CONNELLS LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS

31 December 2019

(Registered Number 03187394)

Contents

Group Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2019.

INTRODUCTION AND OVERVIEW

Connells Limited ("Connells") is a private limited company incorporated in England & Wales with registered number 03187394.

The Connells Group estate agency combines residential sales and lettings expertise with a range of consumer and corporate services including land and new homes, mortgage services, conveyancing, corporate lettings and auctions. The Group operates through many brands, including Peter Alan, Allen & Harris, Bagshaws Residential, Barnard Marcus, Brown & Merry, Burchell Edwards, Connells, Fox & Sons, Gascoigne Halman, Jones & Chapman, Manners & Harrison, Roger Platt, Rook Matthews Sayer, Sharman Quinney, Shipways, Swetenhams and William H Brown. At 31 December 2019, Connells and its subsidiaries (the 'Group') trade from 578 (2018: 586) estate agency branches.

Connells Survey & Valuation Limited is one of the top providers of residential survey and valuation services to homebuyers, lenders and other participants in the UK residential property market. This business also offers panel management services, administering surveys and valuations on behalf of clients in addition to carrying out the survey or valuation through its own employed surveyors.

The New Homes Group operates in the new build sector offering a range of services to house builders and their customers, including mortgage broking and part exchange management services.

The Asset Management Group manages repossessed and other properties on behalf of lenders and other clients such as probate providers.

The Group also has a number of other subsidiaries and joint ventures providing services in areas such as conveyancing, will services, property searches and the provision of energy performance certificates.

An overview of the objectives of the business and the challenges it faces, together with the key measures used to monitor the performance of the business, is set out in the Strategic Report.

Details of financial instruments and associated risks are also provided in the Group Strategic Report and Note 25 to the Financial Statements.

DIRECTORS

The Directors who served during the year and up to the date of this report were:

RS Shipperley
RJ Twigg
DC Livesey
DJ Cutter
DK Plumtree
RSDM Ndawula
AJ Burton

DJ Cutter, RSDM Ndawula, and AJ Burton are also Directors of the ultimate parent undertaking, Skipton Building Society.

DIVIDENDS

During the year the company paid interim ordinary dividends of £11,500,000 (2018: £54,500,000).

The Directors do not propose a final ordinary dividend in respect of the current financial year (2018: £nil).

CHARITABLE AND POLITICAL DONATIONS

The Group made charitable donations of £109,000 during the year (2018: £111,000).

The Group made no political donations during the year (2018: £nil).

EMPLOYEES

It is Company and Group policy to regularly provide employees with information concerning their roles and responsibilities and the trading performance of the Company and Group. This policy is to ensure opportunities are available at every level to improve both employees' individual and corporate performance. Directors regularly brief all employees through a series of meetings and newsletters.

Group Directors' Report (continued)

EMPLOYEE DEVELOPMENT AND EQUAL OPPORTUNITIES

The Group's approach is to ensure it recruits and promotes the right people regardless of gender, disability, age, sexual orientation or race, and operates a culture of meritocracy whereby career progression is based on ability. It facilitates opportunities for all employees to progress and regularly reviews practices and policies. It regards its people as its most valuable asset and is committed to investing in them to achieve their full potential, without discrimination.

People with disabilities are given equal opportunities wherever they can fulfil the requirements of the job. If an employee becomes disabled during their employment with the Group, every reasonable effort is made to enable them to continue their career within the Group.

DISCLOSURE OF INFORMATION TO AUDITOR

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

GOING CONCERN

The Directors have assessed the viability of the Group with respect to the Group's current resources and prospects, its risk appetite and the Group's principal risks and uncertainties. As a result, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AUDITOR

The Group appointed a new external auditor during the year, in line with its ultimate parent, Skipton Building Society. KPMG LLP therefore resigned as the Group's external auditor, and Ernst & Young LLP was formally appointed on 10 May 2019.

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the board

D C Livesey

DC Livesey
Director

25 February 2020

The Bailey
Skipton
North Yorkshire
BD23 1DN

Group Strategic Report

2019 BUSINESS REVIEW

	2019	*Restated 2018
Total income[a]	**£428.8m**	£433.0m
Earnings before interest, tax, depreciation and amortisation, impairment and contingent consideration (EBITDA)[bc]		
Post IFRS 16	**£76.3m**	£87.7m
Pre-IFRS 16	**£62.6m**	£75.0m
Profit before tax	**£50.1m**	£56.9m
Movement in:		
Estate agency property exchanges	**-7%**	-7%
Residential lettings properties under management	**+2%**	+3%
Number of mortgages arranged	**-2%**	+9%
Surveys and valuations completed	**+0%**	-2%
Number of conveyancing transactions arranged	**+1%**	-5%

[a] Total income comprises revenue (£426.4m), other operating income (£0.7m) and Group share of profit after tax in joint ventures (£1.7m).
[b] Before exceptional items
[c] 2019 includes the impact of IFRS 16 depreciation and interest (£13.7m). 2018 has been restated to add back the rentals payable under operating leases (£12.7m) to aid comparability.
* 2018 revenue was restated relating to the entity acting as a principal rather than agent in certain circumstances, refer to note 1d for further details.

With political and Brexit related uncertainty continuing throughout 2019, the number of UK housing transactions fell once again. Consequently, the number of properties that the Group exchanged contracts on was 7% lower than in 2018. Nevertheless, the Connells Group maintained its focus on winning new instructions and the Group produced a creditable performance during the year. At 31 December 2019 the Group operated through 578 branches (31 December 2018: 586).

The Group's financial services proposition also continues to perform strongly and the number of mortgages arranged by the Group fell by only 2% despite the higher fall in the number of properties sold. The total value of lending generated for UK mortgage providers increased to £10.7bn in 2019 and the Connells Group remains focused on helping more customers to buy homes or reduce their mortgage outgoings by providing them with a good experience and outcome.

Within its lettings operation, the prohibition on charging fees to tenants came into force during 2019, and the Group has addressed this by implementing a range of revenue enhancing initiatives. Properties under management increased by 2% during the year and total lettings income was 3% lower than 2018. The Group's letting division also continued its investment in people and technology to improve productivity and drive down its administrative costs. The underlying market conditions in the rental market remained broadly stable during the year, with a modest increase in average rents and an adequate level of demand from tenants.

Connells Survey & Valuation continues to invest heavily in new technology and process improvements to drive productivity, support clients' risk management and improve customer outcomes. It also invests in its people, training new surveyors through its AssocRICS development programme. The focus remains on delivering great customer service and it has secured a number of new long term client contracts during 2019 and also renewed contracts with existing clients. It maintained the number of cases carried out during the year despite the faltering market.

The Connells Group remains committed to invest in all parts of its business, aiming at delivering an efficient, customer focused proposition, with its diverse business model being well positioned to manage fluctuations in the housing market. Within its estate agency operations Connells maintains its focus on the service provided to customers through its high street presence. It invests in digital products and solutions, including the continued enhancement of its customer communications and online portal to support its branch operations in winning and retaining business and achieving successful transaction outcomes for customers.

Building upon the successes achieved through coordinated national campaigns, Connells has expanded its use of digital and social media advertising. These activities are centrally managed and fully tracked via its lead management platform. This approach provides flexibility, allowing the business to adapt quickly during changing market conditions.

The Group continues to innovate, invest and partner within the industry where it sees opportunities to enhance customer outcomes. In partnership with TM Group, the Move It On (MIO) application was launched during 2019; this innovative and flexible solution is designed to reduce transaction times across the industry and improve the customer journey.

The Group continues to explore and invest in a number of opportunities within both the residential sales and the mortgage market. These will provide additional business opportunities and a range of tools and services to help maintain the positive relationship already maintained with customers and clients.

The Group made three small business acquisitions during the year, each of which will complement and add to the Group's proposition. Further details are set out in note 24.

Group Strategic Report (continued)

Section 172 statement - The Board's approach

Policies and Practices

The Board's objectives continue to be to maximise the long-term value and revenue streams for the Company's shareholders, to create secure and rewarding employment for its people and to deliver a high quality service to its customers.

The Connells Group aims to deliver sustainable and growing revenues from efficient operations supported by a lean management cost structure, which enables the Group to adapt to market opportunities. Connells recognises that the housing market is cyclical and can vary widely from one location to another. Across the Group, local entrepreneurship is actively encouraged and supported. This "grass roots" awareness of customer service and profit management has been at the core of Connells' success and is a key component to its future strategy.

The Group aims to grow its operations through both new branch openings and via acquisitions. Where a good strategic fit exists, the Group proactively explores the acquisition of smaller regional players, who are often market leaders in their locality.

Corporate Governance

The Board is responsible for determining the Group's strategy for managing risk and overseeing its systems of internal control. The ongoing effectiveness of these internal controls is reviewed by the Board's Audit & Risk Committee on a regular basis. The Group maintains appropriate standards of corporate governance in order to conduct its business in a prudent and well organised manner. The Board's approach is based on the principles and provisions of the UK Corporate Governance Code (the Code) published by the Financial Reporting Council. The Board's philosophy is to comply with the Code where it applies to the Group, and its compliance is reviewed annually.

Employee matters

Connells Group seeks to attract great people and make sure they are highly engaged in an environment where they can perform to high expectations and have the opportunity for a long, rewarding and fulfilling career.

In order to help achieve this, the Group seeks direct feedback from its workforce on areas such as leadership, reward, trust, respect, well-being and communication. In 2019 the Group carried out an externally facilitated employee engagement survey in which all colleagues were invited to participate. The analysis of the results will enable the Board to make well-informed decisions about where to focus attention to best effect. The Board will also involve groups of employees in such development activities.

The Group has a number of policies and practices in place to help ensure that the working environment encourages trust, respect, recognition and good communication. These include, for example, structured career pathways, dignity at work, equal opportunities and a well embedded fire, health, safety and welfare policy. In addition, the Board aims to promote a diverse and inclusive culture, and provide training to support mental health awareness. Remuneration structures are designed to reward high performance. The Group's modern slavery policy supports the objectives of the Modern Slavery Act 2015, further details of which can be found on the Group website. Group policies are reviewed and monitored regularly to ensure they remain appropriate and fit for purpose.

The Group is committed to ensuring that there are no instances of bribery or corruption throughout the business. Group policies exist, drafted in line with best practice, to prohibit the offering, giving, solicitation or the acceptance of any bribe to or from any person or company by any individual employee, agent or other person or body acting on behalf of the Group. The policies are readily available for employees to view on the internal intranet and employees are required to receive annual refresher training to ensure they can recognise and prevent the use of bribery.

Social matters

The Group is firmly committed to delivering good outcomes for all customers. This means ensuring that the range of products and services offered meet the needs of customers, that the 'end to end' processes for delivering these services are appropriate and effective, and that our people always have our customers' best interests at heart. Management seek to develop and maintain this ethos within the culture of the business overall.

Connells Residential has supported the National Society for the Prevention of Cruelty to Children (NSPCC) - the UK's leading charity specialising in child protection and the prevention of cruelty to children - for over 16 years through a number of individual, company-wide and head office function fundraising efforts. These range from branch raffles and bake sales, to employees taking part in national NSPCC events such as the Gherkin Challenge and various marathons. Connells Residential has now raised in excess of £150,000 over the course of the partnership.

Sequence (UK) Limited has supported CLIC Sargent - the UK's leading charity for young cancer patients and their families - as its chosen charity since 2001. Many branches and individuals across the network get involved with fundraising efforts, from personal challenges such as the London Marathon to dedicated company events such as the Sequence Skydive day, and staff initiatives including branch bake sales and dress down days. Sequence has now raised in excess of £430,000 over the course of the partnership.

The Group also participates in supporting national charitable events such as Comic Relief, Children in Need, Jeans for Genes, Wear it Pink and Macmillan Coffee Morning, and on a local level, the head offices based in Leighton Buzzard work with various partners on local community initiatives. A number of subsidiaries also have their own charity partnerships including The New Homes Group supporting Funding Neuro, Sharman Quinney supporting Sue Ryder and Peter Alan supporting Teenage Cancer Trust Cymru.

Group Strategic Report (continued)

Social matters (continued)

The Group is socially responsible and recognises and values the benefits for society that arise from a fair and effective tax system. We are committed to acting with integrity, honesty and transparency in all matters related to tax. During 2019 we contributed to the UK government over £11m in corporation tax, and over £42m through other indirect taxes.

Environmental matters

The Board recognises that, as a responsible business, it has an obligation to operate in a manner that minimises the Group's impact on the environment. We operate in a sector that has a relatively low carbon footprint, however we follow relevant environmental legislation in carrying out our business; and Group policy is to seek to minimise our contribution to environmental damage and maximise our contribution to safe recycling and reprocessing of waste materials.

The Group Environmental Policy outlines the ways in which the Group reduces the use of paper, utilises recycling options, reduces pollution and levels of energy use. Initiatives such as the progressive reduction in company car CO_2 emissions, the replacement of lighting with low energy units and the roll out of smart electricity and gas meters are examples of the Group's commitment to operating in an environmentally sustainable way.

Business relationships

The Group closely monitors all of its business relationships in order to allow it to provide its customers with excellent service across the range of services offered. It assesses, on an ongoing basis, the risks of adverse impact on its customers, people and the environment in which the Group operates as a result of these relationships, or as a result of its policies.

Relationships with key suppliers are closely monitored to ensure services are being provided in line with the terms of documented agreements. Performance of key suppliers, along with associated risks to the Group and the environment are regularly assessed with options for improvement considered where available. Regular reviews of adherence to key policies, such as Modern Slavery and GDPR, are undertaken.

Board members and Senior Managers are engaged when negotiating terms with key suppliers and will often attend strategic review meetings to guide the future approach with that supplier.

The Group's services are primarily delivered through its high street branch network, with support from centralised customer service teams who help ensure the delivery of positive customer outcomes. Customer interactions are underpinned by a range of proactive communications and online tools which support and inform customers by providing them with timely updates, useful guides and visibility of their transaction at each stage of the home buying, selling and renting journey.

