CONNELLS RESIDENTIAL

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 December 2021

(Registered Number 01489613)

Contents

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2021.

INTRODUCTION AND OVERVIEW

Connells Residential is a private unlimited company incorporated in England & Wales, registered number 01489613.
The registered office address is; Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, LU7 1GN.

Connells Residential provides estate agency, lettings, mortgage services, conveyancing and ancillary services to participants in the UK residential property market. The business operates from 181 (2020:176) branches primarily under the Connells and Burchell Edwards brands.

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

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 £17,500,000 (2020: £6,000,000) were paid. The Directors do not recommend payment of a final dividend (2020:£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 £nil in 2021 (2020: £5,000). The Company made no political donations in 2021 (2020: £nil).

EMPLOYEE DEVELOPMENT AND EQUAL OPPORTUNITIES

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

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

DISCLOSURE OF INFORMATION TO AUDITOR

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

Directors' Report *(continued)*

GOING CONCERN

The Directors have undertaken a thorough assessment of the Company's financial forecasts to 30 June 2023, including the continuing impact of Covid-19 on its operations within the UK. 2021 was an excellent year for the UK housing market and the Company's ability to capitalise on the favourable market conditions enabled it to report a significantly increased profit for the year.

The Company is funded by its operating profits and the cash thereby generated. For the year ended 31 December 2021 the Company reported a net profit before tax of £21.4m (2020: £10.2m) and at 31 December 2021 had similar cash balances amounting to £18m (2020: £14.7m), even after paying a dividend of £17.5m (2020: £6m) to its shareholders. At the date of signing these accounts, the Company continues to hold a similar working cash balance and has no external debt.

The Company has modelled downturn scenarios as detailed below, which include mitigating actions including reducing headcount, capital and other discretionary spend and, where appropriate, using available government support. As a result of the modelling, the Directors have deemed it appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements of the Company for the year ended 31 December 2021.

In forming their view on going concern, the Directors continue to perform extensive forecasting to model potential market shocks, including the ongoing impact of the Covid-19 pandemic and its potential impact on business volumes. In particular the Directors have considered and modelled a number of severe but plausible scenarios, including the impact of a material downturn in the UK housing market caused by the Covid-19 pandemic or other political and economic circumstances. The key assumptions used in this severe stress scenario are as follows:

- A two month lockdown forces the UK housing market to close, reducing transactions to the level seen in April and May 2020 before slowly recovering.
- Mitigating actions to reduce headcount, capital expenditure and marketing spend.

The results from such stress testing indicate that the Company would be able to withstand the financial impact. The Company's financial strength means that it is well positioned to withstand such a downturn.

As a result of the above and following careful consideration, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

AUDITOR

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

By order of the board

RJ Twigg
Director

07 April 2022

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

Strategic Report

Business Review

2021 review

The results for the Company as set out on page 14 show a pre-tax profit of £21.4m (2020: £10.3m).

2021 was a particularly strong year for the UK housing market, with extremely high levels of demand from buyers fuelled in part by the stamp duty holiday and low interest rates. The shortage of available stock for sale created more urgency amongst buyers and led to strong house price inflation. Despite market conditions showing some signs of cooling in the second half of the year following the phasing out of the stamp duty holiday, buyer demand still remained ahead of normal level and the outlook for the market remained positive at the end of 2021.

The lettings market experienced very similar conditions, characterised by unprecedented levels of demand from tenants and an all-time low of available properties for rent. Accordingly the market experienced upwards pressure in respect of average rents and there remains a positive outlook for the lettings market.

The company's mortgage services operation also performed well in 2021, with an increase in mortgage sign-ups broadly mirroring the increase in house sales achieved. Management continue to focus on growing the headcount of branch based mortgage consultants as well as increasing productivity per consultant.

Consequently top-line results within sales, lettings and mortgage services in 2021 were significantly ahead of those achieved in 2020.

Recognising that such positive conditions will not be sustained in the medium term, management focussed on growing the company's market share in both the second hand sales market and the lettings market and made good progress in both. Further growth in market share is desired in 2022, with branch staff incentivised to achieve such.

The company has also continued to grow through acquisition. The company acquired an independent estate agent in Derbyshire Hall & Benson Limited during 2021. The acquisition has been successfully integrated into the Connells Residential business.

