

**CONNELLS RESIDENTIAL**

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

31 December 2014

(Registered Number 01489613)

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## Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

### INTRODUCTION AND OVERVIEW

Connells Residential is a private unlimited company incorporated in England & Wales, registered number 01489613.

#### *Overview of the business*

Connells Residential provides estate agency, mortgage services, conveyancing and ancillary services to participants in the UK residential property market. The business operates from 156 (2013:155) branches under the Connells and Atkinson Stilgoe brands.

### DIRECTORS

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

RS Shipperley  
DC Livesey  
SE Flavell  
DK Plumtree  
RJ Twigg (appointed 7 April 2014)

### DIVIDENDS

During the year an interim dividend of £5,000,000 (2014: £8,000,000) was declared. The Directors do not recommend payment of a final dividend (2014: £nil).

### EMPLOYEES

It is Company policy to provide employees with information concerning their roles and responsibilities and the trading performance of the Company. This policy is to ensure opportunities are available at every level to improve employees' and corporate performance. Regular meetings are held which involve directors, managers and staff.

### DISABLED PERSONS

The Company continues to recognise its social and statutory duty to employ disabled persons and will do all that is practicable to meet this responsibility.

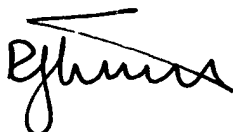
Full consideration will be given to the recruitment of disabled persons, where a disabled person can adequately fulfil the requirements of the job.

If an employee becomes disabled he or she will continue wherever possible to be employed in the same job. If this action is not practicable or possible, then every effort will be made to find suitable alternative employment.

### DISCLOSURE OF INFORMATION TO AUDITORS

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 auditors are 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 auditors are aware of that information.

By order of the board



RJ Twigg  
Director

11 March 2015

Cumbria House  
16-20 Hockliffe Street  
Leighton Buzzard  
Bedfordshire  
LU7 1GN

## Strategic Report

### BUSINESS REVIEW

The first half of 2014 saw favourable conditions in the housing market. A relative shortage in supply of properties coming to the market inevitably led to house price growth. However, this sharp increase in house prices and the introduction of tighter lending controls under the mortgage market review (MMR) led to a 'cooling' in market conditions in the second half of 2014. This had the effect of reducing buyer demand and thus slowing down house price growth. The reform of stamp duty and the reduced likelihood of imminent increases to the UK bank base rate of interest appear to have re-ignited buyer demand towards the latter stages of 2014 and therefore the outlook for 2015 is positive. The Company has recorded a profit before tax of £12,096,000 (2013: £8,363,000) for the year. Fees and income increased by 17.4% in 2014 to £75,442,000 from £64,275,000 in 2013.

Through a range of initiatives the business managed to increase instruction volumes in 2014. This was a good achievement in a very competitive market place and this, together with the increased buyer demand in the first half of the year, led to sales volumes being higher than 2013. Our lettings business, buoyed by increased investment in recent years and the continuation of a major expansion programme, also saw income from lettings rise.

On 30<sup>th</sup> April 2014, the pension liability and associated deferred tax asset was transferred to the Parent company, Connells Ltd at fair value.

Set out below is an overview of the objectives of the business and the challenges it faces, as well as the key measures used to monitor the performance of the business.

#### *Objectives and strategy of the company*

The Company's objectives are to maximise the long-term value and revenue for its shareholder and to deliver a high quality service to participants in the UK residential property market.

The Company aims to deliver strong profits via a lean management cost structure, giving the ability to adapt to market opportunities. Connells recognises that the housing market is cyclical and can vary widely from one location to another, and it actively encourages and supports its managers in running successful and profitable offices. This "grass roots" awareness has been at the core of Connells' success and is a key component to its future strategy.

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

#### *Operational performance and key performance indicators*

The Directors monitor the business by using the following KPI's. Monthly board meetings are held at which the results are discussed in detail. The table below shows the most significant financial KPI's that are monitored for the business.

	2014 £000	2013 £000	Change %
Total fees and commissions	75,442	64,275	17.4%
Profit from operations	12,111	8,870	36.5%
Profit before tax	12,096	8,363	44.6%

## Strategic Report *(continued)*

### **Risks and uncertainties**

The company's objective is to appropriately manage all the risks that arise from its activities. Connells Ltd, the immediate parent undertaking and Skipton Building Society, the ultimate holding company, have a formal structure for managing risks throughout the group, which applies to all subsidiaries.

This has three elements:

- The Company's risk appetite is documented in detailed policy risk statements, which are reviewed and approved annually by the Board.
- The primary responsibility for managing risk and ensuring appropriate controls are in place lies with the Company's management. The ultimate parent undertaking, Skipton Building Society, through its risk and compliance function provides monitoring and oversight on behalf of the Society's Board.
- The Board Audit Committee of Skipton Building Society oversees the effectiveness of the risk management framework and the control environment through Skipton Group's Internal Audit function, whose reports are also provided to the Company's Board.

In common with other estate agencies, the Group is reasonably highly operationally geared. Performance is affected by transaction volumes in the residential housing market. In the short term, many costs are fixed and so when income falls it has a direct and adverse impact on profits and cash flows. Therefore the Group's policy is to retain sufficient cash to ensure that any future deterioration in trading can be funded without recourse to external borrowing.

The continued good progress in the housing market is being assisted by the current low interest rate environment and the availability of attractive mortgage rates from lenders. While the outlook is for a continuance of low interest rates in the short term, a period of interest rate increases would have a negative impact on the market.

