H&H

Annual Report & Accounts 2017

First in the Field...

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Contents

H&H GROUP plc

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)
Michael L Scott (Non-Executive Director)
Adrian R Hill (Non-Executive Director)
Colin Lindsay (Non-Executive Director)
Dawn M Harrison (Non-Executive Director)
Andrew Douglas (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

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

Solicitors
Burnetts
6 Victoria Place
Carlisle
CA1 1ES

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 Fifth Annual General Meeting of the Company will be held in the Shepherds Inn, Rosehill, Carlisle on 10 November 2017 at 11.00 am for the following purposes:

1. To receive and consider the Accounts for the financial year ended 30 June 2017 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 8 December 2017.
4. Proposal of special resolution – see page 4.
5. To re-elect M L Scott as a Director.
6. To re-elect A G Houston as a Director.
7. To re-elect C Lindsay as a Director.
8. To appoint UNW 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 6 October 2017 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.

Item 4

Purpose

At the AGM in 2015 the Shareholders renewed an authority which allowed the Board the flexibility of issuing 400,000 shares for carrying out future acquisitions. The existing authority expired on 6 November 2017.

The Shareholders are asked in the item below to renew the authority to issue 400,000 shares for a further two years by way of special resolution.

THAT the following be passed as a special resolution:

That, in accordance with Section 551 of the Companies Act 2006, the Directors of the Company be generally and unconditionally authorised to allot shares in the Company, or grant rights to subscribe for, or to convert any securities in the Company (Rights) up to an aggregate nominal amount of £400,000.

This authority shall expire on 9 November 2019, unless renewed, varied or revoked by the Company, on or prior to that date, save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted, or Rights to be granted, and the Directors may allot shares or grant Rights in pursuance of any such offer or agreement, notwithstanding that the authority conferred by this Resolution has expired.

This authority revokes and replaces all unexercised authorities previously granted to the Directors, but without prejudice to any allotment of shares or grants of Rights already made or offered or agreed to be made pursuant to such authorities.

That, in accordance with Section 570 of the Companies Act 2006, the Directors be generally empowered to allot equity securities (as defined in Section 560 of the Companies Act 2006) pursuant to the authority conferred by this Resolution, up to maximum aggregate nominal amount of £400,000, as if Section 561 of the Companies Act 2006 did not apply to such an allotment, provided that this power:

(a) shall be limited to the allotment of equity securities up to an aggregate nominal amount of £400,000; and

(b) shall expire on 9 November 2019 (unless renewed, varied or revoked by the Company on or prior to that date) save that the Company may, before such expiry, make an offer or agreement which would or might require equity securities to be allotted after such expiry, and the Directors may allot equity securities in pursuance of any such offer or agreement, notwithstanding that this power has expired.

Chairman's Statement

Dear Shareholder

The Group reports an operating profit of £965,000 *(2016: £1,010,000)* on turnover of £15.14 million and a profit for the financial year of £540,000 against £175,000 for the previous year.

Although the Group's operating profit shows little change on the results for the previous year we are in a period of transition with the redeployment of the funds from our former finance business being redirected into expanding our core businesses. These resources have gone into new geographical areas principally the acquisitions in the previous year of John Swan and Sons PLC and Michael C L Hodgson Ltd.

This year has seen the Group expanding operations principally in our Land and Property business with the establishment of a new land agency in the Scottish Borders and the opening of a new estate agency in Penrith.

These new businesses incur significant set up costs all of which have to be charged against Group profits therefore decreasing our overall results but we look forward to improved performance once these new centres have become established.

Our core livestock auctioneering business has seen increased throughput and profitability both at our existing Harrison & Hetherington sites and also at the former John Swan Marts in the Borders. We continue to invest in our mart businesses and aim to grow market share by increasing emphasis on successful livestock marketing. Bad debts, which have caused problems to a number of our competitors in recent years, have been kept under tight control through the continued vigilance of our staff and procedures.

The Group's insurance operations have continued to experience challenging market conditions and we are now refocusing the business towards our farming customers.

It is pleasing to report that our printing business in Penrith and Milnthorpe has streamlined its operations and is now back in profit.

During the year the Group has sold surplus property assets acquired from John Swan and Sons PLC and further disposals will take place pending the success of our planning applications.

Work has now commenced on the redevelopment of our Rosehill Car Park site which should start generating revenue from 2018.

Finally may I thank all our staff for their hard work during the year as well as all our farmers, clients and shareholders for their continued contribution to the success of the Group.

Ian C Lancaster
Chairman

6 October 2017

Strategic Report

Financial Overview
On turnover of £15,146,000 *(2016: £14,386,000)* operating profit is £965,000 *(2016: £1,010,000)* producing a profit before tax of £682,000 *(2016: £712,000).*

Earnings per share are 50p *(2016: 16p),* 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 *(2016: 35p per share).*

The average share price during the period was £27.45 *(2016: £27.19).*

Total shareholders' funds have marginally increased to £17,753,000 *(2016: £17,378,000).*

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.

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

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.

Strategic Report *(continued)*

Auctioneering

Harrison & Hetherington – These are the first results that include a full year of trading from the marts acquired in October 2015 at Newtown St Boswells and Wooler. Trading from these sites has met expectations and work has been ongoing to develop throughput both via the marts themselves and also non mart trading.