The Group actively engages with its customers at key points during their transactions, through review platforms and customer care teams, to measure and maintain the quality of its service delivery. The Group continues to support industry initiatives that seek to improve and speed up the home buying process for the benefit of customers and other key stakeholder groups.

Decision making

The Board meets monthly and makes decisions which promote the success of the Group and its stakeholders. Proposals are discussed in detail, approved and documented by the Board which ensures key decisions are taken considering the Group's risk management framework detailed below. Examples of key decisions taken during 2019 include:

- As explained further in note 24, the Group acquired three small businesses during the year. The acquisitions support the strategy of acquiring good businesses either in new locations or that enhance our presence in existing postcodes. The acquisitions were made out of existing cash reserves.
- The annual corporate plan was approved following a robust and comprehensive review process. It was decided the plan would promote the success of the Group.
- Approved interim dividends – Meeting shareholder dividend expectations is a top priority to ensure the funds are able to benefit the wider Skipton Group. The corporate plan indicates the dividend level to be sustainable and still allow the Connells Group to invest in growth, and meet the needs of its pension scheme members.

Risks and uncertainties

The Group recognises that successfully managing its risks is essential to support its activities. The Board has overall responsibility for the systems of internal control and risk management and, through the Audit and Risk Committee, regularly assesses the management of key risks facing the business. The Group operates a risk management framework which establishes principles to support the effective management of risks. The Group's risk appetite is documented in risk appetite statements, which are reviewed and approved annually by the Audit and Risk Committee, before being recommended for approval to the Board. The Group operates a three lines of defence model as follows:

- Management throughout the Group's businesses are primarily responsible for identifying, assessing, controlling, monitoring and reporting risks and ensuring an appropriate risk management culture exists across their lines of responsibility.
- The Group's risk and compliance functions develop and oversee the risk management framework, set policy, provide guidance and support to management and provide monitoring and oversight on behalf of the Board.
- Internal Audit, provided by the Skipton Group Internal Audit function, provides third line independent assurance on the systems of risk and internal controls in place across the Group.

Group Strategic Report (continued)

The principal risks facing the Group, together with how the Group seeks to mitigate these, are set out below:

Housing Market

The UK housing market is cyclical and its strength correlates closely with the general strength of the UK economy. Changes in house prices and the volume of properties sold impact the results of the business. UK political and Brexit uncertainty continued to subdue the housing market in 2019, however, the Board believes that the medium to long term outlook for the UK housing market remains positive, driven partially by the ongoing imbalance between the demand for properties against the available supply.

The Board continues to review leading indicator KPIs and other macro-economic data regularly, in order that appropriate action is taken to manage short term market uncertainties whilst ensuring that the Group, through its diversified business model, is well positioned to capitalise when market conditions change for the better. The Board, through regular stress testing, also ensures that the Group maintains sufficient resources to withstand a severe downturn in the UK housing market.

Competitors

The Group operates in a number of markets where traditional operating models are often challenged, particularly in the digital/online space. Failure to adapt and respond could lead to a fall in market share and, consequently, revenue.

The Group continues to monitor changing trends in the markets in which it operates and, as noted above, will continue to invest in both its systems and people so that it can address any relevant changes to customers' behaviour and expectations. The Group firmly believes that its strengths lie in providing customers with high quality face to face advice, across a range of services, from an extensive local High Street presence and will continue to strengthen its proposition to ensure customers continue to receive excellent customer service.

Regulatory Compliance

The Group's businesses operate across a number of regulatory environments, which change and evolve rapidly. Failure to comply with current or future regulatory requirements could result in regulatory censure, fines or enforcement action which would impact on the Group's ability to carry out certain activities.

The business continually develops its focus on conduct risk, customer outcomes, and compliance within the regulated part of its business to reflect industry best practice. The Group provides extensive training to and supervision of its operational teams, supported by centralised compliance and risk teams which closely monitor existing business activities and assess proposed new developments. A robust complaints handling process exists, with root cause analysis being fed back into operational activities.

IT Infrastructure and information security

The Group depends on efficient systems for its day to day operations and maintenance of its financial records. A significant interruption to its IT services, or breach of data security, would have an adverse impact on the ability to trade. The Group's systems could also be subject to the increasing risk of a cyber-attack.

The Group continues to invest in its IT and data security systems to ensure that its systems adequately support its expanding operations and address the changing needs of the business. Regular penetration and business recovery testing is carried out. Training is provided to all colleagues to advise them of good security procedures and data protection requirements.

Provisions for liabilities

The previous downturn in the UK housing market caused the Group to experience an increase in professional indemnity insurance claims against it, particularly within Connells Survey and Valuation Limited, however current incidence of new claims remains low.

Robust training, supervision and quality assurance processes exist aimed at reducing the likely incidence of such claims in the future. Current outstanding claims continue to be well managed by an experienced team and the Group carries an appropriate level of Professional Indemnity Insurance cover.

Details of the provision for professional indemnity insurance liabilities, other provisions and contingent liabilities are set out in note 20 to the financial statements.

Loss of a major client

Several of the Group's businesses hold a number of important client relationships, the loss of which would adversely affect their income and performance.

Each business carries out regular review meetings with clients at all levels of management; any issues should therefore be identified and escalated at an early stage.

Group Strategic Report (continued)

Financial misstatement and fraud

Material financial misstatement arising due to an error or fraud could cause reputational damage, financial loss or lead to inappropriate decision making.

The Group's financial controls, including segregation of duties, are designed to operate throughout the business to address this risk. These controls are supplemented by comprehensive monitoring of financial performance to budget and expectations at a cost centre level.

Capital

In common with other businesses in the sector, the Group is relatively highly operationally geared. Trading performance is sensitive to transaction volumes in the UK residential housing market. In the short term, certain costs are fixed so that when income falls there is a direct and adverse impact on profits and cash flows.

The Group's policy is to retain sufficient cash and capital resources to allow it to withstand market volatility and achieve its corporate objectives. The Group has no bank debt.

People

Estate agency is very much a people business. As such, the Group is reliant on the ability, training, skills and motivation of its people. A key risk to the business is the possibility of losing people, particularly senior managers who have extensive knowledge and experience.

In order to combat this, the Board ensures that service agreements, remuneration packages, and human resources policies are constantly reviewed.

Customers

The Group is firmly committed to delivering good outcomes for all customers. This means ensuring that the range of products and services offered meet the needs of customers, that the 'end to end' processes for delivering these services are appropriate and effective, and that our people have our customers' best interests at heart at all times. We take steps to develop and maintain this ethos within the culture of the business overall.

DC Livesey
Director

25 February 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

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

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they have elected to prepare both the group and the parent company financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law.

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- assess the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS LIMITED

Opinion

We have audited the financial statements of Connells Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise Group Income Statement, the Group and Parent company Statement of Financial Position, Group Statement of Cash Flows, the Group Statement of Comprehensive Income, the Group and Parent Statement of Changes in Equity and the related notes 1 to 26, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 December 2019 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

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

Ernst + Young LLP

Alistair Denton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Manchester
25 February 2020

Group Income Statement

For the year ended 31 December 2019

	Notes	Year ended 2019 £000	*Restated Year ended 2018 £000
Revenue	1,3	426,394	429,172
Other operating income	6	710	3,007
Employee benefit expenses	7	(246,477)	(246,864)
Other operating expenses	2	(130,092)	(127,471)
Operating profit		**50,535**	**57,844**
Presented as:			
Earnings before interest, tax, depreciation, amortisation, impairment and contingent consideration		76,300	75,046
Depreciation of tangible assets		(9,299)	(9,908)
Depreciation and impairment of right-of-use assets		(12,799)	-
Amortisation and impairment of intangibles		(3,810)	(6,284)
Fair value changes in financial instruments held at FVTPL		143	(260)
Contingent consideration		-	(750)
Operating profit		**50,535**	**57,844**
Finance income	4	727	433
Finance costs	5	(2,315)	(1,408)
Net financing costs		(1,588)	(975)
Group's share of profit after tax in joint ventures	13	1,737	801
Dividends paid to non-controlling interests		(570)	(736)
Profit before tax		**50,114**	**56,934**
Taxation	8	(11,344)	(11,916)
Profit for the year		**38,770**	**45,018**
Attributable to:			
Equity holders of the Company		**38,770**	**45,018**

The Group had no material discontinued operations in the current year or preceding year.

The notes on pages 18 to 52 form part of these financial statements.

Group Statement of Comprehensive Income

For the year ended 31 December 2019

	Notes	Year ended 2019 £000	Year ended 2018 £000
Profit for the year		**38,770**	**45,018**
Other comprehensive income/(expense):			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gain/ (loss) on retirement benefit obligations	23	276	(1,622)
Tax on items taken directly to or transferred from equity			
- actuarial gain on retirement benefit obligations	15	130	276
- other items that will not be reclassified to profit or loss		-	55
Other comprehensive income/ (expense) for the year (net of income tax)		**406**	**(1,291)**
Total comprehensive income for the year		**39,176**	**43,727**
Total comprehensive income attributable to:			
Equity holders of the Company		**39,176**	**43,727**

The notes on pages 18 to 52 form part of these financial statements.

Group Statement of Financial Position

At 31 December 2019

	Notes	31 December 2019 £000	£000	31 December 2018 £000	£000
Non-current assets					
Property, plant and equipment	10	34,929		39,954	
Intangible assets	11	104,381		104,054	
Right-of-use assets	12	48,982		-	
Investments	13	12,531		12,152	
Financial assets	14	4,689		1,038	
Deferred tax assets	15	8,960		11,173	
Total non-current assets			214,472		168,371
Current assets					
Trade and other receivables	16	42,605		44,598	
Cash and cash equivalents	17	75,708		51,878	
Total current assets			118,313		96,476
Total assets			**332,785**		**264,847**
Current liabilities					
Trade and other payables	18	56,113		57,012	
Tax liabilities		4,393		6,424	
Provisions	20	15,513		9,979	
Lease liabilities	19	10,698		-	
Total current liabilities			86,717		73,415
Non-current liabilities					
Trade and other payables	18	5,526		7,350	
Provisions	20	6,958		7,355	
Retirement benefit obligation	23	38,169		47,321	
Lease liabilities	19	37,633		-	
Total non-current liabilities			88,286		62,026
Total liabilities			175,003		135,441
Equity – attributable to equity holders of the Company					
Share capital	21	1		1	
Share premium	21	25,988		25,288	
Capital redemption reserve	21	3,000		3,000	
Retained earnings	21	128,793		101,117	
Total equity			157,782		129,406
Total equity and liabilities			**332,785**		**264,847**

These accounts were approved by the Board of Directors on 25 February 2020 and signed on its behalf by:

D C Livesey

DC Livesey
Director

Company registration number: 03187394

The notes on pages 18 to 52 form part of these accounts.

Company Statement of Financial Position

At 31 December 2019

	Notes	31 December 2019 £000	£000	31 December 2018 £000	£000
Non-current assets					
Property, plant and equipment	10	2,361		2,416	
Investments	13	133,127		133,127	
Financial assets	14	4,575		975	
Deferred tax assets	15	6,957		8,424	
Total non-current assets			147,020		144,942
Current assets					
Trade and other receivables	16	7,209		8,830	
Cash and cash equivalents	17	56,764		39,531	
Tax asset		2,053		518	
Total current assets			66,026		48,879
Total assets			**213,046**		**193,821**
Current liabilities					
Trade and other payables	18	33,083		41,148	
Provisions	20	3,292		-	
Total current liabilities			36,375		41,148
Non-current liabilities					
Trade and other payables	18	1,324		2,466	
Retirement benefit obligation	23	38,169		47,321	
Total non-current liabilities			39,493		49,787
Total liabilities			75,868		90,935
Equity – attributable to equity holders of the Company					
Share capital	21	1		1	
Share premium	21	25,988		25,288	
Capital redemption reserve	21	3,000		3,000	
Retained earnings	21	108,189		74,597	
Total equity			137,178		102,886
Total equity and liabilities			**213,046**		**193,821**

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act (2006) and has not presented its own income statement in these financial statements. The total profit for the year was £45,092,000 (2018: £41,137,000).

These accounts were approved by the Board of Directors on 25 February 2020 and signed on its behalf by:

DC Livesey
Director

Company registration number: 03187394

The notes on pages 18 to 52 form part of these accounts.

Statements of Changes in Equity

For the year ended 31 December 2019

Group

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2019	1	25,288	3,000	101,117	129,406
Total comprehensive income for the year	-	-	-	39,176	39,176
Dividends to shareholders	-	-	-	(11,500)	(11,500)
Subscription of shares	-	700	-	-	700
Balance at 31 December 2019	**1**	**25,988**	**3,000**	**128,793**	**157,782**

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	1	25,288	3,000	111,890	140,179
Total comprehensive income for the year	-	-	-	43,727	43,727
Dividends to shareholders	-	-	-	(54,500)	(54,500)
Balance at 31 December 2018	**1**	**25,288**	**3,000**	**101,117**	**129,406**

Company

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2019	1	25,288	3,000	74,597	102,886
Total comprehensive income for the year	-	-	-	45,092	45,092
Dividends to shareholders	-	-	-	(11,500)	(11,500)
Subscription of shares	-	700	-	-	700
Balance at 31 December 2019	**1**	**25,988**	**3,000**	**108,189**	**137,178**

	Share capital £000	Share premium £000	Capital redemption reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2018	1	25,288	3,000	87,960	116,249
Total comprehensive income for the year	-	-	-	41,137	41,137
Dividends to shareholders	-	-	-	(54,500)	(54,500)
Balance at 31 December 2018	**1**	**25,288**	**3,000**	**74,597**	**102,886**

The notes on pages 18 to 52 form part of these accounts.