Estate agency is also a people business and as such is reliant on the ability, training, skills and motivation of its people. A key risk to the business is the possibility of losing key people, particularly senior managers and Directors. In order to combat this, the Board ensure that service agreements, remuneration packages, and human resources policies are designed to attract, motivate and retain high quality people.

By order of the board



RJ Twigg  
Director

11 March 2015

Cumbria House  
16-20 Hockliffe Street  
Leighton Buzzard  
Bedfordshire  
LU7 1GN

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

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards (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 Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS RESIDENTIAL

We have audited the financial statements of Connells Residential for the year ended 31 December 2014 set out on pages 8 to 28. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

### Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate)

### Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

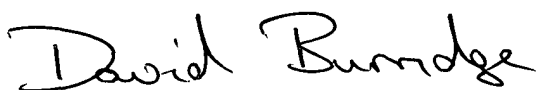
### Opinion on other matter prescribed by the Companies Act 2006

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

### Matters on which we are required to report by exception

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

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



18<sup>th</sup> March 2015

David Burridge (Senior Statutory Auditor) for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants  
Altius House  
One North Fourth Street  
Milton Keynes  
MK9 1NE

## Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year ended 2014 £000	Year ended 2013 £000
<b>Revenue</b>	1	75,442	64,275
Other operating income	3	259	283
Operating expenses		<u>(63,590)</u>	<u>(55,688)</u>
<b>Profit from operations</b>		<b>12,111</b>	<b>8,870</b>
Financial income	4	157	141
Finance costs	5	<u>(172)</u>	<u>(648)</u>
<b>Profit before tax</b>		<b>12,096</b>	<b>8,363</b>
Tax expense	7	<u>(2,062)</u>	<u>(2,114)</u>
<b>Profit for the year</b>		<b><u>10,034</u></b>	<b><u>6,249</u></b>

In both the current and preceding year the Company made no material acquisitions and had no discontinued operations.

The Income Statement is prepared on an unmodified historical cost basis.

The notes on pages 13 to 28 form part of these financial statements.



## Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year ended 2014 £000	Year ended 2013 £000
<b>Profit for the year</b>		<b>10,034</b>	<b>6,249</b>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Actuarial loss on retirement benefit obligations	18	(2,066)	(2,727)
Tax on items taken directly to or transferred from equity			
- actuarial gain on retirement benefit obligations	11	254	(154)
- other		171	260
<b>Other comprehensive (expense) for the year (net of income tax)</b>		<b>(1,641)</b>	<b>(2,621)</b>
<b>Total comprehensive income for the year</b>		<b>8,393</b>	<b>3,628</b>

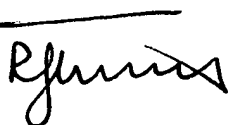
The notes on pages 13 to 28 form part of these financial statements.

## Statement of Financial Position

AT 31 DECEMBER 2014

	Notes	£000	31 December 2014 £000	£000	31 December 2013 £000
<b>Non-current assets</b>					
Property, plant and equipment	8	10,347		9,379	
Intangible assets	9	2,799		1,833	
Investment property	10	101		103	
Deferred tax assets	11	650		3,762	
<b>Total non-current assets</b>			13,897		15,077
<b>Current assets</b>					
Trade and other receivables	12	18,932		30,156	
Cash and cash equivalents		9,398		5,783	
<b>Total current assets</b>			28,330		35,939
<b>Total assets</b>			<b>42,227</b>		<b>51,016</b>
<b>Current liabilities</b>					
Trade and other payables	13	13,446		9,062	
Tax liabilities		1,015		612	
<b>Total current liabilities</b>			14,461		9,674
<b>Non-current liabilities</b>					
Trade and other payables	13	1,104		694	
Retirement benefit obligation	18	-		16,868	
Provisions	14	2,309		2,820	
<b>Total non-current liabilities</b>			3,413		20,382
<b>Total liabilities</b>			17,874		30,056
<b>Equity – attributable to equity holders of the company</b>					
Share capital	15	6,347		6,347	
Retained earnings	15	18,006		14,613	
<b>Total equity</b>			24,353		20,960
<b>Total equity and liabilities</b>			<b>42,227</b>		<b>51,016</b>

These accounts were approved by the Board of Directors on 11<sup>th</sup> March 2015 and signed on its behalf by:



RJ Twigg  
Director

Company registration number: 01489613

The notes on pages 13 to 28 form part of these accounts.

## Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2014

	Share Capital £000	Retained Earnings £000	Total Equity £000
Balance at 1 January 2014	6,347	14,613	20,960
Total comprehensive income for the year	-	8,393	8,393
Dividends paid in the year	-	(5,000)	(5,000)
<b>Balance at 31 December 2014</b>	<b><u>6,347</u></b>	<b><u>18,006</u></b>	<b><u>24,353</u></b>
Balance at 1 January 2013	6,347	18,985	25,332
Total comprehensive income for the year	-	3,628	3,628
Dividends paid in the year	-	(8,000)	(8,000)
<b>Balance at 31 December 2013</b>	<b><u>6,347</u></b>	<b><u>14,613</u></b>	<b><u>20,960</u></b>

## Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2014

	Notes	Year ended 2014 £000	Year ended 2013 £000
<b>Cash flows from operating activities</b>			
Profit for the year		10,034	6,249
Adjustments for:			
Depreciation of property, plant and equipment	8	2,144	1,731
Amortisation of intangibles	9	374	251
Depreciation of investment properties	10	2	3
Financial income	4	(157)	(141)
Finance expense	5	172	648
Loss/ (profit) on disposal of property, plant and equipment	2	3	(28)
Tax expense	7	2,062	2,114
<b>Operating profit before changes in working capital and provisions</b>		<b>14,634</b>	<b>10,827</b>
(Decrease) in pension deficit		(15,362)	(1,174)
Decrease in trade and other receivables		11,224	629
Increase in trade and other payables		4,794	529
(Decrease) /increase in provisions		(511)	179
<b>Cash generated from operations</b>		<b>14,779</b>	<b>10,990</b>
Tax paid		(1,866)	(1,692)
<b>Net cash inflow from operating activities</b>		<b>12,913</b>	<b>9,298</b>
<b>Cash flows from investing activities</b>			
Interest received	4	157	141
Purchase of property, plant and equipment	8	(3,526)	(3,712)
Purchase of computer software	9	(1,025)	(401)
Purchase of business assets, net of cash acquired	9	(325)	(105)
Purchase of investment property	10	-	(4)
Proceeds on disposal of property, plant and equipment		411	1,660
Proceeds on disposal of computer software		10	-
<b>Net cash outflow from investing activities</b>		<b>(4,298)</b>	<b>(2,421)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(5,000)	(8,000)
<b>Net cash outflow from financing activities</b>		<b>(5,000)</b>	<b>(8,000)</b>
<b>Net increase /(decrease) in cash and cash equivalents</b>		<b>3,615</b>	<b>(1,123)</b>
Cash and cash equivalents at 1 January		5,783	6,906
<b>Cash and cash equivalents at 31 December</b>		<b>9,398</b>	<b>5,783</b>

The notes on pages 13 to 28 form part of these accounts.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting policies

Connells Residential (the "Company") is a company incorporated and domiciled in the UK. The following accounting policies have been applied consistently in dealing with items that are considered material in relation to the Company's accounts:

#### a) Basis of accounting

The Financial Statements are presented in accordance with IFRS's and its interpretations as adopted by the EU and effective at 31 December 2014.

There have been no other new accounting policies adopted in the year that have an impact on these financial statements.

Disclosed below are the new IFRS and amendments which at 31 December 2014 have been endorsed by the EU but were not effective and have therefore not been applied in preparing these financial statements. Their adoption is not expected to have a material effect on the financial statements:

- IAS 32 (Amended) Offsetting Financial Assets and Financial Liabilities.
- IAS 36 (Amended) Impairment of Assets.

#### Measurement convention

These financial statements are prepared on the historical cost basis.

#### Currency presentation

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

#### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review on page 4 and 5. The financial position of the Company, its cash flows, and liquidity position are shown on pages 8 to 12. In addition, the Directors Report and notes to these financial statements include the Company'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 Company has sufficient financial resources, and as a consequence, the Directors believe that the Company is well placed to manage its financial risks successfully in the event of an economic downturn.

The Directors believe that the Company has adequate resources to continue to operate for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

#### b) Revenue recognition

Revenue, which excludes value added tax, represents total invoiced sales of the Company.

- Estate Agency sales commissions, new homes, and land sales are recognised on the date contracts are exchanged.
- Property management income is recognised when cash is received, which reflects the point when income is earned and contractual obligations have been fulfilled.
- Revenue on mortgage procurement fees is recognised on completion of the mortgage transaction, when all contractual obligations have been fulfilled.
- Insurance commission income is recognised upon fulfilment of contractual obligations with a provision for future clawback repayment in the event of early termination by the customer.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### c) 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 over their estimated useful lives on the following bases:

Fixtures and fittings	-	5 to 10 years
Office equipment	-	3 to 5 years
Motor vehicles	-	25% of net book value
Leasehold premises	-	Over the unexpired term of the lease in equal instalments
Freehold buildings	-	Lower of 50 years or estimated useful life of premises

All depreciation is charged on a straight-line basis, except motor vehicles, which is calculated on a reducing balance basis.

### d) 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.

In accordance with IFRS 3, Business Combinations, goodwill is not amortised but is tested for impairment at each year end date or when there is an indication of impairment. The recoverable amount of goodwill is determined as the higher of its fair value less costs to sell and its value in use. The value in use calculations are carried out by discounting the future cash flows of the cash generating unit ("CGU"), usually a subsidiary undertaking, and comparing this to its value in use. Future cash flows are based upon approved profit budgets for the next five years (adjusted for depreciation and amortisation) and assumed growth thereafter for the next 10 years at 2.5% (2013: 2.5%). The Company estimates discount rates based on a current cost of capital of the business. Impairment of goodwill is recognised where the present value of future cash flows of the business is less than its carrying value. A fifteen year time horizon has been used to reflect that businesses are held for the long term.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. An impairment loss in respect of goodwill is not reversed. On the sale of a business, the profit or loss on sale is calculated after charging or crediting the net book value of any related goodwill.

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

### d) Intangible assets

Intangible assets include acquired customer contracts and relationships, 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 2 years
Computer software	-	3 to 5 years

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.

### e) Leases

A lease that transfers substantially all the risks and rewards of ownership of an asset is treated as a finance lease. The asset is recorded in the Statement of Financial Position as an item of property, plant and equipment at an amount equal to the lower of its fair value and the present value of the minimum lease payments, less accumulated depreciation and impairment losses. Rentals payable are apportioned between the finance element, which is charged to the Income Statement, and the capital element, which reduces the outstanding obligation. Costs of operating leases are charged to the Income Statement on a straight-line basis over the lease term.

