	e	(213)	(35)	(248)
Other finance costs	e	(47)	47	-
Profit on activities before taxation		1,155	369	1,524
Tax on profit on ordinary activities	f	(282)	(74)	(356)
Profit for the year		873	295	1,168

Credit risk

Notes to the reconciliation of profit

- a) Adjustment to holiday pay accrual.
- b) Recognition of gain in respect of entering into a finance lease for land in exchange for release of restrictive covenants on land. Gain valued based on fair value of the land leased.
- c) Reclassification of profit on sale of fixed assets to other operating income.
- d) Effect of movements on interest rate swaps accounted for at fair value under FRS102.
- e) Reclassification of other finance costs to be included within interest payable and similar charges.
- f) Tax impact of FRS102 adjustments include recognition of deferred tax liability on revaluation gains.

Notes (continued)

30 Explanation of transition to FRS102 from old UK GAAP (continued)

Company

In preparing their FRS102 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from UK GAAP to FRS102 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

	Note	UK GAAP £000	1 July 2014 Effect of transition to FRS102 £000	FRS102 £000	UK GAAP £000	30 June 2015 Effect of transition to FRS102 £000	FRS102 £000
Fixed assets							
Other Intangible assets	a	-	4	4	-	4	4
Tangible fixed assets	a,b	10,719	(10,154)	565	11,050	(10,546)	504
Investment Properties	b	-	10,150	10,150	-	10,911	10,911
Investments		3,258	-	3,258	3,258	-	3,258
		<u>13,977</u>	<u>-</u>	<u>13,977</u>	<u>14,308</u>	<u>369</u>	<u>14,677</u>
Current assets							
Debtors	c	71	114	185	231	24	255
		<u>71</u>	<u>114</u>	<u>185</u>	<u>231</u>	<u>24</u>	<u>255</u>
Creditors: amounts due within one year		<u>(7,589)</u>	<u>(3)</u>	<u>(7,592)</u>	<u>(8,327)</u>	<u>(6)</u>	<u>(8,333)</u>
Net current liabilities	d	<u>(7,518)</u>	<u>111</u>	<u>(7,407)</u>	<u>(8,096)</u>	<u>18</u>	<u>(8,078)</u>
Total assets less current liabilities		<u>6,459</u>	<u>111</u>	<u>6,570</u>	<u>6,212</u>	<u>387</u>	<u>6,599</u>
Creditors: amounts falling due after more than one year		<u>(393)</u>	<u>-</u>	<u>(393)</u>	<u>(174)</u>	<u>-</u>	<u>(174)</u>
Provisions for liabilities							
Deferred tax liability	c	(12)	12	-	-	-	-
Pension liability	c	(670)	(200)	(870)	(514)	(128)	(642)
Net assets		<u>5,384</u>	<u>(77)</u>	<u>5,307</u>	<u>5,524</u>	<u>259</u>	<u>5,783</u>
Capital and reserves							
Called up share capital		1,040	-	1,040	1,040	-	1,040
Revaluation reserve		3,429	(3,429)	-	3,427	(3,427)	-
Profit and loss account		915	3,352	4,267	1,057	3,686	4,743
Shareholders' equity		<u>5,384</u>	<u>(77)</u>	<u>5,307</u>	<u>5,524</u>	<u>259</u>	<u>5,783</u>

Notes *(continued)*

Explanation of transition to FRS102 from old UK GAAP *(continued)*

Notes to the reconciliation of equity

- a) *Reclassification of software from tangible fixed assets to intangible fixed assets.*
- b) *Reclassification of land and buildings from tangible fixed assets to investment properties.*
- c) *Adjustment to deferred tax to classify all deferred tax balances together rather than net against certain captions. In addition deferred tax liability recognised in respect of revaluation gains on land and buildings.*
- d) *Accrual for holiday pay.*

NOTES

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The Board of Directors

Left to right:

Brian E Richardson (*Chief Executive*)
Dawn Harrison (*Non-Executive Director*)
Alasdair G Houston (*Non-Executive Director*)
Ian C Lancaster (*Non-Executive Chairman*)
Andrew Douglas (*Non-Executive Director*)
Margaret Irving (*Company Secretary*)
Adrian R Hill (*Non-Executive Director*)
Michael L Scott (*Non-Executive Director*)

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