Group Statement of Cash Flows

	Note	Year ended 2019 £000	Year ended 2018 £000
Cash flows from operating activities			
Profit for the year		38,770	45,018
Adjustments for:			
Depreciation and impairment of tangible assets	10	9,299	9,908
Depreciation and impairment of ROU assets	12	12,799	-
Amortisation and impairment of intangible assets	2,11	3,810	6,284
Profit on disposal of property, plant and equipment	2	(91)	(172)
Impairment of financial assets		-	221
Finance income	4	(727)	(433)
Share of profit of joint ventures	13	(1,737)	(801)
Finance expense	5	2,315	1,408
Dividends paid to non-controlling interests		570	736
Tax expense	8	11,344	11,916
Fair value changes in financial instruments held at FVTPL		(143)	260
Past service costs on pensions	23	-	1,728
Operating profit before changes in working capital and provisions		**76,209**	**76,073**
Contributions to defined benefit pension scheme	23	(10,080)	(5,635)
Decrease/ (increase) in trade receivables		54	(236)
Increase in prepayments and other receivables		(2,561)	(2,018)
Decrease in trade and other payables		(3,318)	(953)
Increase in provisions		6,595	2,059
Cash inflow from operations		**66,899**	**69,290**
Tax paid		(11,040)	(16,093)
Net cash inflow from operating activities		**55,859**	**53,197**
Cash flows from investing activities			
Interest received		727	433
Dividends received from joint ventures	13	1,358	1,444
Investment in joint ventures and associates		-	(224)
Purchases of shares in subsidiaries, net of cash acquired		(677)	(1,827)
Purchases of shares in assets held at FVTPL		(409)	(507)
Purchases of business assets, net of cash acquired	24	(773)	(570)
Purchases of computer software	11	(3,321)	(1,420)
Purchases of property, plant and equipment	10	(5,046)	(7,860)
Proceeds on disposal of property, plant and equipment		863	1,229
Net cash (outflow) from investing activities		**(7,278)**	**(9,302)**
Cash flows from financing activities			
Payment of principal portion of lease liabilities		(13,381)	-
Dividends paid to parent undertaking	9	(11,500)	(54,500)
Dividends paid to non-controlling interests		(570)	(736)
Amounts received from subscription of shares		700	-
Net cash outflow from financing activities		**(24,751)**	**(55,236)**
Net increase / (decrease) in cash and cash equivalents		**23,830**	**(11,341)**
Cash and cash equivalents at 1 January		51,878	63,219
Cash and cash equivalents at 31 December		**75,708**	**51,878**

The notes on pages 18 to 52 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Connells Limited (the "Company") is a Company incorporated, registered and domiciled in the UK. The following accounting policies have been applied consistently in these Group and Company financial statements:

a) Basis of accounting

Both the Company and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs") and effective as at 31 December 2019, and those parts of the Companies Act 2006 applicable to Companies reporting under IFRS. In publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual Income Statement and Statement of Cash Flows and related notes that form a part of these approved financial statements. The amount of the profit for the year dealt with in the financial statements of Connells Limited is disclosed in the Statement of Changes in Equity in these financial statements.

During the year the Group adopted the new IFRS 16 *Leases* accounting standard, further details of which are provided in note 1c).

The Group also adopted the following amendments to existing accounting standards during the year, none of which had a material impact on these financial statements:

- IFRIC 23 *Uncertainty over income tax treatments*
- Plan amendment, curtailment or settlement (amendments to IAS 19)

There are no new standards at 31 December 2019 that have been endorsed by the EU but not yet effective.

Measurement convention

These financial statements are prepared on the historical cost basis as modified for certain financial assets which are recorded at fair value. Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year, are discussed in section r).

Currency presentation

These financial statements are presented in pounds sterling and, except where otherwise indicated, have been rounded to the nearest one thousand pounds. The functional currency is pounds sterling.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Group Strategic Report. The financial position of the Group and Company, its cash flows, and liquidity position are shown on pages 12 to 17. In addition, the Group Directors' Report, Strategic Report and notes to these financial statements include the Group's objectives; policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The Directors have assessed the viability of the Group with respect to the Group's current resources and prospects, its risk appetite and the Group's principal risks and uncertainties. In particular the Directors have considered and modelled a number of severe but plausible scenarios, including the impact of a material downturn in the UK housing market caused by Brexit or other political and economic circumstances. The results from such stress testing indicate that the Group would be able to withstand the financial impact and, as a result, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Put options

As part of the Group's acquisition strategy, there are a number of subsidiaries where the Group owns less than 100% of the share capital and there is an option for Non-controlling shareholders to sell their shares to the Company at some future date. In line with IAS 32 *Financial Instruments: Disclosure and Presentation and common accounting practice*, the Group's accounting policy for these transactions is to recognise the present value of Non-controlling shareholders' options as a financial obligation, along with the recognition of a further increase in the cost of investment. Under this accounting policy the Group consolidates 100% of the results of such subsidiaries to reflect the 100% ownership implicit in the recording of the future purchase of the Non-controlling interests' remaining shareholdings.

b) Basis of consolidation

The Group's annual financial statements consolidate the financial statements of the Company and all its subsidiary undertakings and include the Group's share of the results and post-acquisition reserves of its subsidiary undertakings. All Group undertakings prepare their financial statements to 31 December annually.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

b) Basis of consolidation (continued)

Business combinations

The acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of during the period are included in the Group Income Statement from the date of acquisition or up to the date of disposal.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, other contingent consideration is re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Subsidiaries and joint ventures

In the Company's financial statements, investments in subsidiary undertakings are stated at cost less provision for any permanent diminution in value. Dividends received and receivable are credited to the Company's Income Statement to the extent they represent a realised profit for the Company.

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control and has an interest in the net assets of the undertaking. Joint ventures are accounted for using the equity method and are initially recognised at cost. The Group's share of the profits of joint ventures is included in the Group Income Statement and its interest in the net assets is included in investments in the Group Statement of Financial Position. See note 13 for further details.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

c) **Changes to significant accounting policies**

The Group has adopted IFRS 16 *Leases* with effect from 1 January 2019. The effect of initially adopting this standard is outlined below.

IFRS 16

IFRS 16 *Leases* replaces the previous standard IAS 17, and determines how all leases are accounted for and has materially impacted the Group's 2019 consolidated accounts. The accounting policy is disclosed in note 1l). The Group has adopted IFRS 16 using the modified retrospective approach, so that the right-of-use asset is equal to the lease liability on 1 January 2019, adjusted for any rent prepayments or accrued lease payments. The 2018 comparatives have not been restated, as allowed by the specific transitional provisions within the standard. The reclassifications and adjustments arising from the new standard are therefore recognised in the opening balance sheet as at 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases that had previously been classified as operating leases under IAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate as at 1 January 2019. The table below reconciles the operating lease commitments disclosed under IAS 17, to the lease liability recognised under IFRS 16.

Operating lease commitments disclosed under IAS 17 at 31 December 2018	53,321
Discounted using the Group's incremental borrowing rate at 1 January 2019	(6,755)
Discounted operating lease commitments at 1 January 2019	**46,566**
Relief option for short term leases	(1,180)
Relief option for leases of low value assets	(19)
Extension options assumed to be exercised	2,324
Lease payments prepaid	(2,431)
Lease liability recognised at 1 January 2019	**45,260**
Of which:	
Current lease liabilities	9,949
Non-current lease liabilities	35,311
	45,260

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

c) Changes to significant accounting policies (continued)

The associated right-of-use assets for all leases were measured at an amount equal to the lease liability, adjusted by any prepaid (or accrued) lease payments. The recognised right-of use assets at 1 January 2019 relate to the following types of assets:

	£000
Properties	46,412
Motor vehicles	986
Total right-of-use assets recognised at 1 January 2019	**47,398**

The change in accounting policy affected the following items in the balance sheet on 1 January 2019.

	As previously reported £000	Impact of IFRS 16 £000	Restated £000
Non-current assets			
Right-of-use assets	-	47,398	47,398
Current assets			
Trade and other receivables	44,598	(2,431)	42,167
Total impact on assets	44,598	44,967	89,565
Non-current liabilities			
Lease liabilities	-	9,949	9,949
Provisions	7,355	(293)	7,062
Current liabilities			
Lease liabilities	-	35,311	35,311
Total impact on equity and liabilities	7,355	44,967	52,322

The impact on the consolidated income statement for the year ended 31 December 2019 was as follows:

	2019 £000
Operating expenses	13,381
Earnings before interest, tax, depreciation, amortisation, impairment and contingent consideration	**13,381**
Depreciation	(12,788)
Operating profit	**593**
Interest	(897)
Profit before tax	**(304)**

The impact on the consolidated cash flow statement for the year ended 31 December 2019 was as follows:

	2019 £000
Profit for the year	(304)
Depreciation	12,788
Interest paid	897
Net cash flows from operating activities	**13,381**
Payment of principal portion of lease liabilities	(13,381)
Net cash flows from financing activities	**(13,381)**
Net total impact on cash flow statement	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

c) Changes to significant accounting policies (continued)

The Group used the following practical expedients available when applying IFRS 16 for the first time:

- The application of a single discount rate to a portfolio of leases with similar characteristics, for example based on term length and type of lease.
- Reliance on previous assessments of whether a contract is, or contains a lease.
- Exemptions available for low-value and short-term leases.
- Reliance on previous assessments of whether leases are onerous.

d) Prior year restatement

During the year, the Group reviewed the application of its revenue recognition policy and discovered inconsistencies within the part exchange and asset management parts of the business where certain revenue had historically been reported "net" rather than "gross" of expenditure incurred. Where the Group is acting as "principal" not "agent" in a transaction, revenue should be recognised gross, with a corresponding entry in operating expenses. The total restatement is a £15.5m increase for the year ended 31 December 2018 to both revenue and expenses, with no impact to profit. The comparative number for 2019 recognised was £17.1m.

e) Revenue recognition

Revenue, which excludes value added tax, represents the total invoiced sales of the Group and is recognised as follows:

- Estate Agency sales commissions, new homes, land sales and auctions income is recognised on the date contracts are exchanged unconditionally, at which point all performance obligations are considered to have been fulfilled. Invoices are usually payable on completion.
- Commission earned from property lettings is recognised when the underlying service has been performed, including tenant introduction, rent collection or full property management. Invoices are usually payable immediately when the rent or fee is collected from the tenant.
- Revenue from mortgage procuration fees is recognised on completion of the mortgage transaction, which is when all contractual obligations have been fulfilled. An element of mortgage services income has been assessed as transferred over time, in line with the performance obligations in the contract.
- Insurance commission income is recognised upon fulfilment of contractual obligations as part of the mortgage process, being when the insurance policy is put on risk; less a provision for expected future clawback repayment in the event of early termination by the customer.
- Survey & Valuation revenue is recognised on the date that the survey or valuation report is completed, at which point all performance obligations are considered to have completed. Revenue and costs are recognised gross of sub-contracted panel fees.
- Asset management commission earned is accounted for on exchange of contracts and additional services are recognised upon completion of work, recognised on a cost basis within contract assets; both of which are at the point all performance obligations are considered to have completed.
- All other income is recognised in line with when contractual obligations have been met.

f) Property, plant and equipment

Property, plant and equipment are stated in the Statement of Financial Position at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of assets less their estimated residual values over their estimated useful lives at the following rates:

Leasehold premises	-	Over the unexpired term of the lease in equal instalments
Freehold buildings	-	Lower of 50 years or estimated useful life of premises
Equipment, fixtures and fittings	-	3 to 10 years
Motor vehicles	-	25% of net book value

All depreciation is charged on a straight-line basis, except motor vehicles, where the reducing balance method is used. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

g) Goodwill

Goodwill arising on the acquisition of subsidiary undertakings or businesses represents the excess of the fair value of consideration over the fair value of identifiable net assets and contingent liabilities acquired at the date of acquisition. Goodwill is calculated after also taking into account the fair value of contingent liabilities of the acquiree.

Where the Group acquires a majority shareholding in a subsidiary, but grants the non-controlling interests an option to sell their shares to the Group at some future date, on acquisition the Group estimates the fair value of the total consideration payable in calculating the goodwill arising. In subsequent periods, for any put options written prior to the adoption of IFRS 3 (2008), any amendment to the Group's estimation of the fair value of the consideration remaining payable will result in a restatement in the goodwill. For any put options written after the adoption of IFRS 3 (2008), any amendments to the estimation of the fair value of the consideration payable are recorded in profit/loss. The put options in place and treatment of any changes in the value of the option are as follows as at 31 December 2019:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

g) Goodwill (continued)

Company	Accounting for changes in the value of the put option
The Asset Management Group Limited (AMG)	Adjusted to goodwill
Sharman Quinney Holdings Limited	Adjusted to goodwill
Gascoigne Halman Group Limited	Recorded in the income statement
RMS Estate Agents Limited	Recorded in the income statement

Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

h) Intangible assets

Intangible assets include acquired customer contracts and relationships, brands, software development costs and purchased software that in the opinion of the directors meets the definition of an intangible asset. Amortisation is charged to the Income Statement on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the day they are available for use. The estimated useful lives are as follows:

Customer contracts and relationships	-	1 to 10 years
Computer software	-	3 to 5 years
Brand	-	Indefinite

Finite life intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end.

i) Impairment

In accordance with IAS 36, *Impairment of Assets*, goodwill and intangible assets with an indefinite life are not amortised but are tested for impairment at each year end or when there is an indication of impairment. The recoverable amount is determined as the higher of its fair value less costs to sell and its value in use.

The Group applies discount rates based on its weighted average cost of capital, which is adjusted to take account of the market risks associated with each cash generating unit. Impairment is recognised where the present value of future cash flows of the subsidiary is less than its carrying value. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Any impairment loss in respect of goodwill is not reversed. On the sale of a subsidiary, the profit or loss on sale is calculated after charging or crediting the net book value of any related goodwill.

j) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity, trade and other receivables, cash and cash equivalents, and trade and other payables.