### f) Investment property

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation. The cost model is used to value the investment properties, and amortisation is charged on a straight-line basis.

Freehold buildings - 50 years

### g) Trade and other receivables

Trade and other receivables are stated at their nominal value (discounted if material) less any impairment.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### h) Trade and other payables

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

### i) 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 equity, in which case the associated income tax asset or liability is recognised via equity.

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

Deferred tax is provided using the Statement of Financial Position liability method, which recognises 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 year end.

### j) Employee benefits

#### Defined contribution plans

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

#### Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Until 30 April 2014, the company operated a defined benefit plan. On 30 April 2014, the company transferred its defined benefit pension plan to its parent company, Connells Ltd, at fair value. Since then, the company accounts for contributions to the plans as defined contribution schemes. Prior to the transfer, the accounting policy for the defined benefit scheme was as follows.

The Company's net obligation in respect of defined benefit pension plans was calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, 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 year end on AA credit rated bonds denominated in the currency of, and having maturity dates approximating to, the terms of the Company's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan, reductions in future contributions to the plan or on settlement of the plan and takes into account the adverse effect of any minimum funding requirements.

The Company recognises all actuarial gains and losses in the period they occur directly into equity through the Statement of Comprehensive Income. The Company operated two funded defined benefit pension schemes, administered by a Trustee, the funds of which are held separately from those of the Company. Both of the pension schemes were closed for future service accrual from 31 December 2008. Contributions are transferred to the Trustee on a regular basis to secure the benefits provided under the rules of the 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 Company 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.

### k) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash comprises cash in hand and loans and advances to credit institutions repayable on demand, and cash and cash equivalents comprise highly liquid investments that 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.

### l) Provisions for liabilities and charges

A provision is recognised in the Statement of Financial Position when the Company 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. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects market assessments of the time value of money and, if appropriate, the risks specific to the liability.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### m) Net financing costs

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

### o) Critical accounting estimates, and judgements in applying accounting policies

The Company makes estimates and assumptions regarding the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying values of assets and liabilities within the next financial year are discussed below.

- Accounting policies – certain critical judgments have been made in applying the Company's accounting policies in relation to closed branch and onerous lease provisions (note 14), provisions for clawback of insurance commission and impairment provisions on trade receivables (note 12).
- Investment property – the Company has sublet vacant properties (see provisions for onerous contracts) but has decided not to treat the properties as investment properties because it is not the intention to hold them for the long term, for capital appreciation or for rental. Accordingly, they are still treated as a lease of property, plant and equipment.
- Taxation - significant estimates are required in determining the provision for deferred and corporation tax.

### 2. Expenses and auditors' remuneration

	Year ended 2014 £000	Year ended 2013 £000
Profit before tax is stated after charging / (crediting) the following:		
Depreciation of property, plant and equipment	2,144	1,731
Depreciation of investment property	2	3
Amortisation of intangible assets	374	251
Loss/(profit) on disposal of property, plant, and equipment	3	(28)
Impairment loss on trade receivables	45	148
Staff costs (see note 6)	50,387	42,585
Rentals payable under operating leases	2,195	3,159
Auditors' remuneration and expenses:		
Audit of these financial statements	44	31
All other services	-	1

### 3. Other operating income

	Year ended 2014 £000	Year ended 2013 £000
Rents receivable under operating leases	262	254
(Loss)/profit on disposal of property, plant, and equipment	(3)	29
	<u>259</u>	<u>283</u>



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 4. Financial income

	Year ended 2014 £000	Year ended 2013 £000
Interest on bank deposits	29	24
Interest receivable from other group undertakings	128	117
	<u>157</u>	<u>141</u>

### 5. Finance costs

	Year ended 2014 £000	Year ended 2013 £000
Interest payable on pension liabilities (see note 18)	172	648
	<u>172</u>	<u>648</u>

### 6. Staff numbers and costs

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

	Year ended 2014 No.	Year ended 2013 No.
Directors	5	5
Other	1,650	1,517
	<u>1,655</u>	<u>1,522</u>

The aggregate payroll costs of these persons was as follows:

	£000	£000
Wages and salaries	45,079	38,365
Social security costs	4,741	3,926
Other pension costs	567	294
	<u>50,387</u>	<u>42,585</u>

All of the directors were remunerated by other group companies. An element of this cost is charged to the Company based upon services provided during the year.

### 7. Tax expense

	Year ended 2014 £000	Year ended 2013 £000
<b>a) Analysis of expense in the year at 21.50% (2013: 23.25%)</b>		
<b>Current tax expense</b>		
Current tax at 21.50% (2013: 23.25%)	2,534	2,033
Adjustment for prior years	(91)	(2)
Total current tax	<u>2,443</u>	<u>2,031</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(341)	101
Adjustment in respect of prior years	(40)	(18)
Total deferred tax	<u>(381)</u>	<u>83</u>
<b>Tax expense</b>	<u>2,062</u>	<u>2,114</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 7. Tax expense (continued)

#### b) Factors affecting current tax expense in the year

The tax assessed in the Income Statement is lower (2013: higher) than the standard UK corporation tax rate because of the following factors:

