Annual Report & Accounts

for the year ended 30 June 2016

BROOKS MACDONALD

Contents

Highlights of the year

Financial highlights

+3%

Underlying pre-tax profit†
2016: £15.536 million
2015: £15.078 million

+39%

Pre-tax profit
2016: £15.856 million
2015: £11.420 million

+15%

Total dividends per share
2016: 35.0p*
2015: 30.5p
* Including a proposed final dividend of 23.0p per share

+12%

Discretionary funds under management
30 June 2016: £8.30 billion
30 June 2015: £7.41 billion

Business highlights

- We celebrated our 25th year in business with continued growth for the group.
- Discretionary funds under management passed the £8 billion mark during the year.
- We retained our 5-star Defaqto ratings for our Bespoke Portfolio Service, Managed Portfolio Service and Platform offering.
- We entered into a new strategic alliance in March 2016, taking the total number of these partnerships to 18.
- Our International discretionary investment services were made available to South African offshore investors through Glacier International's Global Life Plan and to affluent clients in Portugal through Generali PanEurope's tailored Private Wealth Portfolio.
- In March 2016 we won an unprecedented five awards at the Citywire Wealth Manager Regional Stars Awards.
- Our brand was relaunched in April 2016, unifying all of the group's services and encapsulating all of our literature and communications, both in print and online.
- We extended our principal sponsorship of Middlesex County Cricket Club until the end of 2019.

† Excludes acquisition costs, finance cost of deferred consideration, changes in fair value of deferred consideration and amortisation of intangible assets.

A reconciliation between underlying profit before tax and statutory profit before tax is shown in the Strategic report on page 7.

Chairman's statement

> We will maintain our investment across the business to sustain our continued growth. This covers investment in research, governance, IT, distribution, marketing and most importantly our staff.

Christopher Knight Chairman

Against a backdrop of considerable market and political uncertainty, the group has made good progress. Discretionary funds under management grew organically in all areas of the business and revenues and profits increased while we continued to invest in the business.

Underlying pre-tax profit for the year was £15.5m (2015: £15.1m), a rise of 3%, although underlying earnings per share have fallen to 87.92p (2015: 91.33p). Statutory pre-tax profits for the year grew by 39% to £15.9m (2015: £11.4m), the scale of the increase resulting from a reduction in the estimated deferred consideration payable in future years to the vendors of Levitas Investment Management Services Limited.

The board is recommending a final dividend of 23.0p per share which, if approved by shareholders, will result in total dividends for the year of 35.0p. This is an increase of 15% over the total dividends paid the previous year of 30.5p per share. The final dividend will be paid on 28 October 2016 to shareholders on the register at the close of business on 30 September 2016. We remain cash generative and have a strong balance sheet.

The EU referendum had an effect on our results. In the first half of the financial year we decided to postpone the launch of two new funds. In the second half, investment returns were challenging and in the final quarter investor sentiment was certainly weaker. In spite of these market conditions, our discretionary funds under management grew strongly over the year to over £8.30bn (2015: £7.41bn), a rise of 12.0%. This compares favourably to the growth of the WMA Balanced index of 4.6%.

We will maintain our investment across the business to sustain our continued growth. This covers investment in research, governance, IT, distribution, marketing and most importantly our staff. Markets have improved since the EU referendum, but sentiment remains volatile. Despite the uncertainties surrounding our exit from the EU and the associated market volatility, we believe the strength of our investment proposition will enable us to deliver good risk-adjusted returns for our clients.

Brooks Macdonald was established twenty-five years ago, with three of its founders continuing to be actively involved in the business: Chris Macdonald, Jon Gumpel and Richard Spencer. From a modest office in Park Street employing a handful of people, the business has grown into a highly successful investment management group with twelve offices and nearly 500 staff. We are proud of Brooks Macdonald's history and confident that we can continue to build on what has been achieved over the last quarter century. The future, we believe, is bright.

Christopher Knight
Chairman

20 September 2016

Chief Executive's review

"We are well positioned strategically, have a strong balance sheet, are growing our brand, have high-quality staff across the group, are working with an increasing number of professional intermediaries and are constantly developing our investment offering."

Chris Macdonald Chief Executive

Introduction

This has been a good year for the business in spite of some significant headwinds. This would not have been possible without the hard work and dedication of all our staff throughout our twelve offices and I would like to thank them for making these results possible.

In the first six months of the year, we continued to grow discretionary funds under management and our planned move away from advisory work in our International business. In the second half, investment markets remained challenging but organic growth of discretionary funds remained robust and we have made substantive progress in our distribution model.

We have continued with our IT system development, working with three external providers. This is always complex and the time scale for completion has now moved to mid 2017, but I am pleased to report that this still remains on budget. In addition, we have completed our 'brand refresh'. As well as modernising the look and feel of our marketing collateral, this has firmly positioned the business as an Investment Management business, as this remains the key driver of our growth. In line with this strategy, we will be moving our funds and UK asset management business into one brand, Investment Management, in early 2017 (subject to regulatory approvals).

Business review

Our discretionary funds under management rose to over £8.3bn, an increase of over £880m over the financial year. This represents an increase of 12.0%, of which 11.7% was new business (£863m) and 0.3% (£25m) investment growth. We concluded no acquisitions in the year and this growth was largely generated internally, predominantly via our work with professional introducers. We continue to work with an increasing number (now over 960) of high-quality professional intermediaries throughout the UK and overseas. Pleasingly, our work with this sector shone through in the Citywire Regional Stars awards, where professional advisers voted Brooks Macdonald their preferred discretionary fund manager in 5 of 6 regions of the UK. We remain highly focussed on providing a high-quality service to this sector and thank them for their continued support.

Our bespoke discretionary portfolio service ('BPS') remains the premium offering for high-net-worth clients. This continues to gain traction with private clients, pension and trust funds. Pension funds (principally Self Invested Personal Pensions - 'SIPPs') and increasingly ISA portfolios remain a substantial opportunity. We remain confident that the need for an incentive to save remains and that tax-efficient wrappers will form a key component of any strategy in this

Chief Executive's review

continued

Business review *continued*

space. On and offshore we now manage over £6.4bn via our BPS service.

Our managed portfolio service ('MPS') is for smaller clients and can be accessed as a portfolio or via a unit managed around a series of risk based mandates. Our portfolio assets now exceed £617m and units £241m. We remain of the view that this will be a strong area of growth in the short, medium and long term.

In addition to risk-rated funds, we manage specialist funds which will also move under our new single brand later in the new financial year. Over the last year and into this financial year, we have streamlined our offering to ensure that we have funds that are of scale. Subject to market conditions, we will also look to launch further new products into the market place.

The full integration of our international business into the group continued. The teams based in the Channel Islands have worked hard to move the business from a blend of advisory and discretionary business towards acting fully as a discretionary manager. This process continues and while the financial results are disappointing, I am pleased with the progress made in expanding our distribution network outside the UK.

We have made a number of management changes in Braemar Estates, our specialist property manager. These started to contribute to growth in the second half. Assets under administration declined marginally over the year (-3.1%).

Our financial planning business continued the trend of the prior year. Consulting work rose while employee benefits had a difficult year. Work generated into our Investment Management business remains robust and we will be looking to launch a pension default fund for our employee-benefit clients early this financial year.

Industry background

Regulatory changes continue apace, with a major focus on MiFID II. This has been postponed until January 2018, but we are ensuring the business is well prepared for the substantial changes around transaction and client reporting.

During the financial year, we have seen further consolidation in our sector. I believe that with the increasingly high costs of providing a quality investment service, back office administration and a robust governance structure, consolidation will continue. We remain firmly committed to remaining independent and will certainly look at acquisition opportunities when they arise.

Strategies for growth

We continue to focus on our core strategies for growth: organic, service and performance development, as well as ongoing investment in the business, in particular on improving our technological delivery. This remains a constant.

Our main strategic focus remains working with quality professional advisers. There were 14,491 Adviser firms in the UK at the end of 2015 (source: APFA) of whom around 2,500 fall into our immediate target market. Currently we work with around one-third of this universe and are excited at the prospect of making further progress here.

Strategic Alliances form a major part of our strategy and I am pleased that the number of firms we have these relationships with has increased to 19. As well as working with over 960 firms in the UK and overseas, we are looking to deepen our relationships with them and have launched a telephone support team to expand our offering to the wider community.

Our regional offices have been a major success for the business since our first office opened outside London in 2005. This has allowed us to service clients and professional advisers from a regional office as well recruiting high-quality staff throughout the UK and Channel Islands.

In addition to recruitment, we are always looking to enhance and expand our range of services. In this financial year, we will look to expand our charity proposition, a Tier 1 service for overseas investors and launch a default fund as above.

With our recent brand refresh, we will also look to continue the development of our brand further. We are developing an exciting social media presence, have just renewed our sponsorship of Middlesex County Cricket Club and have won a number of investment and property awards over the last year. We also remain one of the very few firms with 5-star ratings from Defaqto for 2016.

Summary and outlook

While it has been a challenging year, it has been highly productive. We are well positioned strategically, have a strong balance sheet, are growing our brand, have high-quality staff across the group, are working with an increasing number of professional intermediaries and are constantly developing our investment offering. We have made a good start to the new financial year and can look forward with confidence.

Chris Macdonald
Chief Executive

20 September 2016

Strategic report

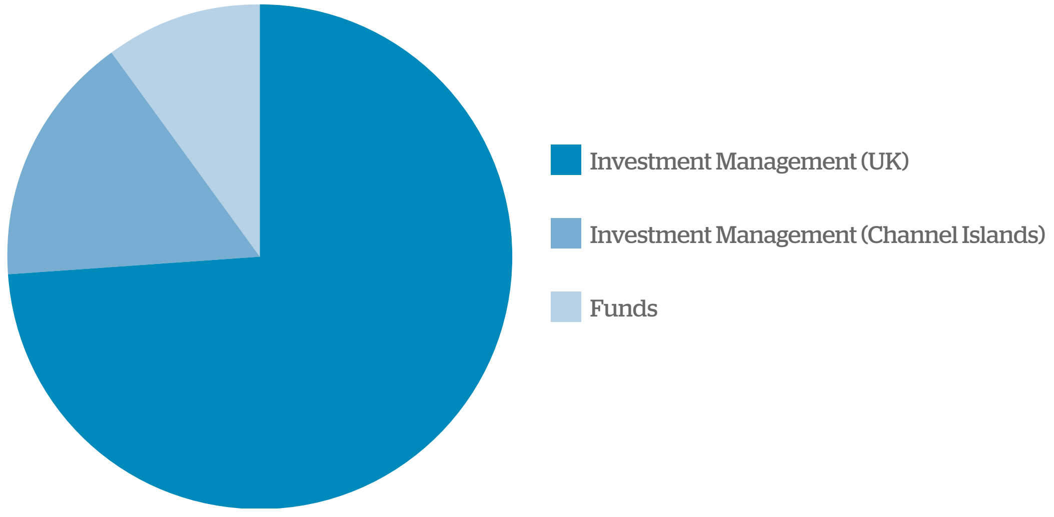
The market and our services

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

A summary of our services

Brooks Macdonald manages £8.301 billion for its clients as of 30 June 2016, making us one of the leading private client investment managers. We provide discretionary investment management solutions to private clients, families, charities and trustees. We also provide financial planning advice and employment benefits consultancy to small and medium sized enterprises. Through our funds we provide multi asset and specialist fund products to the retail sector and we have a property estate and building management service for private individuals, institutions and property fund managers.

A breakdown of the split of the discretionary funds under management is shown in the graph below:



Strategic report

continued

The market and our services *continued*

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

	2016 £m	2015 £m
Opening discretionary FUM	7,413	6,550
Net new discretionary business	863	645
Acquisitions	–	–
Investment growth	25	218
Total FUM growth	888	863
Closing FUM	8,301	7,413
Organic growth (net of markets) %	11.6	9.8
Total growth %	12.0	13.2

Group performance

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

Table 1

	2016 £m (unless stated)	2015 £m (unless stated)
Total revenue	81.4	77.7
Operating costs	(67.8)	(65.4)
Net financial income and gains	2.3	(0.9)
Profit before tax	15.9	11.4
Underlying profit before tax[1]	15.5	15.1
Earnings per share	94.41p	68.30p
Dividends per share[2]	35.0p	30.5p
Underlying margin[3]	19.1%	19.4%

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

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

[3] Underlying profit as a percentage of total revenue

Total revenue

Total group revenue grew by 5% during the year compared to 12% in the previous year due mainly to a reduction in revenue in the Channel Islands where there was a fall in revenue of over 12% compared to an increase in 2015 of 14%. During the year we decided to more closely align the services in Jersey and Guernsey with the investment management service in the UK and reduced the number of advisory and execution only clients which had a significant impact on the transactional revenue generated in the year. A number of these clients have transferred their funds to a discretionary mandate which we expect will generate a longer term and more consistent revenue stream for the business.

We saw revenue growth during the year of 8% in the investment management business and increased revenues for our funds business, financial planning and estates business over the year.

Strategic report

continued

Group performance *continued*

Operating costs

As in previous years, the major part of the operating costs for the group are in relation to our staff (57%; 2015: 59%) and during the year we saw a small increase in the average number of employees from 467 to 472. Of the total staff costs 24% (2015: 24%) were variable costs. We have continued to invest in our IT systems across all parts of the group, to improve the services offered to our clients. In our investment management business we are working on a large IT project to provide a more fully integrated system which will cover both onshore and offshore clients. We have assembled an internal project team and are working with three external software providers. The project has already delivered an improved client portal and a new client relationship management system to work with our professional intermediaries. Once complete during the financial year 2018 the system will provide increased capacity with reduced risk and will deliver operational efficiencies.

We continue to operate in an increasingly regulated environment and we have again strengthened our legal, risk and compliance departments by additional recruitment over the last financial year. In 2016 we have seen the levy paid to the Financial Services Compensation Scheme ('FSCS') stabilise at £0.5m (2015: £0.5m).

Net financial income and gains

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

During the year one of the original FUM targets for Levitas was not achieved, resulting in a reduction in the amount payable to the vendors of the business. Accordingly, as more fully explained in note 22 to the financial statements, there was a fair value reduction of £3.3m resulting in a gain to Consolidated Statement of Comprehensive Income.

Included in total net financial income and gains for the year of £2.3m is this fair value reduction for Levitas, together with other financial income, costs and the group's share of joint venture results as detailed on the Consolidated Statement of Comprehensive Income and the accompanying notes.

As disclosed more fully in note 16 to the consolidated financial statements, the group has an investment in a student accommodation fund. During the year the shareholders of the fund approved the sale of the underlying property assets, which resulted in an impairment charge of £0.3m (2015: £0.7m).