Trade and other receivables

Trade and other receivables are stated at their nominal amount, discounted if material, less impairment losses.

Trade and other payables

Trade and other payables are stated at their fair value on initial recognition and then subsequently carried at amortised cost.

Financial assets

Investments in equity securities held by the Company are measured at fair value through profit or loss. Any resultant gain or loss is recognised in the income statement in line with IFRS 9. Where the fair value cannot be reliably measured the investments are carried at cost less impairment.

Investments - Company

Investments in jointly controlled entities and subsidiaries are carried at cost less any impairment. The cost of investment arising on the acquisition of subsidiary undertakings or businesses comprises the consideration paid and the fair value of the put option obligation to acquire any non-controlling interest, when such an option exists. Subsequent re-estimates of the market value or the expected exercise date of the option are carried out by management. This results in an annual revaluation of the put option element of the cost of investment (see note 13). The Company regularly reviews its subsidiary investments for objective evidence of impairment.

Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash in hand and loans and balances with banks and similar institutions. Cash and cash equivalents comprise highly liquid investments which are convertible into cash with an insignificant risk of changes in value with original maturities of three months or less. The Statement of Cash Flows has been prepared using the indirect method.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

j) Non-derivative financial instruments (continued)

The Group recognises an allowance for expected credit losses (ECLs). The Group takes a simplified approach and recognises a loss allowance based on lifetime ECLs at each reporting date. The Group uses a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment. This is applied to third party and intercompany receivables and cash balances.

k) Employee benefits

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group has a defined benefit scheme, the Connells (2014) Group Pension Scheme, which is closed to future benefit accrual. The Group's net obligation in respect of the Scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) and any unrecognised past service costs are deducted. The liability discount rate is the yield at the reporting date on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to, the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Net interest is calculated by applying the discount rate to the net defined benefit liability. Contributions are transferred to the Trustee on a regular basis to secure the benefits provided under the rules of the Scheme. The Group recognises all actuarial gains and losses directly into equity through the Statement of Comprehensive Income in the period they occur.

Defined contribution plans

The Group also operates a number of defined contribution pension plans. A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Contributions are charged to the Income Statement as they become payable, in accordance with the rules of the various schemes.

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash bonus or profit sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

l) Leases

The Group's lease commitments relate mainly to properties and motor vehicles. Leases are typically negotiated on an individual basis and thus contain a wide range of terms and conditions, including options to extend or terminate. The lease liability is considered to be an indicator of the future cash outflows, there are no significant restrictions or covenants, residual value guarantees or sale and leaseback transactions. Previously, payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease.

From 1 January 2019, the Group assesses at contract inception whether a contract is, or contains, a lease. The Group initially recognises a right-of-use asset and a corresponding liability at the date at which the leased asset is available.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets is equal to the aggregate lease liabilities recognised on day 1, adjusted for any initial direct costs incurred, any lease incentives received and any lease payments made at or before the commencement date. Right-of-use assets are depreciated on a straight line basis over the lease term. Right of use assets are tested for impairment at each year end.

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of the lease payments to be made over the lease term, discounted at the incremental borrowing rate. The lease payments include fixed payments less any lease incentives received and amounts expected to be paid under residual value guarantees. In calculating the present value of the lease payments, the Group uses its incremental borrowing rate at the lease commencement date as the interest rate implicit in the lease is not readily determinable. Following recognition, the liability is reduced for the lease payments made and increased by the interest accrued. Moreover, the carrying amount of the lease liability is re-measured in the event of a modification, such as a change in the lease term or change in the lease payments. The interest cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining liability for each period.

The Group applies the short-term lease exemption to those leases that have a lease term of 12 months or less from the commencement date and also applies the exemption for leases of low value assets to office equipment. Lease payments relating to these exemptions are recognised in operating expenses on a straight line basis over the lease term. These exemptions are not applied to property leases and any short term property leases are accounted for as above.

m) Provisions for liabilities and charges

A provision is recognised in the Statement of Financial Position when the Group has a present, legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount can be reliably measured. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

n) Taxation

Income tax on the profits for the year comprises current tax and deferred tax. Income tax is recognised in the Income Statement except where items are recognised directly in other comprehensive income, in which case the associated income tax asset or liability is recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable profit for the year, using tax rates enacted or substantively enacted at the year end, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. It is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which temporary differences reverse, based on tax rates and laws enacted or substantively enacted at the reporting date.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group.

The carrying amount of deferred tax assets is reviewed at each year end and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each year end and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

o) Net financing costs

Interest income and interest payable are recognised in the Income Statement as they accrue, using the effective interest method.

p) Dividend income

Dividend income is recognised in profit or loss on the date on which the Group's right to receive payment is established.

q) Joint arrangements

All of the group's joint arrangements are structured through separate vehicles. The group has considered in each arrangement whether there are contractual arrangements or other facts and circumstances that indicate the group has rights to the underlying assets and obligations for the liabilities of the joint arrangement. There are no contractual terms or other facts and circumstances that indicate this to be the case for each joint arrangement. As such, each joint arrangement has been treated as a joint venture and has been equity accounted.

r) Critical accounting estimates, and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The Group also has to make judgements in applying its accounting policies which affect the amounts recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The key estimates, assumptions and judgements are set out below:

Put option obligation

The fair value of both the put option obligation and the associated goodwill recognised is dependent on the following assumptions: the market value growth of the obligation and the discount rate used at the reporting date. It is assumed that the holders will exercise their options at the earliest opportunity. These assumptions are reviewed on a regular basis by senior management.

Retirement benefit obligations

The defined benefit pension scheme exposes the Group to actuarial risks such as investment risk, interest rate risk, mortality risk and longevity risk. In conjunction with its actuaries the Group makes key financial assumptions which are used in the actuarial valuation of the defined pension benefit obligation and, therefore, changes to these assumptions have an impact on the defined benefit pension obligation in the Statement of Financial Position and amounts reported in the Income Statement. These assumptions include inflation and discount rates, life expectancy, commutation allowances and the rate of salary growth; see note 23 for further details on these assumptions.

A decrease in corporate bond yields, a rise in inflation or an increase in life expectancy would result in an increase to Scheme liabilities. This would impact the Statement of Financial Position adversely and may give rise to increased charges in future years' Income Statements. This effect would be partially offset by an increase in the value of the Scheme's bond holdings and caps on inflationary increases also exist to protect the scheme against high levels of inflation.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

r) Critical accounting estimates, and judgements in applying accounting policies (continued)

Approximate sensitivities of the principal assumptions are set out in the table below, showing the increase or reduction in the pension obligation. Each sensitivity considers one change in isolation.

Assumption	Change in assumption	2019	2018
Discount Rate	Decrease of 0.25% p.a.	Increase by 4.3%	Increase by 4.3%
Rate of inflation	Increase 0.25% p.a.	Increase by 2.0%	Increase by 2.2%
Rate of mortality	Increase in life expectancy of 1 year	Increase by 3.1%	Increase by 3.1%

The average duration of the defined benefit obligation at the period ending 31 December 2019 was 18 years (2018: 18 years).

Impairment of investments and goodwill

In determining whether an impairment loss should be recognised in the Income Statement, management compare the future cash flows of each subsidiary against its carrying value. The key assumptions for the value in use calculations are those regarding the cash flows, discount rates and growth rates. The Group prepares cash flow forecasts on the assumption that the subsidiaries are held for long-term investment. Excluding AMG, the cash flows are derived from the most recent financial budgets for the next five years, which take into account the risks inherent in the businesses. For all CGU's the cash flows are extrapolated for subsequent years based on long-term growth rate of 2.5% (2018: 2.5%). The Group estimates discount rates based on the current cost of capital adjusted for the risks inherent in its subsidiaries. The pre-tax discount rate used in 2019 was 10.00% (2018: 10.60%). Refer to note 11 for sensitivities.

Provisions

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business in relation to surveys and valuations performed by the Group. Where a formal letter of claim has been received a provision is made on a case by case basis, taking into account the strength of the Group's case, and its history of successfully defending claims. Where initial notification of claims has been received, an estimate is made of the proportion of these expected to lead to a formal claim based upon historical trends. Finally, provision is also made for the estimated level of claims incurred but not yet reported at the reporting date (IBNR), taking into account market conditions and a prudent attitude to risk.

The provision for insurance commission clawback is estimated using anticipated cancellation rates of term insurance policies. This provision is based on the clawback period from the sign up date of the term insurance policy. The cancellation rates used in calculating the provision are revisited every quarter.

IFRS 16

The changes to critical estimates and assumptions used by the Group as a result of adopting IFRS 16, that have an effect on the reported amounts of assets and liabilities, are outlined below.

Lease term

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease where this is reasonably certain to be exercised, or any periods covered by an option to terminate the lease where this is reasonably certain not to be exercised.

Many of the Group's leases, particular property leases, contain options for the Group to extend and / or terminate the lease term. The Group applies judgement in evaluating whether it is reasonably certain to exercise these options, taking account of all relevant factors that create an economic incentive for it to do so. After the lease commencement date, the Group reassesses the lease term if there has been a significant event or change in circumstances that is within its control and which affects its ability to exercise (or not to exercise) the option to renew and / or to terminate (e.g. a change in business strategy).

2. Expenses and Auditor's remuneration

Profit before tax is stated after charging / (crediting) the following:	Notes	Group Year ended 2019 £000	Group Year ended 2018 £000
Depreciation of property, plant and equipment	10	9,299	9,908
Profit on disposal of property, plant and equipment		(91)	(172)
Amortisation of intangibles	11	3,810	3,789
Impairment losses on trade receivables		99	90
Short term lease payments charged to operating expenses		1,291	-
Auditor's remuneration and expenses - Group			
Audit of these financial statements		275	305
Other assurance services		4	7
Auditor's remuneration and expenses - Company			
Audit of these financial statements		16	20

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Revenue

All revenue in the Group is considered to originate from contracts with customers. The table below disaggregates the revenue from contracts with customers into the significant service lines. All revenues are derived by the Group in the UK.

2019	Products and services transferred at a point in time £000	Products and services transferred over time £000	Total 2019 £000
Commissions earned on property sales	169,782	191	169,973
Commissions earned on property lettings	61,618	-	61,618
Income from sale of financial services products	85,383	11,329	96,712
Survey and valuation income	65,007	-	65,007
Conveyancing income	28,983	-	28,983
Other income and commissions	3,540	561	4,101
	414,313	12,081	426,394

2018	Products and services transferred at a point in time £000	Products and services transferred over time £000	*Restated Total 2018 £000
Commissions earned on property sales	174,311	181	174,492
Commissions earned on property lettings	63,519	-	63,519
Income from sale of financial services products	80,857	13,205	94,062
Survey and valuation income	64,709	-	64,709
Conveyancing income	27,094	-	27,094
Other income and commissions	4,724	572	5,296
	415,214	13,958	429,172

4. Finance income

	Group Year ended 2019 £000	Group Year ended 2018 £000
Interest on bank deposits	22	13
Interest receivable from Group undertakings	677	387
Other interest receivable	28	33
	727	433

5. Finance costs

	Group Year ended 2019 £000	Group Year ended 2018 £000
Net interest payable on pension liabilities (see note 23)	1,205	1,163
Movement on put option liability interest	213	245
Interest on lease liabilities	897	-
	2,315	1,408

6. Other operating income

	Group Year ended 2019 £000	Group Year ended 2018 £000
Rents receivable under property leases	479	516
Profit on sale of fixed assets	91	172
Fair value changes in financial instruments held at FVTPL	143	(260)
Other	(3)	2,579
	710	3,007

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Staff numbers and costs

The average monthly number of persons employed by the Group (including directors) during the year was as follows:

	Group 2019 No.	Group 2018 No.
Directors	7	7
Other	6,846	6,951
	6,853	6,958

The aggregate payroll costs of these persons was as follows:

	£000	£000
Wages and salaries	218,406	220,719
Social security costs	22,399	22,084
Other pension costs	5,672	4,061
	246,477	246,864

Directors' emoluments	Group Year ended 2019 £000	Group Year ended 2018 £000
Directors' emoluments	2,451	2,274
Company contributions to defined contribution pension schemes	8	7
	2,459	2,281

Two of the Directors are remunerated by another Group company. During the year £60,000 (2018: £54,000) was charged to the Group for their services.

The aggregate of emoluments of the highest paid Director was £985,324 (2018: £787,485). There were no contributions to defined contribution pension schemes (2018: £nil) included within this total.

There are not considered to be further key management personnel other than the Directors of the Company noted above.