The company was not adversely impacted by the Covid-19 restrictions imposed by Government during the year and all branches were able to trade uninterrupted, however management still remain sensitive to the uncertainty surrounding the Covid-19 pandemic. Nevertheless, with strong profitability and good liquidity the company remains well poised to take advantage of whatever market conditions present.

Strategic Report *(continued)*

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.

	2021 £000	2020 £000	Change
Total fees and commissions	109,992	82,575	33%
Profit from operations	21,376	10,337	107%

Movement in:		
Estate agency exchanges	+51%	-14%
Applicants registered	+46%	+3%
Number of mortgages arranged	+10%	-1%
Lettings occupied units	+6%	+1%

Section 172 statement - The Board's approach

Policies and Practices

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

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

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

Corporate Governance

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

Employee matters

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

In order to help achieve this, the Company seeks direct feedback from its workforce on areas such as leadership, reward, trust, respect, well-being and communication. The Company carries out employee engagement surveys periodically, in which all employees are invited to participate. As a result of the Covid-19 pandemic, no such survey has been carried out since early 2020, but one is planned for 2022. The results of such surveys enable the Board to make decisions about where to focus attention to best effect. In particular, following the most recent survey, the Board has established a Diversity and Inclusion group, aimed at ensuring that the Company's policies and procedures continue to ensure that Sequence supports a diverse and inclusive workplace. The Board also includes groups of employees in such activities.

The Company has a number of policies and practices in place to help ensure that the working environment encourages trust, respect, recognition and good communication. These include, for example, structured career ladders, dignity at work, equal opportunities, and a well embedded health, safety and welfare policy. In addition, current projects include promoting a diverse and inclusive culture, and training to support mental health awareness. Remuneration structures are designed to reward high performance.

Strategic Report *(continued)*

Employee matters (continued)

The Company's modern slavery policy supports the objectives of the Modern Slavery Act 2015, further details of which can be found on the Company's website. Company policies are reviewed and monitored on an ongoing basis to ensure they remain appropriate and fit for purpose. Throughout the Covid-19 pandemic, the Company has sought to operate with the safety of its colleagues and customers being its priority. It has invested heavily in PPE, provided extensive training to all its people and implemented a number of Covid-secure standards across the business.

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

Social matters

The Company has enjoyed a long-standing partnership with the National Society for the Prevention of Cruelty to Children (NSPCC), from 2001 until 2021. During this period, over £150,000 has been raised through a number of individual, company-wide and head office function fundraising efforts.

In January 2021, the Company launched a new charity partnership with Mind UK, which combines the efforts of fellow subsidiary Sequence (UK) Limited, together with supporting Group head office functions. Mind UK is the leading mental health charity in England and Wales (SAMH – Scottish Association for Mental Health – in Scotland), providing advice and support to empower anyone experiencing a mental health problem. The charity campaigns to improve services, raise awareness and promote understanding, and provide support directly to those who need it most. This is a cause that has really resonated with our workforce, particularly at this time, and the Company will provide support through a range of fundraising activities and campaigns across the network.

The Company also participates in supporting national charitable events such as Comic Relief, Children in Need, Jeans for Genes, Wear it Pink and Macmillan Coffee Morning, and on a local level, the head offices based in Leighton Buzzard work with various partners on local community initiatives.

Environmental matters

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

The Company's Environmental Policy outlines the ways in which the Company reduces the use of paper, utilises recycling options, reduces pollution and levels of energy use. Initiatives such as the progressive reduction in company car CO2 emissions, the replacement of lighting with low energy units and the roll out of smart electricity and gas meters are examples of the Company's commitment to operating in an environmentally sustainable way.

Further details around Streamlined Energy and Carbon Reporting (SECR) are set out in the accounts of the parent company, Connells Limited.

Business relationships

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

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

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

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

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

Strategic Report *(continued)*

Decision making

The Board meets regularly and makes decisions which promote the success of the Company and its stakeholders. Proposals are discussed in detail, approved and documented by the Board which ensures key decisions are taken considering the Company's risk management framework detailed below.

- As explained further in note 23, the Company acquired a businesses during the year. The acquisitions support the strategy of acquiring good businesses either in new locations or that enhance our presence in existing postcodes. The acquisitions were made out of existing cash reserves.
- The annual corporate plan was approved following a robust and comprehensive review process. It was decided the plan would promote the success of the Company.
- Approved interim dividends – Meeting shareholder dividend expectations is a top priority to ensure the funds are able to benefit the wider Connells Group. The corporate plan indicates the dividend level to be sustainable and still allow the Company to invest in growth.

