CONNELLS RESIDENTIAL

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2017

(Registered Number 01489613)

Contents

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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 185 (2016:180) branches primarily under the Connells and Burchell Edwards brands.

DIRECTORS

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

RS Shipperley
DC Livesey
DK Plumtree
RJ Twigg

DIVIDENDS

During the year interim dividends of £13,000,000 (2016: £6,000,000) were paid. The Directors do not recommend payment of a final dividend (2016:£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.

CHARITABLE AND POLITICAL DONATIONS

The Company made charitable donations of £335 in 2017 (2016: £700). The Company made no political donations in 2017 (2016: £nil).

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. It is the policy of the company that the training, career development and promotion of a disabled person should as far as possible be identical with that of a person who does not have a disability

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

By order of the board

RJ Twigg
Director

7 March 2018

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

Strategic Report

BUSINESS REVIEW

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 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.

2017 review

The UK residential property market experienced a reasonably positive start to 2017, however the political uncertainty caused by the general election outcome and ongoing Brexit fears lead to much more subdued market conditions from May onwards. Sales levels in the second half of 2017, were lower than the same period in 2016 as buyer confidence diminished. Market conditions in the rental market were relatively stable throughout the year, with some affordability issues creating a marginal reduction in tenant demand in the middle of the year.

The company benefited from the favourable conditions during the early part of the year and continued to perform well during the more challenging second half. The company continued to expand during the year and opened a further five branches. Additionally, the company continued to invest in both its high street branch network with £1,850,000 (2016: £1,300,000) being spent on branch refurbishment and additional investment in its on-line and digital offering. Consequently, total revenue increased by 10% to £99,631,000 (2016: £90,394,000) with EBITDA of £16,093,000 (2016: £15,080,000). Profit before tax was £10,807,000 (2016: £10,253,000).

The total number of property sales exchanged contract on decreased by 3% during the year. Good progress was made in New Homes sales with 5% more exchanges than in 2016.

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.

Operational performance and key performance indicators

The Directors monitor the business by using the following KPI's. Regular 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.

	2017 £000	2016 £000	Change %
Total fees and commissions	99,631	90,394	10%
Profit from operations	10,761	10,171	6%
EBITDA	16,093	15,080	7%
Movement in:			
Estate agency exchanges	-3%	-1%	
Applicants	-9%	+15%	
Mortgage Services sign ups	+14%	+1%	
Lettings occupied units	+9%	+40%	

Strategic Report *(continued)*

Risks and uncertainties

The company's objective is to appropriately manage all the risks that arise from its activities. Connells Limited, the immediate parent company, and Skipton Building Society, the ultimate parent undertaking, 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 immediate and ultimate parent undertakings, Skipton Building Society and Connells Limited, through their risk and compliance functions provide 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 Company 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 Company'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 levels of unemployment, 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, or a significant downturn in the UK economy, 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, training and development and human resources policies are designed to attract, motivate and retain high quality people.

By order of the board

RJ Twigg
Director

7 March 2018

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 Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 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 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 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 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 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 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 company and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS RESIDENTIAL

Opinion

We have audited the financial statements of Connells Residential ("the company") for the year ended 31 December 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Going concern

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

Strategic report and directors' report

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

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

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

Matters on which we are required to report by exception

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

- *adequate accounting records have not been kept, 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

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

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS RESIDENTIAL

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

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

EJefferis

Emily Jefferis (Senior Statutory Auditor) for and on behalf of KPMG LLP, Statutory Auditor

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

15 March 2018

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 2017 £000	Year ended 2016 £000
Revenue	1	99,631	90,394
Other operating income	3	755	258
Operating expenses		(89,625)	(80,481)
Operating profit		**10,761**	**10,171**
Presented as:			
Earnings before interest, tax, depreciation, amortisation and impairment		16,093	15,080
Depreciation		(4,042)	(3,217)
Amortisation of intangibles		(1,290)	(1,692)
Operating profit		**10,761**	**10,171**
Finance income	4	46	82
Profit before tax		**10,807**	**10,253**
Tax expense	6	(2,417)	(2,248)
Profit for the year being total comprehensive income		**8,390**	**8,005**

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

The notes on pages 13 to 27 form part of these financial statements.