8. Tax expense

	Group Year ended 2019 £000	Group Year ended 2018 £000
a) Analysis of expense in the year at 19% (2018: 19%)		
Current tax expense		
Current tax at 19% (2018: 19%)	10,782	12,866
Adjustment in respect of prior years	(50)	-
Total current tax	10,732	12,866
Deferred tax (income) / expense		
Origination and reversal of temporary differences	(547)	(913)
Adjustment in respect of prior years	1,159	(37)
Total deferred tax (see note 15)	612	(950)
Tax expense	11,344	11,916

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. Tax expense (continued)

b) Factors affecting current tax expense in the year

The tax assessed in the Income Statement is higher (2018: higher) than the standard UK corporation tax rate because of the following factors:

Profit before tax	50,114	56,934
Tax on profit at UK standard rate of 19% (2018: 19%)	9,522	10,817
Effects of:		
Non-taxable income from joint ventures	(329)	(153)
Expenses not deductible for tax purposes	1,056	1,399
Adjustment to tax expense in respect of prior years	1,109	(37)
Income not taxable for tax purposes	(75)	(176)
Other	61	66
Tax expense recognised in Income Statement	11,344	11,916

c) Income tax recognised in Other Comprehensive Income	**Group Year ended 2019 £000**	**Group Year ended 2018 £000**
Tax on actuarial loss/ (gain) on retirement benefit obligations	130	(191)
Tax on other items taken directly or transferred from equity	-	522
Tax income recognised in Other Comprehensive Income	130	331

9. Dividends

	Year ended 2019 £000	**Year ended 2018 £000**
Amounts recognised as distributions to equity holders in the period:		
Dividends for the year paid on 'A' shares	11,500	54,500

The dividend per share totalled £1.11 (2018: £5.27). No dividends (2018: nil) were paid to the holders of 'B,' 'C', 'D', 'E' or 'F' ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Property, plant and equipment

Group

	Land and buildings £000	Equipment fixtures and fittings £000	Motor vehicles £000	Group total £000
Cost				
At 1 January 2019	42,926	31,011	17,260	91,197
Additions	1,319	1,820	1,907	5,046
Disposals	(317)	(493)	(2,358)	(3,168)
At 31 December 2019	**43,928**	**32,338**	**16,809**	**93,075**
Accumulated depreciation and impairment				
At 1 January 2019	19,896	21,742	9,605	51,243
Depreciation charge for the year	3,422	3,883	1,994	9,299
Disposals	(189)	(443)	(1,764)	(2,396)
At 31 December 2019	**23,129**	**25,182**	**9,835**	**58,146**
Carrying amounts				
At 1 January 2019	23,030	9,269	7,655	39,954
At 31 December 2019	**20,799**	**7,156**	**6,974**	**34,929**

Company

	Land and buildings £000	Equipment fixtures and fittings £000	Company total £000
Cost			
At 1 January 2019	3,956	970	4,926
Additions	72	-	72
At 31 December 2019	**4,028**	**970**	**4,998**
Accumulated depreciation and impairment			
At 1 January 2019	1,540	970	2,510
Depreciation charge for the year	127	-	127
At 31 December 2019	**1,667**	**970**	**2,637**
Carrying amounts			
At 1 January 2019	2,416	-	2,416
At 31 December 2019	**2,361**	**-**	**2,361**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Property, plant and equipment (continued)

Group

	Land and buildings £000	Equipment fixtures and fittings £000	Motor vehicles £000	Group total £000
Cost				
At 1 January 2018	41,287	31,243	17,696	90,226
Additions	2,332	3,246	2,282	7,860
Disposals	(693)	(3,478)	(2,718)	(6,889)
At 31 December 2018	**42,926**	**31,011**	**17,260**	**91,197**
Accumulated depreciation and impairment				
At 1 January 2018	17,234	20,857	9,076	47,167
Depreciation charge for the year	3,209	4,352	2,347	9,908
Disposals	(547)	(3,467)	(1,818)	(5,832)
At 31 December 2018	**19,896**	**21,742**	**9,605**	**51,243**
Carrying amounts				
At 1 January 2018	24,053	10,386	8,620	43,059
At 31 December 2018	**23,030**	**9,269**	**7,655**	**39,954**

Company

	Land and buildings £000	Equipment fixtures and fittings £000	Company total £000
Cost			
At 1 January 2018	3,956	970	4,926
At 31 December 2018	**3,956**	**970**	**4,926**
Accumulated depreciation and impairment			
At 1 January 2018	1,416	914	2,330
Depreciation charge for the year	124	56	180
At 31 December 2018	**1,540**	**970**	**2,510**
Carrying amounts			
At 1 January 2018	2,540	56	2,596
At 31 December 2018	**2,416**	**-**	**2,416**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Intangible assets

Group

	Goodwill £000	Brands £000	Computer software £000	Customer contracts & relationships £000	Total £000
Cost					
At 1 January 2019	93,363	6,499	8,303	28,912	137,077
Arising on acquisition	176	-	-	-	176
Additions	-	-	3,321	640	3,961
At 31 December 2019	93,539	6,499	11,624	29,552	141,214
Amortisation and impairment losses					
At 1 January 2019	4,705	-	5,049	23,269	33,023
Amortisation charge for the year	-	-	1,551	2,259	3,810
Impairment	-	-	-	-	-
At 31 December 2019	4,705	-	6,600	25,528	36,833
Carrying amounts					
At 1 January 2019	88,658	6,499	3,254	5,643	104,054
At 31 December 2019	88,834	6,499	5,024	4,024	104,381

	Goodwill £000	Brands £000	Computer software £000	Customer contracts & relationships £000	Total £000
Cost					
At 1 January 2018	93,312	6,499	6,883	28,265	134,959
Arising on Acquisition	51	-	-	-	51
Additions	-	-	1,420	647	2,067
At 31 December 2018	93,363	6,499	8,303	28,912	137,077
Amortisation and impairment losses					
At 1 January 2018	2,210	-	3,849	20,680	26,739
Amortisation charge for the year	-	-	1,200	2,589	3,789
Impairment	2,495	-	-	-	2,495
At 31 December 2018	4,705	-	5,049	23,269	33,023
Carrying amounts					
At 1 January 2018	91,102	6,499	3,034	7,585	108,220
At 31 December 2018	88,658	6,499	3,254	5,643	104,054

The brands relate to Gascoigne Halman, RMS Estate Agents and Peter Alan. In the Directors' view, these brands all have a long and successful history and have shown their ability to adapt to changing market trends. Further, the Group will continue to invest in the brands in order to protect their value. As such, the brands have been judged to have indefinite lives and are not amortised but are subject to annual impairment tests.

All amortisation and impairment charges in the year have been charged through operating expenses.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Intangible assets (continued)

Goodwill and brands acquired in a business combination is allocated, at acquisition, to the individual cash generating units (CGUs) that are expected to benefit from that business combination. The carrying value of goodwill and brands is allocated as follows:

Group

Cash Generating Unit	Goodwill Carrying value 2019 £000	Brands Carrying value 2019 £000	Goodwill Carrying value 2018 £000	Brands Carrying value 2018 £000
Sequence (UK) Limited	40,428	-	40,319	-
Connells Residential	5,736	-	5,736	-
Sharman Quinney Holdings Limited	5,744	-	5,677	-
Peter Alan Limited	5,770	2,317	5,770	2,317
Gascoigne Halman Group Limited	6,239	2,982	6,239	2,982
RMS Estate Agents Limited	2,325	1,200	2,325	1,200
The Asset Management Group Limited	9,410	-	9,410	-
The New Homes Group Limited	13,182	-	13,182	-
	88,834	**6,499**	**88,658**	**6,499**

There was no impairment charge during the year. The recoverable amounts of goodwill and brands are determined from value-in-use calculations for the CGUs listed above.

Key assumptions

The value-in-use calculation for each of the above CGUs is most sensitive to the following assumptions:

- Forecast cash flows
- Long term growth rate
- Discount rates

Forecast cash flows reflect how management believe the business will perform over the short term five year period and are used to calculate the value-in-use of the CGUs. The Group prepares cash-flow forecasts on the assumption that the subsidiaries are held for long-term investment. The cash flows for the Estate Agency and Survey and Valuation businesses are derived from the most recent financial budgets for the next five years, which take into account the risks inherent in the businesses

The growth rate reflects how management believe the business will perform over the long term, and extrapolate cash flows for subsequent years based on a long-term growth rate of 2.5% (2018: 2.5%).

Discount rates reflect management's estimate of the post-tax Weighted Average Cost of Capital (WACC) of the Group and this is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals. The pre-tax discount rate was 10.00% (2018: 10.60%).

The Asset Management Group (AMG) is counter-cyclical and its profits are driven by the level of repossessions in the housing market. The cash flows for AMG models the impact of a small increase in the profits driven by an increase in the level of repossessions. The long term growth rate assumed was 2.5% (2018: 2.5%).

Sensitivities

Management has undertaken sensitivity analyses to determine the effect of changes in assumptions on the 2019 impairment reviews. The key assumptions driving the carrying values are the discount rate applied to the cash flow forecasts and the growth rates within the cash flow forecast for both the next five years and the long term.

Management have considered the CGUs under various scenarios and concluded that there is significant headroom over the majority of the CGUs. The CGUs with the least headroom were Asset Management Group Limited and RMS Estate Agents Limited.

For Asset Management Group, to test the sensitivity the discount rate was increased by 700 basis points leading to an impairment of £0.7m. As an additional test to the sensitivity the long term growth rate was decreased by 750 basis points, leading to an impairment of £0.1m, and a 1,000 basis point decrease would lead to an impairment of £1.7m. The 5 year forecast cash flows were reduced by 1,000 basis points, the carrying value still exceeded the asset value, but a 2,250 basis point decrease year on year would trigger an impairment of £0.2m.

For RMS Estate Agents Limited, to test the sensitivity the discount rate was increased by 500 basis points leading to an impairment of £0.1m. As an additional test to the sensitivity the long term growth rate was decreased by 750 basis points, leading to an impairment of £0.1m, and a 1,000 basis points decrease would lead to an additional impairment of £0.4m. For the 5 year forecast cash flows the growth rate was decreased by 2,500 basis points year on year, leading to an impairment of £0.2m, and a 3,000 basis points decrease would lead to an impairment of £0.8m.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Intangible assets (continued)

Across the remaining CGUs, it would require a significant decline in performance to trigger an impairment. To test the sensitivity the discount rate was increased by 500 basis points, which would result in an impairment of £0.6m. The sensitivity to the long term growth rate was also tested, decreases of 500 basis points year on year would not result in an impairment, and decreases of 1,000 basis points would lead to an impairment of £2.1m. For the 5 year forecast cash flows decreases of 1,000 basis points year on year would not result in an impairment, and decreases of 2,000 basis points would lead to an impairment of £2.2m.

12. Right-of-use assets

On 1 January 2019 the Group adopted IFRS 16 *Leases* and has reclassified the cost of leases into Right-of-use assets as follows:

Group

	Land and buildings £000	Equipment £000	Motor vehicles £000	Group total £000
Cost				
At 31 December 2018	-	-	-	-
Change in accounting policy	46,705	-	986	47,691
At 1 January 2019	46,705	-	986	47,691
Additions	8,096	5,310	301	13,707
Disposals	(1,179)	-	(65)	(1,244)
Modifications	1,495	-	(97)	1,398
At 31 December 2019	**55,117**	**5,310**	**1,125**	**61,552**
Accumulated depreciation and impairment				
At 1 January 2019	293	-	-	293
Depreciation charge for the year	12,194	-	594	12,788
Impairment	11	-	-	11
Disposals	(475)	-	(47)	(522)
Modifications	-	-	-	-
At 31 December 2019	**12,023**	**-**	**547**	**12,570**
Carrying amounts				
At 1 January 2019	46,412	-	986	47,398
At 31 December 2019	**43,094**	**5,310**	**578**	**48,982**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Investments

The Company owns equity share capital in the following joint ventures, which are incorporated and trade in the UK, as follows:

Name of joint venture and associate	Nature of business	Proportion of ordinary shares held 2019	Proportion of ordinary shares held 2018
TM Group (UK) Limited	Property search services	33.3%	33.3%
Vibrant Energy Matters Limited	Home Energy, property and eco services	46.1%	46.1%
Cybele Solutions Holdings Limited	Conveyancing services	50.0%	50.0%

There are no significant restrictions over each joint venture's ability to pay cash dividends.

Joint ventures are recognised within these financial statements using the equity accounting method.

Group	Group 2019 £000	Group 2018 £000
Joint Ventures		
Balance at 1 January	12,152	12,792
Additions	-	3
Disposals	-	-
Share of joint venture profits after tax	1,737	801
Dividends received	(1,358)	(1,444)
At 31 December	**12,531**	**12,152**
Carrying amount		
At 1 January	12,152	12,792
At 31 December	**12,531**	**12,152**

Investment in joint ventures	Group 2019 £000	Group 2018 £000
Share of joint ventures'		
Non-current assets	12,774	11,306
Current assets	5,096	5,083
Current liabilities	(5,339)	(4,237)
Net assets at 31 December	**12,531**	**12,152**
Share of joint ventures'		
Income	38,179	33,300
Admin expenses	(35,415)	(32,106)
Depreciation and amortisation	(584)	(145)
Interest income	4	7
Profit before tax	**2,184**	**1,056**
Taxation	(447)	(255)
Profit and total comprehensive income	**1,737**	**801**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Investments (continued)

The following tables detail financial information for those joint ventures held at 31 December 2019, together with the Group's share.

TM Group (UK) Limited	2019 £000	2018 £000
Non-current assets	6,690	5,364
Current assets	5,984	6,266
Current liabilities	(9,100)	(7,042)
Net assets at 31 December	**3,574**	**4,588**
Group's share of net assets	**1,190**	**1,527**
Investment	48	48
Carrying amount of interest in joint ventures	**1,238**	**1,575**
Income	68,845	56,276
Admin expenses	(64,424)	(51,854)
Depreciation and amortisation	(530)	(341)
Interest income	5	18
Profit before tax	**3,896**	**4,099**
Taxation	(829)	(773)
Profit and total comprehensive income	**3,067**	**3,326**
Group's share of profit and total comprehensive income	**1,021**	**1,098**

Cybele Solutions Holdings Limited	2019 £000	2018 £000
Non-current assets	5,747	3,842
Current assets	5,455	4,850
Current liabilities	(3,776)	(2,607)
Net assets at 31 December	**7,426**	**6,085**
Group's share of net assets	**3,713**	**3,043**
Investment	6,374	6,374
Carrying amount of interest in joint ventures	**10,087**	**9,417**
Income	24,467	23,251
Admin expenses	(22,064)	(24,015)
Depreciation and amortisation	(747)	-
Interest income	5	3
Profit/ (Loss) before tax	**1,661**	**(761)**
Taxation	(321)	49
Profit/ (Loss) and total comprehensive income	**1,340**	**(712)**
Group's share of profit/ (loss) and total comprehensive income	**670**	**(356)**

Vibrant Energy Matters Limited	2019 £000	2018 £000
Non-current assets	1,034	771
Current assets	814	1,096
Current liabilities	(917)	(1,034)
Net assets at 31 December	**931**	**833**
Group's share of net assets	**429**	**383**
Investment	777	777
Carrying amount of interest in joint ventures	**1,206**	**1,160**
Income	6,566	6,380
Admin expenses	(6,368)	(6,132)
Depreciation and amortisation	(75)	(69)
Profit before tax	**123**	**179**
Taxation	(23)	(49)
Profit and total comprehensive income	**100**	**130**
Group's share of profit and total comprehensive income	**46**	**59**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Investments (continued)

The Company's investments comprise the cost of the whole of the issued and fully paid ordinary share capital substantially owned directly or indirectly of its subsidiary undertakings together with its investments in joint ventures, all of which are incorporated in Great Britain, and whose operations are conducted in the United Kingdom.