Values of livestock have seen some improvement in the last year across most sectors and there is some cautious optimism in the short and medium term, supported by currency weakness helping meat exports.

As well as the focus on our nine mart sites for livestock trading, we have continued to develop livestock sales direct from farm to farm and also farm to abattoir. As part of this we have had a successful cattle scheme with Woodheads for several years and have now introduced a similar scheme with Scotbeef which will enable us to continue to develop numbers and the geographical area we operate in.

We have continued to invest in our sites with a new covered area at Kirkby Stephen completed in 2016 and plans are being developed for the development and updating of the site at Newtown St Boswells. We continue to keep under review the development of electronic trading and an updated website was launched in the year and we are also reviewing the trading of livestock via the web.

Alongside livestock auctioneering, we have continued to develop the regular farm machinery sales at Carlisle and Newtown St Boswells. The general sale room at Carlisle continues to run its well attended weekly sales with this business working with the Harrison & Hetherington team at Carlisle.

Property

H&H Land and Property – Whilst land sales remained at relatively low levels in the year, a good level of professional advisory work provided a solid contribution from land agency.

In November 2016, James Murphy joined the business to develop a new office in the Scottish Borders at Newtown St Boswells adjacent to the mart. This new office complements the exiting offices at Carlisle, Durham and Kendal. In June 2017 James was appointed Managing Director of the H&H Land and Property which incorporates the Estate Agency as a division.

Property sales have continued to be quiet and there are concerns that whilst existing support arrangements have been guaranteed for the next 4 years as we move towards formal Brexit, new schemes are unlikely to be forthcoming during this period so there may be some lull in new work coming forward.

The land agency business, along with other parts of H&H, continues to take a very active part in the deliberations over Brexit and how it affects farmers and intends to be proactive in supporting its farmer clients during this period of inevitable change.

H&H King / Michael CL Hodgson – In recent years we have expanded our Estate Agency to four sites at Carlisle, Penrith, Kendal and Grange-over-Sands providing good coverage through Cumbria marketing over £100 million of property in the last year.

Following the acquisition of Michael CL Hodgson in December 2015, the Estate Agency network back office systems and presentation to market has been brought together to provide economies of scale with a focus on customer service in this highly competitive sector.

The level of activity in the housing market has, in recent years, been at lower levels against a background of austerity and tight lending criteria from banks and building societies. The Brexit vote and 2017 election result have brought added uncertainty to the market further reducing activity. This has impacted on the Estate Agency result and a loss being recorded for the last 12 months.

There are signs of the level of transactions improving although there is little sign of any price inflation within the Cumbrian market and we are anticipating another challenging year with a focus on maintaining our position in the market whilst looking for operational efficiency across the business.

Strategic Report *(continued)*

Financial

H&H Insurance Brokers – The business operates as one of the largest specialist farm insurance brokers in the UK operating in a very competitive market. A review has taken place of the business to more fully develop the agricultural specialism along with the strong H&H brand in the livestock sector. A new marketing focus has been launched in Autumn 2017 to further develop the insurance brand and ensure we are competitive against the competition.

We have also looked at the geographical area we cover and have decided to focus our efforts on an area South of the M8 in Scotland and North of the M62 in England. This will allow us to better focus our marketing message and use the field staff we have effectively in an area where the H&H brand is well known. To facilitate this we have in September 2017 transferred customers we had in the North of Scotland to another well respected broker in the area. At the same time we have taken over the small insurance business of Hopes Mart at Wigton to consolidate our business in North Cumbria.

The new marketing effort will focus the high levels of customer service, 30 years of experience specialising in agricultural insurance brokerage, our independence in sourcing insurance as a broker and the H&H Group's knowledge within the farming sector. The bases at Carlisle, Newtown St Boswells and Durham provide good local coverage within the area.

H&H Finance – It is now over 3 years since the transfer of the motor finance lending book to the Cumberland Building Society. They, on our behalf, have continued to collect in the historic loans and this has returned £1.313 million in cash to H&H in the last 12 months as the customer loans are repaid. There is now less than £450,000 to be collected from this operation.

Printing

H&H Reeds Printers – The business operates in a very competitive sector and continues to focus on improving and refining operational efficiency and continuing to reduce costs where possible. The last year has seen the business return to profit despite slightly lower turnover in the year.

The development of web ordering of print, as in several sectors, is an area the business has identified it needs to be more proactive in and after a successful trial of specific print product selling via the web, the company applied and was awarded a Knowledge Transfer Partnership grant (KTP) which is run by Innovate UK to link universities with business and provide resources and advice to drive innovation. We have teamed up with UCLAN to deliver this project over the next 2 years making our products more available to order via the web. This is an exciting development and opens up the whole of the UK market for H&H Reeds Printers as the project progresses.

The business continues to work closely with existing clients in many areas and tourism is a key sector. The awarding of World Heritage status for the Lake District has already provided a boost to the level of enquiries received from this sector and we will continue to work with local organisations to support the sector.

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 – During the year, the Group disposed of land at East Calder, part of the property it acquired as part of the John Swan acquisition.

The other significant land parcel is at Riccarton on the outskirts of Edinburgh and a planning application is presently lodged with Edinburgh Council for 200 houses and student accommodation for 200 bedrooms. There is no certainty as to the success of this application and dialogue with Edinburgh Council is ongoing with a decision likely before the end of the year.