Risks and uncertainties

The Company's objective is to manage appropriately all the risks that arise from its activities. The Company has a formal structure for managing risks throughout the Company. 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 Company and its ultimate parent undertaking, Skipton Building Society, through its risk and compliance functions provide monitoring and oversight on behalf of the Company's and the Society's Boards.

- 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.

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

Covid-19 pandemic

The business was impacted in 2020 by the Covid-19 pandemic, which resulted in the closure of most branches and head office premises for two months and activity levels declined significantly during that period. Partly as a result of UK Government initiatives, the housing market was buoyant during the majority of 2021 and the Company took advantage of that in producing excellent results. Nevertheless, whilst the successful vaccination programme appears to have mitigated the Covid-19 risk to some extent, there remains uncertainty over the future path of the pandemic. Should further restrictive measures be required, these may impact customer sentiment and the wider economic recovery.

The Directors continue to monitor the progress of the pandemic and have taken a number of actions and contingency planning to safeguard the future profitability and viability of the business and, through the business continuity planning team, continue to take appropriate action. The Company's IT systems have enabled those people who can work from home to do so, and the Company has continued to be able to operate throughout the pandemic. The Company continues to invest in personal protective equipment (PPE), devised comprehensive working practices and rolled out training to allow for a safe and secure environment for its people and customers.

Housing market

The UK housing market is cyclical and its strength correlates closely with the general strength of the UK economy. Changes in house prices and the volume of properties sold impact the results of the business. 2021 was an excellent year for the UK housing market with record numbers of transactions, but the end of the stamp duty holiday, the continuing Covid-19 pandemic and geo-political uncertainty could impact market sentiment and transaction levels. However, the Board believes that the medium to long term outlook for the UK housing market remains positive, driven partially by the ongoing imbalance between the demand for properties against the available supply and the availability of affordable mortgage finance.

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

Strategic Report *(continued)*

Competitors

The Company operates in a number of markets where traditional operating models are being challenged. Failure to adapt and respond could lead to a fall in market share and, consequently, revenue.

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

Regulatory compliance

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

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

IT Infrastructure and information security

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

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

Financial misstatement and fraud

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

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

Capital

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

The Company's policy is to retain sufficient cash and capital resources to allow it to withstand market volatility and achieve its corporate objectives.

People

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

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

Strategic Report *(continued)*

Customers

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

By order of the board

RJ Twigg
Director

07 April 2022

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

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

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

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 accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in FRS 101 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the company will not 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 company financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website.

The directors confirm, to the best of their knowledge:

- that the financial statements, prepared in accordance with UK Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit of the company;
- that the annual report, including the strategic report, includes a fair review of the development and performance of the business and the position of the company, together with a description of the principal risks and uncertainties that they face; and
- that they consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position, performance, business model and strategy

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

Opinion

We have audited the financial statements of Connells Residential for the year ended 31 December 2021 which comprise the Statement of comprehensive income, the Statement of financial position and the Statement of changes in equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period to 30 June 2023 (15 months from when the financial statements are authorised for issue).

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

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

Opinion

We have audited the financial statements of Connells Residential for the year ended 31 December 2021 which comprise the Statement of comprehensive income, the Statement of financial position and the Statement of changes in equity and the related notes 1 to 24, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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 under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS RESIDENTIAL LIMITED
(Continued)