Company	**Shares in group undertakings £000**	**Interest in joint ventures and associates £000**	**Total £000**
Cost			
At 1 January 2019	123,214	12,772	135,986
Additions	-	-	-
At 31 December 2019	**123,214**	**12,772**	**135,986**
Amortisation and impairment losses			
At 1 January 2019	2,859	-	2,859
Impairment	-	-	-
At 31 December 2019	**2,859**	**-**	**2,859**
Carrying amounts			
At 1 January 2019	120,355	12,772	133,127
At 31 December 2019	**120,355**	**12,772**	**133,127**
Cost			
At 1 January 2018	121,964	12,769	134,733
Additions	1,250	3	1,253
At 31 December 2018	**123,214**	**12,772**	**135,986**
Amortisation and impairment losses			
At 1 January 2018	200	-	200
Impairment	2,659	-	2,659
At 1 31 December 2018	**2,859**	**-**	**2,859**
Carrying amounts			
At 1 January 2018	121,764	12,769	134,533
At 31 December 2018	**120,355**	**12,772**	**133,127**

At 31 December 2019, the Company owns equity share capital in the following trading subsidiary undertakings, which are all incorporated in the UK:

Name of subsidiary undertaking	**Principal nature of business**	**Proportion of ordinary shares held 2019**	**Proportion of ordinary shares held 2018**
Connells Residential[a]	Residential estate agency	100%	100%
Conveyancing Direct Limited[d]	Licensed Conveyancer	100%	100%
Connells Survey & Valuation Limited[a]	Residential surveying and valuations	100%	100%
The Asset Management Group Limited[b]	Asset management	75%	75%
AMG North East Limited[b]	Asset management	100%[2]	100%[2]
AMG Projects Limited[b]	Maintenance of properties for resale	100%[2]	100%[2]
Gascoigne Halman Group Limited[a]	Intermediate holding company	82.75%	77.25%
Gascoigne Halman (Holdings) Limited[a]	Intermediate holding company	100%[5]	100%[5]
Gascoigne Halman Limited[c]	Residential estate agency	100%[12]	100%[12]
Gascoigne Halman Private Finance Limited[c]	Advising on and arranging financial products	100%[12]	100%[12]
Just Wills Limited[a]	Will writing and associated services	100%[11]	100%[11]
Just Wills Group Limited[a]	Will writing and associated services	100%[9]	100%[9]
Just Wills Holdings Limited[a]	Will writing and associated services	100%	100%
Kevin Henry Limited[a]	Residential estate agency	100%[1]	100%[1]
Pattison Lane Estate Agents Limited[a]	Residential estate agency	95%[1]	95%[1]
Peter Alan Limited[a]	Residential estate agency	100%	100%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Investments (continued)

Name of subsidiary undertaking	**Principal nature of business**	**Proportion of ordinary shares held 2019**	**Proportion of ordinary shares held 2018**
Protection Helpline Limited[a]	Advising on and arranging financial products	100%	100%
Redstone Wills Limited[d]	Will writing and associated services	100%	100%
RMS Estate Agents Limited[a]	Residential estate agency	95%	95%
RMS Mortgage Services Limited[a]	Advising on and arranging financial products	100%[7]	100%[7]
Sequence (UK) Limited[a]	Residential estate agency	100%	100%
Sharman Quinney Holdings Limited[a]	Residential estate agency	95%	95%
The New Homes Group Limited[a]	Agents for insurance and mortgage related products, new homes marketing and operating as an estate agency.	100%	100%
Zeus Financial Services Limited[a]	Advising on and arranging financial products	100%	100%

Connells Residential is an unlimited company

During the year, following the exercise of put options, the Group acquired a further 5.5% (2018: 2.25%) of the equity of Gascoigne Halman Group Limited.

Put options exist over the non-controlling interests in The Asset Management Group Limited, Gascoigne Halman Group Limited, Sharman Quinney Holdings Limited and RMS Estate Agents Limited.

The following companies are dormant:

Name of subsidiary undertaking	**Proportion of ordinary shares held 2019**	**Proportion of ordinary shares held 2018**
The Willmaster (Storage) Limited[a]	100%[10]	100%[10]
Interest Only Solutions Limited[a]	100%	100%
Executry Services Scotland Limited[a]	100%[10]	100%[10]
Chancery Law Services Limited[a]	100%[11]	100%[11]
TNHG Limited[a]	100%[3]	100%[3]
The Willmaster Limited[a]	100%[10]	100%[10]
Legal Services Probate Limited[a]	100%[10]	100%[10]
The Universal Trust Corporation[a]	100%[11]	100%[11]
Heritage Family Estates Limited[a]	100%[11]	100%[11]
Peter Alan Black Limited[a]	100%	100%
Porter Glenny New Homes Limited[a]	100%[8]	100%[8]
Connells Estate Agents Limited (formerly Shortfall Solutions Limited)[a]	100%	100%
Allguard Legal Services Limited[a]	100%[9]	100%[9]
In Home Legal Services Limited[a]	100%[9]	100%[9]
Willcraft Services Limited[a]	100%[9]	100%[9]
Legal Services UK Limited[a]	100%[10]	100%[10]
IHLS Limited[a]	100%[9]	100%[9]
Stan Collins & Co Ltd[a]	100%[3]	100%[3]
Burchell Edwards (Midlands) Limited[a]	100%	100%
NHMH Direct Limited[a]	100%[3]	100%[3]
Porter Glenny Limited[a]	100%[8]	100%[8]
Hatched.co.uk Limited[a]	100%[6]	100%[6]
White Space Property Group Limited[a]	100%	100%
Hatchedepc.co.uk Limited[a]	100%[6]	100%[6]
Hockleys Professional Limited[a]	100%	100%
Roberts & Co Property Management Limited*[a]	100%[4]	100%[4]
Connells Financial Services Limited[a]	100%	100%

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Investments (continued)

[1] Held indirectly through Sharman Quinney Holdings Limited
[2] Held indirectly through The Asset Management Group Limited
[3] Held indirectly through The New Homes Group Limited
[4] Held indirectly through Peter Alan Limited
[5] Held indirectly through Gascoigne Halman Group Limited
[6] Held indirectly through White Space Property Group Limited
[7] Held indirectly through RMS Estate Agents Limited
[8] Held indirectly through Sequence (UK) Limited
[9] Held indirectly through Just Wills Holdings Limited
[10] Held indirectly through Just Wills Limited
[11] Held indirectly through Just Wills Group Limited
[12] Held indirectly through Gascoigne Halman (Holdings) Limited

Registered Offices
[a] Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, LU7 1GN
[b] 13-21 High street, Guildford, Surrey, GU1 3DG
[c] 42 Alderley Road, Wilmslow, Cheshire, SK9 1NY
[d] Windmill road, St Leonards on Sea, East Sussex, TN38 9BY
[e] c/o MacRoberts LLP, 60 York Street, Glasgow, Scotland, G2 8JX

* The Company has guaranteed the liabilities of Roberts & Co Property Management Limited (Company number 05830009) for its period ending 31 December 2018. It is therefore exempt from audit under the Companies Act (2006) section 479A.

14. Financial assets	**Group 2019 £000**	**Company 2019 £000**	**Group 2018 £000**	**Company 2018 £000**
Equity Investments				
Quoted shares carried at fair value	114	-	63	-
Unquoted shares carried at fair value	4,575	4,575	725	725
Convertible loan notes	-	-	250	250
	4,689	**4,575**	**1,038**	**975**

Quoted shares carried at fair value

These comprise an equity investment in On The Market plc. The shares were valued at £114k at 31 December 2019, based on the closing share price at that date (2018: £63k).

Unquoted shares carried at fair value

The Group's holding of unlisted investments comprises minority shareholding investments in Hearthstone Investments plc, Tactile Limited, Viewber Limited, Global Property Ventures Limited and ZPG Property Services Holdings Limited.

The Directors have reviewed the carrying value of Tactile Limited, based on recent trading performance, outlook and expectations of the value of the business and have concluded that the cost of investment of £475k (2018: £475k) is the best indication of its fair value.

The Directors have reviewed the carrying value of Viewber Limited, based on recent trading performance, outlook and expectations of the value of the business and have concluded that the cost of investment of £250k (2018: £250k) is the best indication of its fair value.

The Group holds a shareholding in Global Property Ventures Limited following the conversion of previously held loan notes and a further investment of £409k during the year (2018: Convertible Loan Notes of £250k). The Directors have reviewed the carrying value of this investment, based on recent trading performance, outlook and expectations of the value of the business and have concluded that the cost of investment of £659k (2018: £250k) is the best indication of its fair value.

The Group has a holding of share warrants in ZPG Property Services Holdings Limited, valued at £3,191k based on an independent third party valuation.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

14. Financial assets (continued)

The movement on the value of financial assets in the year is shown below:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Balance at 1 January	1,038	975	689	689
Additions	3,508	3,508	609	507
Fair value adjustment	143	92	(260)	(221)
At 31 December	**4,689**	**4,575**	**1,038**	**975**

15. Deferred tax

Deferred tax balances are calculated on temporary differences under the liability method using an effective tax rate of 17% (2018: 17%) as this is the enacted rate that is expected to apply when the temporary differences reverse.

The movement on the deferred tax asset is as shown below:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Deferred tax asset at 1 January	11,173	8,424	10,480	8,483
Charged to the income statement				
Income Statement (debit)/ credit	547	101	913	132
Adjustments in respect of prior periods	(1,159)	(12)	-	-
Movement arising from the acquisition or disposal of a business	(45)	-	(66)	-
Charged to the statement of comprehensive income:				
Arising in respect of pension obligations	(1,556)	(1,556)	(191)	(191)
Adjustments in respect of prior periods	-	-	37	-
Deferred tax asset at 31 December	**8,960**	**6,957**	**11,173**	**8,424**

Deferred tax assets are attributable to the following items:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Capital allowances	890	3	414	15
Losses	15	-	77	-
Provision for loan impairment	1,375	481	1,300	364
Pension obligations	6,489	6,489	8,045	8,045
Other	191	(16)	1,337	-
Deferred tax asset at 31 December	**8,960**	**6,957**	**11,173**	**8,424**

The (charge)/ credit to the income statement is attributable to the following items:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Capital allowances	521	(12)	548	13
Losses	(62)	-	(64)	-
Provision for loan impairment	75	117	104	102
Other	(1,146)	(16)	325	17
Deferred tax (charged)/ credited to income for the year	**(612)**	**89**	**913**	**132**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. Deferred tax *(continued)*

The charge to other comprehensive income is attributable to the following items:

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Pension obligations	(1,556)	(1,556)	(154)	(191)
Deferred tax charged to other comprehensive income for the year	**(1,556)**	**(1,556)**	**(154)**	**(191)**

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at least annually and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Where deferred tax balances are expected to reverse after 31 March 2020 they have been calculated at the currently enacted corporation tax rate of 17% which applies from 1 April 2020.

The Prime Minister indicated before the December 2019 general election that the enacted reduction from 19% to 17% would not take place if his government was re-elected. If this change had been enacted prior to 31 December 2019, an additional deferred tax credit of £1,054k for the Group and £819k for the Company would have been recognised and the closing deferred tax assets for the Group and Company would be £10,014k and £7,776k respectively.

16. Trade and other receivables

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Trade receivables	28,960	-	29,171	-
Amounts due from ultimate parent undertaking	839	-	1,030	-
Amounts due from subsidiary undertakings	-	3,968	-	4,325
Other receivables	3,347	3,241	4,582	4,500
Prepayments and accrued income	9,909	-	10,749	5
Contract assets	1,641	-	1,314	-
Bad debt provision	(2,091)	-	(2,248)	-
	42,605	**7,209**	**44,598**	**8,830**

The ageing of trade receivables (which all arose in the UK) at the year end was:

Group	2019 £000 Gross	2019 £000 Impairment	2018 £000 Gross	2018 £000 Impairment
Not overdue	10,669	(100)	10,887	(135)
Overdue 0-30 days	12,424	(26)	11,374	(12)
Overdue 31-120 days	3,674	(609)	5,031	(959)
Overdue 120 days plus	2,193	(1,356)	1,879	(1,142)
	28,960	**(2,091)**	**29,171**	**(2,248)**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

Group	2019 £000	2018 £000
At 1 January	(2,248)	(1,580)
Provisions made during the year	(337)	(954)
Receivables written off during the year	99	196
Provisions no longer required	395	90
At 31 December	**(2,091)**	**(2,248)**

The Group does not require collateral in respect of trade and other receivables. Management believes that the unimpaired amounts that are overdue are still collectible in full, based on historical payment behaviour and analysis of customer credit risk. The carrying value approximates to fair value.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17. Cash and cash equivalents

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Bank balances	21,458	2,514	15,128	2,781
Call deposits	54,250	54,250	36,750	36,750
	75,708	56,764	51,878	39,531

The call deposits represent cash on deposit with Skipton Building Society, the ultimate parent undertaking.