Underlying profit before tax

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

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

	2016 £m	2015 £m
Underlying profit before tax	**15.5**	15.1
Amortisation of intangible assets	**(2.6)**	(2.7)
Finance cost of deferred consideration	**(0.6)**	(0.8)
Changes in fair value of deferred consideration	**3.6**	(0.1)
Acquisition costs	**–**	(0.1)
Profit before tax	**15.9**	11.4

Strategic report
continued

Group performance *continued*

Amortisation of intangible assets (note 14)
As explained in notes 2(d) and 2(m), client relationship intangible assets are created in the course of acquiring funds under management. The amortisation charge associated with these assets and software represents a significant non-cash item and it has therefore been excluded from underlying profit, which represents largely cash-based earnings.

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

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

Acquisition costs
The acquisition costs in 2015 were incurred in relation to the purchase of Levitas Investment Management Services Limited. There were no acquisitions made during this financial year.

Cash resources and regulatory capital
The group is cash generative and, as detailed in the Consolidated Statement of Cash Flows on page 29, there was an increase in cash resources at the year end of £0.2m to £19.5m (2015: £19.3m). The group had no borrowings at 30 June 2016 (2015: £nil).

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

Segmental review
The group reports its results in four key operating segments: Investment management; Financial planning; Funds and property management; and International.

Investment management
The UK based investment management service continues to remain the core part of the group contributing 72% (2015: 70%) of the group turnover. Investment management principally provides discretionary investment management to private investors, pension funds, charities and trusts through BPS and MPS. Despite considerable changes within the industry and volatility within the financial markets we have continued to grow FUM as shown in the table on page 6.

Financial planning
The financial consulting business continues to deliver both fee based financial planning advice to high net-worth families, and employee benefit consultancy to small and medium sized employers throughout the UK. Numbers of clients increased over the course of the year and the division remains a major introducer of new investment management funds to the group. During the year there was further investment in systems and staff and, despite the uncertain economic climate, revenue increased to £4.3m (2015: £4.1m) resulting in a small loss for the year of £0.1m (2015: £0.1m).

Strategic report
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Group performance *continued*

Segmental review *continued*

Funds and property management
It has been another year of growth for the funds business across the range of funds it manages. Total FUM increased by 20% to £796m (2015: £663m) at 30 June 2016. This growth was achieved both organically through the net new investment across the range of funds with particularly strong flows of new money into the multi asset funds.

The Ground Rents Income Fund performed well during the year with an increase in the net asset value. It was the intention to launch two further property related funds in the second half of the year but due to the result of the EU referendum these were postponed and will be reviewed again during the next financial year.

During the year, as a result of slower than anticipated growth of the Liquid Property Fund, the business recognised an impairment charge against its investment in North Row Capital LLP (NRC), in which it has a 60% share, of £0.4m (2015: £nil) together with a share of the losses of NRC for the year of £0.1m (2015: £0.0m).

The estates business had an improved year although the value of assets under management marginally declined to £1.10bn (2015: £1.14bn). Following a strategic review of the business and some changes to the board, additional revenue streams were identified which saw an increase in turnover of 9% over the previous year despite the fall in the value of assets under management. As a result the estates business broke even for the year compared to a loss of £0.4m in 2015.

International
The business saw an increase of FUM during the year of 16% to £1.35bn (2015: £1.16bn) with new business from a number of sources and new jurisdictions including South Africa and the conversion of previously non-managed advisory and execution clients.

As advised at the half year the planned conversion of advisory accounts to discretionary accounts saw a significant reduction in the transactional income of the business during the year with total revenues for the International business falling by 12%. Whilst the associated costs of the advisory clients have been reduced these have not matched the timing of the loss of revenue and together with increased legal fees in the year, particularly dealing with some legacy issues prior to the acquisition, the profit for the year has fallen to £0.5m (2015: £1.3m).

The growth in the FUM and the expanded sources of international introductions together with the further rationalisation of the core client proposition in line with that offered in the UK means that the board believes that the business will see an increase in profit in the next financial year.

The new Brooks Macdonald brand

As part of the plans for the continued growth of the group, working together with specialist consultants we reviewed and relaunched our brand in April 2016.

As part of the review we ascertained from both internal and external sources the key characteristics of the group and how we were identified principally by our clients, professional intermediaries and staff.

We work extensively with professional intermediaries and so in reference to this the new brand was designed to unify all of the group services under a single Brooks Macdonald brand. This would be used both in the UK and internationally, and positions us as a investment manager of choice around our core offering.

The brand emphasises the ethos of the group – striking a balance between our professional and technical expertise and the way we support our clients and various partners. It encapsulates our core values of honesty, fairness and clarity. From a new logotype through to a new style and tone, the brand will implant these values within all of our literature and communications, on our new website and on our secure client portal. Through these channels, it will provide our clients, partners and staff with assurance of the quality of our business.

Strategic report
continued

The new Brooks Macdonald brand *continued*

Ultimately, the new brand will help us raise awareness within the increasingly competitive environment in which we operate. It will help us provide the best possible service to our clients, thereby maximising growth in our FUM and improving our profitability. It will also allow us to maintain the culture and ethos that has made us successful.

Corporate governance

A review of the company's corporate structure has been conducted and this will result in changes to our corporate structure which will take effect at the beginning of the next financial year. These changes are designed to improve the governance arrangements for our key operating businesses. Historically, each subsidiary has been run as an independent company; however, in future, key strategic decisions will be made on a group basis. Day-to-day management of underlying businesses will be undertaken by a management committee, which will report to the group executive committee. We believe this approach will permit more effective management of resources.

As a result of our improved governance arrangements, our asset management and funds subsidiaries will be managed through one single management committee as an investment management business line. This will improve investment governance by ensuring our risk and investment management controls are applied uniformly across our various products and services.

Governance arrangements at the group level remain unchanged. The principal board committees are audit, remuneration and risk and compliance, each of which has specific terms of reference which are periodically reviewed by the board. These terms of reference are available on the group website.

Audit Committee

The key responsibilities of the Audit Committee are:

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

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

The committee met five times during the year with meetings structured around the financial calendar of the company.

Risk and Compliance Committee

The group's risk-management framework is designed to ensure risks are identified, managed and reported effectively at every level. At an operational level, first-line systems and controls are employed to monitor compliance with internal policies and procedures. In the second line of defence, compliance monitoring carries out independent checks. Output from both is reported to the relevant management committee and relevant management information is reported to the business-level risk committee, the executive committee, and the Risk and Compliance Committee through the group's escalation policy. The risk department works with each business unit to conduct a programme of risk and control assessments throughout the year and the output from these is also reported to the relevant management committee, the relevant risk committee, executive committee and the Risk and Compliance Committee as appropriate. Identified risks at each business unit are recorded in a risk register and reported up through the risk committee structure, ultimately to the group board Risk and Compliance Committee, where required in accordance with the group escalation policy.

Strategic report
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Corporate governance *continued*

Risk and Compliance Committee *continued*

The membership of the Risk and Compliance Committee is made up of the group's four non-executive directors and is chaired by the senior independent director, Colin Harris. Business managers and representatives from the legal, risk and compliance functions attend committee meetings as necessary to report on monitoring output, the results of risk and control assessments and changes to the risk register. The group board Risk and Compliance Committee is principally responsible for monitoring identified risks and the effectiveness of mitigating action, keeping risk assessment processes under review, assessing material breaches of risk limits and reviewing client complaints.

The Risk and Compliance Committee met on six occasions during the year ended 30 June 2016.

The group's risk mitigation framework is subject to on-going review.

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

Financial risks

The group's principal financial risks relate to credit risk, liquidity risk and market risk and the measures and policies for the management of those risks are set out in note 32 to the consolidated financial statements. Further details on capital management processes can be found in note 33.

Non-financial risks

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

Reputational risk

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

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

Regulatory risk

Impact
The sector in which the group operates is heavily regulated and any breach of regulations could lead to fines or disciplinary action against the group or its staff.

Mitigation
The group monitors compliance with existing law and regulations and keeps abreast of future changes to assess the likely business impact and to ensure that the group has sufficient resources to implement any necessary changes.

People risk

Impact
Our business is dependent on client relationships with our staff. Operating in a competitive market there is a risk of loss of existing clients due to poor performance or service, a failure to respond to changes in the market place, or the loss of key investment professionals.

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

Strategic report
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Corporate governance *continued*

Risk and Compliance Committee *continued*

Non-financial risks *continued*

Information Communication Technology ('ICT') risk

Impact
A key part of the high quality service delivered to clients is facilitated by a flexible and robust internal ICT infrastructure. Ancillary areas of ICT risk include system development, ICT operations, ICT support and telecommunications.

Mitigation
New ICT projects are regularly reviewed and appraised at board meetings in order to ensure that the group continues to develop and maintain its ICT capabilities. Business continuity is assured through our network of offices and our remote working capabilities.

Outsourcing risk

Impact
Where key systems are provided by outsourced providers, there is a risk of failure of the outsourcing partners or external suppliers. There are further risks in the onboarding of outsourcing partners and ongoing support from them.

Mitigation
Due diligence takes place prior to the commencement of any outsourcing or supply, to maintain a robust procurement process and good contract governance. We keep our key outsourcing partners under review and have in place procedures to regularly assess the performance of such suppliers as well as identifying suitable and viable alternatives.

Operational risk

Impact
There is a risk that the group suffers a loss of business resulting from inadequate or failed internal processes, people and systems.

Mitigation
The group employs a comprehensive risk-management framework, which comprises ongoing monitoring and reporting of operational areas by first-line and second-line controls. The risk function works with businesses to conduct risk and control assessments, and external auditors provide further ad hoc checks.

Investment performance risk

Impact
There is a risk that portfolios will not meet their investment objectives which could result in the group suffering loss of business. There is a risk on the suitability of portfolios for clients and where the suitability responsibility lies between a professional introducing the client and the group company.

Mitigation
Portfolio performance, valuations and risk profiles are monitored by management, allowing issues to be identified and mitigated as they arise. The group has in place BITA Monitor portfolio risk oversight tools to assist with supervising portfolio management. The group keeps its client documentation under review and updates it regularly to ensure clients are properly informed about investment policy and risks.

Remuneration Committee

The Remuneration Committee comprises Diane Seymour-Williams (Chair), Christopher Knight and Colin Harris. The committee (in consultation with the Chief Executive) determines the specific remuneration packages for each executive director and certain senior executives including base salary, annual bonus, long-term incentives, benefits and terms of employment. The committee is also responsible for setting the broad parameters for the annual base salary review for all staff across the group and reviews all awards made under various long-term incentive schemes operated by the group.

Remuneration policy

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

Strategic report
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Corporate governance *continued*

Remuneration Committee *continued*

The remuneration policy, which applies to directors and employees of the group and was approved by shareholders at the AGM on 27 October 2015, is based on the following key principles:

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

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

The remuneration of directors in 2016 and 2015 is set out in the table below. Executive director remuneration includes legacy LTIP awards made in 2012 and 2011 that vested in the year.

Single total figure of remuneration for each director

	Salary and fees		Taxable benefits		Annual bonus[1]		Long term incentive schemes		Pension related benefits		Sharesave		Total	
£'000	2016	2015	2016	2015	2016	2015	2016[2]	2015[3]	2016	2015	2016	2015	2016	2015
Executives														
C A J Macdonald	**257**	253	**3**	3	**240**	272	**93**	88	**–**	–	**–**	–	**593**	616
N I Holmes	**169**	166	**3**	2	**192**	192	**82**	133	**25**	25	**–**	–	**471**	518
S J Jackson	**191**	188	**5**	4	**144**	140	**79**	48	**–**	–	**–**	–	**419**	380
A W Shepherd	**200**	188	**3**	2	**176**	176	**79**	132	**–**	–	**–**	2	**458**	500
R H Spencer	**191**	188	**4**	3	**132**	148	**46**	42	**–**	–	**–**	4	**373**	385
S P Wombwell	**197**	194	**5**	3	**120**	104	**66**	159	**–**	–	**–**	–	**388**	460
	1,205	1,177	**23**	17	**1,004**	1,032	**445**	602	**25**	25	**–**	6	**2,702**	2,859
Non-executives														
C J Knight (Chairman)	**92**	86	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**92**	86
C R Harris (Senior independent director)	**50**	45	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**50**	45
D Seymour-Williams	**46**	40	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**46**	40
R Price	**46**	37	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**46**	37
Total	**1,439**	**1,385**	**23**	**17**	**1,004**	**1,032**	**445**	**602**	**25**	**25**	**–**	**6**	**2,936**	**3,067**

Strategic report
continued

Corporate governance *continued*

Remuneration Committee *continued*

Notes

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

[2] The amounts represent the value vested in the year from three year LTIS awards arising from the deferred element of the 2012 annual bonus together with any additional awards made on similar terms. The awards satisfied the performance conditions requiring an increase in the diluted earnings per share of the company of at least 2% per annum more than the increase in the RPI over the period of three financial years starting with the financial year in which the date of the grant falls and ending with the financial year in which the third anniversary of the date of the grant falls. The vesting date was 25 October 2015 and the market price on 23 October 2015, the day nearest to the vesting date, was £17.34.

[3] The amounts represent the value vested in the year from three year LTIS awards arising from the deferred element of the 2011 annual bonus together with any additional awards made on similar terms. The awards satisfied the performance conditions requiring an increase in the diluted earnings per share of the company of at least 2% per annum more than the increase in the RPI over the period of three financial years starting with the financial year in which the date of the grant falls and ending with the financial year in which the third anniversary of the date of the grant falls. The vesting date was 20 October 2014 and the market price on that date was £13.42.

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

Basic salary

Basic salary is paid monthly in cash through payroll determined by the committee and any changes are implemented from 1 July each year or when an individual changes position or responsibility. In deciding appropriate levels the committee considers salaries throughout the group and information on comparable companies of a similar size and complexity provided by advisers to the committee. The views of the Chief Executive are taken into consideration when setting the salary of other directors. The base salaries of executive directors were increased on 1 July 2015 by a total of 2.5% compared to an overall average increase for all employees of 3.1%.

Non-executive directors' fees

The non-executive directors' fees were similarly reviewed and increased on average by 8.8% with the approval of the board to reflect their additional responsibilities and commitments as the group grows.

The Chairman's fee was increased from £90,000 to £92,000 on 1 August 2015 and the basic non-executive director's fee was increased from £40,000 to £42,000 on 1 August 2015. Non-executive directors also receive an additional responsibility fee of £4,000 per annum in recognition of their chairing a committee or being the senior independent director.

Taxable benefits

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

Taxable benefits are the provision of private medical insurance for the executives and their dependants and the provision of interest free season ticket loans as disclosed in note 35 to the consolidated financial statements.

Annual bonus

Awards to executive directors and some other senior employees of the group of profit related bonuses are made from a pool of profits of 5-15% of the group pre-tax profit after the payment of all bonuses to all other staff. As disclosed in note 22 to the consolidated financial statements there was an increase in the group pre-tax profit during the year of £3.34m in respect of changes in the deferred consideration on the acquisition of Levitas and given the 'one-off' and exceptional nature of this item the committee excluded this amount in the consideration of the size of the bonus pool for this year.