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept 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.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 10, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.
- We obtained an understanding of the legal and regulatory frameworks that are applicable to the company and determined that the most significant are The Estates Agents Act 2019, The Consumer Rights Act 2015, The Consumers, Estate Agents and Redress Act 2007, International Accounting Standards, Companies Act 2006, Data Protection Act 1998, Health and Safety at Work Act 1974, HMRC regulations, The Coronavirus Act 2020 Functions of Her Majesty's Revenue and Customs (Coronavirus Job Retention Scheme), UK Bribery Act, Equality Act and Anti-Money Laundering Regulations.
- We understood how Connells Residential is complying with those frameworks by making enquiries of those charged with governance and management. We understood the potential incentive and ability to override the controls. We considered management's attitude and tone from the top to embed a culture of honesty and ethical behaviour whereby a strong emphasis is placed on fraud prevention which may reduce opportunities for fraud to take place. We further understood the adoption of accounting standards and considered the compliance with the above laws.
- We assessed the susceptibility of the company's financial statements to material misstatement, including how fraud might occur by obtaining and reading internal policies, holding enquiries of management and those charged with governance and the in-house legal counsel as to any fraud risk framework within the entity.
- Based on this understanding we designed our audit procedures to identify noncompliance with such laws and regulations. Our procedures involved:
  - Enquiry of management and those charged with governance as to any fraud risk framework within the entity, including whether a formal fraud risk assessment is completed.
  - Enquiry of management, those charged with governance and the entity's in-house legal team around actual and potential litigation and claims.
  - Enquiry of entity staff in tax and compliance functions to identify any instances of non-compliance with laws and regulations, including communications with regulators and tax authorities.
  - Reading minutes of meetings of those charged with governance.
  - Reading internal audit reports.
  - Enquiry of management over reports to whistleblowing hotlines.
  - Reading financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CONNELLS RESIDENTIAL LIMITED
(Continued)

- Auditing the risk of management override of controls, including through testing journal entries and other adjustments for appropriateness.
- Data analytics to highlight potentially anomalous transactions in areas of the business which are determined to have an elevated fraud risk.
- Evaluating the business rationale of significant transactions outside the normal course of business, and;
- Challenging judgements made by management. This included corroborating the inputs and considering contradictory evidence.

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

Use of our report

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

Ernst & Young LLP

Joanne Mason (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP, Statutory Audit

Luton

Date: 13 April 2022

Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	Year ended 2021 £000	Year ended 2020 £000
Revenue	3	109,992	82,575
Other operating income	6	270	514
Employee benefit expenses	7	(55,505)	(42,129)
Operating expenses		(33,381)	(30,623)
Operating profit		**21,376**	**10,337**
Presented as:			
Earnings before interest, tax, depreciation, amortisation and impairment		27,907	20,025
Depreciation of tangible assets		(1,444)	(3,409)
Depreciation and impairment of right-of-use assets		(4,563)	(4,818)
Amortisation of intangibles		(524)	(1,461)
Operating profit		**21,376**	**10,337**
Finance income	4	257	170
Finance costs	5	(267)	(291)
Profit before tax		**21,366**	**10,216**
Tax expense	8	(3,131)	(2,047)
Profit for the year being total comprehensive income		**18,235**	**8,169**

The notes on pages 17 to 33 form part of these accounts.

Statement of Financial Position

AT 31 DECEMBER 2021

	Notes	£000	31 December 2021 £000	£000	31 December 2020 £000
Non-current assets					
Property, plant and equipment	9	6,353		7,260	
Intangible assets	10	5,778		5,179	
Right-of-use assets	11	13,278		15,288	
Deferred tax assets	12	1,417		751	
Total non-current assets			26,826		28,478
Current assets					
Trade and other receivables	13	5,182		6,059	
Cash and cash equivalents	14	17,979		14,670	
Tax assets		-		510	
Total current assets			23,161		21,239
Total assets			**49,987**		**49,717**
Current liabilities					
Trade and other payables	15	12,273		10,686	
Provisions	17	1,690		1,729	
Tax liabilities	8	171		-	
Lease liabilities	16	3,700		3,856	
Total current liabilities			17,834		16,271
Non-current liabilities					
Trade and other payables	15	1,131		719	
Provisions	17	984		926	
Lease Liabilities	16	9,818		11,850	
Total non-current liabilities			11,933		13,495
Total liabilities			29,767		29,766
Equity – attributable to equity holders of the company					
Share capital	18	6,347		6,347	
Other Reserves	18	(466)		-	
Retained earnings	18	14,339		13,604	
Total equity			20,220		19,951
Total equity and liabilities			**49,987**		**49,717**

These accounts were approved by the Board of Directors on 07 April 2022 and signed on its behalf by:

RJ Twigg
Director

Company registration number: 01489613

The notes on pages 17 to 33 form part of these accounts.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2021

	Share Capital £000	Other Reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2021	6,347	-	13,604	19,951
Total comprehensive income for the year	-	-	18,235	18,235
Transfer investment to other reserves	-	(466)	-	(466)
Dividends to shareholders	-	-	(17,500)	(17,500)
Balance at 31 December 2021	**6,347**	**(466)**	**14,339**	**20,220**