18. Trade and other payables

	Group 2019 £000	Company 2019 £000	Group 2018 £000	Company 2018 £000
Due within one year				
Trade and other payables	9,422	1,463	7,256	1,220
Other taxes and social security	12,134	494	12,486	529
Amounts owed to ultimate parent undertaking	2,535	2,535	2,168	2,168
Amounts owed to subsidiary undertakings	-	20,775	-	28,000
Accruals and deferred income	24,536	330	28,117	2,246
Put option obligation	7,486	7,486	6,985	6,985
	56,113	33,083	57,012	41,148
Due after more than one year				
Trade and other payables	5,526	1,324	6,001	1,117
Put option obligation	-	-	1,349	1,349
	5,526	1,324	7,350	2,466

The movement within the fair value of the put option obligation is summarised below:

	Group & Company 2019 £000	Group & Company 2018 £000
At 1 January	8,334	9,856
Unwind of the discount factor	213	245
Re-evaluation of future exercise dates	(149)	(136)
Re-evaluation of market value	(235)	(1,389)
Exercise of put option	(677)	(242)
At 31 December	7,486	8,334

During 2019 the fair value of the put option obligations relating to Gascoigne Halman Group Limited and RMS Estate Agents Limited were reduced by £235k, reflecting expectations around the valuation based on current and forecast trading. Put options amounting to £677k in relation to Gascoigne Halman Group Limited were exercised during the year.

In the prior year the fair value of the put option obligations relating to Gascoigne Halman Group Limited and RMS Estate Agents Limited were reduced by £1,389k, reflecting expectations around the valuation based on current trading. Additionally put options amounting to £242k in relation to Gascoigne Halman Group Limited were exercised during the prior year.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19. Lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Group

	Group £000
Cost	
At 31 December 2018	-
Change in accounting policy	45,260
At 1 January 2019	45,260
Arising on acquisition	-
Additions	14,871
Interest charged	897
Lease payments	(13,381)
Disposals	(694)
Modifications	1,378
At 31 December 2019	**48,331**

The present value of lease liabilities by repayment date is as follows.

	Group £000
Lease liabilities are repayable:	
In not more than 3 months	3,417
In more than 3 months but less than 1 year	7,281
In more than 1 year but less than 5 years	28,223
In more than 5 years	9,410
	48,331

The discount rates for the leases disclosed above ranged from 2.0% to 3.5%. The Group has several lease contracts that include termination options, usually through a break clause. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and adapt to the Group's business needs. Management exercises judgement in determining whether these termination options are reasonably certain to be exercised.

20. Provisions

(a) Property provisions

The dilapidation provision is accrued on the basis of amounts identified at the date of property acquisition, less any subsequent expenditure, or where a section 412 notice or schedule of dilapidations has been received from the landlord. Provision is made for properties with non-cancellable leases where the Group no longer occupies the property. The provision represents the rent to the end of the lease, less any rental income from subletting the properties. The provision for the costs of closed branches is expected to reverse over the remaining life of the leases, or period to the anticipated date of disposal, if sooner.

(b) Insurance commission clawback

Provision for insurance commission clawback is estimated using anticipated cancellation rates of term insurance policies. This provision is based on the clawback period from the sign up date of the term insurance policy. The cancellation rates used in the provision are revisited every quarter. The provision is expected to reverse over the next 3 years, with a slight weighting towards the first year.

(c) Professional indemnity obligations

Provision is made for professional indemnity claims and potential claims that arise during the normal course of business. The provision is based upon the expected level of future professional indemnity claims relating to services provided by the Group. The provision includes valuation and defect claims. It is not possible to estimate the timing of payment of all claims and therefore a significant proportion of the provision has been classified as non-current, although it is expected a significant proportion of the provision will be settled in the next 2 years, although some will take an additional 5 years to settle entirely.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

20. Provisions (continued)

Valuation claims
The value provided on each valuation claim is the lower of the Professional Indemnity insurance excess per claim or the estimated exposure. Any unutilised annual aggregate Professional Indemnity policy excess is also provided, where the ultimate level of successful claims is expected to exceed this threshold. To assess the level of future claims, analysis is performed on the number of preliminary notifications expected to turn into future claims, and on historical claim trends to forecast the number of future claims where a notification is yet to be received. Historical data on claims success frequency and value is also used to estimate the size of the liability. The provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore a significant proportion of the provision has been classified as non-current.

Defect claims
The group also provides for defect claims where it is found that a property has a defect subsequent to the survey being performed. In some cases, the survey may not have identified the defect and this leads to claims being brought against the group. The value provided for each claim is the expected value of said claim. To assess the level of future claims, analysis is performed on the number of surveys that lead to future claims and the average level of payments made. This data is then used to form an expectation of the number of claims that will be raised based on the number of surveys performed by the group.

(d) Potential liabilities

As reported last year, a third party supplier has instigated legal proceedings against the Company and Gascoigne Halman Limited, a Group company: alleged breach of contract against Gascoigne Halman Limited and a related tortious claim against the Company. The Directors continue to believe that, on the balance of probabilities, its defence will succeed and any liabilities, not provided for in these financial statements, will not be material. Consequently, provision has not been made in these financial statements for all future potential liabilities that may result from this matter. Whilst the assessment of any ultimate financial liability remains uncertain, the Directors' best estimate of the maximum potential liability not provided in these financial statements, should final judgement be received against the Group, is £4.5m.

Group

	Property provisions £000	Insurance commission clawback £000	Professional indemnity obligations £000	Other £000	Total £000	Company Other and total £000
At 31 December 2018	3,087	10,258	3,732	257	17,334	-
Change in accounting policy	(293)	-	-	-	(293)	-
At 1 January 2019	2,794	10,258	3,732	257	17,041	-
Transfers made during the year	(1,165)	-	-	-	(1,165)	-
Provisions made during the year	(124)	15,337	827	3,415	19,455	3,292
Released during the year	-	-	(16)	-	(16)	-
Provisions utilised in the year	(101)	(11,927)	(528)	(288)	(12,844)	-
At 31 December 2019	**1,404**	**13,668**	**4,015**	**3,384**	**22,471**	**3,292**
Due within one year or less	968	8,431	2,730	3,384	15,513	3,292
Due after more than one year	436	5,237	1,285	-	6,958	-
At 1 January 2018	3,004	7,744	4,163	364	15,275	-
Provisions made during the year	190	12,743	153	165	13,251	-
Released during the year	(20)	(24)	(219)	-	(263)	-
Provisions utilised in the year	(87)	(10,205)	(365)	(272)	(10,929)	-
At 31 December 2018	**3,087**	**10,258**	**3,732**	**257**	**17,334**	**-**
Due within one year or less	1,051	6,189	2,482	257	9,979	-
Due after more than one year	2,036	4,069	1,250	-	7,355	-

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21. Share capital

Group & Company **Allotted, called up and fully paid**	**Year ended 2019 £000**	**Year ended 2018 £000**
10,346,500 (2018: 10,346,500) 'A' ordinary shares of 0.0001p each	1	1
Nil (2018: 2,105) 'B' ordinary shares of 0.0001p each	-	-
Nil (2018: 6,318) 'C' ordinary shares of 0.0001p each	-	-
4,210 (2018: 6,316) 'D' ordinary shares of 0.0001p each	-	-
9,274 (2018: Nil) 'E' ordinary shares of £0.0001p each	-	-
6,182 (2018: Nil) 'F' ordinary shares of £0.0001p each	-	-
	1	1

The holders of 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

The former holders of 'B' and 'C' Ordinary shares, and the holder of 'D' Ordinary shares are key members of management (including four Directors, one of whom is the highest paid Director) who have entered into agreements with the Group's parent company, Skipton Group Holdings Limited, which include a put and call option on these shares where the price to be paid is dependent on the long term profitability of the Group.

During the year, the 'B', 'C' and 'D' ordinary shareholders (including four Directors, one of whom is the highest paid Director) exercised their options over 2,105 'B' ordinary shares, 6,318 'C' ordinary shares and 2,106 'D' ordinary shares. Consequently, Skipton Group Holdings Limited purchased these shares, which were immediately converted into 10,529 'A' ordinary shares in accordance with the Company's Articles of Association, for £9.3m. The Company then repurchased these 10,529 'A' ordinary shares for a consideration equal to their nominal value, £1, and immediately then cancelled the shares.

Subsequently, during the year, the Company issued 9,274 'E' Ordinary Shares and 6,182 'F' Ordinary Shares to two Directors, one of whom is the highest paid Director, for consideration of £0.7m, settled in cash. The holders of these shares are key members of management who have entered into agreements with the Group's parent company, Skipton Group Holdings Limited, which include a put and call option on these shares where the price to be paid is dependent on the long term profitability of the Group.

As at their dates of issue the fair value of all the options above, calculated by reference to the Company's forecast long term profitability, was considered to be equal to the consideration paid. The cost of the options is accounted for by Skipton Group Holdings Limited in accordance with IFRS 2 *Share Based Payment.*

Management of capital

Capital is considered to be the share capital, share premium, retained earnings and other reserves.

	Group 31 December 2019 £000	**Company 31 December 2019 £000**	**Group 31 December 2018 £000**	**Company 31 December 2018 £000**
Capital				
Ordinary shares	1	1	1	1
Share premium	25,988	25,988	25,288	25,288
Capital redemption reserve	3,000	3,000	3,000	3,000
Retained earnings	128,793	108,189	101,117	74,597
	157,782	137,178	129,406	102,886

The Group is subject to Financial Conduct Authority (FCA) capital requirements which are monitored on a monthly basis and a formal submission sent to the FCA on a quarterly basis. The FCA's capital requirements are in place in order to cover the regulated activities of the Group.

The Group's objectives when managing capital are:
- to safeguard the entity'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 provide an adequate return to shareholders by pricing products and services commensurate with the level of risk.

The Group is also subject to the minimum share capital required by the Companies Act, with which it complies.

The capital position is reported to the Board regularly. The capital position is also given due consideration when corporate plans are prepared.

The Group manages the capital balance in order to ensure that an internal limit is not breached.

The Board considers that both external and internal capital requirements were met throughout the year.

The capital redemption reserve arose in 2007 when the Group purchased its own preference shares.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22. Related party transactions

Group

Entity	Related party relationship	Transaction type	Transaction amounts 2019 £000	Transaction amounts 2018 £000	Balance owing/(owed) 2019 £000	Balance owing/(owed) 2018 £000
Skipton Building Society	Parent Undertaking	Interest received	677	387	-	-
Skipton Building Society	Parent Undertaking	Interest payable	-	-	(2,535)	(2,168)
Skipton Building Society	Parent Undertaking	Administrative expenses	(2,236)	(2,190)	-	-
Skipton Building Society	Parent Undertaking	Commissions received	11,066	10,635	839	1,030
TM Group Limited	Joint Venture Partner	Dividend	1,358	1,444	-	-
Vibrant Energy Matters Limited	Joint Venture Partner	Purchase of goods & services	(2,402)	(2,166)	21	(2)
TM Group Limited	Joint Venture Partner	Purchase of goods & services	(2,237)	(1,811)	62	-
TM Group Limited	Joint Venture Partner	Sale of goods and services	3,528	3,699	(76)	191
Legal Marketing Services Limited	Joint Venture Partner	Purchase of goods & services	(6)	-	(14)	-
Hearthstone Investments Plc	Investment	Sale of goods and services	10	263	-	26

* The parent company of Legal Marketing Services Limited is Cybele Solutions Holdings Limited.

Company

Entity	Related Party relationship	Transaction Type	Transaction Amounts 2019 £000	Transaction Amounts 2018 £000	Balance Owing/(owed) 2019 £000	Balance Owing/(owed) 2018 £000
Skipton Building Society	Parent Undertaking	Interest receivable	197	158	-	-
Skipton Building Society	Parent Undertaking	Purchase of services	(2,214)	(2,176)	(2,535)	(2,168)
Other group companies		Purchase of services	(33,937)	(31,442)	3,971	4,325
Other group companies		Sale of services	36,343	33,815	(20,775)	(28,000)

Included in cash and cash equivalents for the Group is £54,250,000 (2018: £36,750,000), and for the Company £54,250,000 (2018: £36,750,000) of cash held on deposit with the Skipton Building Society. All transactions are at arm's length and are provided under normal trade credit terms.

During the year, the following transactions took place in relation to the Directors and their family members:

	Year ended 2019 £	Amount outstanding 31 December 2019 £	Year ended 2018 £	Amount outstanding 31 December 2018 £
Estate Agency fees, paid by Directors and Directors' family members	-	-	3,300	-
Lettings fees, paid by Directors and Directors' family members	6,050	-	8,479	-
Company Vehicle purchased by Directors' family member	2,325	-	-	-
Total	8,375	-	11,779	-

Lettings and estate agency fees paid by Directors were at rates available to all staff, all other transactions were on normal commercial terms.

Two Directors hold ordinary shares in Hearthstone Investments Plc, a Company in which the Group holds a 17.1% stake. At 31 December 2019 the two Directors hold 9.5% and 1.5% respectively (2018: 9.5% and 1.5%).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Pensions

Defined benefit scheme

The Group operates a funded defined benefit arrangement scheme, the Connells (2014) Group Pension Scheme, which is accounted for within Connells Limited. The Scheme is closed to new members and to the future accrual of benefits.

The Scheme is subject to the funding legislation outlined in the Pensions Act 2004 which came into force on 30 December 2005. This, together with documents issued by the Pensions Regulator, and Guidance Notes adopted by the Financial Reporting Council, sets out the framework for funding defined benefit occupational pension schemes in the UK.

The Trustee of the Scheme is required to act in the best interest of the Scheme's beneficiaries. The appointment of the Trustee is determined by the Scheme's trust documentation.

A full actuarial valuation was carried out as at the date set out below in accordance with the scheme funding requirements of the Pensions Act 2004 and the funding of the scheme is agreed between the Group and the Trustee in line with those requirements. These in particular require the deficit to be calculated using prudent, as opposed to best estimate actuarial assumptions. The most recent actuarial valuation for the scheme showed the following:

Valuation date	Members	Deficit £000	Recovery period	Annual contribution £000
30 April 2017	1,077	44,955	7 years	2,880

Following the completion of the 2017 actuarial valuation, the Company agreed a revised deficit reduction plan by increasing the annual contributions to £2,880k per annum from 1 April 2018 and to contribute lump sums totalling £10m during 2018 and 2019 in order to accelerate the closing of the funding deficit.