Statement of Financial Position

AT 31 DECEMBER 2017

	Notes	£000	31 December 2017 £000	£000	31 December 2016 £000
Non-current assets					
Property, plant and equipment	7	17,008		15,886	
Intangible assets	8	7,608		7,196	
Investment property	9	-		96	
Deferred tax assets	10	511		510	
Total non-current assets			25,127		23,688
Current assets					
Trade and other receivables	11	10,874		13,552	
Cash and cash equivalents		2,348		4,433	
Total current assets			13,222		17,985
Total assets			**38,349**		**41,673**
Current liabilities					
Trade and other payables	12	14,693		14,192	
Provisions	13	1,780		1,011	
Tax liabilities		799		925	
Total current liabilities			17,272		16,128
Non-current liabilities					
Trade and other payables	12	990		1,062	
Provisions	13	1,470		1,256	
Total non-current liabilities			2,460		2,318
Total liabilities			19,732		18,446
Equity – attributable to equity holders of the company					
Share capital	14	6,347		6,347	
Retained earnings	14	12,270		16,880	
Total equity			18,617		23,227
Total equity and liabilities			**38,349**		**41,673**

These accounts were approved by the Board of Directors on 7 March 2018 and signed on its behalf by:

RJ Twigg
Director

Company registration number: 01489613

The notes on pages 13 to 27 form part of these accounts.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital £000	Retained earnings £000	Total equity £000
Balance at 1 January 2017	6,347	16,880	23,227
Total income for the year	-	8,390	8,390
Dividends paid in the year	-	(13,000)	(13,000)
Balance at 31 December 2017	**6,347**	**12,270**	**18,617**
Balance at 1 January 2016	6,347	14,875	21,222
Total income for the year	-	8,005	8,005
Dividends paid in the year	-	(6,000)	(6,000)
Balance at 31 December 2016	**6,347**	**16,880**	**23,227**

The notes on pages 13 to 27 form part of these financial statements.

Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	Year ended 2017 £000	Year ended 2016 £000
Cash flows from operating activities			
Profit for the year		8,390	8,005
Adjustments for:			
Depreciation of property, plant and equipment	7	4,042	3,214
Amortisation of intangibles	8	1,290	1,692
Depreciation of Investment properties	9	-	3
Finance income	4	(46)	(82)
Profit on disposal of property, plant and equipment	2	(520)	(19)
Tax expense	6	2,417	2,248
Operating profit before changes in working capital and provisions		**15,573**	**15,061**
Decrease / (increase) in trade and other receivables		2,678	(2,761)
Increase in trade and other payables		429	2,451
Increase / (decrease) in provisions		983	(56)
Cash generated from operations		**19,663**	**14,695**
Tax paid		(2,544)	(2,869)
Net cash inflow from operating activities		**17,119**	**11,826**
Cash flows from investing activities			
Interest received	4	46	82
Purchase of property, plant and equipment	7	(5,493)	(6,107)
Purchase of computer software	8	(1,529)	(932)
Purchase of business assets, net of cash acquired	8	(173)	(3,461)
Additions to investment properties	9	-	1
Proceeds on disposal of property, plant and equipment		945	276
Net cash outflow from investing activities		**(6,204)**	**(10,141)**
Cash flows from financing activities			
Dividends paid		(13,000)	(6,000)
Net cash outflow from financing activities		**(13,000)**	**(6,000)**
Net decrease in cash and cash equivalents		(2,085)	(4,315)
Cash and cash equivalents at 1 January		4,433	8,748
Cash and cash equivalents at 31 December		**2,348**	**4,433**

The notes on pages 13 to 27 form part of these accounts.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

Connells Residential (the "Company") is a company incorporated, registered and domiciled in the UK. The following accounting policies have been applied consistently in these Company's accounts:

a. Basis of accounting

The Company's 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 2017, and those parts of the Companies Act 2006 applicable to Companies reporting under IFRS.