Following the agreement with Carlisle Council for us to acquire a leasehold interest in the car park site at Rosehill, development has now commenced on the area to provide a new food hall for Pioneer along with business units and car parking. It is expected this development will be completed in the second half of 2018 and will further enhance the Rosehill Industrial Estate.

We have continued to review plans to develop the mart and adjacent land at Newtown St Boswells with a view to providing some mixed development of housing, retail commercial premises as well as improving facilities for mart customers. These plans are at an early stage and we will be consulting with Borders Council and the local community in the first half of 2018.

Strategic Report *(continued)*

Our People

The Group employs just over 210 full time staff with an additional 90 part time staff.

We continue to develop good HR processes across the Group which include an appraisal system and training and development opportunities for 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. It is particularly pleasing to see the apprentices now move into more responsible positions within the operating companies.

Key Performance Indicators

Measurement of performance against strategy and the achievement of business objectives are by means of key performance indicators. Actual performance against key performance indicators for the twelve months to June 2017 is shown below, together with that for 2016 for comparative purposes:

	2017	2016
▪ Turnover growth	**5.3%**	6.4%
▪ Return on sales	**6%**	7%
▪ Earnings per share	**50p**	16p
▪ Return on capital employed	**5%**	5%
▪ Gross interest cover	**3.6x**	3.5x
▪ Gearing	**51%**	66%

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

6 October 2017

Directors' Report

The Directors present their Directors' Report and Financial Statements for the year ended 30 June 2017.

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 2016, together with an interim dividend of 8 pence per share in respect of the year ended 30 June 2017.

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 2017	**At 30 June 2016**
DM Harrison	4,366	4,366
AG Houston	1,842	1,842
IC Lancaster	8,004	7,604
ML Scott	5,729	5,729
BE Richardson	604	604
AR Hill	250	250
A Douglas	766	616
C Lindsay (appointed 28 June 2017)	1,208	
Trustee shareholdings		
Employees Trust Fund	209,000	209,000

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

ML Scott and AG Houston having served three years as Directors, resign in accordance with the Articles of Association and, being eligible, offer themselves for re-election.

C Lindsay who was appointed as a Director, since the last annual general meeting, resigns in accordance with the Articles of Association and, being eligible, offers himself 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 or 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 *(2016: 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

Following a tender process H&H Group plc will propose a resolution to appoint UNW LLP as auditor of the Company in accordance with Section 489 of the Companies Act 2006 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 eight members: the non-executive Chairman, six 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

6 October 2017

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 FRS 102 *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 judgements 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

Opinion
We have audited the financial statements of H&H Group plc ("the company") for the year ended 30 June 2017 which comprise the Consolidated Profit and Loss Account, Other Comprehensive Income, Consolidated and Company Balance Sheets, Consolidated and Company Statement of Changes in Equity, Consolidated Cash Flow Statement and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2017 and of the group's profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland;* and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern
We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Strategic Report and Directors' Report
The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

Matters on which we are required to report by exception
Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

We have nothing to report in these respects.

Directors' responsibilities
As explained more fully in their statement set out on page 13, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities
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.

Rachel Fleming

Rachel Fleming (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Quayside House
110 Quayside
Newcastle upon Tyne
NE1 3DX

6 October 2017

Consolidated Profit and Loss Account
for the year ended 30 June 2017

	Note	2017 £000	2016 £000
Turnover	3	**15,146**	14,386
Operating costs		**(14,450)**	(16,226)
Other operating income	4	**269**	2,850
Operating profit		**965**	1,010
Interest receivable and other similar income		**36**	22
Interest payable and other similar charges	8	**(319)**	(320)
Profit on ordinary activities before taxation	3-8	**682**	712
Tax on profit on ordinary activities	9	**(142)**	(537)
Profit for the financial year		**540**	175

Other Comprehensive Income
for year ended 30 June 2017

	Note	2017 £000	2016 £000
Profit for the year		**540**	175
Other comprehensive income			
Revaluation of tangible fixed assets	12	**13**	191
Re-measurement of the net defined benefit liability	26	**305**	(768)
Income tax on other comprehensive income	9	**(105)**	119
Other comprehensive income for the year, net of income tax		**213**	(458)
Total comprehensive income for the year		**753**	(283)

Consolidated Balance Sheet
at 30 June 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Goodwill	*10*		**2,239**		2,377
Other intangible assets	*11*		**193**		190
Tangible assets	*12*		**14,737**		14,973
Investment property	*13*		**4,864**		5,047
Investments	*14*		**5**		5
			22,038		22,592
Current assets					
Stocks	*15*	**741**		841	
Debtors *(including £58,000 (2016: £574,000) due in more than one year)*	*16*	**9,274**		10,340	
		10,015		11,181	
Creditors: amounts falling due within one year	*18*	**(8,201)**		(8,492)	
Net current assets			**1,814**		2,689
Total assets less current liabilities			**23,852**		25,281
Creditors: amounts falling due after more than one year	*19*		**(4,227)**		(5,675)
Provisions for liabilities					
Deferred tax liability	*21*		**(459)**		(374)
Other provisions	*22*		**(75)**		(85)
Pension liabilities	*26*		**(1,338)**		(1,769)
Net assets			**17,753**		17,378
Capital and reserves					
Called up share capital	*23*		**1,078**		1,078
Revaluation reserve			**3,625**		3,612
Other reserves			**866**		866
Profit and loss account			**12,184**		11,822
Shareholders' funds			**17,753**		17,378