Scheme expenses and levies to the Pension Protection Fund are payable by the Group as and when they are due and are accounted for within administrative expenses. For the purposes of IAS19 the actuarial valuation, which was carried out by a qualified independent actuary, has been updated on an approximate basis to 31 December 2019.

The assets of the Scheme are held in separate Trustee-administered funds. Contributions to the Scheme are assessed in accordance with the advice of an independent qualified actuary using the projected unit method.

The main financial assumptions used to calculate Scheme liabilities under IAS19 are:

	2019 Group & Company	2018 Group & Company
Discount rate	2.05%	2.85%
Retail Price Inflation (RPI) rate	3.00%	3.25%
Consumer Price Inflation (CPI) rate	2.00%	2.25%
Increase to defined benefits during deferment (CPI link)	2.00%	2.25%
Increases to pension payment (CPI link)	1.69-2.04%	1.83-2.27%

The most significant non-financial assumption is the assumed rate of longevity. For the year ended 31 December 2019, this has been based on mortality rates that are 100% of the S2PxA_L tables projected using CMI_2017 converging to 1.00% p.a. The tables adopted imply the following life expectancy:

Non-retired members

	2019	2018
Male retiring in the year	22.5 years	22.9 years
Female retiring in the year	23.5 years	23.9 years
Males retiring in 2033	23.2 years	23.9 years
Females retiring in 2033	24.5 years	25.1 years

Sensitivity analysis regarding the significant assumptions is disclosed in the critical judgements and estimates section.

The table below shows the net pension liability which is recognised in the Statement of Financial Position:

	Group & Company 2019 £000	Group & Company 2018 £000
Fair value of plan assets	86,976	68,866
Present value of defined benefit obligations	(125,145)	(116,187)
Net pension liability	**(38,169)**	**(47,321)**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Pensions (continued)

The present value of Scheme liabilities is measured by discounting the best estimate of future cash flows to be paid out by the Scheme using the projected unit credit method. The value calculated in this way is reflected in the net liability in the Statement of Financial Position as shown above. The projected unit credit method is a valuation method in which each potential cash flow from the schemes (e.g. annual pension payment, or potential lump sum payment on death) is multiplied by an assumed probability of payment and discounted between the valuation date and the time the payment is needed.

The table below sets out the reconciliation from the opening balance to the closing balance of the fair value of Scheme assets and present value of Scheme liabilities for the year:

	2019 Group & Company £000	2018 Group & Company £000
Fair value of assets at the start of the year	68,866	74,168
Return on plan assets (excluding amounts recognised in interest income)	11,640	(8,089)
Interest income	2,026	1,903
Ongoing deficit contributions	2,880	2,835
Lump sum contribution	7,200	2,800
Benefits paid	(5,636)	(4,751)
Fair value of assets at end of year	**86,976**	**68,866**

	2019 Group & Company £000	2018 Group & Company £000
Defined benefit obligation at start of the year	116,187	122,611
Interest cost	3,231	3,066
Actuarial losses/ (gains)	11,364	(6,467)
Benefits paid	(5,636)	(4,751)
Past service costs	-	1,728
Expenses	(1)	-
Defined benefit obligation at end of year	**125,145**	**116,187**

The past service costs in the prior year related to the impact of Guaranteed Minimum Pension (GMP) equalisation.

The table also sets out the fair value of the Scheme assets by each major category:

	2019 Group & Company £000	2018 Group & Company £000
Diversified Growth Vehicles	50,292	41,086
Liability Driven Investments[1]	19,169	12,570
Cash	430	670
Equities	17,085	14,540
Total fair value of plan assets	**86,976**	**68,866**

[1] Liability Driven Investments ("LDI") are investments in assets which are expected to behave in a similar manner to liabilities and therefore aim to provide a better match against liability movements than conventional bonds or gilts.

The Scheme invests in an LDI fund to aim to provide protection against interest rate and inflation movements. The LDI fund aims to cover 50% of the interest rate sensitivity and 100% of the inflation sensitivity of the funded liabilities of the scheme on the scheme funding basis.

None of the fair values of the assets shown above include any of the Group's own financial instruments or any property occupied by, or other assets used by, the Group. All of the Scheme's assets have a quoted market price in an active market with the exception of the Trustee's bank account balance. It is the policy of the Trustee and the Group to review the investment strategy at the time of each funding valuation. The Trustee's investment objectives and the processes undertaken to measure and manage the risks inherent in the scheme investment strategy are documented in the Scheme's Statement of Investment Principles.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Pensions (continued)

The Scheme is exposed to the following investment risks:

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this comprises currency risk, interest rate risk and other price risk.
- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The main investment objective for the Trustee of the Scheme is to maintain a portfolio of suitable assets to meet, together with future contributions, the benefits payable under the Trust Deed and Rules as they fall due. The Scheme has exposure to investment risks because of the investments it makes to implement its investment strategy, as detailed in the Statement of Investment Principles.

The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and are monitored by the Trustee by regular reviews of the investment portfolios.

(i) Credit risk

The Scheme invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments held in pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements.

The investment manager carries out own due diligence checks before a new pooled fund is invested in, and on an ongoing basis monitor any changes to the regulatory and operating environment of the underlying pooled investment managers.

Indirect credit risk arises in relation to underlying investments held in the LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The LDI funds use robust collateralisation management procedures so as to mitigate the impact of credit risk.

(ii) Currency risk

The Scheme's assets are not subject to indirect currency risk because none of the Scheme's investments are held in overseas markets via pooled investment vehicles.

The Scheme does not take explicit unhedged positions in overseas investments through their investment strategy, either directly or indirectly via pooled investment vehicles.

The Diversified Growth Fund managers may from time to time take unhedged overseas investment positions in pursuit of growth opportunities or to reduce overall fund risk, although their neutral position is considered to be 100% Sterling.

(iii) Interest rate risk

The Scheme's assets are subject to indirect interest rate risk through their LDI pooled investment vehicles, as well as DGF pooled investment vehicles due to the bond holdings within these funds.

The Scheme's liabilities are exposed to a significant level of interest rate movement and for this reason it is desirable for the assets to be exposed to interest rate risk. The Scheme manages the interest rate risk by considering the net risk when taking account of the liabilities valued.

(iv) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes DGFs held in pooled investment vehicles, as well as the LDI pooled investment vehicles due to the inflation sensitive elements of the fund. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Pensions (continued)

The table below shows the expense recognised in the Income statement:

	2019 Group & Company £000	2018 Group & Company £000
Interest cost	1,205	1,163
Expenses	(1)	-
Total	1,204	1,163

The table below sets out our best estimate, of the aggregate contributions expected to be paid to the Scheme during the year ending 31 December 2019:

	Group & Company 2019 £000
Ongoing deficit reduction contributions	2,880

Defined contribution schemes

The Group also operates a number of Group Personal Pension Schemes, the assets of which are held separately from those of the Group, as independently administered funds. The amount charged to the Income Statement in respect of defined contribution schemes is the contribution payable in the year and amounted to £5,601k (2018: £4,061k). There were no outstanding contributions (2018: £nil) at the end of the financial year.

24. Acquisitions

During the year, the Group acquired three small estate agency and/or lettings businesses for total consideration of £773k, of which £75k is deferred. Goodwill recognised was £176k. The revenue and pre-tax profit generated by these businesses in 2019 was £0.2 million and £0.1 million respectively.

During the prior year the Group acquired four businesses. The total consideration paid was £660k and goodwill recognised was £75k. The revenue and pre-tax profit generated by these businesses in 2018 was £0.3 million and £0.1 million respectively.

25. Financial Instruments

Financial risks

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability of another entity. The principal financial risks to which the Group is exposed are liquidity risk, market risk and credit risk, these are monitored on a regular basis by management. Each of these is considered below.

Liquidity risk

Liquidity risk is the risk that the Group and Company are not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Group's and Company's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to maintain solvency of the Group and Company and to enable the Group and Company to meet its financial obligations as they fall due. This is achieved through maintaining a prudent level of liquid assets and through rigorous management control of the growth of the business.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25. Financial instruments (continued)

The following are contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements:

2019

Group	Carrying amount £000	Contractual cash flows £000	In not more than 3 months £000	In more than 3 months but not less than 1 year £000	In more than one year but not more than 5 years £000	In more than 5 years £000
Trade and other payables	59,104	59,104	46,092	7,486	5,526	-
Amounts owing to group companies	2,535	2,535	2,535	-	-	-
Lease liabilities	48,331	53,371	3,528	7,704	28,971	13,168
Total	**109,970**	**115,010**	**52,155**	**15,190**	**34,497**	**13,168**
Company						
Trade and other payables	11,097	11,097	2,287	7,486	1,324	-
Amounts owing to group companies	23,310	23,310	23,310	-	-	-
Total	**34,407**	**34,407**	**25,597**	**7,486**	**1,324**	**-**

2018

Group	Carrying amount £000	Contractual cash flows £000	In not more than 3 months £000	In more than 3 months but not less than 1 year £000	In more than one year but not more than 5 years £000	In more than 5 years £000
Trade and other payables	62,194	62,194	47,859	6,985	7,350	-
Amounts owing to group companies	2,168	2,168	2,168	-	-	-
Total	**64,362**	**64,362**	**50,027**	**6,985**	**7,350**	**-**
Company						
Trade and other payables	13,446	13,446	3,995	6,985	2,466	-
Amounts owing to group companies	30,168	30,168	30,168	-	-	-
Total	**43,614**	**43,614**	**34,163**	**6,985**	**2,466**	**-**

There are no differences between the fair values of financial assets and liabilities and their carrying amounts showing in the Statement of Financial Position.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: interest rate risk and currency risk.

Currency risk

The Group and Company are not exposed to any currency risk as all transactions are denominated in Sterling.

Interest rate risk

The Group and Company have no interest bearing liabilities. The Group and Company are exposed to movements in interest rates on intercompany balances and on monies held on deposit with its ultimate parent undertaking, Skipton Building Society. This exposure is monitored on a continuous basis.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. Based on historic default rates, the Group believes that no impairment provision is necessary in respect of most trade receivables not overdue or over due by up to 30 days. For maximum credit exposure see note 16. Management carefully manages its exposure to credit risk.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25. Financial instruments (continued)

The Group's financial assets (excluding assets held at FVTPL) at the year end were as follows:

	2019 Group £000	2018 Group £000
Cash and cash equivalents	75,708	51,878
Trade receivables	26,869	26,923
Other receivables	3,347	4,582
Amounts due from ultimate parent undertaking	839	1,030
	106,763	**84,413**

As stated in note 16, trade and other receivables are current assets and are expected to convert to cash over the next twelve months.

There are no significant concentrations of credit risk within the Group. The Group is exposed to credit risk from sales. It is Group policy to assess the credit risk of major new customers before entering contracts. The majority of customers use the Group's services as part of a housing transaction and consequently the sales are paid from the proceeds of the house sale. The majority of the commercial customers and the major lenders, customers of the Survey & Valuations and Asset Management businesses, are large financial institutions and as such the credit risk is not significant. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date. The following table presents a breakdown of the gross trade receivables between the three main types of customer:

	2019 Group £000	2018 Group £000
Individual customers	5,355	5,099
Major lenders	2,186	9,576
Other commercial customers	21,419	14,496
	28,960	**29,171**

The Group uses an allowance matrix to measure the expected credit losses (ECLs) of trade receivables, which comprise a large number of small balances. Loss rates are based on actual credit loss experience over the previous year, and adjusted for the Group's view of current economic conditions over the expected lives of the receivables. However given the low levels of impairment loss experience, the ECL allowance is very small.

The following table presents a breakdown of cash at bank and short term deposits by credit rating of the institution where it is held:

	2019 Group £000	2018 Group £000
A+	21,458	15,128
A-	54,250	36,750
	75,708	**51,878**

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board monitors the return on capital and level of dividends to ordinary shareholders. There were no changes in the Group's or Company's approach to capital management during the year. The Group and Company are subject to FCA capital requirements as discussed in note 20.

Valuation techniques

Fair values are determined using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements.

Level 1
The most reliable fair values of financial instruments and assets held at FVTPL are quoted market prices in an actively traded market. Examples of these are gilts and sovereign debt.

Level 2
These are valuation techniques for which all significant inputs are taken from observable market data. These include valuation models used to calculate the present value of expected future cash flows and may be employed either when no active market exists or when there are quoted prices available for similar instruments in active markets. Examples of level 2 instruments are certificates of deposit and interest rate swaps.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

25. Financial instruments (continued)

Level 3
These are valuation techniques for which any one or more significant input is not based on observable market data. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's-length.

The tables below summarise the fair value measurement basis used for assets and liabilities held at fair value:

Financial Assets/ Liabilities	Quoted prices in active markets (level 1) £000	Valuation techniques using observable inputs (level 2) £000	Valuation techniques using significant unobservable inputs (level 3) £000	Total £000
Group and Company – 2019				
Quoted shares	114	-	-	114
Unquoted shares	-	-	4,575	4,575
Convertible loan note	-	-	-	-
Put option liabilities	-	(7,486)	-	(7,486)
Total	**114**	**(7,486)**	**4,575**	**(2,797)**
Group and Company – 2018				
Quoted shares	63	-	-	63
Unquoted shares	-	-	725	725
Convertible loan note	-	-	250	250
Put option liabilities	-	(8,334)	-	(8,334)
Total	**63**	**(8,334)**	**975**	**(7,296)**

26. Ultimate parent undertaking

The Group's ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom. The smallest and largest Group in which the results are consolidated is that headed by Skipton Building Society. A copy of the Skipton Building Society annual report and accounts into which the results of this Company are consolidated is available from:

The Secretary
Skipton Building Society
The Bailey
Skipton
North Yorkshire
BD23 1DN