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

The total payment to executive directors in respect of the year ended 30 June 2016, including the amounts deferred into shares, represents 8.8% (2015: 9.8%) of group pre-tax profit. The total bonus payment to all senior employees who participate in this scheme is 12.2% (2015: 12.8%).

Strategic report
continued

Corporate governance *continued*

Remuneration Committee *continued*

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

Annual bonus continued

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

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

Long Term Incentive Scheme ('LTIS') and Employee Benefit Trust ('EBT')

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

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

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

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

Pensions

Executive directors may participate in the pension arrangements of the group or receive cash in lieu of pension on the same basis as other employees. The group's contributions are currently 15% of base salary.

Sharesave

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

Directors' interests in shares

At 30 June 2016, directors' shareholdings were as set out in table 1.

Strategic report

continued

Corporate governance *continued*

Remuneration Committee *continued*

Table 1: Directors' shareholdings and interest in shares at 30 June 2016

Number of shares or options	Beneficially owned shares	Interest in shares LTIS[1]	Sharesave	EMI schemes	CSOP	Total
Executives						
C A J Macdonald	230,764	16,964	649	–	–	17,613
N I Holmes	55,995	16,737	1,298	6,000[2]	2,067	26,102
S J Jackson	30,534	14,474	1,298	–	2,067	17,839
A W Shepherd	50,153	18,192	727	–	2,067	20,986
R H Spencer	229,848	9,349	1,455	–	1,959[3]	12,763
S P Wombwell	54,189	13,376	1,298	–	2,067	16,741
Non-executives						
C J Knight (Chairman)	71,585	–	–	–	–	–
C R Harris (Senior independent director)	6,086	–	–	–	–	–
D Seymour-Williams	5,000	–	–	–	–	–
R Price (appointed 1 August 2014)	–	–	–	–	–	–
Total	**734,154**	**89,092**	**6,725**	**6,000**	**10,227**	**112,044**

Notes

1 In the year ended 30 June 2016 further awards were made to the executive directors under the LTIS scheme together with the deferred element of the annual bonus award. The £ value of the awards are shown below in table 2 and the actual number of shares awarded will be determined based on the share price at the grant date in October 2016.

2 On 27 April 2016 Nicholas Holmes exercised his options over 4,500 ordinary shares of 1p each under the terms of the EMI scheme award dated 17 October 2006 at an option price of £2.15 per share. The closing market price for the shares on 27 April 2016 was £17.55.

3 On 29 October 2015 Richard Spencer was granted an option over 872 ordinary shares of 1p each under the terms of the CSOP scheme at an option price of £17.19 per share in respect of an award of £15,000 made in the year ended 30 June 2015.

Table 2: Monetary value of awards made under LTIS

	Deferred bonus £'000	Additional awards £'000	Total £'000
Executives			
C A J Macdonald	60	–	60
N I Holmes	48	40	88
S J Jackson	36	20	56
A W Shepherd	44	40	84
R H Spencer	33	–	33
S P Wombwell	30	20	50
Total	**251**	**120**	**371**

Strategic report
continued

Corporate governance *continued*

Remuneration Committee *continued*

Directors' interests in shares *continued*
Table 3: LTIS

				Number of options			
	Plan cycle	Performance period end date	Vesting date	At 1 July 2015	Granted in the year	Exercised in the year	At 30 June 2016
C A J Macdonald	2010-13	30.06.2013	27.10.2013	4,112	–	–	4,112
	2012-15	30.06.2015	25.10.2015	5,354	–	(5,354)	–
	2013-16	30.06.2016	01.11.2016	4,372	–	–	4,372
	2014-17	30.06.2017	14.10.2017	4,533	–	–	4,533
	2015-18	30.06.2018	29.10.2018	–	3,947	–	3,947
N I Holmes	2012-15	30.06.2015	25.10.2015	4,724	–	–	4,724
	2013-16	30.06.2016	01.11.2016	2,528	–	–	2,528
	2014-17	30.06.2017	14.10.2017	4,958	–	–	4,958
	2015-18	30.06.2018	29.10.2018	–	4,527	–	4,527
S J Jackson	2012-15	30.06.2015	25.10.2015	4,567	–	–	4,567
	2013-16	30.06.2016	01.11.2016	2,528	–	–	2,528
	2014-17	30.06.2017	14.10.2017	3,896	–	–	3,896
	2015-18	30.06.2018	29.10.2018	–	3,483	–	3,483
A W Shepherd	2012-15	30.06.2015	25.10.2015	4,567	–	–	4,567
	2013-16	30.06.2016	01.11.2016	3,791	–	–	3,791
	2014-17	30.06.2017	14.10.2017	4,958	–	–	4,958
	2015-18	30.06.2018	29.10.2018	–	4,876	–	4,876
R H Spencer	2011-14	30.06.2014	20.10.2014	3,105	–	(3,105)	–
	2012-15	30.06.2015	25.10.2015	2,677	–	–	2,677
	2013-16	30.06.2016	01.11.2016	2,186	–	–	2,186
	2014-17	30.06.2017	14.10.2017	2,338	–	–	2,338
	2015-18	30.06.2018	29.10.2018	–	2,148	–	2,148
S P Wombwell	2012-15	30.06.2015	25.10.2015	3,780	–	–	3,780
	2013-16	30.06.2016	01.11.2016	2,528	–	–	2,528
	2014-17	30.06.2017	14.10.2017	4,108	–	–	4,108
	2015-18	30.06.2018	29.10.2018	–	2,960	–	2,960
Total				**75,610**	**21,941**	**(8,459)**	**89,092**

Strategic report
continued

Corporate governance *continued*

Remuneration Committee *continued*

Directors' interests in shares *continued*
Table 4: Sharesave

	Plan cycle	Grant date	Market value of shares at grant date (£)	Vesting date	Number of options: At 1 July 2015	Granted in the year	Exercised in the year	At 30 June 2016
C A J Macdonald	2014-17	21.05.14	17.32	01.06.17	649	–	–	649
N I Holmes	2014-17	21.05.14	17.32	01.06.17	1,298	–	–	1,298
S J Jackson	2014-17	21.05.14	17.32	01.06.17	1,298	–	–	1,298
A W Shepherd	2013-16	14.05.13	14.65	01.06.16	767	–	(767)[1]	–
	2015-18	22.05.15	15.46	01.06.18	727	–	–	727
R H Spencer	2015-18	22.05.15	15.46	01.06.18	1,455	–	–	1,455
S P Wombwell	2014-17	21.05.14	17.32	01.06.17	1,298	–	–	1,298
Total					**7,492**	**–**	**(767)**	**6,725**

Note

[1] On 15 June 2016 Andrew Shepherd exercised options over 767 ordinary shares of 1p each under the terms of the Sharesave scheme granted on 14 May 2013. The exercise price was £11.72 and the market price of the shares on exercise was £16.76.

Table 5: CSOP

	Plan cycle	Grant date	Market value of shares at grant date (£)	Vesting date	Number of options: At 1 July 2015	Granted in the year	Exercised in the year	At 30 June 2016
N I Holmes	2013-16	21.11.13	14.52	21.11.16	2,067	–	–	2,067
S J Jackson	2013-16	21.11.13	14.52	21.11.16	2,067	–	–	2,067
A W Shepherd	2013-16	21.11.13	14.52	21.11.16	2,067	–	–	2,067
R H Spencer	2013-16	21.11.13	14.52	21.11.16	1,087	–	–	1,087
	2015-18	29.10.15	17.19	29.10.18	–	872	–	872
S P Wombwell	2013-16	21.11.13	14.52	21.11.16	2,067	–	–	2,067
Total					**9,355**	**872**	**–**	**10,227**

Sharesave Scheme

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

Enterprise Management Incentive Scheme ('EMI')

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

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

Strategic report
continued

Corporate governance *continued*

Remuneration Committee *continued*

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

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

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

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

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

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

Non-executive directors
Non-executive directors do not have contracts of employment but as with other directors are now required to stand for re-election. The executive directors are responsible for determining the fees of the non-executive directors who do not receive pension or other benefits from the group and do not participate in any group incentive schemes.

Report of the directors

The directors present herewith their annual report, together with the audited financial statements of the group for the year ended 30 June 2016.

Results and dividends

The profit before taxation for the year ended 30 June 2016 was £15,856,000 (2015: £11,420,000) and the profit after taxation was £12,739,000 (2015: £9,151,000).

The Company paid an interim dividend during the year of 12.0p (2015: 10.0p) per share. The directors recommend a final dividend of 23.0p (2015: 20.5p) per share. This results in total dividends for the year of 35.0p (2015: 30.5p) per ordinary share. These dividends amount to a total distribution to shareholders of £4,715,000 (2015: £4,095,000) in the year.

Retirement and re-appointment of directors

Christopher Knight, Chris Macdonald and Colin Harris will retire by rotation at the annual general meeting and are eligible to nominate themselves for re-election.

Directors' indemnities

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

Employment policies

Employees are encouraged to identify and become involved with the financial performance of the group and are rewarded by involvement in profit sharing arrangements. Employees also have the opportunity to participate in the group's share incentive plans.

Directors and their interests

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

	At 30 June 2016 Number of shares	At 30 June 2015 Number of shares
Chairman		
C J Knight	**71,585**	71,585
Executives		
C A J Macdonald	**230,764**	835,410
N I Holmes	**55,995**	54,895
S J Jackson	**30,534**	79,534
A W Shepherd	**50,153**	47,915
R H Spencer	**229,848**	776,743
S P Wombwell	**54,189**	89,189
Non-executives		
C R Harris	**6,086**	6,086
R Price	**–**	–
D Seymour-Williams	**5,000**	5,000

Details of share options held by the directors at the beginning and the end of the year can be found within the Remuneration Committee report on pages 12 to 19.

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

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

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

The group is an equal opportunities employer. All job applicants and employees are treated fairly and on merit, regardless of their race, gender, marital status, age, disability, religious belief or sexual orientation. Applications from disabled persons are always considered and where employees become disabled efforts are made to continue their employment within the group by providing training and the supply of equipment if necessary so that they are able to continue their role.

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

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

Report of the directors

continued

Substantial shareholdings

As at 6 September 2016, the Company had received notification of substantial interests in its shares of 3% or more as follows:

Substantial shareholdings	Number of shares	Percentage holding
Liontrust Asset Management	2,676,393	19.52
Octopus Investments	1,273,912	9.29
Hargreave Hale	1,195,178	8.72
Standard Life Investments	852,826	6.22
Artemis Fund Managers	831,851	6.07
J M Gumpel	661,265	4.82
Invesco Asset Management	512,776	3.74

Events since the end of the year

Details of events after the reporting date are set out in note 37 to the consolidated financial statements.

Independent auditors

The Audit Committee has recommended to the Board of Directors that the incumbent auditor, PricewaterhouseCoopers LLP, be reappointed. PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditor and a resolution to reappoint them as auditor will be proposed at the forthcoming annual general meeting.

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

Annual general meeting

The 2016 annual general meeting will be held on 25 October 2016 at 72 Welbeck Street, London, W1G 0AY. The notice of the meeting together with details of the resolutions proposed and explanatory notes have been distributed separately to shareholders and can also be found on the group's website.

On behalf of the Board of Directors,

S J Jackson
Finance Director

20 September 2016

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the company and group for that period. In preparing these financial statements, the directors are required to:

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

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

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

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

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

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

Financial statements

Independent auditors' report

to the members of Brooks Macdonald Group plc

Report on the group financial statements

Our opinion

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

- give a true and fair view of the state of the group's affairs as at 30 June 2016 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report & Accounts (the 'Annual Report'), comprise:

- the Consolidated Statement of Financial Position as at 30 June 2016;
- the Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the Consolidated Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the

Independent auditors' report

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

Responsibilities for the financial statements and the audit *continued*

What an audit of financial statements involves *continued*

financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the parent company financial statements of Brooks Macdonald Group plc for the year ended 30 June 2016.

Natasha McMillan (Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

London
20 September 2016

Consolidated statement of comprehensive income

for the year ended 30 June 2016

	Note	2016 £'000	2015 £'000
Revenue	4	**81,399**	77,686
Administrative costs		**(67,794)**	(65,371)
Realised gain on investment	5	**20**	540
Other gains and losses	6	**2,857**	(754)
Operating profit	7	**16,482**	12,101
Finance income	9	**58**	86
Finance costs	9	**(577)**	(763)
Share of results of joint venture	17	**(107)**	(4)
Profit before tax		**15,856**	11,420
Taxation	10	**(3,117)**	(2,269)
Profit for the year attributable to equity holders of the Company		**12,739**	9,151
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Revaluation of available for sale financial assets	16	**(6)**	–
Revaluation reserve recycled to profit or loss	16	**–**	68
Total comprehensive income for the year		**12,733**	9,219
Earnings per share			
Basic	11	**94.41p**	68.30p
Diluted	11	**94.07p**	68.14p

The accompanying notes on pages 30 to 64 form an integral part of the consolidated financial statements.