	Share Capital £000	Other Reserves £000	Retained earnings £000	Total equity £000
Balance at 1 January 2020	6,347	-	11,435	17,782
Total comprehensive income for the year	-	-	8,169	8,169
Dividends to shareholders	-	-	(6,000)	(6,000)
Balance at 31 December 2020	**6,347**	**-**	**13,604**	**19,951**

During the year interim dividends of £17,500,000 (2020: £6,000,000) were paid. The dividend per share totalled £2.76 (2020: £0.95)

The notes on pages 17 to 33 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 accounts:

a) Basis of accounting

The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" in conformity with the requirements of the Companies Act 2006.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1q).

Transition to FRS 101

The Company transitioned from IFRS to FRS 101 Reduced Disclosure Framework as at 1 January 2021. The accounting policies applied under the previous accounting framework are not materially different to FRS 101 and as a result, no transitional adjustments were required in equity or comprehensive income as at the transition date nor the year ended 31 December 2021.

The Company has taken advantage of the following disclosure exemptions under FRS 101:

a) The requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 Presentation of Financial Statements.
b) The requirements of IAS 7 Statement of Cash Flows.
c) The requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures.
d) The requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is a wholly owned member of the group.
e) The requirements of IFRS 7 Financial Instruments: Disclosures
f) The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15
g) The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16
h) The requirements of paragraphs 130(f)(ii), 130(f)(iii), 134(d) to 134(f) and 135(c) to 135(e) of IAS 36.
i) The requirements in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of
   i. paragraph 73(e) in respect of IAS 16 Property, Plant and Equipment
   ii. paragraph 118(e) in respect of IAS 38 Intangible Assets

The Company's financial statements are consolidated into the consolidated financial statements of Connells Limited (the Company's immediate parent undertaking) as at 31 December 2021. Those accounts may be obtained on request from Cumbria House, 16-20 Hockliffe Street, Leighton Buzzard, Bedfordshire, United Kingdom, LU7 1GN.

The Company's financial statements are consolidated into the consolidated financial statements of Skipton Building Society (the Company's ultimate parent undertaking) as at 31 December 2021. Those accounts are available online at www.skipton.co.uk/about-us or on request from The Secretary, Skipton Building Society, The Bailey, Skipton, North Yorkshire, BD23 1DN.

Adoption of new and revised UK Financial Reporting Standards

The Company adopted during the year the following amendment to existing accounting standards, which did not have a material impact on these financial statements:

- *COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)*

Standards issued but not yet effective

A number of new and amended accounting standards and interpretations will be effective for future reporting periods, none of which has been early adopted by the Company in preparing these financial statements. These new and amended standards and interpretations, details of which are set out below, are not expected to have a material impact on the Company's financial statements:

- IFRS 17 *Insurance Contracts;*
- *Classification of Liabilities as Current or Non-current (Amendments to* IAS 1*);*
- *Onerous Contracts – Costs of Fulfilling a Contract* (Amendments to IAS 37);
- *Fees in the '10 per cent' test for derecognition of financial liabilities* (Amendments to IFRS 9);
- *Definition of Accounting Estimates* (Amendments to IAS 8);
- *Disclosure of Accounting Policies* (Amendments to IAS 1 and IFRS Practice Statement 2); and
- *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (Amendments to IAS 12).

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

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 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 to 9. The financial position of the Company and liquidity position are shown on pages 14 to 16. 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 Directors have undertaken a thorough assessment of the Company's financial forecasts to 30 June 2023, including the continuing impact of Covid-19 on its operations within the UK. 2021 was an excellent year for the UK housing market and the Company's ability to capitalise on the favourable market conditions enabled it to report a significantly increased profit for the year.

The Company is funded by its operating profits and the cash thereby generated. For the year ended 31 December 2021 the Company reported a net profit before tax of £21.4m (2020: £10.2m) and at 31 December 2021 had similar cash balances amounting to £18m (2020: £14.7m), even after paying a dividend of £17.5m (2020: £6m) to its shareholders. At the date of signing these accounts, the Company continues to hold a similar working cash balance and has no external debt.

The Company has modelled downturn scenarios as detailed below, which include mitigating actions including reducing headcount, capital and other discretionary spend and, where appropriate, using available government support. As a result of the modelling, the Directors have deemed it appropriate to continue to adopt the going concern basis of accounting in preparing the annual financial statements of the Company for the year ended 31 December 2021.