	Year ended 2014 £000	Year ended 2013 £000
Profit before tax	12,096	8,363
Tax on profit at UK standard rate of 21.50% (2013: 23.25%)	2,600	1,944
Effects of:		
Income not taxable for tax purposes	(468)	(4)
Expenses not deductible for tax purposes	25	154
Adjustment to tax expense in respect of prior periods	(131)	(20)
Effects of other tax rates	25	40
Other	11	-
<b>Tax expense</b>	<b>2,062</b>	<b>2,114</b>

### 8. Property, plant and equipment

	Land and Buildings £000	Office Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2014	7,570	20,007	3,345	30,922
Additions	520	2,080	926	3,526
Transfers to other group companies	-	(875)	248	(627)
Disposals	(472)	(13,620)	(470)	(14,562)
At 31 December 2014	<u>7,618</u>	<u>7,592</u>	<u>4,049</u>	<u>19,259</u>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2014	3,703	16,704	1,136	21,543
Depreciation charge for the year	262	1,252	630	2,144
Transfers to other group companies	-	(697)	248	(449)
Disposals	(460)	(13,566)	(300)	(14,326)
At 31 December 2014	<u>3,505</u>	<u>3,693</u>	<u>1,714</u>	<u>8,912</u>
<b>Carrying amounts</b>				
At 1 January 2014	<u>3,867</u>	<u>3,303</u>	<u>2,209</u>	<u>9,379</u>
At 31 December 2014	<u>4,113</u>	<u>3,899</u>	<u>2,335</u>	<u>10,347</u>
	Land and Buildings £000	Office Equipment £000	Motor Vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2013	8,065	18,616	3,049	29,730
Additions	714	1,391	1,607	3,712
Transferred to another group company	(1,157)	-	(453)	(1,610)
Disposals	(52)	-	(858)	(910)
At 31 December 2013	<u>7,570</u>	<u>20,007</u>	<u>3,345</u>	<u>30,922</u>
<b>Accumulated depreciation and impairment</b>				
At 1 January 2013	3,734	15,722	1,244	20,700
Depreciation charge for the year	209	982	540	1,731
Transferred to another group company	(189)	-	-	(189)
Disposals	(51)	-	(648)	(699)
At 31 December 2013	<u>3,703</u>	<u>16,704</u>	<u>1,136</u>	<u>21,543</u>
<b>Carrying amounts</b>				
At 1 January 2013	<u>4,331</u>	<u>2,894</u>	<u>1,805</u>	<u>9,030</u>
At 31 December 2013	<u>3,867</u>	<u>3,303</u>	<u>2,209</u>	<u>9,379</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 9. Intangible assets

	Goodwill £000	Computer Software £000	Customer Contracts & Relationships £000	Total £000
<b>Cost</b>				
At 1 January 2014	1,409	1,675	295	3,379
Additions	-	1,025	325	1,350
Disposals	-	(475)	-	(475)
At 31 December 2014	<u>1,409</u>	<u>2,225</u>	<u>620</u>	<u>4,254</u>
<b>Amortisation and impairment losses</b>				
At 1 January 2014	253	998	295	1,546
Amortisation for the year	-	279	95	374
Disposals	-	(465)	-	(465)
At 31 December 2014	<u>253</u>	<u>812</u>	<u>390</u>	<u>1,455</u>
<b>Carrying amounts</b>				
At 1 January 2014	<u>1,156</u>	<u>677</u>	<u>-</u>	<u>1,833</u>
At 31 December 2014	<u>1,156</u>	<u>1,413</u>	<u>230</u>	<u>2,799</u>
	Goodwill £000	Computer Software £000	Customer Contracts & Relationships £000	Total £000
<b>Cost</b>				
At 1 January 2013	1,409	1,274	190	2,873
Additions	-	401	105	506
At 31 December 2013	<u>1,409</u>	<u>1,675</u>	<u>295</u>	<u>3,379</u>
<b>Amortisation and impairment losses</b>				
At 1 January 2013	253	852	190	1,295
Amortisation for the year	-	146	105	251
At 31 December 2013	<u>253</u>	<u>998</u>	<u>295</u>	<u>1,546</u>
<b>Carrying amounts</b>				
At 1 January 2013	<u>1,156</u>	<u>422</u>	<u>-</u>	<u>1,578</u>
At 31 December 2013	<u>1,156</u>	<u>677</u>	<u>-</u>	<u>1,833</u>

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

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGU's) that are expected to benefit from that business combination. The only CGU is the Estate Agency Business. Before recognition of impairment losses, the cost of goodwill has been allocated to this CGU.

The recoverable amounts of the CGU's are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the cash flows, discount rates and growth rates.

The Company prepares cash flow forecasts on the assumption that the businesses are held for long-term investment. 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, and extrapolate cash flows for subsequent years (up to an additional 10 years) based on a long-term growth rate of 2.5% (2013: 2.5%).

The Company estimates pre-tax discount rates based on the current cost of capital adjusted for the risks inherent in each cash generating unit of 16.19% (2013: 15.6%).

At 31 December 2014, £253k (2013: £253k) was allocated to the Estate Agency Businesses.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 10. Investment Property

	Year ended 2014 £000	Year ended 2013 £000
<b>Cost</b>		
At 1 January	141	137
Additions	-	4
At 31 December	<u>141</u>	<u>141</u>
<b>Accumulated depreciation</b>		
At 1 January	38	35
Charge for the year	2	3
At 31 December	<u>40</u>	<u>38</u>
<b>Carrying amount</b>		
At 1 January	<u>103</u>	<u>102</u>
At 31 December	<u>101</u>	<u>103</u>

The market value of the above properties is £185,000 (2013: £185,000). The estimated market value of the property was determined by an appropriately qualified internal valuer in accordance with RICS Appraisal and Valuation standards.