Consolidated statement of financial position

as at 30 June 2016

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	14	**65,849**	65,258
Property, plant and equipment	15	**3,309**	3,539
Available for sale financial assets	16	**1,715**	1,532
Investment in joint venture	17	**207**	628
Trade and other receivables	19	**150**	–
Deferred tax assets	18	**551**	709
Total non-current assets		**71,781**	71,666
Current assets			
Trade and other receivables	19	**23,958**	21,402
Financial assets at fair value through profit or loss	20	**1,000**	3
Cash and cash equivalents	21	**19,478**	19,274
Total current assets		**44,436**	40,679
Total assets		**116,217**	112,345
Liabilities			
Non-current liabilities			
Deferred consideration	22	**(5,290)**	(9,442)
Deferred tax liabilities	18	**(3,951)**	(4,694)
Other non-current liabilities	23	**(114)**	(95)
Total non-current liabilities		**(9,355)**	(14,231)
Current liabilities			
Trade and other payables	24	**(18,844)**	(16,894)
Current tax liabilities		**(2,142)**	(1,463)
Deferred tax liabilities	18	**(84)**	(119)
Provisions	25	**(2,784)**	(5,474)
Total current liabilities		**(23,854)**	(23,950)
Net assets		**83,008**	74,164
Equity			
Share capital	27	**137**	136
Share premium account	27	**35,997**	35,600
Other reserves	28	**5,517**	5,101
Retained earnings	28	**41,357**	33,327
Total equity		**83,008**	74,164

The consolidated financial statements on pages 26 to 64 were approved by the Board of Directors and authorised for issue on 20 September 2016, signed on their behalf by:

C A J Macdonald
Chief Executive

S J Jackson
Finance Director

Company registration number: 4402058

The accompanying notes on pages 30 to 64 form an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2016

	Share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2014	135	35,147	4,720	27,456	67,458
Comprehensive income					
Profit for the year	–	–	–	9,151	9,151
Other comprehensive income:					
Revaluation reserve recycled	–	–	68	–	68
Total comprehensive income	–	–	68	9,151	9,219
Transactions with owners					
Issue of ordinary shares	1	453	–	–	454
Share-based payments	–	–	1,315	–	1,315
Share-based payments transfer	–	–	(1,334)	1,334	–
Purchase of own shares by employee benefit trust	–	–	–	(742)	(742)
Tax on share options	–	–	332	–	332
Dividends paid (note 12)	–	–	–	(3,872)	(3,872)
Total transactions with owners	1	453	313	(3,280)	(2,513)
Balance at 30 June 2015	136	35,600	5,101	33,327	74,164
Comprehensive income					
Profit for the year	–	–	–	12,739	12,739
Other comprehensive income:					
Revaluation of available for sale financial asset	–	–	(6)	–	(6)
Total comprehensive income	–	–	(6)	12,739	12,733
Transactions with owners					
Issue of ordinary shares	1	397	–	–	398
Share-based payments	–	–	943	–	943
Share-based payments transfer	–	–	(806)	806	–
Purchase of own shares by employee benefit trust	–	–	–	(1,143)	(1,143)
Tax on share options	–	–	285	–	285
Dividends paid (note 12)	–	–	–	(4,372)	(4,372)
Total transactions with owners	1	397	422	(4,709)	(3,889)
Balance at 30 June 2016	**137**	**35,997**	**5,517**	**41,357**	**83,008**

The accompanying notes on pages 30 to 64 form an integral part of the consolidated financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2016

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Cash generated from operations	26	**17,536**	20,094
Taxation paid		**(2,773)**	(1,757)
Net cash generated from operating activities		**14,763**	18,337
Cash flows from investing activities			
Purchase of property, plant and equipment	15	**(751)**	(1,558)
Purchase of intangible assets	14	**(3,265)**	(1,879)
Purchase of available for sale financial assets	16	**(500)**	(250)
Acquisition of subsidiary companies, net of cash acquired	13	**–**	37
Deferred consideration paid	22	**(3,901)**	(9,218)
Interest received	9	**58**	86
Purchase of financial assets at fair value through profit or loss	20	**(1,000)**	(40)
Proceeds of sale of property, plant and equipment		**3**	-
Proceeds of sale of financial assets at fair value through profit or loss	20	**–**	263
Investment in joint venture	17	**(86)**	(400)
Net cash used in investing activities		**(9,442)**	(12,959)
Cash flows from financing activities			
Proceeds of issue of shares		**398**	454
Purchase of own shares by employee benefit trust	28	**(1,143)**	(742)
Dividends paid to shareholders	12	**(4,372)**	(3,872)
Net cash used in financing activities		**(5,117)**	(4,160)
Net increase in cash and cash equivalents		**204**	1,218
Cash and cash equivalents at beginning of year		**19,274**	18,056
Cash and cash equivalents at end of year	21	**19,478**	19,274

The accompanying notes on pages 30 to 64 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2016

1. General information

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

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

2. Principal accounting policies

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

a) Basis of preparation

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

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

b) Basis of consolidation

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

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

The group has disclosed all of its subsidiary undertakings in note 42 of the parent company's financial statements.

c) Changes in accounting policies

The group's accounting policies that have been applied in preparing these financial statements are consistent with those disclosed in the Annual Report and Accounts for the year ended 30 June 2015, except as explained below.

New accounting standards, amendments and interpretations adopted in the period

In the year ended 30 June 2016, the group did not adopt any new standards or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee (IFRS IC) that have had a material impact on the consolidated financial statements.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

c) Changes in accounting policies *continued*

New accounting standards, amendments and interpretations adopted in the period *continued*

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

Standard, Amendment or Interpretation	Effective date
Annual improvements (2011-2013 cycle)	1 January 2015
Contributions to defined benefit plans (amendments to IAS 19)	1 February 2015
Annual improvements (2010-2012 cycle)	1 February 2015

New accounting standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations, which have not been applied in preparing these financial statements, have been issued and are effective for annual periods beginning after 1 July 2015:

Standard, Amendment or Interpretation	Effective date
Disclosure initiative (amendments to IAS 1)	1 January 2016
Accounting for acquisitions of interests in joint operations (amendments to IFRS 11)	1 January 2016
Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)	1 January 2016
Annual improvements (2012-2014 cycle)	1 January 2016
Investment entities: applying the consolidation exception (amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016†
Recognition of deferred tax assets for unrealised losses (amendments to IAS 12)	1 January 2017†
Disclosure initiative (amendments to IAS 7)	1 January 2017†
Revenue from contracts with customers (IFRS 15)	1 January 2018†
Financial instruments (IFRS 9)	1 January 2018†
Clarification and measurement of share-based payment transactions (amendments to IFRS 2)	1 January 2018†
Leases (IFRS 16)	1 January 2019†

† Not yet endorsed for use in the EU

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

IFRS 16 'Leases' is expected to have a significant impact on the group's future consolidated financial statements. This new standard will require the recognition a right-of-use asset and associated lease liability for the office premises that are leased by the group. The asset would be depreciated over the lease term and the liability would accrue interest, resulting in a front-loaded expense profile. This accounting treatment contrasts with the current treatment for operating leases, where no asset or liability is recognised and the lease payments are charged to the Consolidated Statement of Comprehensive Income on a straight line basis over the term of the lease.

IFRS 9 'Financial Instruments' could change the classification and measurement of financial assets. IFRS 15 'Revenue from Contracts with Customers' could change how and when revenue is recognised from contracts with customers. The extent of their impact has not yet been fully determined.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

d) Critical accounting estimates and judgements

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

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

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

Intangible assets

The group has acquired client relationships and the associated investment management contracts as part of business combinations (as described in note 13), through separate purchase and purchased with newly employed teams of fund managers (as described in note 14). In assessing the fair value of these assets the group has estimated their finite life based on information about the typical length of existing client relationships. Contracts acquired with fund managers and acquired client relationship contracts are amortised on a straight line basis over their estimated useful lives, ranging from 5 to 20 years.

Goodwill recognised as part of a business combination is reviewed annually for impairment, or when a change in circumstances indicates that it might be impaired. The recoverable amounts of cash generating units are determined by value in use calculations, which require the use of estimates to derive the projected future cash flows attributable to each unit. Details of the more significant assumptions are given in note 14.

Deferred consideration

As described in note 22, the group has a deferred consideration balance in respect of the acquisition of Levitas Investment Management Services Limited in July 2014. Deferred consideration is recognised at its fair value, being an estimate of the amount that will ultimately be payable in future periods. This has been calculated allowing for estimated growth in the acquired funds, discounted by the estimated cost of capital. The group considers that reasonably possible changes to these assumptions would not result in a material change in the fair value of the deferred consideration.

Share-based payments

The group operates various share-based payment schemes in respect of services received from certain employees. Estimating the fair value of these share-based payments requires the group to apply an appropriate valuation model and determine the inputs to that model (notes 24 and 29). The charge to the Consolidated Statement of Comprehensive Income in respect of share-based payments is calculated using assumptions about the number of eligible employees that will leave the group and the number of employees that will satisfy the relevant performance conditions. These estimates are reviewed regularly.

Provisions

In the ordinary course of business, the group may receive complaints from clients in relation to the services provided. Complaints are assessed on a case-by-case basis and provisions are made where it is judged to be likely that compensation will be paid.

e) Exceptional items

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

f) Business combinations

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

f) Business combinations *continued*

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

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

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

Impairment

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

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

g) Fees, commissions and interest

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

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

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

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

Interest receivable is recognised on an accruals basis.

h) Cash and cash equivalents

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

i) Share-based payments

Equity-settled schemes

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

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

Cash settled schemes

The group engages in cash settled share-based payment transactions in respect of services received from certain employees. On the grant date, the liability is measured at its fair value. The liability is subsequently re-measured at the end of each reporting period and on the date of settlement, with any changes in fair value recognised in the Consolidated Statement of Comprehensive Income. The cost of the services received from employees in respect of this scheme is recognised in the Consolidated Statement of Comprehensive Income with a corresponding credit to accruals.

j) Segmental reporting

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

k) Fiduciary activities

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

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

l) Property, plant and equipment

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

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

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

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

m) Intangible assets

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

Acquired client relationship contracts and contracts acquired with fund managers

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

Computer software

Computer software costs are amortised on a straight line basis over an estimated useful life of four years.

Goodwill

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

n) Investments in joint ventures

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

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

o) Financial investments

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

Fair value through profit or loss

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

o) Financial investments *continued*

Available for sale

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

Loans and receivables

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

Held-to-maturity

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

p) Provisions

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

Client compensation

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

q) Foreign currency translation

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

r) Retirement benefit costs

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

s) Taxation

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

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

s) Taxation *continued*

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

t) Trade receivables

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

u) Trade payables

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

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

v) Operating lease payments

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

w) Financial instruments

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

x) Employee Benefit Trust ('EBT')

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

The EBT is considered to be a Structured Entity, as defined in note 36. In substance, the activities of the trust are being conducted on behalf of the group according to its specific business needs, in order to obtain benefits from its operation. On this basis, the assets held by the trust are consolidated into the group's financial statements.

y) Share capital

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

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

2. Principal accounting policies *continued*

z) Dividend distribution

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

3. Segmental information

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

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

Year ended 30 June 2016	Investment management £'000	Financial planning £'000	Funds and property management £'000	International £'000	Total £'000
Total segment revenue	58,949	4,387	6,896	11,605	81,837
Inter segment revenue	(238)	(136)	(64)	–	(438)
External revenue	58,711	4,251	6,832	11,605	81,399
Segment result	17,825	(60)	(624)	453	17,594
Unallocated items:					
Changes in fair value of deferred consideration					3,343
Other unallocated items					(5,081)
Profit before tax					15,856
Taxation					(3,117)
Profit for the year					**12,739**

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

3. Segmental information *continued*

Year ended 30 June 2015	Investment management £'000	Financial planning £'000	Funds and property management £'000	International £'000	Total £'000
Total segment revenue	54,464	4,191	6,044	13,200	77,899
Inter segment revenue	(101)	(69)	(43)	–	(213)
External revenue	54,363	4,122	6,001	13,200	77,686
Segment result	15,774	(68)	(564)	1,315	16,457
Unallocated items:					
Changes in fair value of deferred consideration					(302)
Other unallocated items					(4,735)
Profit before tax					11,420
Taxation					(2,269)
Profit for the year					**9,151**

a) Geographic analysis

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

	2016 £'000	2015 £'000
United Kingdom	**69,794**	64,486
Channel Islands	**11,605**	13,200
Total revenue	**81,399**	77,686

b) Major clients

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

4. Revenue

	2016 £'000	2015 £'000
Fee income	**69,273**	66,443
Financial services commission	**125**	235
Advisory and other income	**12,001**	11,008
Total revenue	**81,399**	77,686

5. Realised gain on investment

During the year ended 30 June 2016, the group realised an additional gain of £20,000 (2015: £540,000) on final disposal of its investment in Sancus Holdings Limited through the voluntary winding up of the company (note 16).

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

6. Other gains and losses

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

	2016 £'000	2015 £'000
Impairment of available for sale financial assets (note 16)	**(311)**	(718)
Impairment of investment in joint venture (note 17)	**(400)**	–
Loss from changes in fair value of financial assets at fair value through profit or loss (note 20)	**(3)**	(252)
Gain from changes in fair value of deferred consideration (note 22)	**3,571**	216
Other gains and losses	**2,857**	(754)

7. Operating profit

Operating profit is stated after charging:

	2016 £'000	2015 £'000
Staff costs (note 8)	**38,716**	38,558
Acquisition costs (see below)	**–**	120
Auditors' remuneration (see below)	**380**	280
Financial Services Compensation Scheme Levy (see below)	**475**	510
Depreciation (note 15)	**969**	990
Amortisation (note 14)	**2,674**	2,708

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

	2016 £'000	2015 £'000
Fees payable to the Company's auditor for the audit of the consolidated group and parent company financial statements	**56**	61
Fees payable to the Company's auditor and its associates for other services:		
– Audit of the Company's subsidiaries pursuant to legislation	**230**	185
– Audit-related assurance services	**70**	34
– Other advisory services	**24**	–
Total auditors' remuneration	**380**	280

Acquisition costs

Administrative costs for the year ended 30 June 2016 include no directly attributable business acquisition costs (2015: £120,000).

Financial Services Compensation Scheme levies

Administrative costs for the year ended 30 June 2016 include a charge of £475,000 (2015: £510,000) in respect of the Financial Services Compensation Scheme ('FSCS') levy. This includes the group's levy for the 2016/17 scheme year of £470,000.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

8. Employee information

a) Staff costs

	2016 £'000	2015 £'000
Wages and salaries	**33,491**	32,670
Social security costs	**3,053**	3,129
Other pension costs	**1,145**	1,331
Share-based payments	**1,027**	1,428
Total staff costs	**38,716**	38,558

Pension costs relate entirely to a defined contribution scheme.

b) Number of employees

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

	2016	2015
Professional staff	**190**	183
Administrative staff	**282**	284
Total staff	**472**	467

c) Key management compensation

The compensation of the key management personnel of the group, defined as the group Board of Directors including both the executives and non-executives, is set out below.

	2016 £'000	2015 £'000
Short-term employee benefits	**2,466**	2,434
Post-employment benefits	**25**	25
Share-based payments	**445**	346
Total compensation	**2,936**	2,805

d) Directors' emoluments

Further details of directors' emoluments are included within the Remuneration Committee report on pages 12 to 19.

	2016 £'000	2015 £'000
Salaries and bonuses	**2,209**	2,209
Non-executive directors' fees	**234**	208
Benefits in kind	**23**	17
	2,466	2,434
Pension contributions	**25**	25
Amounts receivable under long term incentive schemes	**445**	378
Total directors' remuneration	**2,936**	2,837

The aggregate amount of gains made by directors on the exercise of share options during the year was £109,000 (2015: £913,000). Retirement benefits are accruing to one director (2015: six) under a defined contribution pension scheme.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

8. Employee information *continued*

d) Directors' emoluments *continued*

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

	2016 £'000	2015 £'000
Remuneration and benefits in kind	**500**	528
Amounts receivable under long term incentive schemes	**93**	68
Total remuneration	**593**	596

The amount of gains made by the highest paid director on the exercise of share options during the year was £25,000 (2015: £90,000).