In forming their view on going concern, the Directors continue to perform extensive forecasting to model potential market shocks, including the ongoing impact of the Covid-19 pandemic and its potential impact on business volumes. In particular the Directors have considered and modelled a number of severe but plausible scenarios, including the impact of a material downturn in the UK housing market caused by the Covid-19 pandemic or other political and economic circumstances. The key assumptions used in this severe stress scenario are as follows:

- A two month lockdown forces the UK housing market to close, reducing transactions to the level seen in April and May 2020 before slowly recovering.
- Taking mitigating actions to reduce headcount, capital expenditure and marketing spend.

The Company's financial strength means that it is well positioned to withstand any further downturn. As at 31 December 2021 the Company has no long term debt and therefore no covenant tests that it must meet.

As a result of the above and following careful consideration, the Directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Business combinations

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

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

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

b) Revenue recognition

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

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

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 at the following rates:

Office equipment	-	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 for motor vehicles which are calculated on a reducing balance basis. Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

d) Goodwill

Goodwill arising on the acquisition of 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. On the sale of a CGU, 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.

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:

Customer contracts and relationships	-	1 to 10 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.

f) 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 CGU. Impairment of a CGU's associated goodwill is recognised where the present value of future cash flows of the CGU is less than its carrying value. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Any impairment loss in respect of goodwill is not reversed.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

g) Trade and other receivables

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

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

h) Leases

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

From 1 January 2019, the Company assesses at contract inception whether a contract is, or contains a lease. IFRS 16 means the Company recognise a right-of-use asset and a corresponding liability at the date at which the leased asset is available.

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

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

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

i) Taxation including Deferred Tax

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 charge or credit 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)*

1. Accounting policies (continued)

j) Trade and other payables

Trade payables are stated at their initial fair value then subsequently carried at amortised cost.

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.

Short term benefits

Short term employee benefit obligations are measured on an undiscounted basis and are 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 share 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

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

m) 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.

n) 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 current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

o) Net financing costs

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

p) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income against the related cost, on a systematic basis over the periods the cost is incurred. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

q) 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

1. Accounting policies (continued)

q) Critical accounting estimates and judgements in applying accounting policies (continued)

Provisions

Certain critical judgments have been made in applying the Company's accounting policies in relation to closed branch provisions (note 17), provision for clawback of insurance commission (note 17), and impairment provisions on trade receivables (note 13).

Lease term

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

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

2. Expenses and Auditor's remuneration

	Year ended 2021 £000	Year ended 2020 £000
Profit before tax is stated after charging/ (crediting) the following:		
Depreciation of property, plant and equipment	1,444	3,409
Amortisation of intangible assets	524	1,461
Impairment loss / (profit) on trade receivables	17	(396)
(Profit) on disposal of property, plant, and equipment	(59)	(51)
Business rates relief	(772)	(1,240)
Auditor's remuneration and expenses:		
Audit of these financial statements	65	41

In 2021 the increased auditor's remuneration of £24,000 (2020: £nil) was borne by Connells Limited.

3. Revenue

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

2021	Products and services transferred at a point in time £000	Products and services transferred over time £000	Total 2021 £000
Commissions earned on property sales	53,114	-	53,114
Commissions earned on property lettings	18,382	-	18,382
Income from sale of financial services products	21,878	4,625	26,503
Conveyancing income	11,715	-	11,715
Other income and commissions	278	-	278
	105,367	4,625	109,992

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. Revenue (continued)

2020	Products and services transferred at a point in time £000	Products and services transferred over time £000	Total 2020 £000
Commissions earned on property sales	35,735	-	35,735
Commissions earned on property lettings	17,252	-	17,252
Income from sale of financial services products	18,372	3,877	22,249
Conveyancing income	7,090	-	7,090
Other income and commissions	249	-	249
	78,698	3,877	82,575

4. Finance income	Year ended 2021 £000	Year ended 2020 £000
Interest received on debtors	2	3
Interest on deposits with group undertakings	255	167
	257	170

5. Finance cost	Year ended 2021 £000	Year ended 2020 £000
Interest on lease liabilities	266	291
Other Interest payable	1	-
	267	291