The investment property is a commercial property that is leased to a third party.

### 11. Deferred tax

Deferred taxes are calculated on timing differences under the liability method using an effective tax rate of 20% (2013: 20%) as this is the enacted rate that is expected to apply when the temporary differences reverse.

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

	Year ended 2014 £000	Year ended 2013 £000
At 1 January	3,762	3,999
Income Statement credit/(charge)	379	(83)
Credit/(charge) in Statement of Comprehensive Income	254	(154)
Transferred to Parent company	(3,745)	-
At 31 December	<u>650</u>	<u>3,762</u>
<b>Deferred tax assets</b>		
	Pension Obligations £000	Other £000
At 1 January 2014	3,491	271
Credited to Income Statement	-	379
Credited in Statement of Comprehensive Income	254	-
Transferred to Parent company	(3,745)	-
At 31 December 2014	<u>-</u>	<u>650</u>
<b>Net deferred tax assets</b>		
At 1 January 2014	<u>3,491</u>	<u>271</u>
At 31 December 2014	<u>-</u>	<u>650</u>

The deferred tax asset in relation to the defined benefit pension scheme of £3,745,000 was transferred to Connells Ltd at the same time the pension deficit was transferred on 30 April 2014.

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.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 12. Trade and other receivables

	2014 £000	2013 £000
Trade receivables	4,941	5,529
Amounts due from group companies	11,784	21,988
Other receivables	47	436
Prepayments and accrued income	2,744	3,026
Bad debt provision	(584)	(823)
	<u>18,932</u>	<u>30,156</u>

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

	2014 £000 Gross	2014 £000 Impairment	2013 £000 Gross	2013 £000 Impairment
Not overdue	2,268	(1)	2,078	-
Overdue 0 – 30 days	1,265	(8)	1,707	(4)
Overdue 31 – 120 days	1,063	(295)	898	(187)
Overdue 120 days plus	345	(280)	846	(632)
	<u>4,941</u>	<u>(584)</u>	<u>5,529</u>	<u>(823)</u>

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

	Year ended 2014 £000	Year ended 2013 £000
At 1 January	(823)	(1,535)
Provision made during the year	(45)	(148)
Receivables written off during the year	284	860
At 31 December	<u>(584)</u>	<u>(823)</u>

### 13. Trade and other payables

	Year ended 2014 £000	Year ended 2013 £000
<b>Due within one year</b>		
Trade and other payables	4,010	5,701
Amounts owed to ultimate parent undertaking	4,944	669
Amounts owed to group undertakings	329	30
Accruals and deferred income	4,163	2,662
	<u>13,446</u>	<u>9,062</u>
<b>Due after more than one year</b>		
Trade and other payables	986	592
Accruals and deferred income	118	102
	<u>1,104</u>	<u>694</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 14. Provisions

	Lease cost of closed branches & dilapidations £000	Insurance commission clawback £000	Other provisions £000	Total £000
Balance at 1 January 2014	1,204	1,382	234	2,820
Provisions made during the year	326	800	64	1,190
Released during the year	(482)	(1,080)	(139)	(1,701)
Provisions used during the year	-	-	-	-
Balance at 31 December 2014	<u>1,048</u>	<u>1,102</u>	<u>159</u>	<u>2,309</u>
Balance at 1 January 2013	1,338	1,065	238	2,641
Provisions made during the year	-	1,353	162	1,515
Released during the year	(119)	-	-	(119)
Provisions used during the year	(15)	(1,036)	(166)	(1,217)
Balance at 31 December 2013	<u>1,204</u>	<u>1,382</u>	<u>234</u>	<u>2,820</u>

All provisions are classed as non-current. The dilapidations 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 Company 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.

The provision for insurance commission clawback is estimated based upon anticipated cancellation rates of term insurance policies. Included within other are provisions for legal claims.

### 15. Share capital

	Year ended 2014 £000	Year ended 2013 £000
<b>Allotted, called up and fully paid</b>		
6,347,000 ordinary shares of £1 each	<u>6,347</u>	<u>6,347</u>

### Management of capital

Capital is considered to be the audited retained earnings and ordinary share capital in issue.

	Year ended 2014 £000	Year ended 2013 £000
<b>Capital</b>		
Ordinary shares	6,347	6,347
Retained earnings	<u>18,006</u>	<u>14,613</u>
	<u>24,353</u>	<u>20,960</u>

The Company'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 commensurately with the level of risk.

The Company is not subject to externally imposed capital requirements other than 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 Company manages the capital balance in order to ensure that an internal limit is not breached.

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 16. Related party transactions

The company has related party relationships within the Skipton Group as detailed below. All such transactions are priced on an arms-length basis.