These financial statements were approved by the Board of Directors on 6 October 2017 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 2017

	Note	2017 £000	2017 £000	2016 £000	2016 £000
Fixed assets					
Other Intangible assets	11		**5**		7
Tangible assets	12		**333**		405
Investment property	13		**12,474**		11,653
Investments	14		**12,581**		12,493
			25,393		24,558
Current assets					
Debtors	16	**2,728**		240	
Cash at bank and in hand		**73**		-	
		2,801		240	
Creditors: amounts falling due within one year	18	**(10,720)**		(7,824)	
Net current liabilities			**(7,919)**		(7,584)
Total assets less current liabilities			**17,474**		16,974
Creditors: amounts falling due after more than one year	19		**(4,184)**		(5,615)
Provisions for liabilities					
Deferred tax liability	21		**(10)**		(237)
Other provisions	22		**(75)**		(85)
Pension liabilities	26		**(1,338)**		(110)
Net assets			**11,867**		10,927
Capital and reserves					
Called up share capital	23		**1,078**		1,078
Other reserves			**866**		866
Brought forward profit and loss account			**8,983**		4,743
Profit for the year			**1,121**		4,261
Other movements in retained earnings			**(181)**		(21)
Shareholders' funds			**11,867**		10,927

These financial statements were approved by the Board of Directors on 6 October 2017 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 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					
Dividends	-	-	-	(377)	(377)
Issue of shares	38	-	866	-	904
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**
Balance at 1 July 2016	1,078	3,612	866	11,822	17,378
Total comprehensive income for the period					
Profit or loss	-	-	-	540	540
Other comprehensive income	-	13	-	200	213
Total comprehensive income for the period	-	13	-	740	753
Transactions with owners, recorded directly in equity					
Dividends	-	-	-	(378)	(378)
Total contributions by and distributions to owners	-	-	-	(378)	(378)
Transfer	-	-	-	-	-
Balance at 30 June 2017	**1,078**	**3,625**	**866**	**12,184**	**17,753**

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 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				
Dividends	-	-	(377)	(377)
Issue of shares	38	866	-	904
Total contributions by and distributions to owners	38	866	(377)	527
Balance at 30 June 2016	**1,078**	**866**	**8,983**	**10,927**
Balance at 1 July 2016	1,078	866	8,983	10,927
Total comprehensive income for the period				
Profit or loss	-	-	1,121	1,121
Other comprehensive income	-	-	197	197
Total comprehensive income for the period	-	-	1,318	1,318
Transactions with owners, recorded directly in equity				
Dividends	-	-	(378)	(378)
Total contributions by and distributions to owners	-	-	(378)	(378)
Balance at 30 June 2017	**1,078**	**866**	**9,923**	**11,867**

Consolidated Cash Flow Statement
for the year ended 30 June 2017

	Note	2017 £000	2016 £000
Cash flows from operating activities			
Profit for the year		**540**	175
Adjustments for:			
Depreciation, amortisation and impairment		**881**	2,940
Change in value of investment property	4	**-**	(2,534)
Interest receivable and similar income		**(36)**	(22)
Interest payable and similar charges	8	**319**	320
Gain on sale of tangible fixed assets	4	**(59)**	(100)
Taxation	9	**142**	537
Contribution to defined benefit pension scheme		**(173)**	(151)
		1,614	1,165
(Increase)/decrease in trade and other debtors		**(209)**	1,886
Decrease/(increase) in stocks		**100**	(124)
Increase/(decrease) in trade and other creditors		**(4)**	(1,517)
Decrease in amounts receivable on finance contracts		**1,284**	3,543
Decrease in provisions		**(10)**	-
		2,775	4,953
Dividends paid		**(378)**	(377)
Tax paid		**(69)**	(228)
Net cash from operating activities		**2,328**	4,348
Cash flows from investing activities			
Proceeds from sale of tangible fixed assets / investment property		**1,439**	299
Interest received		**36**	22
Transfer of trade		**-**	70
Acquisition of subsidiaries, net of cash acquired		**(52)**	(8,659)
Acquisition of tangible fixed assets / investment property		**(833)**	(638)
Acquisition of intangible assets		**(54)**	-
Net cash from investing activities		**536**	(8,906)
Cash flows from financing activities			
Proceeds from new loan	20	**-**	8,221
Interest paid		**(271)**	(242)
Repayment of borrowings		**(1,477)**	(2,330)
Payment of finance lease liabilities		**(128)**	(166)
Net cash from financing activities		**(1,876)**	5,483
Net increase in cash and cash equivalents		**988**	925
Cash and cash equivalents at 1 July		**(5,443)**	(6,368)
Cash and cash equivalents at 30 June	17	**(4,455)**	(5,443)

Notes *(forming part of the financial statements)*

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 *("FRS 102")* as issued in August 2014. The amendments to FRS 102 issued in July 2015 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.