The Company has applied the following changes in accounting standards during the year:

- Disclosure Initiative (Amendments to IAS 7);
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12);

These amendments have had no material impact on these Financial Statements.

Disclosed below are the new IFRS and amendments which at 31 December 2017 have been endorsed by the EU but were not effective and have therefore not been applied in preparing these financial statements:

- IFRS 15 Revenue from Contracts with Customers;
- IFRS 9 Financial Instruments; and
- IFRS 16 Leases.

The new revenue recognition standard IFRS 15 will be effective for periods beginning on or after 1 January 2018 and introduces a five-step approach to revenue recognition based on performance obligations in customer contracts. The Company has a number of different revenue streams but, following a detailed assessment, does not believe any of them will be impacted materially by the changes to the standard. The assessment of the significant revenue streams under IFRS 15 is considered below.

- Estate agency sales commissions will be recognised on the date contracts exchange, consistent with IAS 18, as this is the date which the contract is considered to be in place under IFRS 15.
- Property management income will be recognised over the course of the contract in line with the timing of the work performed, rather than when cash is received. This will not result in a significant impact on its financial statements.
- Revenue from mortgage procuration fees is recognised on completion of the mortgage transaction, as this is the date IFRS 15 considers it is highly probable a significant reversal will not occur. This is consistent with IAS 18 so the Company does not expect a significant impact.
- Insurance commission income is recognised upon fulfilment of contractual obligations, net of a provision for expected future clawback, impacting the expected transaction price under IFRS 15. This is consistent with IAS 18 so the Company does not expect a significant impact.

In terms of transition, the Company plans to adopt IFRS 15 using the cumulative effect method, with the effect of initially applying this standard recognised at the date of initial application (i.e. 1 January 2018). As a result, the Company will not apply the requirements of IFRS 15 to the comparative period presented.

IFRS 9 will also be effective for periods beginning on or after 1 January 2018. The impact has been assessed and will be minimal given the Company does not hold complex financial instruments. The impact to the trade and receivables balance has been calculated based on historic bad debt rates, and the estimated exposure is not material. Given the limited impact it is not expected significant additional disclosure will be required. The Company plans to apply the IFRS 9 changes retrospectively, with the following exception. The Company will take advantage of the exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will generally be recognised in retained earnings and reserves as at 1 January 2018.

The new leasing standard, IFRS 16, will be effective from 1 January 2019. The standard will have an effect on the Company's income statement and balance sheet as the Company enters into leases which will be brought on statement of financial position under the new standard. The income statement will also be affected as the profile of the expensing of the lease payments is changed. Currently, the lease expense is recognised evenly over the life of the lease. Under the new standard, while the charge will remain the same over the lease period, however the cost recognised in the income statement in earlier years will be higher, with this reducing over the life of the lease.

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Measurement convention

These financial statements are prepared on the historical cost basis

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

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 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 pages 4 and 5. The financial position of the Company, its cash flows, and liquidity position are shown on pages 9 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 to enable the Directors to conclude that it is well placed to manage its financial risks successfully in the event of an economic downturn. As a result, 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 procuration 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.

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:

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

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.

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

d) Impairment

In accordance with IAS 36, Impairment of Assets, goodwill is not amortised but is tested for impairment at each year end 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 Company applies discount rates based on its estimated current cost of capital of the subsidiary. Impairment of a subsidiary's associated goodwill is recognised where the present value of future cash flows of the subsidiary is less than its carrying value. A fifteen year time horizon has been used to reflect that subsidiaries are held for the long term. 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. Negative goodwill arising on an acquisition is recognised directly in the Income Statement.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Accounting policies (continued)

e. 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:

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

f. 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.

g. Investment properties

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

h. Trade and other receivables

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

i. Trade and other payables

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

j. 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 the company.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. Accounting policies (continued)

k. 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. On 30th April 2014 the Company consolidated its two defined pension schemes into the Connells Limited Group (2014) Pension Scheme, which is managed and accounted for by the Parent company, Connells Limited. Since then, the Company accounts for contributions to the scheme as defined contribution 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.

l. 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.

m. 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.

n. Net financing costs

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

o. Investments

Investments in 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. The Company regularly reviews its subsidiary investments for objective evidence of impairment.

p. 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.