	2014			2013		
	Ultimate parent undertaking £000	Immediate Parent undertaking £000	Other group companies £000	Ultimate parent undertaking £000	Immediate Parent undertaking £000	Other group companies £000
<b>a) Net interest</b>						
Interest receivable	57	-	99	-	-	117
Interest payable	-	-	-	-	-	-
<b>Total</b>	<b>57</b>	<b>-</b>	<b>99</b>	<b>-</b>	<b>-</b>	<b>117</b>
<b>b) Sales of goods and services</b>						
Estate agency services	250	-	768	151	-	1,367
Shared service recharges	-	-	11,772	-	-	8,628
Administration charges	20	-	-	20	-	-
Search fees	-	-	649	-	-	595
<b>Total</b>	<b>270</b>	<b>-</b>	<b>13,189</b>	<b>171</b>	<b>-</b>	<b>10,590</b>
<b>c) Purchase of goods and services</b>						
Shared service recharges	-	-	2,120	-	-	888
Administration charges	1,401	-	-	1,368	-	-
Energy performance certificates	-	-	381	-	-	333
Surveys	-	-	197	-	-	318
<b>Total</b>	<b>1,401</b>	<b>-</b>	<b>2,698</b>	<b>1,368</b>	<b>-</b>	<b>1,539</b>
<b>d) Outstanding balances</b>						
Receivables from related parties	-	2,242	9,542	-	6,621	15,367
Payables to related parties	(4,994)	-	(329)	(669)	-	(30)
<b>Total</b>	<b>(4,994)</b>	<b>2,242</b>	<b>9,213</b>	<b>(669)</b>	<b>6,621</b>	<b>15,337</b>

There are no provisions in respect of goods and services to Related Parties, either at 31 December 2014 or at 31 December 2013. Included in cash and cash equivalents is £4,000,000 (2013: £2,500,000) of cash held on deposit with the Skipton Building Society. All transactions are dealt with on normal credit terms.

### 17. Capital commitments

Capital commitments at the year end for which no provision has been made were as follows:

	Year ended 2014 £000	Year ended 2013 £000
Motor vehicles	222	89
	<b>222</b>	<b>89</b>

The Company has commitments due under operating leases in respect of rent payable on land and buildings. Total commitments under these non-cancellable operating leases are as follows:

	2014 £000	2013 £000
<i>Amounts falling due:</i>		
Less than one year	2,195	1,983
Between one and five years	4,663	4,666
More than five years	2,145	1,176
	<b>9,003</b>	<b>7,825</b>

Property rental income earned from investment properties during the year was £5,000 (2013: £5,000).

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 17. Capital commitments (continued)

At the year end the Company had contracts with tenants for the following total lease payments under non-cancellable operating leases as follows:

	Year ended 2014 £000	Year ended 2013 £000
<i>Amounts falling due:</i>		
Less than one year	16	107
Between one and five years	319	195
More than five years	-	6
	<u>335</u>	<u>308</u>

### 18. Pensions

#### Defined benefit scheme

Previously, the Company had a funded defined benefit arrangement, which was closed to new members and to the future accrual of benefits; The Connells Limited Pension & Life Assurance Scheme ("the Connells Scheme"). On 30<sup>th</sup> April 2014, the pension liability was transferred to the Parent company, Connells Ltd.

Prior to the transfer, the Scheme provided benefits based on final salary for employees (although for benefits accruing after 30 April 2006 for the Connells Scheme Career Average Revalued Earnings applied). The Connells Scheme closed to future accrual of benefits from 31 December 2008 at which point all active members left pensionable service and became entitled to deferred benefits.

The scheme was 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 trust documentation.

Full actuarial valuations were carried out as at the dates 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 Company 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 valuations for the schemes showed the following:

Scheme	Valuation date	Employees	Deficit £m	Recovery Period	Annual Contribution £m
Connells	30 April 2011	537	9.7	7 years	1.2

Scheme expenses and levies to the Pension Protection Fund are payable by the Company as and when they are due accounted for within administrative expenses. The valuation was updated for the purposes of the transfer of the pension liability to Connells Ltd.

The assets of the Scheme were held in a separate Trustee-administered fund. Contributions to the Scheme were assessed in accordance with the advice of an independent qualified actuary using the projected unit method. The Company's policy for recognising actuarial gains and losses is to recognise them immediately on the Statement of Financial Position through the Statement of Comprehensive Income. The aggregate cost of the Scheme is recognised in accordance with IAS 19 (Amended). The Company accounts for the Scheme on the basis of contributions paid by it.

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

	2014	2013
	%	%
Discount rate	4.35	4.55
Retail Price Inflation (RPI) rate	3.40	3.50
Consumer Price Inflation (CPI) rate	2.40	2.50
Increase to defined benefits during deferment (CPI Link)	2.40	2.50
Increases to pension payment (CPI Link)	2.40-3.70	2.40-3.80
Salary increases	N/A	N/A



## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 18. Pensions (continued)

#### Non-retired members

	2014	2013
Male retiring in the year	-	23.5 years
Female retiring in the year	-	24.8 years
Males retiring in 2028	-	24.5 years
Females retiring in 2028	-	25.9 years

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

	2014 £000	2013 £000
Fair value of plan assets	-	41,409
Present value of defined benefit obligations	-	(58,277)
<b>Net pension liability</b>	<b>-</b>	<b>(16,868)</b>

The table below sets out the reconciliation of the fair value of scheme assets for the year:

	2014 £000	2013 £000
Fair value of assets at the start of the year	41,409	39,125
Expected return on assets	619	1,801
Actuarial (loss)/gain	(252)	369
Contributions by employer	383	1,174
Benefits paid	(302)	(1,060)
Assets distributed on settlements	(816)	-
Transferred to Parent company	(41,041)	-
<b>Fair value of assets at end of year</b>	<b>-</b>	<b>41,409</b>

The table below sets out the reconciliation of the present value of the defined benefit obligation for the year:

	2014 £000	2013 £000
Defined benefit obligation at start of the year	58,277	53,792
Interest cost	869	2,449
Actuarial loss	1,814	3,096
Benefits paid	(302)	(1,060)
Liabilities extinguished on settlements	(893)	-
Transferred to Parent company	(59,765)	-
<b>Defined benefit obligation at end of year</b>	<b>-</b>	<b>58,277</b>

There have been no other settlements, plan amendments or curtailments in the year.