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

The parent company is included in the consolidated financial statements and is considered to be a qualifying entity under FRS 102 paragraphs 1.8 to 1.2. The following exemptions available under FRS 102 in respect of certain disclosures for the parent company financial statements have been applied:

- No separate parent company Cash Flow Statement with related notes is included; and
- Key Management Personnel compensation has not been included a second time;
- Certain disclosures required by FRS 102.11 Basic Financial Instruments and FRS 102.12 Other Financial Instrument Issues in respect of financial instruments not falling within this fair value accounting roles of Paragraph 36(4) of Schedule 1.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

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 2017. 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 FRS 102.22, 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 in note 1.14.

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.

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.

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.

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.

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 is it probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

2 Acquisitions and disposal of businesses

Acquisitions in the current year

On 1 December 2016, the Group acquired all of the shares of Armitage Livestock Insurance Agency Limited for £82,943 excluding acquisition expenses. The company acts as an insurance agency.

Notes *(continued)*

2 Acquisitions and disposal of businesses *(continued)*

Effect of acquisition

The acquisition of Armitage Livestock Insurance Agency Limited had the following effect on the 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	1	-	1
Trade and other debtors	9	-	9
Cash	17	-	17
Trade and other creditors	(8)	-	(8)
Net identifiable assets and liabilities	19	-	19
Total cost of business combination:			
Consideration paid:			
Initial cash price paid			63
Deferred consideration			20
Costs directly attributable to the business combination			6
Total consideration			89
Goodwill on acquisition			**70**

The expected useful life of goodwill stemming from this acquisition is 5 years, which was considered appropriate given the nature and size of the acquired entity.

Notes *(continued)*

3 Analysis of turnover

	2017 £000	2016 £000
H&H Group Limited	**10**	16
Harrison & Hetherington Limited	**7,513**	6,489
H&H Finance Limited	**111**	327
H&H Land and Property Limited	**3,333**	2,896
H&H Insurance Brokers Limited	**1,317**	1,316
H&H Reeds Printers Limited*	**2,862**	2,992
John Swan & Sons Limited	**-**	6
John Swan Limited	**-**	344
	15,146	14,386

*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.

The trade from the John Swan business is now included in the figures shown for Harrison & Hetherington Limited.

4 Other operating income

	2017 £000	2016 £000
Rents receivable	**210**	216
Net gain on disposal of tangible fixed assets	**59**	100
Fair value adjustments for investment property (note 13)	**-**	2,534
	269	2,850

Notes *(continued)*

5 Expenses and auditor's remuneration

	2017	2016
	£000	£000
Included in profit/loss are the following:		
Depreciation – owned assets	**549**	556
– leased assets	**73**	76
Amortisation of goodwill	**208**	255
Amortisation of intangible assets	**51**	49
Impairment of goodwill	**-**	2,004
Rentals payable for the hire of assets under operating leases	**230**	244

	2017	2016
	£000	£000
Auditors' remuneration:		
Audit of these financial statements	**7**	7
Amounts receivable by auditors and their associates in respect of:		
Audit of financial statements of subsidiaries pursuant to such legislation	**29**	30
Other services	**20**	2

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 2017	2016
Management	**15**	14
Professional	**21**	21
Sales	**52**	47
Administration	**74**	71
Operations	**55**	58
	217	211

In addition 99 *(2016: 92)* part-time staff were employed.

The aggregate payroll costs of these persons were as follows:

	2017 £000	2016 £000
Wages and salaries	**6,531**	6,144
Social security costs	**622**	599
Other pension costs (note 26)	**238**	194
	7,391	6,937

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 Directors' Remuneration

	2017 £000	2016 £000
Directors' emoluments		
- Fees	**64**	63
- Other emoluments	**132**	162
- Company contributions to money purchase pension schemes	**6**	6
- Benefits in kind	**15**	17
	217	248

The emoluments of the highest paid Director were £143,643 *(2016: £173,702)*. Company pension contributions of £6,473 *(2016: £6,378)* were made to a personal pension scheme on his behalf. One director *(2016: one)* had benefits accruing under the Group's money purchase pension scheme.

8 Interest payable and similar charges

	2017 £000	2016 £000
On bank overdrafts	**85**	112
On bank loans	**179**	167
Finance charges payable in respect of finance lease and hire purchase contracts	**7**	9
Net interest expense on net defined benefit liabilities (see note 26)	**48**	32
	319	320

9 Taxation

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

	2017 £000	2017 £000	2016 £000	2016 £000
Current tax				
Current tax on income for the period		**166**		25
Total current tax		**166**		25
Deferred tax (see note 21)				
Origination and reversal of timing differences	**22**		593	
Change in tax rate	**(46)**		(81)	
Total deferred tax		**(24)**		512
Total tax		**142**		537

Notes *(continued)*

9 Taxation *(continued)*

	2017			2016		
	£000 Current Tax	**£000 Deferred Tax**	**£000 Total Tax**	£000 Current Tax	£000 Deferred Tax	£000 Total Tax
Recognised in Profit and loss account	**166**	**(24)**	**142**	25	512	537
Recognised in other comprehensive income	**-**	**105**	**105**	-	(119)	(119)
Total tax	**166**	**81**	**247**	25	393	418

Reconciliation of effective tax rate

	2017 £000	2016 £000
Profit for the year	**540**	175
Total tax expense	**142**	537
Profit excluding taxation	**682**	712
Tax using the UK corporation tax rate of 20% *(2016: 20.75%)*	**136**	142
Reduction in tax rate on deferred tax balances	**(46)**	(81)
Non-deductible expenses	**52**	476
Total tax expense included in profit or loss	**142**	537

Factors that may affect future tax charges
Reductions in the UK corporation tax rate from 21% to 20% (effective 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 and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax at 30 June 2017 has been calculated based on these rates. This will reduce the future current tax charge accordingly.