9. Finance income and finance costs

	2016 £'000	2015 £'000
Finance income		
Bank interest on deposits	**58**	86
Total finance income	**58**	86
Finance costs		
Bank interest payable	**–**	3
Finance cost of deferred consideration	**577**	760
Total finance costs	**577**	763

10. Taxation

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

	2016 £'000	2015 £'000
UK Corporation Tax at 20.00% (2015: 20.75%)	**3,262**	2,776
Under/(over) provision in prior years	**448**	(231)
Total current tax	**3,710**	2,545
Deferred tax credits	**(259)**	(276)
Effect of change in tax rate on deferred tax	**(334)**	–
Income tax expense	**3,117**	2,269

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

10. Taxation *continued*

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

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	**15,856**	11,420
Profit on ordinary activities multiplied by the standard rate of tax in the UK of 20.00% (2015: 20.75%)	**3,171**	2,370
Tax effect of:		
– Lower tax rates in other countries in which the group operates	**(77)**	(255)
– Disallowable expenses	**(91)**	385
– Change in rate of Corporation Tax applicable to deferred tax	**(334)**	–
– Under provision / (over provision) in prior years	**448**	(231)
Tax charge for the year	**3,117**	2,269

The deferred tax credits totalling £259,000 (2015: £276,000) represent a charge of £185,000 (2015: £28,000 charge) arising from the share option reserve at the balance sheet date, a credit of £35,000 (2015: £117,000 charge) relating to accelerated capital allowances and a credit of £409,000 (2015: £421,000) arising from the amortisation of acquired client relationship contracts.

On 1 April 2016, the standard rate of Corporation Tax in the UK was reduced to 20%. As a result the effective rate of Corporation Tax applied to the taxable profit for the year ended 30 June 2016 is 20.00% (2015: 20.75%).

In addition to the change in the rate of UK Corporation Tax disclosed above, the Finance (No.2) Act 2015, which was substantively enacted in October 2015, will further reduce the main rate of UK Corporation Tax to 19% in 2017 and 18% in 2020. Deferred tax assets and liabilities are calculated at the rate that is expected to be in force when the temporary differences unwind, but limited to the extent that such rates have been substantively enacted. The tax rate used to determine the deferred tax assets and liabilities is therefore 18% (2015: 20%) and will be reviewed in future years subject to new legislation.

11. Earnings per share

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

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

	2016 £'000	2015 £'000
Earnings attributable to ordinary shareholders	**12,739**	9,151
Acquisition costs (note 7)	**–**	120
Finance cost of deferred consideration (note 9)	**577**	760
Changes in fair value of deferred consideration (note 22)	**(3,571)**	70
Amortisation (note 14)	**2,674**	2,708
Tax impact of adjustments	**(556)**	(571)
Underlying earnings attributable to ordinary shareholders	**11,863**	12,238

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

11. Earnings per share *continued*

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

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

	2016 Number of shares	2015 Number of shares
Weighted average number of shares in issue	**13,493,316**	13,399,031
Effect of dilutive potential shares issuable on exercise of employee share options	**48,220**	30,996
Diluted weighted average number of shares in issue	**13,541,536**	13,430,027

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

	2016 (p)	2015 (p)
Based on reported earnings:		
Basic earnings per share	**94.41**	68.30
Diluted earnings per share	**94.07**	68.14
Based on underlying earnings:		
Basic earnings per share	**87.92**	91.33
Diluted earnings per share	**87.60**	91.12

12. Dividends

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

	2016 £'000	2015 £'000
Final dividend paid for the year ended 30 June 2015 of 20.5p (2014: 19.0p) per share	**2,758**	2,535
Interim dividend paid for the year ended 30 June 2016 of 12.0p (2015: 10.0p) per share	**1,614**	1,337
Total dividends	**4,372**	3,872
Final dividend proposed for the year ended 30 June 2016 of 23.0p (2015: 20.5p) per share	**3,101**	2,757

The interim dividend of 12.0p (2015: 10.0p) per share was paid on 26 April 2016.

A final dividend for the year ended 30 June 2016 of 23.0p (2015: 20.5p) per share was declared by the Board of Directors on 20 September 2016 and is subject to approval by the shareholders at the Company's annual general meeting. It will be paid on 28 October 2016 to shareholders who are on the register at the close of business on 30 September 2016. In accordance with IAS 10 'Events After the Reporting Period', this dividend has not been included as a liability in these financial statements.

13. Business combinations

On 31 July 2014, the group exercised its option to acquire the entire share capital of Levitas Investment Management Services Limited ('Levitas'). Full details of the acquisition are disclosed in note 13 of the 2015 Annual Report and Accounts. There have been no adjustments to the goodwill recognised in relation to the acquisition of Levitas.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

14. Intangible assets

	Goodwill £'000	Computer software £'000	Acquired client relationship contracts £'000	Contracts acquired with fund managers £'000	Total £'000
Cost					
At 1 July 2014	24,793	411	32,747	3,048	60,999
Additions	–	1,405	–	474	1,879
Additions on acquisition of subsidiaries at fair value	11,213	–	–	–	11,213
At 30 June 2015	36,006	1,816	32,747	3,522	74,091
Additions	–	3,265	–	–	3,265
At 30 June 2016	**36,006**	**5,081**	**32,747**	**3,522**	**77,356**
Accumulated amortisation					
At 1 July 2014	–	269	3,771	2,085	6,125
Amortisation charge	–	129	2,167	412	2,708
At 30 June 2015	–	398	5,938	2,497	8,833
Amortisation charge	–	132	2,177	365	2,674
At 30 June 2016	**–**	**530**	**8,115**	**2,862**	**11,507**
Net book value					
At 1 July 2014	24,793	142	28,976	963	54,874
At 30 June 2015	36,006	1,418	26,809	1,025	65,258
At 30 June 2016	**36,006**	**4,551**	**24,632**	**660**	**65,849**

a) Goodwill

Goodwill acquired in a business combination is allocated at acquisition to the cash generating units ('CGUs') that are expected to benefit from that business combination. The carrying amount of goodwill at 30 June 2016 comprises £3,550,000 in respect of the Braemar Group Limited ('Braemar') CGU, £21,243,000 in respect of the Brooks Macdonald Asset Management (International) Limited, Brooks Macdonald Retirement Services (International) Limited and DPZ (collectively 'Brooks Macdonald International') CGU and £11,213,000 in respect of the Levitas Investment Management Services Limited ('Levitas') CGU.

Goodwill is reviewed annually for impairment and its recoverability has been assessed at 30 June 2016 by comparing the carrying amount of the CGUs to their expected recoverable amount, estimated on a value-in-use basis. The value-in-use of each CGU has been calculated using pre-tax discounted cash flow projections based on the most recent budgets approved by the relevant subsidiary company boards of directors, covering a period of up to five years. Cash flows are then extrapolated beyond the forecast period using an expected long-term growth rate.

Based on the value-in-use calculation, at 30 June 2016 the calculated recoverable amount of the Brooks Macdonald International CGU was £43,172,000, indicating that there is no impairment. The key underlying assumptions of the calculation are the discount rate, the short-term growth in earnings and the long-term growth rate of the business. A pre-tax discount rate of 8.45% has been used, based on the group's assessment of the risk-free rate of interest and specific risks relating to Brooks Macdonald International. Annual earnings growth rates of between 23% and 65% are forecast over the next five financial years, the period covered by the most recent forecasts, which reflect historic actual growth and planned management actions and are considered to be achievable given current market and industry trends. The 2% long-term growth rate applied is considered prudent in the context of the long-term average growth rate for the funds, investment management and financial planning industries in which the CGU operates.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

14. Intangible assets *continued*

a) Goodwill *continued*

In relation to the Levitas CGU, based on the value-in-use calculation the calculated recoverable amount at 30 June 2016 was £17,910,000, indicating that there is no impairment. The key underlying assumptions of the calculation are the discount rate, the growth in funds under management of the Levitas funds and the long-term growth rate of the business. A pre-tax discount rate of 8.45% has been used, based on the group's assessment of the risk-free rate of interest and specific risks relating to Levitas. Annual funds under management growth rates of between 20% and 48% are forecast in the next five financial years, the period covered by the most recent forecasts, which reflect historic actual growth and planned management activities and are considered to be achievable given current market and industry trends. The 2% long-term growth rate applied is considered prudent in the context of the long-term average growth rate for the funds industry in which the CGU operates.

The key assumptions inherent in the value-in-use calculations for the Braemar CGU were similarly a pre-tax discount rate of 8.45%, annual revenue growth rates ranging from 12% to 20% and a long-term growth rate of 2%.

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

b) Computer software

Software costs are amortised over an estimated useful life of four years on a straight line basis.

c) Acquired client relationship contracts

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

d) Contracts acquired with fund managers

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

15. Property, plant and equipment

	Motor vehicles £'000	Fixtures and fittings £'000	Equipment and leasehold improvements £'000	Total £'000
Cost				
At 1 July 2014	35	2,087	5,814	7,936
Additions	25	69	1,528	1,622
Disposals	–	(64)	–	(64)
At 30 June 2015	60	2,092	7,342	9,494
Additions	–	19	732	751
Disposals	(27)	–	–	(27)
At 30 June 2016	**33**	**2,111**	**8,074**	**10,218**
Accumulated depreciation				
At 1 July 2014	13	959	3,993	4,965
Depreciation charge	15	307	668	990
At 30 June 2015	28	1,266	4,661	5,955
Disposals	(15)	–	–	(15)
Depreciation charge	9	232	728	969
At 30 June 2016	**22**	**1,498**	**5,389**	**6,909**
Net book value				
At 1 July 2014	22	1,128	1,821	2,971
At 30 June 2015	32	826	2,681	3,539
At 30 June 2016	**11**	**613**	**2,685**	**3,309**

16. Available for sale financial assets

	2016 £'000	2015 £'000
At beginning of year	**1,532**	2,182
Additions	**500**	250
Disposals	**–**	(250)
Loss from changes in fair value	**(6)**	–
Accumulated loss on revaluation reserve recycled	**–**	68
Impairment loss	**(311)**	(718)
At end of year	**1,715**	1,532

The group holds investments of 1,426,793.64 class B ordinary shares, representing an interest of 10.88%, in Braemar Group PCC Limited Student Accommodation Cell ('Student Accommodation Fund'); 750,000 zero dividend preference shares in GLI Finance Limited ('GLIF'), a listed company incorporated in Guernsey; and 500,000 redeemable preference shares in an unlisted company incorporated in the UK.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

16. Available for sale financial assets *continued*

The Student Accommodation Fund is promoted by Brooks Macdonald Funds Limited, a subsidiary of the group. The shareholders of the fund approved a resolution in May 2016 to sell the underlying property portfolio of the fund to a third party. The shares will subsequently be compulsorily redeemed out of the remaining net assets of the fund following the sale, although this process had not been completed at 30 June 2016. The group has therefore estimated the fair value of the group's investment at 30 June 2016 at £471,000 (2015: £782,000) based on the most recent information made available to investors about the consideration payable for the assets of the fund and the expected net asset value per share after adjusting for the costs associated with the sale. An impairment loss of £311,000 (2015: £718,000) was recognised in the Consolidated Statement of Comprehensive Income during the year, reflecting this perceived permanent diminution of value of the group's shareholding.

During the year, the group realised an additional gain of £20,000 (2015: £540,000) on the final distribution of proceeds from the voluntary liquidation of Sancus Holdings Limited ('SHL'), an unlisted company incorporated in Guernsey. The disposal of the group's investment in SHL was recognised in the year ended 30 June 2015 and the gain is included within realised gain on investment in the Consolidated Statement of Comprehensive Income. Further details are disclosed in note 16 to the 2015 Annual Report and Accounts.

At 30 June 2016, the fair value of the group's GLIF preference shareholding was £744,000 (2015: £750,000), based on their bid price on the London Stock Exchange. The reduction in fair value of £6,000 (2015: £nil) is recognised within other comprehensive income in the Consolidated Statement of Comprehensive Income.

During the year, the group acquired 500,000 redeemable preference shares in an unlisted company with a par value of £1 at a cost of £500,000. The preference shares are redeemable at par any time after five years from the date of issue (8 April 2016) and bear an entitlement to a fixed preferential dividend of 8% per annum of the nominal value of the shares. The fair value of the preference shares has been estimated at £500,000 based on a discounted cash flow analysis.

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Braemar Group PCC Limited Student Accommodation Cell	–	–	471	471
Unlisted redeemable preference shares	–	–	500	500
GLIF preference shares	744	–	–	744
Total	744	–	971	1,715

During the year, the Student Accommodation Fund investment was transferred from level 2 to level 3. As no active market exists for the shares and there has been no recent announcement of the net asset value of the fund, the group has applied valuation techniques that are not based on observable market data.

17. Investment in joint venture

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

17. Investment in joint venture *continued*

	2016 £'000	2015 £'000
At beginning of year	628	232
Working capital advanced in the year	86	400
Impairment loss	(400)	–
Share of loss of joint venture	(107)	(4)
At end of year	**207**	**628**

An impairment loss of £400,000 was recognised during the year (2015: £nil) to reduce the carrying amount of the group's investment in North Row Capital LLP to its estimated recoverable amount. The expense is included within other gains and losses on the Consolidated Statement of Comprehensive Income. Based on the most recent forecasts, the future cash flows from the partnership will accumulate slower than originally anticipated and as a result it will take longer for the group to realise a cash return on its investment in the joint venture.

18. Deferred income tax

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

	2016 £'000	2015 £'000
Deferred tax assets		
Deferred tax assets to be settled after more than 12 months	190	207
Deferred tax assets to be settled within 12 months	361	502
Total deferred tax assets	**551**	**709**
Deferred tax liabilities		
Deferred tax liabilities to be settled after more than 12 months	(3,951)	(4,694)
Deferred tax liabilities to be settled within 12 months	(84)	(119)
Total deferred tax liabilities	**(4,035)**	**(4,813)**

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

	2016 £'000	2015 £'000
At 1 July	(4,104)	(4,308)
Credit to the Statement of Comprehensive Income (note 10)	593	276
Credit recognised in other comprehensive income	–	–
Credit/(charge) recognised in equity	27	(72)
Additions on acquisition of subsidiaries	–	–
At 30 June	**(3,484)**	**(4,104)**

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

18. Deferred income tax *continued*

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

	Share-based payments £'000
Deferred tax assets	
At 1 July 2014	809
Charge to the Statement of Comprehensive Income	(28)
Charge to equity	(72)
At 30 June 2015	709
Charge to the Statement of Comprehensive Income	(185)
Charge to equity	27
At 30 June 2016	**551**

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

	Accelerated capital allowances £'000	Available for sale financial assets £'000	Intangible asset amortisation £'000	Total £'000
Deferred tax liabilities				
At 1 July 2014	2	–	5,115	5,117
Credit to the Statement of Comprehensive Income	117	–	(421)	(304)
Charge to other comprehensive income	–	–	–	–
At 30 June 2015	119	–	4,694	4,813
Additions on acquisition of subsidiaries	–	–	–	–
Debit/(credit) to the Statement of Comprehensive Income	(35)	–	(743)	(778)
Charge to other comprehensive income	–	–	–	–
At 30 June 2016	**84**	**–**	**3,951**	**4,035**

19. Trade and other receivables

	2016 £'000	2015 £'000
Non-current assets		
Loans receivable	**150**	–
Total non-current trade and other receivables	**150**	–
Current assets		
Trade receivables	**5,939**	5,854
Other receivables	**2,518**	3,426
Prepayments and accrued income	**15,501**	12,122
Total current trade and other receivables	**23,958**	21,402

At 30 June 2016 there was a loan receivable outstanding, issued by Brooks Macdonald Asset Management (International) Limited to a third party for £150,000 (2015: £150,000). The loan is now repayable after more than one year from the reporting date. At 30 June 2015 the loan was included as a current asset within other receivables. No impairment was recognised during the year (2015: £nil).