- Provisions – certain critical judgments have been made in applying the Company's accounting policies in relation to closed branch and onerous lease provisions (note 13), provisions for clawback of insurance commission and impairment provisions on trade receivables (note 11).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

2. Expenses and Auditor remuneration

	Year ended 2017 £000	Year ended 2016 £000
Profit before tax is stated after charging / (crediting) the following:		
Depreciation of property, plant and equipment	4,042	3,214
Depreciation of investment property	-	3
Amortisation of intangible assets	1,290	1,692
Profit on disposal of property, plant, and equipment	(520)	(19)
Rentals payable under operating leases	3,912	3,530
Auditor remuneration and expenses:		
Audit of these financial statements	38	32

3. Other operating income

	Year ended 2017 £000	Year ended 2016 £000
Rents receivable under operating leases	235	239
Profit on disposal of property, plant, and equipment	520	19
	755	258

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. Finance income

	Year ended 2017 £000	Year ended 2016 £000
Interest on bank deposits	4	8
Interest receivable from other group undertakings	42	74
	46	82

5. Staff numbers and costs

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

	Year ended 2017 No.	Year ended 2016 No.
Directors	4	4
Other	2,048	1,909
	2,052	1,913

The aggregate payroll costs of these people was as follows:	£000	£000
Wages and salaries	59,166	57,435
Social security costs	6,014	5,848
Other pension costs	705	713
	65,885	63,996

All the directors were remunerated by other group companies and are not directly remunerated by the Company. The notional allocation of the cost to the Company for their services was £254,775 (2016: £288,515).

6. Tax expense

a) Analysis of expense in the year at 19.25% (2016: 20.00%)	Year ended 2017 £000	Year ended 2016 £000
Current tax expense		
Current tax at 19.25% (2016: 20.00%)	2,421	2,455
Adjustment for prior years	(3)	(56)
Total current tax	2,418	2,399
Deferred tax credit		
Origination and reversal of temporary differences	(45)	(115)
Adjustment in respect of prior years	44	(36)
Total deferred tax	(1)	(151)
Tax expense	2,417	2,248

b) Factors affecting current tax expense in the year

The tax assessed in the Income Statement is higher (2016: higher) than the standard UK corporation tax rate because of the following factors:

	Year ended 2017 £000	Year ended 2016 £000
Profit before tax	10,807	10,253
Tax on profit at UK standard rate of 19.25% (2016: 20.00%)	2,080	2,051
Expenses not deductible for tax purposes	290	465
Adjustment to tax expense in respect of prior periods	41	(92)
Effects of other tax rates	6	23
Other	-	(199)
Tax expense	2,417	2,248

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. Tax expense (continued)

A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) was substantively enacted on 26 October 2015 and to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2017 has been calculated based on these rates.

7. Property, plant and equipment

	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2017	11,733	13,132	5,116	29,981
Additions	2,488	2,456	549	5,493
Transfers from Investment Property	142	-	-	142
Disposals	(508)	(13)	(645)	(1,166)
At 31 December 2017	13,855	15,575	5,020	34,450
Accumulated depreciation and impairment				
At 1 January 2017	4,645	7,311	2,139	14,095
Depreciation charge for the year	995	2,244	803	4,042
Transfers from Investment Property	46	-	-	46
Disposals	(259)	(7)	(475)	(741)
At 31 December 2017	**5,427**	**9,548**	**2,467**	**17,442**
Carrying amounts				
At 1 January 2017	7,088	5,821	2,977	15,886
At 31 December 2017	**8,428**	**6,027**	**2,553**	**17,008**