Notes *(continued)*

10 Goodwill

	Goodwill £000
Group	
Cost	
At beginning of year	6,161
Additions (see note 2)	70
At end of year	**6,231**
Amortisation	
At beginning of year	3,784
Charge in year	208
At end of year	**3,992**
Net book value	
At 30 June 2017	**2,239**
At 30 June 2016	2,377

Notes *(continued)*

11 Other Intangible assets

	Software £000	Brand £000	Total £000
Group			
Cost			
At beginning of year	302	63	365
Additions	54	-	54
Disposals	(19)	-	(19)
At end of year	**337**	**63**	**400**
Amortisation			
At beginning of year	172	3	175
Charge in year	44	7	51
Disposal	(19)	-	(19)
At end of year	**197**	**10**	**207**
Net book value			
At 30 June 2017	**140**	**53**	**193**
At 30 June 2016	130	60	190

	Software £000
Company	
Cost	
At beginning of year	30
Amortisation	
At beginning of year	23
Charge in year	2
At end of year	**25**
Net book value	
At 30 June 2017	**5**
At 30 June 2016	7

Notes *(continued)*

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	13,009	910	3,679	17,598
Acquisitions through business combinations	-	-	1	1
Additions	167	277	177	621
Disposals	(174)	(235)	(101)	(510)
Revaluation	13	-	-	13
At end of year	**13,015**	**952**	**3,756**	**17,723**
Depreciation				
At beginning of year	151	441	2,033	2,625
Charge for year	69	224	329	622
Disposals	(6)	(165)	(90)	(261)
At end of year	**214**	**500**	**2,272**	**2,986**
Net book value				
At 30 June 2017	**12,801**	**452**	**1,484**	**14,737**
At 30 June 2016	12,858	469	1,646	14,973

At 30 June 2017 the net carrying amount of plant, fittings and computers leased under a finance lease was £319,000 *(2016: £442,000)*. Depreciation for the year on these assets was £73,000 *(2016: £76,000)*.

Notes *(continued)*

12 Tangible fixed assets *(continued)*

Revaluation
Freehold land and buildings are valued by independent valuers every year. The last valuation was carried out on 30 June 2017.

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**	
	2017 £000	2016 £000
At fair value	**12,732**	12,762
Aggregate depreciation thereon	**(69)**	-
Net book value	**12,663**	12,762
Historical cost net book value	**9,038**	9,150

Notes *(continued)*

12 Tangible fixed assets *(continued)*

Group Land and buildings includes an amount of £10,980,000 which is not depreciated *(2016: £12,219,000)*.

Company	**Plant, fittings and computers £000**
Cost or valuation	
At beginning of year	1,027
Additions	20
Disposals	(36)
At end of year	**1,011**
Depreciation	
At beginning of year	622
Charge for year	82
Disposals	(26)
At end of year	**678**
Net book value	
At 30 June 2017	**333**
At 30 June 2016	405

At 30 June 2017 the net carrying amount of plant, fittings and computers leased under a finance lease was £254,000 *(2016: £298,000)*. Depreciation for the year on these assets was £45,000 *(2016: £53,000)*.

13 Investment property

Group	**2017 £000**
Balance at 1 July 2016	5,047
Additions	917
Disposals	(1,100)
Net gain from fair value adjustments (note 4)	-
Balance at 30 June 2017	**4,864**
Historical cost net book value	2,001

Notes *(continued)*

13 Investment property *(continued)*

Company	**2017** **£000**
Balance at 1 July 2016	11,653
Additions	955
Disposals	(147)
Net gain/(loss) from fair value adjustments	13
Balance at 30 June 2017	**12,474**
Historical cost net book value	**7,969**

£3,902,000 *(2016: £5,022,000)* (Company: £11,533,000 *(2016: £11,628,000)*) 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**

14 Fixed asset investments *(continued)*

Company

	Subsidiary undertaking £000	Other investments £000	Total £000
Cost			
At beginning of year	12,503	5	12,508
Additions	88	-	88
At end of year	**12,591**	**5**	**12,596**
Provisions			
At beginning of year	15	-	15
Impairment	-	-	-
	15	-	**15**
Net book value			
At 30 June 2017	**12,576**	**5**	**12,581**
At 30 June 2016	12,488	5	12,493

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

	Company 2017 £	2016 £
Other investments (Group and Company)		
Other unlisted investments	**4,500**	4,500

Notes *(continued)*

14 Fixed asset investments *(continued)*

1 See strategic report (page 6) 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

(A) registered office: Borderway Mart, Rosehill, Carlisle, Cumbria, CA1 2RS.

(B) registered office: Sydney Place Mart, Lockerbie, Dumfrieshire, DG11 2JA.

(C) registered office: Auction Mart, Newton St Boswells, Melrose, Roxburghshire, TD6 OPP.