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

20. Financial assets at fair value through profit or loss

	2016 £'000	2015 £'000
At beginning of year	**3**	478
Additions	**1,000**	40
Disposals	**–**	(263)
Loss from change in fair value	**(3)**	(252)
At end of year	**1,000**	3

These investments are classified as Level 1 as defined in note 16.

21. Cash and cash equivalents

	2016 £'000	2015 £'000
Cash at bank	**19,437**	19,240
Cash held in employee benefit trust	**41**	34
Total cash and cash equivalents	**19,478**	19,274

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

22. Deferred consideration

Deferred consideration is split between non-current liabilities (see below) and provisions within current liabilities (note 25) to the extent that it is due for payment within one year of the reporting date. It reflects the directors' best estimate of amounts payable in the future in respect of certain client relationships and subsidiary undertakings that were acquired by the group. Deferred consideration is measured at its fair value based on discounted expected future cash flows. The movements in the total deferred consideration balance during the year were as follows:

	2016 £'000	2015 £'000
At 1 July	**13,826**	11,236
Added on acquisitions during the year	**–**	11,264
Finance cost of deferred consideration	**577**	760
Fair value adjustments	**(3,571)**	(216)
Payments made during the year	**(3,901)**	(9,218)
At 30 June	**6,931**	13,826
Analysed as:		
Amounts falling due within one year	**1,641**	4,384
Amounts falling due after more than one year	**5,290**	9,442
Total deferred consideration	**6,931**	13,826

No additions to deferred consideration (2015: £11,264,000) were recognised in the year. Payments totalling £3,901,000 (2015: £9,218,000) were made during the year, representing the final payment of £524,000 to the vendor of JPAM Limited ('JPAM'); the final payment of £2,130,000 to vendors of DPZ; and a further payment of £1,247,000 to vendors of Levitas.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

22. Deferred consideration *continued*

A reduction in the fair value of deferred consideration of £3,571,000 (2015: £216,000) was recognised during the year, with a corresponding gain recognised within other gains and losses on the Consolidated Statement of Comprehensive Income. This included an adjustment to reduce the fair value of deferred consideration in respect of Levitas by £3,343,000. The amount payable is based on the incremental growth in FUM of the TM Levitas funds, measured at annual intervals. As forecast growth was not achieved during year, the FUM forecast was subsequently revised and the estimated future deferred consideration payments reduced accordingly. Adjustments were also made to reduce the fair value of the deferred consideration attributable to DPZ by £225,000 and JPAM by £3,000 to the amount of the final payments made to the vendors.

Deferred consideration is classified as Level 3 within the fair value hierarchy, as defined in note 16.

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

	2016 £'000	2015 £'000
At 1 July	**9,442**	2,943
Added on acquisitions during the year	**–**	11,264
Finance cost of deferred consideration	**498**	482
Changes in fair value of deferred consideration	**(3,343)**	–
Transfer to current liabilities	**(1,307)**	(5,247)
At 30 June	**5,290**	9,442

During the year, no deferred consideration was recognised on acquisitions (2015: £11,264,000 was recognised in relation to the acquisition of Levitas). An amount of £1,307,000 (2015: £5,247,000), representing deferred consideration payable in respect of the acquisition of Levitas, was transferred to provisions within current liabilities. A range of final outcomes for the expected total deferred consideration payable cannot be estimated as the future value of the funds under management is dependent on several unpredictable variables, including client retention and market movements.

23. Other non-current liabilities

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

	2016 £'000	2015 £'000
At 1 July	**95**	115
Additional liability in respect of LTIS awards	**76**	74
Transfer to current liabilities	**(57)**	(94)
At 30 June	**114**	95

The additional liability was recognised during the year of £76,000 (2015: £74,000) in respect of existing LTIS awards, granted in previous years, that are expected to vest in the future. During the year, an amount of £57,000 (2015: £94,000) was transferred to current liabilities, reflecting awards that are expected to vest within the next 12 months.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

24. Trade and other payables

	2016 £'000	2015 £'000
Trade payables	**4,870**	2,854
Other taxes and social security	**2,509**	2,580
Other payables	**219**	1,429
Accruals and deferred income	**11,246**	10,031
Total trade and other payables	**18,844**	16,894

Included within accruals and deferred income in 2016 is an accrual of £179,000 (2015: £282,000) in respect of employer's National Insurance contributions arising from share option awards under the LTIS (note 29b).

The options have been valued using a Black Scholes model based on the market price of the Company's shares at the grant date (note 29). The total charge to the Consolidated Statement of Comprehensive Income for the year for all Phantom Share Option Schemes and employer's National Insurance contributions arising from share option awards under the LTIS (note 29b) was £84,000 (2015: £114,000).

25. Provisions

	Client compensation £'000	Deferred consideration £'000	FSCS levy £'000	Total £'000
At 1 July 2014	503	8,293	351	9,147
Charge to the Statement of Comprehensive Income	400	–	510	910
Added on acquisitions during the year	–	2,304	–	2,304
Finance cost of deferred consideration	–	278	–	278
Fair value adjustments	–	(216)	–	(216)
Transfer from non-current liabilities	–	2,943	–	2,943
Utilised during the year	(202)	(9,218)	(472)	(9,892)
At 30 June 2015	701	4,384	389	5,474
Charge to the Statement of Comprehensive Income	125	–	475	600
Added on acquisitions during the year	–	–	–	–
Finance cost of deferred consideration	–	79	–	79
Fair value adjustments	–	(228)	–	(228)
Transfer from non-current liabilities	–	1,307	–	1,307
Utilised during the year	(153)	(3,901)	(394)	(4,448)
At 30 June 2016	**673**	**1,641**	**470**	**2,784**

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

25. Provisions *continued*

a) Client compensation

Client compensation provisions relate to the potential liability arising from client complaints against the group. Complaints are assessed on a case by case basis and provisions for compensation are made where judged necessary.

b) Deferred consideration

Deferred consideration has been included within provisions as a current liability to the extent that it is due for payment within one year of the reporting date. The amount outstanding at 30 June 2016 was £1,641,000 (2015: £4,384,000) and relates entirely to the Levitas acquisition.

An amount of £1,307,000 (2015: £2,943,000) was transferred from non-current liabilities, representing payments made during the year and provisions for amounts falling due within one year of the reporting date. Provisions of £3,901,000 (2015: £9,218,000) were utilised during the year on payment of £524,000 to the vendor of JPAM, £2,130,000 to the vendors of DPZ, and £1,247,000 to vendors of Levitas.

c) FSCS levy

Following confirmation by the FSCS in April 2016 of its final industry levy for 2016/17, the group has made a provision of £470,000 (2015: £502,000) for its estimated share.

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

	2016 £'000	2015 £'000
Operating profit	**16,482**	12,101
Adjustments for:		
Depreciation of property, plant and equipment	**969**	990
Loss on sale of fixed assets	**9**	–
Amortisation of intangible assets	**2,674**	2,708
Other gains and losses	**(2,857)**	1,004
(Increase)/decrease in receivables	**(2,706)**	67
Increase in payables	**1,950**	1,693
Increase in provisions	**53**	236
Increase/(decrease) in non-current liabilities	**19**	(20)
Share-based payments	**943**	1,315
Net cash inflow from operating activities	**17,536**	20,094

In the year ended 30 June 2015, the group obtained control of Levitas. The net cash outflow resulting from this business combination is presented in note 13(c) on page 43 of the 2015 Annual Report and Accounts.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

27. Share capital and share premium account

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

	Number of shares £'000	Exercise price (p)	Share capital £'000	Share premium account £'000	Total £'000
At 1 July 2014	13,592,175		135	35,147	35,282
Shares issued:					
– on exercise of options	29,500	155.5-290.5	–	50	50
– to Sharesave Scheme	38,545	916.0-1,054.0	1	403	404
At 30 June 2015	13,660,220		136	35,600	35,736
Shares issued:					
– on exercise of options	19,400	215.0-290.5	–	53	53
– to Sharesave Scheme	29,550	1,054.0-1,386.0	1	344	345
At 30 June 2016	**13,709,170**		**137**	**35,997**	**36,134**

The total number of ordinary shares issued and fully paid at 30 June 2016 was 13,709,170 (2015: 13,660,220) with a par value of 1p per share.

Shares issued on exercise of options and to Sharesave Scheme members resulted in a £1,000 increase in share capital in the year ended 30 June 2016 (2015: £1,000).

Employee Benefit Trust

The group established an Employee Benefit Trust ('EBT') on 3 December 2010 to acquire ordinary shares in the Company to satisfy awards under the group's Long Term Incentive Scheme ('LTIS') and other share-based payment schemes (note 29). At 30 June 2016, the EBT held 228,208 (2015: 207,532) 1p ordinary shares in the Company, acquired for a total consideration of £3,376,000 (2015: £2,803,000) with a market value of £3,774,000 (2015: £3,668,000). They are classified as treasury shares in the Consolidated Statement of Financial Position, their cost being deducted from retained earnings within shareholders' equity.

28. Other reserves and retained earnings

Other reserves are comprised of the following balances:

	2016 £'000	2015 £'000
Share option reserve	**5,331**	4,909
Merger reserve	**192**	192
Available for sale reserve	**(6)**	–
Total other reserves	**5,517**	5,101

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

28. Other reserves and retained earnings *continued*

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

	2016 £'000	2015 £'000
Share option reserve		
At beginning of the year	**4,909**	4,596
Share-based payments	**943**	1,315
Transfer to retained earnings	**(806)**	(1,334)
Tax on share-based payments	**285**	332
At end of the year	**5,331**	4,909
Available for sale reserve		
At beginning of the year	**–**	(68)
Revaluation of available for sale financial assets	**(6)**	–
Recycling of reserve due to impairment	**–**	68
At end of the year	**(6)**	–

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

	2016 £'000	2015 £'000
At beginning of the year	**33,327**	27,456
Profit for the financial year	**12,739**	9,151
Purchase of own shares by Employee Benefit Trust	**(1,143)**	(742)
Transfer from share option reserve	**806**	1,334
Dividends paid	**(4,372)**	(3,872)
At end of the year	**41,357**	33,327

29. Equity-settled share-based payments

All share options granted to employees under the group's equity-settled share-based payment schemes are valued using a Black Scholes model, based on the market price of the Company's shares at the grant date and annualised volatility of up to 50%, covering the period to the end of the contractual life. Volatility has been estimated on the basis of the Company's historical share price subsequent to flotation. The risk-free annual rate of interest is deemed to be the yield on a gilt edged security with a maturity term of 3 years, ranging from 0.30% to 2.00%.

For options granted during the year, the Black Scholes model was based on the market price of the Company's shares at each respective grant date and volatility of 26% to 27% with a dividend yield of 1.77% to 2.06%, an expected vesting period of three years and a risk-free annual rate of interest of between 0.61% and 1.00%.

The share options issued under the various equity-settled share-based payment schemes have been valued at prices ranging from £0.58 to £16.28 per share. The charge to the Consolidated Statement of Comprehensive Income for the year in respect of these was £943,000 (2015: £1,315,000). The weighted average remaining contractual life of all equity-settled share-based payment schemes at 30 June 2016 was 1.48 years (2015: 1.62 years). The weighted average share price of all options exercised during the year was £17.71 (2015: £14.84). The total charge to the Consolidated Statement of Comprehensive Income for the year for all share-based payment schemes was £1,027,000 (2015: £1,428,000).

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

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

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

	Exercise price (p)	Fair value (p)
Company Share Option Plan	1,719	278
Long Term Incentive Scheme	nil	1,628
Employee Sharesave Scheme	1,400	357

a) Enterprise Management Incentive Scheme ('EMI')

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

	2016		2015	
	Number of options	Weighted average exercise price (£)	Number of options	Weighted average exercise price (£)
At 1 July	39,753	3.81	69,253	2.90
Forfeited in the year	–	–	–	–
Exercised in the year	(19,400)	2.73	(29,500)	1.71
At 30 June	**20,353**	**4.83**	39,753	3.81

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

Scheme year (grant date)	Exercise price (p)	Vesting period	2016 Number of options	2015 Number of options
2006	215.0	2009 – 2016	–	4,500
2007	290.5	2010 – 2017	12,250	27,150
2010	775.0	2013 – 2020	8,103	8,103
All years			**20,353**	39,753

b) Long Term Incentive Scheme ('LTIS')

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

	2016 Number of options	2015 Number of options
At 1 July	198,291	233,496
Granted in the year	60,671	70,624
Exercised in the year	(45,794)	(95,215)
Forfeited in the year	(4,429)	(10,614)
At 30 June	**208,739**	198,291

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

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

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

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

Scheme year (grant date)	Exercise price (p)	Vesting period	**2016 Number of options**	2015 Number of options
2010	–	2013	**10,550**	10,550
2011	–	2014	**6,863**	10,622
2012	–	2015	**26,285**	68,320
2013	–	2016	**40,795**	42,163
2014	–	2017	**64,156**	66,636
2015	–	2018	**60,090**	–
All years			**208,739**	198,291

c) Employee Benefit Trust ('EBT')

Brooks Macdonald Group plc established an Employee Benefit Trust ('the Trust') on 3 December 2010. The Trust was established to acquire ordinary shares in the Company to satisfy rights to purchase shares on the exercise of options awarded under the LTIS. All finance costs and administration expenses connected with the Trust are charged to Consolidated Statement of Comprehensive Income as they accrue. The Trust has waived its rights to dividends. The following table shows the number of shares held by the Trust that have not yet vested unconditionally.