The difference between the expected return and the actual return on scheme assets is recognised in the Statement of Comprehensive Income and is reconciled below:

	2014 £000	2013 £000
Actual return on pension assets	367	2,170
Expected return on assets	(619)	(1,801)
<b>Actuarial (loss)/ gain on assets</b>	<b>(252)</b>	<b>369</b>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 18. Pensions *(continued)*

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

	2014 £000	2013 £000
Property	-	-
Corporate Bonds	-	7,755
Government Bonds	-	-
Diversified Growth Vehicle	-	31,468
Liability Driven Instruments	-	1,974
Cash	-	212
Total fair value of plan assets	<u>-</u>	<u>41,409</u>

The actual return on scheme assets for the year ended 31 December 2014 was estimated at 5.5% (2013: 5.5%)

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 schemes 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 schemes' Statement of Investment Principles.

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

	2014 £000	2013 £000
Past service cost	-	-
Interest cost	249	2,449
Expected return on assets	-	(1,801)
Settlement (gain)	(77)	-
Expense recognised in Income Statement	<u>172</u>	<u>648</u>

The expense is recognised in the following lines in the Income Statement:

	2014 £000	2013 £000
Operating expenses	-	-
Finance costs	172	648
Financial income	<u>-</u>	<u>-</u>
	<u>172</u>	<u>648</u>

The table below sets out the actuarial gains and losses which have been recognised within the Statement of Comprehensive Income:

	2014 £000	2013 £000	2012 Restated £000	2011 £000	2010 £000
Experience (losses) / gains on scheme assets	(252)	369	794	(2,734)	1,399
Experience gains on defined benefit obligation	-	-	-	1,460	160
(Losses) / gains from changes in assumptions	<u>(1,814)</u>	<u>(3,096)</u>	<u>(1,943)</u>	<u>(2,268)</u>	<u>296</u>
<b>Total (losses) / gains recognised in Statement of Comprehensive Income during the year</b>	<u>(2,066)</u>	<u>(2,727)</u>	<u>(1,149)</u>	<u>(3,542)</u>	<u>1,855</u>
Cumulative actuarial losses recognised in Statement of Comprehensive Income at the end of the year	<u>(19,368)</u>	<u>(17,301)</u>	<u>(14,574)</u>	<u>(13,425)</u>	<u>(9,883)</u>

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 18. Pensions (continued)

The present value of the defined benefit obligation and the fair value of the scheme assets are as follows:

	2014 £000	2013 £000	2012 £000	2011 £000	2010 £000
Fair value of plan assets	-	41,409	39,125	34,916	37,898
Present value of defined benefit obligations	-	(58,277)	(53,792)	(50,355)	(50,929)
<b>Net pension liability</b>	<b>-</b>	<b>(16,868)</b>	<b>(14,667)</b>	<b>(15,439)</b>	<b>(13,031)</b>

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 2015:

	2015 £000
Estimated employer contributions	-
Estimated employee contributions	-
	<b>-</b>

### Defined contribution schemes

The Company also operates a defined contribution pension scheme and stakeholder scheme, the assets of which are held separately from those of the Company, in 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 £567,000 (2013: £294,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

### 19. 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 Company is exposed are liquidity risk, market risk and credit risk and these are monitored on a regular basis by management. Each of these is considered below.

#### Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost.

The Company's liquidity policy is to maintain sufficient liquid resources to cover imbalances and fluctuations in funding, to maintain solvency of the Company and to enable the 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.

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

	Carrying amount £000	Contractual cash flows £000	In not more than one month £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
Trade and other payables	6,304	6,304	5,318	-	-	986
Amounts owing to group companies	5,273	5,273	5,273	-	-	-
<b>Total</b>	<b>11,577</b>	<b>11,577</b>	<b>10,591</b>	<b>-</b>	<b>-</b>	<b>986</b>

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

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

### 19. Financial instruments *(continued)*

#### **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 Company is not exposed to any currency risk as all transactions are denominated in Sterling.

#### **Interest rate risk**

The Company has no interest bearing liabilities, other than loans from group undertakings, and the Company monitors this exposure on a continuous basis.

#### **Credit risk**

Credit risk is the risk of financial loss to the Company if a customer fails to meet its contractual obligations, and arises principally from the Company's receivables from customers. Based on historic default rates, the Company believes that no impairment provision is necessary in respect of most trade receivables not over due or over due by up to 30 days. Specific impairment provisions are made for customers who do not have a good payment record with the company before 30 days. For maximum credit exposure see note 12. Management carefully manages its exposure to credit risk.

#### **Capital management**

The Board's policy is to maintain a strong capital base so as to maintain, 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 Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

### 20. Ultimate parent undertaking

The Company is a wholly owned subsidiary of Connells Limited. The ultimate parent undertaking is Skipton Building Society, which is registered in the United Kingdom. The largest group in which the results are consolidated is that headed by Skipton Building Society. The smallest group is that headed by Connells Limited and the consolidated accounts of this Company are available to the public and can be obtained from:

Connells Ltd  
Cumbria House  
16/20 Hockliffe Street  
Leighton Buzzard  
Bedfordshire  
LU7 1GN