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

15 Stocks

	Group	
	2017	2016
	£000	£000
Work in progress	**574**	663
Raw materials and finished goods	**167**	178
	741	841

Notes *(continued)*

16 Debtors

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Trade debtors	**8,245**	7,983	**13**	28
Amounts receivable on finance contracts by:				
- H&H Borderway Finance Limited	**443**	1,727	**-**	-
Prepayments and accrued income	**586**	630	**151**	212
Amounts owed by group undertakings	**-**	-	**2,564**	-
	9,274	10,340	**2,728**	240
Due within one year	**9,216**	9,766	**2,728**	240
Due after more than one year	**58**	574	**-**	-
	9,274	10,340	**2,728**	240

Finance contracts debtors analysis:

	Group 2017 £000	Group 2016 £000
Net investment in		
Hire purchase	**411**	1,583
Other finance debtors	**32**	144
	443	1,727

	Group 2017 £000	Group 2016 £000
Of which the amount due after more than one year	**58**	574
Original asset value of vehicles on which hire purchase and finance lease agreements were made during the year	**-**	-
Aggregate capital rentals received	**1,147**	3,398

Notes *(continued)*

17 Cash and cash equivalents/ bank overdrafts

	Group	
	2017	2016
	£000	£000
Cash at bank and in hand	**-**	-
Bank overdrafts	**(4,455)**	(5,443)
Cash and cash equivalents per cashflow statements	**(4,455)**	(5,443)

18 Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Bank overdrafts	**4,455**	5,443	**-**	674
Bank loan	**415**	477	**415**	477
Trade creditors	**1,989**	1,047	**-**	-
Amounts owed to Group undertakings	**-**	-	**10,159**	6,372
Corporation tax	**165**	69	**1**	24
Other taxation and social security	**472**	567	**15**	35
Accruals and deferred income	**671**	760	**114**	146
Obligations under finance leases and hire purchase contracts	**34**	129	**16**	96
	8,201	8,492	**10,720**	7,824

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

At 30 June 2017 the group was holding £1,577,920 *(2016: £1,219,145)* 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	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Bank loans	**4,184**	5,599	**4,184**	5,599
Obligations under finance lease and hire purchase contracts	**43**	76	**-**	16
	4,227	5,675	**4,184**	5,615

Notes *(continued)*

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	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Creditors falling due within less than one year				
Secured bank overdraft	**4,455**	5,443	**-**	674
Secured bank loans	**415**	477	**415**	477
Finance lease liabilities	**34**	129	**16**	96
	4,904	6,049	**431**	1,247
Creditors falling due more than one year				
Secured bank loans	**4,184**	5,599	**4,184**	5,599
Finance lease liabilities	**43**	76	**-**	16
	4,227	5,675	**4,184**	5,615

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 ended 30 June 2016.

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 was secured against the company's assets and bears interest at a variable rate based on LIBOR and the level of drawdown.

Overdraft facility
The overdraft facility is repayable in October 2018.

Historic facility
The historic facility was repayable in November 2016 in quarterly instalments. The facility was secured against the company's assets and bears interest at a variable rate based on LIBOR plus 3.5%.

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 2017. 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 £77,000 *(2016: £205,000)* (company £16,000 *(2016: £112,000)).*

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	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Future minimum lease payments due:				
Within one year	**37**	166	**16**	96
In the second to fifth years	**49**	54	**-**	16
Over five years	**-**	-	**-**	-
Total lease payments due	**86**	220	**16**	112
Less: future finance charges	**(9)**	(15)	**-**	-
Obligations under finance leases held on the balance sheet	**77**	205	**16**	112

The maturity of bank debt is as follows:

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Within one year	**4,870**	5,920	**415**	1,151
In the second to fifth years	**4,184**	5,599	**4,184**	5,599
	9,054	11,519	**4,599**	6,750

21 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

Group	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	-	**110**	117	**110**	117
Employee benefits	**(228)**	(354)	**-**	-	**(228)**	(354)
Unused tax losses	**(50)**	(219)	**-**	-	**(50)**	(219)
Other	**(6)**	(5)	**633**	835	**627**	830
Tax (assets) / liabilities	**(284)**	(578)	**743**	952	**459**	374

Notes *(continued)*

21 Deferred tax assets and liabilities *(continued)*

Company	Assets		Liabilities		Net	
	2017	2016	**2017**	2016	**2017**	2016
	£000	£000	**£000**	£000	**£000**	£000
Accelerated capital allowances	**-**	(1)	**2**	-	**2**	(1)
Employee benefits	**(227)**	(22)	**-**	-	**(227)**	(22)
Unused tax losses	**(29)**	(30)	**-**	-	**(29)**	(30)
Other	**-**	-	**264**	290	**264**	290
Tax (assets) / liabilities	**(256)**	(53)	**266**	290	**10**	237

22 Other provisions

	Group		Company	
	2017	2016	**2017**	2016
	£000	£000	**£000**	£000
Contingent consideration	**75**	85	**75**	85

The movements in contingent consideration are as follows:

	2017	2016
	£000	£000
At beginning of year	**85**	-
Utilised during year	**(30)**	-
Arising on acquisition	**20**	85
At end of year	**75**	85

23 Called up share capital

	2017	2016
	£000	£000
Allotted, called up and fully paid		
1,078,453 (2016: 1,078,453) ordinary shares of £1 each	**1,078**	1,078

24 Contingent liabilities

At 30 June 2017 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 £3,100,000 at the end of the current year *(2016: nil)*.