	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2016	9,569	10,190	3,940	23,699
Additions	1,563	2,625	1,919	6,107
Transferred from another group company	601	317	91	1,009
Disposals	-	-	(834)	(834)
At 31 December 2016	**11,733**	**13,132**	**5,116**	**29,981**
Accumulated depreciation and impairment				
At 1 January 2016	3,818	5,218	1,967	11,003
Depreciation charge for the year	558	1,931	725	3,214
Transferred from another group company	269	162	24	455
Disposals	-	-	(577)	(577)
At 31 December 2016	**4,645**	**7,311**	**2,139**	**14,095**
Carrying amounts				
At 1 January 2016	5,751	4,972	1,973	12,696
At 31 December 2016	**7,088**	**5,821**	**2,977**	**15,886**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. Intangible assets

	Goodwill £000	Computer software £000	Customer contracts & relationships £000	Total £000
Cost				
At 1 January 2017	4,704	4,140	2,752	11,596
Additions	-	1,529	173	1,702
At 31 December 2017	4,704	5,669	2,925	13,298
Amortisation and impairment losses				
At 1 January 2017	253	1,965	2,182	4,400
Amortisation for the year	-	903	387	1,290
At 31 December 2017	253	2,868	2,569	5,690
Carrying amounts				
At 1 January 2017	4,451	2,175	570	7,196
At 31 December 2017	4,451	2,801	356	7,608

	Goodwill £000	Computer software £000	Customer contracts & relationships £000	Total £000
Cost				
At 1 January 2016	1,409	3,208	1,224	5,841
Acquisitions	3,295	-	1,528	4,823
Additions	-	932	-	932
At 31 December 2016	4,704	4,140	2,752	11,596
Amortisation and impairment losses				
At 1 January 2016	253	1,299	1,156	2,708
Amortisation for the year	-	666	1,026	1,692
At 31 December 2016	253	1,965	2,182	4,400
Carrying amounts				
At 1 January 2016	1,156	1,909	68	3,133
At 31 December 2016	4,451	2,175	570	7,196

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

Goodwill acquired in a business combination is allocated 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.

Key assumptions

The calculation of value-in-use is most sensitive to the following assumptions:

- Discount rates
- Growth rate/ cash flows

Discount rates reflect Management's estimate of the post-tax Weighted Average Cost of Capital (WACC) of the Group and this is grossed up to arrive at a pre-tax discount rate of 10.60% (2016:10.62%). This is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals.

Growth rate/ cash flows reflect how management believe the business will perform over the fifteen year period and is used to calculate the value-in-use of the CGUs.

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%.

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 10.60% (2016: 10.62%).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. Intangible assets (continued)

Sensitivities

Management has undertaken sensitivity analyses to determine the effect of changes in assumptions on the 2017 impairment review. 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. It would require a significant decline in performance to trigger an impairment. To test the sensitivity the discount rate was increased, for increases up to 58% the CGUs carrying values would still exceed the asset value. The sensitivity to the long term growth rate was also decreased, for decreases up to 47% the CGUs carrying values would still exceed the asset value. For the 5 year cash flows growth rate decreases up to 63%, the carrying value would still exceed the asset value.

9. Investment Properties

	Year ended 2017 £000	Year ended 2016 £000
Cost		
At 1 January	142	141
Additions	-	1
Transfer to Property, Plant and Equipment	(142)	-
At 31 December	-	142
Accumulated depreciation		
At 1 January	46	43
Charge for the year	-	3
Transfer to Property, Plant and Equipment	(46)	-
At 31 December	-	46
Carrying amount		
At 1 January	96	98
At 31 December	-	96

As part of the annual review of properties, the investment property has been reclassified to property, plant and equipment.

10. Deferred tax

Deferred taxes are calculated on temporary differences under the liability method using an effective tax rate of 17% (2016: 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:	Year ended 2017 £000	Year ended 2016 £000
At 1 January	510	543
Income Statement credit	1	151
Movement arising from acquisition of business	-	(184)
At 31 December	**511**	**510**

Deferred Tax Assets	**Asset / (Liability) £000**	**(Charged) / Credited to Income £000**
2017		
Capital Allowances	378	(11)
Intangible Assets	(61)	36
Provisions	194	(24)
	511	1
2016		
Capital Allowances	389	37
Intangible Assets	(97)	(46)
Provisions	218	(24)
	510	(33)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

10. Deferred tax (continued)

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.