6. Other operating income	Year ended 2021 £000	Year ended 2020 £000
Rents receivable	211	213
Profit on disposal of property, plant and equipment	59	51
Government grants (see note 22)	-	250
	270	514

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

7. Staff numbers and costs

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

	Year ended 2021 No.	Year ended 2020 No.
Directors	4	4
Other	1,421	1,423
	1,425	**1,427**

The aggregate payroll costs of these people was as follows:	£000	£000
Wages and salaries	49,239	37,017
Social security costs	5,083	4,108
Other pension costs	1,183	1,004
	55,505	**42,129**

Wages and salaries are stated after crediting £nil (2020: £4,162,000) of government grants received under the Coronavirus Job Retention Scheme (CJRS). Further details are provided in note 22.

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 £546,974 (2020: £139,644).

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

8. Tax expense

a) Analysis of expense in the year at 19 % (2020: 19%)	Year ended 2021 £000	Year ended 2020 £000
Current tax expense		
Current tax at 19% (2020: 19%)	4,166	2,180
Adjustment for prior years	(217)	(38)
Total current tax	**3,949**	**2,142**
Deferred tax credit		
Origination and reversal of temporary differences	15	(41)
Effect of changes in tax rates	(308)	(85)
Adjustment in respect of prior years	(525)	31
Total deferred tax	**(818)**	**(95)**
Tax expense	**3,131**	**2,047**

b) Factors affecting current tax expense in the year

The tax assessed in the Income Statement is lower (2020: higher) than the standard UK corporation tax rate because of the following factors:

	Year ended 2021 £000	Year ended 2020 £000
Profit before tax	21,366	10,216
Tax on profit at UK standard rate of 19% (2020: 19%)	4,060	1,941
Expenses not deductible for tax purposes	128	208
Income not taxable for tax purposes	(7)	(10)
Adjustment to tax expense in respect of prior periods	(742)	(7)
Tax rate changes	(308)	(85)
Tax expense	**3,131**	**2,047**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9. Property, plant and equipment

	Land and buildings £000	Office equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2021	13,403	11,722	4,429	29,554
Additions	187	52	418	657
Disposals	-	(3)	(711)	(714)
At 31 December 2021	13,590	11,771	4,136	29,497
Accumulated depreciation and impairment				
At 1 January 2021	8,175	11,205	2,914	22,294
Depreciation charge for the year	658	337	449	1,444
Disposals	-	(1)	(593)	(594)
At 31 December 2021	8,833	11,541	2,770	23,144
Carrying amounts				
At 1 January 2021	5,228	517	1,515	7,260
At 31 December 2021	4,757	230	1,366	6,353

10. Intangible assets

	Goodwill £000	Computer software £000	Customer contracts & relationships £000	Total £000
Cost				
At 1 January 2021	5,119	3,229	3,535	11,883
Additions	343	-	780	1,123
Disposals	-	-	-	-
At 31 December 2021	5,462	3,229	4,315	13,006
Amortisation and impairment losses				
At 1 January 2021	253	3,229	3,222	6,704
Amortisation for the year	-	-	524	524
Disposals	-	-	-	-
At 31 December 2021	253	3,229	3,746	7,228
Carrying amounts				
At 1 January 2021	4,866	-	313	5,179
At 31 December 2021	5,209	-	569	5,778

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) 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 is determined from value in use calculations.

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.
Goodwill is not subject to amortisation but is tested for impairment. The non-amortisation of goodwill conflicts with paragraph 22 of Schedule 1 to 'The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410), which requires acquired goodwill to be written off over its useful economic life. As such, the non-amortisation of goodwill is a departure, for the overriding purpose of giving a true and fair view, from the requirement of paragraph 22 of Schedule 1 to the Regulations. Had the company amortised goodwill, a period of 20 years would have been chosen as the useful life. The profit for the year would have been £260,446 lower had goodwill been subject to amortisation.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. Right-of-use assets

	ROU Land and buildings £000	ROU Office equipment £000	Company total £000
Cost			
At 1 January 2021	18,259	5,393	23,652
Additions	1,501	-	1,501
Disposals	(1,097)	-	(1,097)
Modifications	1,284	-	1,284
At 31 December 2021	**19,947**	**5,393**	**25,340**
Accumulated depreciation and impairment			
At 1 January 2021	7,555	809	8,364
Depreciation charge for the year	3,477	1,079	4,556
Impairment	7	-	7
Disposals	(865)	-	(865)
At 31 December 2021	**10,174**	**1,888**	**12,062**
Carrying amounts			
At 1 January 2021	10,704	4,584	15,288
At 31 December 2021	**9,773**	**3,505**	**13,278**

12. Deferred tax

The deferred tax assets are considered to be recoverable in full. Where deferred tax balances are expected to reverse before 1 April 2023, they have been calculated at the currently enacted corporation tax rate of 19%. The corporation tax rate increase from 19% to 25% with effect from 1 April 2023 was substantively enacted on 24 May 2021 and deferred tax balances that are expected to reverse after this date have been calculated at 25%.