Non-cancellable operating lease rentals are payable as follows:

	2017		2016	
	Land and buildings	**Other**	Land and buildings	Other
Group	**£000**	**£000**	£000	£000
Less than one year	**62**	**13**	180	13
Between one and five years	**115**	**19**	338	30
More than five years	**58**	**-**	100	-
	235	**32**	618	43

	2017		2016	
	Land and buildings	**Other**	Land and buildings	Other
Company	**£000**	£000	£000	£000
Less than one year	-	-	27	-
Between one and five years	-	-	108	-
More than five years	-	-	24	-
	-	-	159	-

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 £238,000 *(2016: £194,000).*

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 2016 and updated to 30 June 2017 to take account of the requirements of FRS 102.

Net pension liability

	2017 £000	2016 £000
Defined benefit obligation	**(24,097)**	(25,073)
Plan assets	**23,332**	24,963
Net pension liability	**(765)**	(110)

Movements in present value of defined benefit obligation

	2017 £000
At 1 July 2016	**25,073**
Interest expense	**693**
Remeasurement: actuarial losses	**(1,053)**
Benefits paid	**(616)**
At 30 June 2017	**24,097**

Movements in fair value of plan assets

	2017 £000
At 1 July 2016	**24,963**
Interest income	**692**
Remeasurement: return on plan assets less interest income	**(1,820)**
Contributions by employer	**113**
Benefits paid	**(616)**
At 30 June 2017	**23,332**

Notes *(continued)*

26 Pension scheme *(continued)*

Expense recognised in the profit and loss account

	2017 £000	2016 £000
Net interest on net defined benefit liability	**1**	22
Total expense recognised in profit or loss	**1**	22

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

	2017 Fair value %	2016 Fair value %
Indexed linked gilts	**5**	4
Corporate bonds	**7**	6
Deferred Annuity policies	**56**	58
Guaranteed Annuity policies	**32**	32

	2017 £000	2016 £000
Actual return on plan assets	**(1,128)**	4,433

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

	2017 %	2016 %
Discount rate	**2.70**	2.80
Future salary increases	**5.00**	5.00
Retail prices index	**3.15**	3.00

In valuing the liabilities of the pension fund at 30 June 2017, 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: 21.5 years (male), 23.3 years (female).
- Future retiree upon reaching 65: 23.2 years (male), 25.2 years (female).

26 Pension scheme *(continued)*

Group and Company Scheme
The John Swan Limited Retirement Benefits Scheme, previously run by a subsidiary of the company, transferred to the company in the year. The 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 last full actuarial valuation of this scheme was carried out by a qualified independent actuary as at 1 May 2016 and was updated to 30 June 2017 to take account of the requirements of FRS 102.

Net pension (liability)/asset

	2017 £000	2016 £000
Defined benefit obligation	**(7,740)**	(8,133)
Plan assets	**7,167**	6,474
Net pension (liability) asset	**(573)**	(1,659)

Movements in present value of defined benefit obligation

	2017 £000
At 1 July 2016	**8,133**
Interest expense	**234**
Remeasurement: actuarial losses	**(498)**
Benefits paid	**(129)**
At 30 June 2017	**7,740**

Movements in fair value of plan assets

	2017 £000
At 1 July 2016	**6,474**
Interest income	**187**
Remeasurement: return on plan assets less interest income	**575**
Contributions by employer	**60**
Benefits paid	**(129)**
At 30 June 2017	**7,167**

Expense recognised in the profit and loss account

	2017 £000	2016 £000
Net interest on net defined benefit liability	**47**	13
Total expense recognised in profit or loss	**47**	13

Notes *(continued)*

26 Pension scheme *(continued)*

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

	2017 Fair value %	2016 Fair value %
Pooled Investment Vehicles	**91**	90
Insurance policies	**7**	8
Cash and cash deposits	**2**	2

	2017 £000	2016 £000
Actual return on plan assets	**762**	96

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

	2017 %	2016 %
Discount rate	**2.70**	2.90
Retail price inflation	**3.15**	3.10
Consumer price inflation	**2.15**	2.10
Pension increases – RPI maximum 5%	**3.10**	3.00
Deferred pension revaluation (CPI 5% cap)	**2.15**	2.10

In valuing the liabilities of the pension fund at 30 June 2017, 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: 21.5 years (male), 23.3 years (female).
- Future retiree upon reaching 65: 23.2 years (male), 25.2 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	
	2017	2016
	£000	£000
Financial assets		
Trade debtors	**8,245**	7,983
Amounts receivable on finance contracts	**443**	1,727
Financial liabilities		
Bank overdraft	**4,455**	5,443
Bank loans	**4,599**	6,076
Trade creditors	**1,989**	1,047
Accruals	**611**	760
Obligations under finance leases and hire purchase contracts	**77**	205

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.

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 £813,997 *(2016: £863,161).*

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 2017. These valuations include significant estimates on the likelihood of favourable outcomes on planning applications.

The Board of Directors

Left to right:

Alasdair G Houston *(Non-Executive Director)*

Michael L Scott *(Non-Executive Director)*

Ian C Lancaster *(Non-Executive Chairman)*

Dawn Harrison *(Non-Executive Director)*

Colin Lindsay *(Non-Executive Director)*

Margaret Irving *(Company Secretary)*

Andrew Douglas *(Non-Executive Director)*

Adrian R Hill *(Non-Executive Director)*

Brian E Richardson *(Chief Executive)*