	2016 Number of shares	2015 Number of shares
At 1 July	**207,532**	249,696
Acquired in the year	**66,470**	53,051
Exercised in the year	**(45,794)**	(95,215)
At 30 June	**228,208**	207,532

d) Company Share Option Plan ('CSOP')

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

	2016		2015	
	Number of options	**Weighted average exercise price (£)**	Number of options	Weighted average exercise price (£)
At 1 July	**39,927**	**14.16**	21,016	14.52
Granted in the year	**42,501**	**17.105**	22,110	13.81
Lapsed in the year	**(1,164)**	**17.19**	(3,199)	14.07
At 30 June	**81,264**	**15.67**	39,927	14.16

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

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

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

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

Scheme year (grant date)	Exercise price (£)	Vesting period	**2016 Number of options**	2015 Number of options
2013	14.52	2016	**19,810**	19,810
2014	13.81	2017	**20,117**	20,117
2015	17.19	2018	**41,337**	–
All years			**81,264**	39,927

e) Employee Sharesave Scheme

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

	2016		2015	
	Number of options	**Weighted average exercise price (£)**	Number of options	Weighted average exercise price (£)
At 1 July	**223,664**	**12.86**	231,472	12.85
Granted in the year	**54,837**	**14.00**	96,466	12.37
Forfeited in the year	**(21,118)**	**12.79**	(67,673)	13.39
Exercised in the year	**(31,494)**	**11.60**	(36,601)	10.48
At 30 June	**225,889**	**13.32**	223,664	12.86

The number of share options outstanding at 30 June 2016 was as follows:

Scheme year (grant date)	Exercise price (p)	Vesting period	**2016 Number of options**	2015 Number of options
2012	1,054.0	2015	–	3,922
2013	1,172.0	2016	**920**	30,656
2014	1,386.0	2017	**85,153**	92,620
2015	1,237.0	2018	**84,979**	96,466
2016	1,400.0	2019	**54,837**	–
All years			**225,889**	223,664

30. Lease commitments

The group leases various office premises under non-cancellable operating lease arrangements. The future aggregate minimum lease payments under these leases are as follows:

	2016 £'000	2015 £'000
Within one year	**1,966**	1,234
Second to fifth years inclusive	**4,469**	5,892
After five years	**–**	1

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

31. Discretionary funds under management

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

	2016 £'000	2015 £'000
Client money bank accounts	**773,899**	544,855
Client assets under management	**7,528,077**	6,868,145
Total client funds under management	**8,301,976**	7,413,000

32. Financial risk management

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

a) Liquidity risk

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

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

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

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

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

32. Financial risk management *continued*

a) Liquidity risk *continued*

At 30 June 2015	On demand £'000	Not more than 3 months £'000	After 3 months but not more than 1 year £'000	After 1 year but not more than 6 years £'000	Financial assets with no fixed repayment date £'000	Total £'000
Cash flows from financial assets						
Available for sale financial assets	–	–	–	–	1,532	1,532
Financial assets at fair value through profit or loss	–	–	–	–	3	3
Cash and balances at bank	19,274	–	–	–	–	19,274
Trade receivables	–	5,854	–	–	–	5,854
Other receivables	–	9,936	122	–	–	10,058
	19,274	15,790	122	–	1,535	36,721
Cash flows from financial liabilities						
Trade payables	–	2,854	–	–	–	2,854
Other financial liabilities	–	12,331	4,602	9,537	–	26,470
	–	15,185	4,602	9,537	–	29,324
Net liquidity gap	**19,274**	**605**	**(4,480)**	**(9,537)**	**1,535**	**7,397**

b) Market risk

Interest rate risk

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

A 1% fall in the average monthly interest rate receivable on the group's cash and cash equivalents would have the impact of reducing interest receivable and therefore profit before taxation by £195,000 (2015: £190,000). An increase of 1% would have an equal and opposite effect.

Foreign exchange risk

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

Price risk

Price risk is the risk that the fair value of the future cash flows from financial instruments will fluctuate due to changes in market prices (other than those arising from interest rate risk or currency risk). The group is exposed to price risk through its holdings of equity securities and other financial assets, which are measured at fair value in the Consolidated Statement of Financial Position (notes 16 and 20). A 1% fall in the value of these financial instruments would have the impact of reducing total comprehensive income by £27,000 (2015: £15,000) and profit before tax by £nil (2015: £nil). An increase of 1% would have an equal and opposite effect.

c) Credit risk

The group may elect to invest surplus cash balances in highly liquid money market instruments with maturity dates not exceeding three months. The difference between the fair value and the net book value of these instruments is not material. To reduce the risk of a counterparty default, the group deposits the rest of its funds in approved, high quality banks. At 30 June 2016 there was no significant concentration of credit risk in any particular counterparty (2015: none).

Assets exposed to credit risk recognised on the Consolidated Statement of Financial Position total £19,478,000 (2015: £19,274,000), being the group's total cash and cash equivalents.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

32. Financial risk management *continued*

c) Credit risk *continued*

Trade receivables with a carrying amount of £5,939,000 (2015: £5,854,000) are neither past due nor impaired. Trade receivables have no external credit rating as they relate to individual clients, although the value of investments held in each individual client's portfolio is always in excess of the total value of the receivable. All trade receivables fall due within three months (2015: all).

33. Capital management

Capital is defined as the total of share capital, share premium, retained earnings and other reserves of the Company. Total capital at 30 June 2016 was £83,008,000 (2015: £74,164,000). Regulatory capital is derived from the group Internal Capital Adequacy Assessment Process (ICAAP), which is a requirement of the Capital Requirements Directive. The ICAAP draws on the group's risk management process which is embedded within the individual businesses, function heads and executive committees within the group.

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

Capital adequacy and the use of regulatory capital are monitored daily by the group's management. The group's 2016 ICAAP was approved in August 2016. There have been no capital requirement breaches during the year. Brooks Macdonald Group plc's Pillar III disclosure is presented on our website at www.brooksmacdonald.com.

34. Guarantees and contingent liabilities

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

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

35. Related party transactions

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

	Loan balance		Maximum amount	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
S J Jackson	**5**	5	**10**	10

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

35. Related party transactions *continued*

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

	Amounts owed by related parties		Amounts owed to related parties	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Brooks Macdonald Funds Limited	**1,252**	1,126	**–**	–
Braemar Facilities Management Limited	**5**	2	**–**	–
Braemar Estates (Residential) Limited	**–**	42	**81**	–
North Row Capital LLP	**6**	2	**–**	–
Levitas Investment Management Services Limited	**9**	–	**–**	–
Braemar Group Limited	**661**	655	**–**	–
Brooks Macdonald Financial Consulting Limited	**–**	259	**475**	–
Brooks Macdonald Asset Management Limited	**–**	–	**9,456**	7,553
Brooks Macdonald Nominees Limited	**–**	–	**2,583**	2,583

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

The group manages a number of collective investment funds that are considered related parties. Available for sale financial assets include an investment of 1,426,793.64 class B ordinary shares in Braemar Group PCC Limited Student Accommodation Cell (note 16). Financial assets at fair value through profit or loss include an investment of 563,689.4025 class A units in the IFSL Brooks Macdonald Balanced Fund made during the year (note 20). These transactions were conducted on an arm's length basis at market value.

The group holds a 60% interest in North Row Capital LLP, a joint venture, details of which are given in note 17.

36. Interest in unconsolidated structured entities

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

The only consolidated structured entity is the Employee Benefit Trust ('EBT'), details of which are given in note 27.

Notes to the consolidated financial statements

for the year ended 30 June 2016 | *continued*

36. Interest in unconsolidated structured entities *continued*

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

The main risk the group faces from its interest in FUM managed on behalf of external investors is the loss of fee income as a result of the withdrawal of funds by clients. Outflows from funds are dependent on market sentiment, asset performance and investor considerations. The assets under management of unconsolidated structured entities total £625m (2015: £398m). Included in revenue on the consolidated statement of comprehensive income is management fee income of £3,027,000 (2015: £1,980,000) from unconsolidated structured entities managed by the group.

37. Events since the end of the year

The group disposed of its entire holding of GLIF zero dividend preference shares in July 2016 for proceeds of £735,000, representing a total realised loss on disposal of £15,000.

The sale of the underlying property portfolio of the Student Accommodation Fund completed on 1 July 2016 and the listing of the cell's ordinary shares on the Channel Islands Securities Exchange was cancelled on 5 July 2016. The final net asset value of the fund had not been determined at the date of signing these financial statements but is expected to available by the end of September 2016, with final payment of the redemption monies anticipated in October 2016.

Independent auditors' report

to the members of Brooks Macdonald Group plc

Report on the parent company financial statements

Our opinion

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

- give a true and fair view of the state of the parent company's affairs as at 30 June 2016 and of its cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report & Accounts (the 'Annual Report'), comprise:

- the Company Statement of Financial Position as at 30 June 2016;
- the Company Statement of Cash Flows for the year then ended;
- the Company Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is IFRSs as adopted by the European Union, and applicable law, and as applied in accordance with the provisions of the Companies Act 2006.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

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

Other matters on which we are required to report by exception

Adequacy of information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 22, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Independent auditors' report

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

Responsibilities for the financial statements and the audit *continued*

What an audit of financial statements involves *continued*

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Brooks Macdonald Group plc for the year ended 30 June 2016.

Natasha McMillan (Senior Statutory Auditor) for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors

London

20 September 2016

Company statement of financial position

as at 30 June 2016

	Note	2016 £'000	2015 £'000	2014 £'000
Assets				
Non-current assets				
Investment in subsidiaries	42	**65,610**	64,462	51,883
Available for sale financial assets	43	**971**	782	1,432
Total non-current assets		**66,581**	65,244	53,315
Current assets				
Trade and other receivables	44	**2,121**	1,846	6,730
Financial assets at fair value through profit or loss	45	**994**	–	–
Cash and cash equivalents		**1,831**	526	5,254
Total current assets		**4,946**	2,372	11,984
Total assets		**71,527**	67,616	65,299
Liabilities				
Non-current liabilities				
Deferred consideration	46	**(5,290)**	(9,442)	–
Total non-current liabilities		**(5,290)**	(9,442)	–
Current liabilities				
Trade and other payables	47	**(16,429)**	(13,051)	(27,751)
Total current liabilities		**(16,429)**	(13,051)	(27,751)
Net assets		**49,808**	45,123	37,548
Equity				
Share capital	49	**137**	136	135
Share premium account	49	**35,997**	35,600	35,147
Share option reserve		**4,767**	4,404	4,202
Revaluation reserve		**–**	–	(68)
Retained earnings		**8,907**	4,983	(1,868)
Total equity		**49,808**	45,123	37,548

The company financial statements were approved by the Board of Directors and authorised for issue on 20 September 2016, signed on their behalf by:

C A J Macdonald
Chief Executive

S J Jackson
Finance Director

Company registration number: 4402058

The accompanying notes on pages 70 to 79 form an integral part of the company financial statements.

Company statement of changes in equity

as at 30 June 2016

	Share capital £'000	Share premium account £'000	Other reserves £'000	Share option reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 July 2014	**135**	**35,147**	**(68)**	**4,202**	**(1,868)**	**37,548**
Comprehensive income						
Profit for the year (note 40)	–	–	–	–	10,352	10,352
Other comprehensive income:						
Revaluation reserve recycled	–	–	68	–	–	68
Total comprehensive income	**–**	**–**	**68**	**–**	**10,352**	**10,420**
Transactions with owners						
Issue of ordinary shares	1	453	–	–	–	454
Share based payments	–	–	–	1,315	–	1,315
Share based payments transfer	–	–	–	(1,113)	1,113	–
Purchase of own shares by employee benefit trust	–	–	–	–	(742)	(742)
Dividends paid (note 41)	–	–	–	–	(3,872)	(3,872)
Total transactions with owners	**1**	**453**	**–**	**202**	**(3,501)**	**(2,845)**
Balance at 30 June 2015	**136**	**35,600**	**–**	**4,404**	**4,983**	**45,123**
Comprehensive income						
Profit for the year (note 40)	–	–	–	–	8,859	8,859
Total comprehensive income	**–**	**–**	**–**	**–**	**8,859**	**8,859**
Transactions with owners						
Issue of ordinary shares	1	397	–	–	–	398
Share-based payments	–	–	–	943	–	943
Share based payments transfer	–	–	–	(580)	580	–
Purchase of own shares by employee benefit trust	–	–	–	–	(1,143)	(1,143)
Dividends paid (note 41)	–	–	–	–	(4,372)	(4,372)
Total transactions with owners	**1**	**397**	**–**	**363**	**(4,935)**	**(4,174)**
Balance at 30 June 2016	**137**	**35,997**	**–**	**4,767**	**8,907**	**49,808**

The accompanying notes on pages 70 to 79 form an integral part of the company financial statements.

Company statement of cash flows

for the year ended 30 June 2016

	Note	2016 £'000	2015 £'000
Cash flow from operating activities			
Cash generated from operations	48	**9,419**	10,696
Net cash generated from operating activities		**9,419**	**10,696**
Cash flows from investing activities			
Investment in subsidiaries	42	**(250)**	(11,264)
Purchase of available for sale financial assets	43	**(500)**	–
Purchase of financial assets at fair value through profit and loss		**(1,000)**	–
Deferred consideration paid		**(1,247)**	–
Net cash used in investing activities		**(2,997)**	**(11,264)**
Cash flows from financing activities			
Proceeds of issue of shares		**398**	454
Purchase of own shares by employee benefit trust		**(1,143)**	(742)
Dividends paid to shareholders	41	**(4,372)**	(3,872)
Net cash used in financing activities		**(5,117)**	**(4,160)**
Net increase/(decrease) in cash and cash equivalents		**1,305**	**(4,728)**
Cash and cash equivalents at beginning of year		**526**	5,254
Cash and cash equivalents at end of year		**1,831**	**526**

The accompanying notes on pages 70 to 79 form an integral part of the company financial statements.

Notes to the company financial statements

for the year ended 30 June 2016

38. Principal accounting policies

General information

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

Statement of compliance

The individual financial statements of the Company are presented as required by the Companies Act 2006 and have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. These are the Company's first financial statements prepared in accordance with IFRS and IFRS 1 "First time adoption of International Financial Reporting Standards" has been applied. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 53.

Developments in reporting standards and interpretations

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

a) Basis of preparation

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

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

b) Investments in subsidiary companies

Where the Company has investments in subsidiary companies; whereby one entity (the 'subsidiary') is controlled by another entity (the 'parent'), the investments are stated at cost less, where appropriate, provision for impairment. The carrying values of investments in subsidiary companies are reviewed annually to determine whether any indicator of impairment exists.

c) Retirement benefit costs

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

d) Employee Benefit Trust

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

e) Other investments

Other quoted investments are designated as available for sale and re-valued each reporting period to their fair value according to the most recently available market information.

Accounting policies in relation to impairment, dividend income, interest income, operating leases, foreign currency, taxation, cash and cash equivalents and share based payments are set out in note 2 to the consolidated financial statements.

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

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

The critical accounting judgement and key source of estimation and uncertainty arise from the company's acquisition of Levitas Investment Management Services Limited in July 2014. This is described in note 2(d) to the consolidated financial statements.

40. Profit for the year

Brooks Macdonald Group plc reported profit after tax for year ended 30 June 2016 of £8,859,000 (2015: £10,352,000). Auditors' remuneration is disclosed in note 7 of the consolidated financial statements. The average monthly number of employees during the year was 10 (2015: 10). Directors' emoluments are set out in note 8 of the consolidated financial statements.