11. Trade and other receivables

	2017 £000	2016 £000
Trade receivables	6,161	5,313
Amounts due from group companies	629	4,007
Amounts due from ultimate parent company	-	23
Prepayments and accrued income	4,121	4,358
Other receivables	614	252
Bad debt provision	(651)	(401)
	10,874	13,552

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

	2017 £000 Gross	2017 £000 Impairment	2016 £000 Gross	2016 £000 Impairment
Not overdue	2,953	-	2,674	-
Overdue 0 – 30 days	1,592	(15)	1,249	(11)
Overdue 31 – 120 days	1,168	(276)	1,134	(175)
Overdue 120 days plus	448	(360)	256	(215)
	6,161	(651)	5,313	(401)

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

	Year ended 2017 £000	Year ended 2016 £000
At 1 January	(401)	(340)
Provision made during the year	(309)	(203)
Transfer from other group company	-	(23)
Receivables written off during the year	59	165
At 31 December	(651)	(401)

The Company 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.

12. Trade and other payables

Due within one year	Year ended 2017 £000	Year ended 2016 £000
Trade and other payables	4,455	4,909
Amounts owed to group undertakings	4,454	3,661
Accruals and deferred income	5,784	5,622
	14,693	14,192
Due after more than one year		
Trade and other payables	809	890
Accruals and deferred income	181	172
	990	1,062

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

13. Provisions

	Lease cost of closed branches & dilapidations £000	Insurance commission clawback £000	Other provisions £000	Total £000
Balance at 1 January 2017	1,319	863	85	2,267
Provisions made during the year	147	3,101	118	3,366
Released during the year	(292)	-	-	(292)
Provisions used during the year	(95)	(1,959)	(37)	(2,091)
Balance at 31 December 2017	1,079	2,005	166	3,250
Due within one year or less	318	1,296	166	1,780
Due after more than one year	761	709	-	1,470
	1,079	2,005	166	3,250
Balance at 1 January 2016	900	1,053	195	2,148
Provisions made during the year	203	1,704	-	1,907
Released during the year	-	-	(50)	(50)
Provisions used during the year	(56)	(1,894)	(60)	(2,010)
Transfer from Group Companies	272	-	-	272
Balance at 31 December 2016	1,319	863	85	2,267
Due within one year or less	338	588	85	1,011
Due after more than one year	981	275	-	1,256
	1,319	863	85	2,267

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 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.

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 relatively evenly over the next 3 years, with a slight weighting towards the first year.

14. Share capital

Allotted, called up and fully paid	Year ended 2017 £000	Year ended 2016 £000
6,347,000 (2016: 6,347,000) ordinary shares of £1 each	6,347	6,347

Management of capital

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

	Year ended 2017 £000	Year ended 2016 £000
Capital		
Ordinary shares	6,347	6,347
Retained earnings	12,270	16,880
	18,617	23,227

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 commensurate 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)*

15. 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.

	2017			2016		
	Ultimate parent undertaking £000	**Immediate Parent undertaking £000**	**Other group companies £000**	**Ultimate parent undertaking £000**	**Immediate Parent undertaking £000**	**Other group companies £000**
a) Net interest						
Interest receivable	20	22	-	74	-	-
Total	**20**	**19**	**-**	**74**	**-**	**-**
b) Sales of goods and services						
Estate agency services	323	-	2,073	261	-	1,017
Shared service recharges	-	27,880	-	-	27,296	-
Search fees	-	-	1,165	-	-	867
Total	**323**	**27,880**	**3,238**	**261**	**27,296**	**1,884**
c) Purchase of goods and services						
Shared service recharges	-	(10,020)	(1,434)	-	(7,164)	(5,409)
Administration charges	-	-	(208)	-	-	-
Energy performance certificates	-	-	(1,024)	-	-	(637)
Total	**-**	**(10,020)**	**(2,666)**	**-**	**(7,164)**	**(6,046)**
d) Outstanding balances						
Receivables from related parties	-	-	629	23	3,673	334
Payables to related parties	-	(2,230)	(2,224)	-	(1,387)	(2,274)
Total	**-**	**(2,230)**	**(1,595)**	**23**	**2,286**	**(1,940)**