41. Dividends

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

42. Investment in subsidiaries and related undertakings

Net book value	Group undertakings £'000
At 1 July 2014	51,883
Additions:	
– Acquisition of subsidiary	11,264
– Capital contribution relating to share-based payments	1,315
At 30 June 2015	64,462
Additions:	
– Investment in subsidiary	250
– Capital contribution relating to share-based payments	898
At 30 June 2016	**65,610**

In the year ended 30 June 2016, the Company invested £250,000 in the ordinary share capital of Brooks Macdonald Retirement Services (International) Limited. In the year ended 30 June 2015 the Company acquired 100% of the share capital of Levitas at a cost of £11,264,000. The capital contribution relating to share-based payments reflects the share options granted by the Company to employees of its subsidiary undertakings.

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

42. Investment in subsidiaries and related undertakings *continued*

Details of the Company's subsidiary undertakings at 30 June 2016, all of which were 100% owned and included in the consolidated financial statements, are provided below:

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

* DPZ Capital Limited ceased to exist as a separate entity following a legal merger with Brooks Macdonald Asset Management (International) Limited in December 2015.

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

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

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

43. Available for sale financial assets

	2016 £'000	2015 £'000	2014 £'000
At 1 July	**782**	1,432	1,582
Additions	**500**	–	–
Revaluation	**–**	–	(150)
Accumulated loss on revaluation reserve recycled	**–**	68	–
Impairment loss	**(311)**	(718)	–
At 30 June	**971**	782	1,432

The Company holds investments of 1,426,793.64 class B ordinary shares, representing an interest of 10.88%, in Braemar Group PCC Limited Student Accommodation Cell ('Student Accommodation Fund'); and 500,000 redeemable preference shares in an unlisted company incorporated in the UK.

The Student Accommodation Fund is promoted by Brooks Macdonald Funds Limited, a subsidiary of the Company. The shareholders of the fund approved a resolution in May 2016 to sell the underlying property portfolio of the fund to a third party. The shares will subsequently be compulsorily redeemed out of the remaining net assets of the fund following the sale, although this process had not been completed at 30 June 2016. The Company has therefore estimated the fair value of the group's investment at 30 June 2016 at £471,000 (2015: £782,000) based on the most recent information made available to investors about the consideration payable for the assets of the fund and the expected net asset value per share after adjusting for the costs associated with the sale. An impairment loss of £311,000 (2015: £718,000) was recognised in the Income Statement during the year, reflecting this perceived permanent diminution of value of the Company's shareholding.

During the year, the Company acquired 500,000 redeemable preference shares in an unlisted company with a par value of £1 at a cost of £500,000. The preference shares are redeemable at par any time after five years from the date of issue (8 April 2016) and bear an entitlement to a fixed preferential dividend of 8% per annum of the nominal value of the shares. The fair value of the preference shares has been estimated at £500,000 based on a discounted cash flow analysis.

An analysis of these financial instruments and the level within the fair value hierarchy into which they are categorised is provided within note 16 of the consolidated financial statements.

44. Trade and other receivables

	2016 £'000	2015 £'000	2014 £'000
Amounts owed by subsidiary undertakings	**1,934**	1,729	6,461
Other receivables	**25**	71	269
Prepayments and accrued income	**162**	46	–
At 30 June	**2,121**	1,846	6,730

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

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

45. Financial assets at fair value through profit or loss

	2016 £'000	2015 £'000	2014 £'000
At beginning of year	–	–	–
Additions	1,000	–	–
Loss from changes in fair value	(6)	–	–
At 30 June	**994**	–	–

These investments are classified as Level 1 as defined in note 16 to the consolidated financial statements.

46. Deferred consideration

Deferred consideration is split between non-current liabilities and other payables within current liabilities (note 47) to the extent that it is due for payment within one year of the reporting date. It reflects the directors' best estimate of amounts payable in the future in respect of certain client relationships and subsidiary undertakings that were acquired by the group. Deferred consideration is measured at its fair value based on discounted expected future cash flows. The amount outstanding at 30 June 2016 of £5,290,000 (2015: £9,442,000) related exclusively to amounts payable in respect of the acquisition of Levitas.

47. Trade and other payables

	2016 £'000	2015 £'000	2014 £'000
Trade payables	144	36	27
Amounts owed to subsidiary undertakings	12,596	9,779	21,307
Other payables	1,641	1,580	4,705
Accruals and deferred income	2,048	1,656	1,712
At 30 June	**16,429**	13,051	27,751

Amounts owed to subsidiary companies are unsecured, interest-free and are repayable on demand. Included in other payables is £1,641,000 (2015: £1,580,000; 2014: nil) which is the directors' best estimate of the deferred consideration payable in respect of the client relationships and subsidiary undertakings that were acquired by the company in 2015.

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

	2016 £'000	2015 £'000
Operating profit	8,859	10,352
Adjustments for:		
Impairment of available for sale financial assets	311	718
Changes in fair value of financial assets at fair value through profit or loss	6	–
Changes in fair value of deferred consideration	(3,343)	–
(Increase)/decrease in receivables	(275)	4,884
Increase/(decrease) in payables	3,816	(14,700)
Share based payments	45	–
Increase in non-current liabilities	–	9,442
Net cash inflow from operating activities	**9,419**	10,696

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

49. Share capital and share premium account

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

	Number of shares	Share capital £'000	Share premium account £'000	Total £'000
At 1 July 2013	13,347,974	133	31,867	32,000
Shares issued	244,201	2	3,280	3,282
At 30 June 2014	13,592,175	135	35,147	35,282
Shares issued	68,045	1	453	454
At 30 June 2015	13,660,220	136	35,600	35,736
Shares issued	48,950	1	397	398
At 30 June 2016	**13,709,170**	**137**	**35,997**	**36,134**

The total number of ordinary shares, issued and fully paid at 30 June 2016, was 13,709,170 (2015: 13,660,220; 2014: 13,592,175) with a par value of 1p per share. Excluding 228,208 (2015: 207,532; 2014: 249,696) treasury shares held by the EBT, the Company had 13,480,962 (2015: 13,452,688; 2014: 13,342,479) ordinary 1p shares in issue as at 30 June 2016. Details of the shares issued are given in note 27 of the consolidated financial statements.

Long Term Incentive Scheme

The group established an Employee Benefit Trust ('EBT') on 3 December 2010 to acquire ordinary shares in the Company to satisfy awards under the group's Long Term Incentive Scheme ('LTIS') and other share-based payment schemes (note 29). All finance and administration expenses connected with the Trust are charged to the Consolidated Statement of Comprehensive Income as and when they accrue. The Trust has waived its rights to dividends.

During the year, the Trust received instructions to exercise 45,794 (2015: 95,215; 2014: 11,376) options. The cost of the shares released on exercise of these options amounted to £558,000 (2015: £1,113,000; 2014: £109,000). At 30 June 2016, the number of shares held by the Trust was 228,208 (2015: 207,532; 2014: 249,696) with a market value of £3,775,000 (2015: £3,668,000; 2014: £3,906,000) acquired for a total consideration of £3,376,000 (2015: £2,803,000; 2014: £3,168,000). These shares are presented as treasury shares in the group financial statements and their cost is deducted from retained earnings within shareholders' equity.

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

50. Lease commitments

The Company leases office premises under non-cancellable operating lease arrangements. The future aggregate minimum lease payments under these leases are as follows:

	2016 £'000	2015 £'000
Within one year	**1,745**	1,012
Second to fifth years inclusive	**4,445**	5,315
After five years	**–**	–

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

51. Related party transactions

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

	2016 £'000	2015 £'000
Short-term employee benefits	**2,466**	2,434
Post-employment benefits	**25**	25
Share-based payments	**445**	346
Total compensation	**2,936**	2,805

Dividends totalling £562,000 (2015: £564,000) were paid in the year in respect of ordinary shares held by key management personnel and their close family members.

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

	2016 £'000	2015 £'000
Dividends received:		
– Brooks Macdonald Asset Management Limited	**9,759**	13,589
– Brooks Macdonald Asset Management (International) Limited	**–**	865
Total transactions with subsidiaries	**9,759**	14,454

The Company's balances with fellow group companies at 30 June 2016 are set out in note 35 to the consolidated financial statements. One director took advantage of the Group's interest-free season ticket loan facility, details of which are disclosed in the same note. All transactions with fellow group companies are carried out at arm's length and all outstanding balances are to be settled in cash. None of the balances are secured and no provisions have been made for doubtful debts in respect of any of the amounts due from fellow group companies.

52. Financial risk management objectives and policies

The financial risk management objectives and policies applied by the Company are in line with those of the group as disclosed in note 32 to the consolidated financial statements.

53. Explanation of transition to IFRS

As stated in note 38, these are the first set of financial statements prepared in accordance with IFRS. The accounting policies set out in note 38 have been applied in preparing the financial statements for the year ended 30 June 2016, the comparative information presented in these financial statements for the year ended 30 June 2015 and in preparation of an opening IFRS Statement of Financial Position at 30 June 2014 (the opening position on 1 July 2014, the date of the transition to IFRS). In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP), see detailed workings on pages 78 and 79. An explanation of how the transition from previous UK GAAP to IFRS has affected the Company's reported financial position from previous UK GAAP to IFRS is set out in the following notes and tables.

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

53. Explanation of transition to IFRS *continued*

Transitional arrangements

IFRS 1 "First time adoption of International Financial Reporting Standards" permits companies adopting IFRS for the first time to take certain exemptions from the full requirements of IFRS in the transition period. The Company's application of the optional exemptions is as follows:

Assets and Liabilities measured at the group's transition date to IFRS

The company has taken advantage of the option given in IFRS 1 to measure its assets and liabilities at the carrying value amounts that were included in the group's consolidated financial statements, based on the group's transition to IFRS on 1 July 2006.

Investments in subsidiaries

The Company has elected to recognise all its investments in subsidiaries at their deemed cost, which was the carrying value under UK GAAP.

Other Investments

The Company has elected to classify equity instruments with a carrying value at 1 July 2015 of £782,000 (2014: £1,432,000) as available for sale financial assets.

Key impacts of IFRS

The significant differences between UK GAAP and IFRS which impact on the Company's reported financial position, financial performance and cash flows are set below:

IAS1 and IAS 39 – Presentation of Financial Statements and Financial Instruments: Recognition and Measurement

The Statement of Financial Position and applicable notes have been amended to reflect the presentational disclosures required by IAS 1 and IAS 39.

IAS 39 – Financial Instruments: recognition and measurement

In accordance with IAS 39, the Company has recognised gains or losses on revaluation of available for sale equity securities in other comprehensive income.

IAS12 – Income Taxes

IAS 12 requires that deferred tax on equity items is recognised directly in equity. UK GAAP requires that all such deferred tax is recognised in the Income Statement. In addition, deferred tax is recognised on available for sale assets under IAS12. No such deferred tax is recognised under UK GAAP. Reported profit after tax for the year ended 30 June 2015 and for 30 June 2014 has not changed because there was no deferred tax relating to the available for sale asset. Deferred tax assets are only recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

IAS 7 – Statement of cash flows

The Company has prepared its Statement of Cash Flows in accordance with IAS 7. Under IAS 7, the Statement of Cash Flows shows the movement in cash and cash equivalents, being defined as cash in hand, demand deposits and short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Under UK GAAP, the Company was exempt from the requirement to prepare a Statement of Cash Flows.

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

53. Explanation of transition to IFRS *continued*

Reconciliation of the Statement of Financial Position at 1 July 2014 (date of transition to IFRS)

	UK GAAP 1 July 2014 £'000	Presentation of financial statements (IAS 1 & IAS 39) £'000	IFRS 1 July 2014 £'000
Assets			
Non-current assets			
Investments	53,315	(53,315)	–
Investment in subsidiaries	–	51,883	51,883
Available for sale financial assets	–	1,432	1,432
Total non-current assets	**53,315**	**–**	**53,315**
Current assets			
Amounts owed by group undertakings	6,461	(6,461)	–
Other debtors	269	(269)	–
Trade and other receivables	–	6,730	6,730
Cash and cash equivalents	5,254	–	5,254
Total current assets	**11,984**	**–**	**11,984**
Total assets	**65,299**	**–**	**65,299**
Liabilities			
Current liabilities			
Trade creditors	(27)	27	–
Amounts owed to subsidiary undertakings	(21,307)	21,307	–
Accruals	(1,712)	1,712	–
Other creditors	(4,705)	4,705	–
Trade and other payables	–	(27,751)	(27,751)
Total current liabilities	**(27,751)**	**–**	**(27,751)**
Net assets	**37,548**	**–**	**37,548**
Equity			
Share capital	135	–	135
Share premium account	35,147	–	35,147
Share option reserve	4,202	–	4,202
Revaluation reserve	(68)	–	(68)
Profit and loss account	(1,868)	1,868	–
Retained earnings	–	(1,868)	(1,868)
Total equity	**37,548**	**–**	**37,548**

Notes to the company financial statements

for the year ended 30 June 2016 | *continued*

53. Explanation of transition to IFRS *continued*

Reconciliation of the Statement of Financial Position at 30 June 2015

	UK GAAP 30 June 2015 £'000	Presentation of financial statements (IAS 1 & IAS 39) £'000	IFRS 30 June 2015 £'000
Assets			
Non-current assets			
Investments	65,244	(65,244)	–
Investment in subsidiaries	–	64,462	64,462
Available for sale financial assets	–	782	782
Total non-current assets	**65,244**	**–**	**65,244**
Current assets			
Amounts owed by group undertakings	1,729	(1,729)	–
Other debtors	117	(117)	–
Trade and other receivables	–	1,846	1,846
Cash and cash equivalents	526	–	526
Total current assets	**2,372**	**–**	**2,372**
Total assets	**67,616**	–	**67,616**
Liabilities			
Non-current liabilities			
Deferred consideration	(9,442)	–	(9,442)
Total non-current liabilities	**(9,442)**	**–**	**(9,442)**
Current liabilities			
Trade creditors	(36)	36	–
Amounts owed to subsidiary undertakings	(9,779)	9,779	–
Accruals	(1,656)	1,656	–
Other creditors	(1,580)	1,580	–
Trade and other payables	–	(13,051)	(13,051)
Total current liabilities	**(13,051)**	**–**	**(13,051)**
Net assets	**45,123**	**–**	**45,123**
Equity			
Share capital	136	–	136
Share premium account	35,600	–	35,600
Share option reserve	4,404	–	4,404
Profit and loss account	4,983	(4,983)	–
Retained earnings	–	4,983	4,983
Total equity	**45,123**	**–**	**45,123**

Directors and advisers

Directors

C J Knight	Chairman
C A J Macdonald	Chief Executive
C R Harris	Senior Independent Director
N I Holmes	
S J Jackson	Group Finance Director
R S Price	Non-executive Director
D Seymour-Williams	Non-executive Director
A W Shepherd	Deputy Chief Executive
R H Spencer	
S P Wombwell	

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