During the year, the Company acquired a lettings portfolio from Sequence Ltd at fair value consideration of £23,160 and a lettings portfolio from Hatched Ltd at fair value consideration of £150,000.

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

	Year ended 2017 £	**Amount outstanding 31 December 2017 £**	**Year ended 2016 £**	**Amount outstanding 31 December 2016 £**
Estate Agency fees, paid by Director's family	3,324	-	-	-
Lettings fees, paid by Director's and Directors' family members	3,358	-	1,943	-
Company Vehicle purchased by Director's family member	2,650	-	1,500	-
Total	**9,332**	**-**	**3,443**	**-**

All transactions were charged at arm's length.

16. Capital commitments

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

	Year ended 2017 £000	**Year ended 2016 £000**
Office equipment	61	340
Motor vehicles	82	74
	143	**414**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16. Capital commitments (continued)

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:

	2017 £000	2016 £000
Amounts falling due:		
Less than one year	2,999	3,962
Between one and five years	5,818	6,490
More than five years	4,169	3,492
	12,986	13,954

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 2017 £000	Year ended 2016 £000
Amounts falling due:		
Less than one year	135	107
Between one and five years	268	37
More than five years	321	-
	724	144

17. Pensions

Defined contribution schemes

The Company operates a defined contribution pension 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 the defined contribution schemes is the contribution payable in the year and amounted to £705,000 (2016: £713,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

18. 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:

2017	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	10,801	10,801	6,956	2,780	165	900
Amounts owing to group companies	4,454	4,454	4,454	-	-	-
Total	15,255	15,255	11,410	2,780	165	900

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. Financial instruments (continued)

2016	**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	11,232	11,232	6,116	3,759	387	970
Amounts owing to group companies	3,661	3,661	3,661	-	-	-
Total	14,893	14,893	9,777	3,759	387	970

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 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.

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 overdue 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 11. Management carefully manages its exposure to credit risk.

The Company's financial assets at the year end were as follows:

	Year ended 2017 £000	**Year ended 2016 £000**
Cash and cash equivalents	2,348	4,433
Trade receivables	6,161	5,313
Other receivables	614	252
Amounts due from group undertakings	629	4,030
	9,752	14,028

As stated in note 12, 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 Company. The Company is exposed to credit risk from sales. It is Company policy to assess the credit risk of major new customers before entering contracts. The majority of customers use the Company'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 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 main types of customer:

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. Financial instruments (continued)

	Year ended 2017 £000	Year ended 2016 £000
Individual customers	1,362	1,271
Other commercial customers	4,799	4,042
	6,161	5,313

The cash and cash equivalents consist only of bank balances, and is held with an institution with an A+ credit rating.

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.

19. Acquisitions

During the year, the Company purchased 2 (2016: 3) lettings portfolios for total consideration of £173,160 (2016: £423,000) which was immediately expensed on the grounds of materiality.

20. Investments

At 31 December 2017, the Company owns equity share capital in the following subsidiary undertaking, which is incorporated in the UK:

Name of subsidiary undertaking	Nature of business	Registered Address	Proportion of ordinary shares held 2017	Proportion of ordinary shares held 2016
Baldwins Estate Agents Limited	Dormant	Cumbria House, 16 - 20 Hockliffe Street Leighton Buzzard Bedfordshire LU7 1GN	100%	100%

Following the hive up of the business and assets of the subsidiary undertaking on 04/03/2016, Baldwins Estate Agents Limited entered a member's voluntary solvent liquidation on 15 December 2016.

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