The movement on the deferred tax asset is as shown below:	Year ended 2021 £000	Year ended 2020 £000
At 1 January	751	744
Movement arising from transfer of trade	(152)	(88)
Income Statement credits	818	95
At 31 December	**1,417**	**751**

Deferred tax assets are attributable to the following items:

Deferred tax assets	Asset/ (liability) £000	(Charged) / credited to income £000
2021		
Capital allowances	1,273	615
Intangible assets	(124)	84
Provisions	268	119
	1,417	**818**
2020		
Capital allowances	662	89
Intangible assets	(60)	35
Provisions	149	2
Prior year charge	-	(31)
	751	**95**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

12. 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.

13. Trade and other receivables

	2021 £000	2020 £000
Trade receivables	4,288	5,605
Amounts due from group companies	28	61
Prepayments and accrued income	1,494	1,250
Other receivables	56	214
Bad debt provision	(684)	(1,071)
	5,182	6,059

Amounts due from other group undertakings are unsecured, interest free and repayable on demand.

14. Cash and Cash Equivalents

	Year ended 2021 £000	Year ended 2020 £000
Bank balances	3,979	5,670
Call deposits	14,000	9,000
	17,979	14,670

The call deposits represent cash on deposit with Connells Limited, the immediate parent undertaking.

15. Trade and other payables

Due within one year	Year ended 2021 £000	Year ended 2020 £000
Trade and other payables	6,859	4,584
Amounts owed to group undertakings	2,062	1,325
Accruals and deferred income	3,352	4,777
	12,273	10,686
Due after more than one year		
Trade and other payables	897	523
Accruals and deferred income	234	196
	1,131	719

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

16. Lease liabilities

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

	2021 £000	2020 £000
Cost		
At 1 January	15,706	17,576
Additions	1,501	1,356
Interest charged	266	291
Lease payments	(5,006)	(4,669)
Disposals	(233)	(157)
Modifications	1,284	1,309
At 31 December	**13,518**	**15,706**

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

	2021 £000	2020 £000
Lease liabilities are repayable:		
In not more than 3 months	1,190	1,236
In more than 3 months but less than 1 year	2,510	2,620
In more than 1 year but less than 5 years	8,642	10,020
In more than 5 years	1,176	1,830
	13,518	15,706

The discount rates for the leases disclosed above ranged from 0.5% to 3%. The Company has several lease contracts that include termination options, usually through a break clause. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and adapt to the Company's business needs. Management exercises judgement in determining whether these termination options are reasonably certain to be exercised.

17. Provisions

	Property Provisions £000	Insurance commission clawback £000	Other provisions £000	Total £000
Balance at 1 January 2021	380	2,165	110	2,655
Provisions made during the year	96	2,018	(30)	2,084
Provisions used during the year	(15)	(2,050)	-	(2,065)
Balance at 31 December 2021	**461**	**2,133**	**80**	**2,674**
Due within one year or less	306	1,304	80	1,690
Due after more than one year	155	829	-	984
	461	**2,133**	**80**	**2,674**
Balance at 1 January 2020	570	4,188	96	4,854
Transfer to another group company	-	(1,874)	-	(1,874)
Provisions made during the year	(101)	1,980	79	1,958
Provisions used during the year	(89)	(2,129)	(65)	(2,283)
Balance at 31 December 2020	**380**	**2,165**	**110**	**2,655**
Due within one year or less	240	1,379	110	1,729
Due after more than one year	140	786	-	926
	380	**2,165**	**110**	**2,655**

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 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 sold to customers. This provision is based on the clawback period from the sign up date of the term insurance policy. The cancellation rates used in the provision are revisited every quarter. The provision is expected to reverse over the next 3 years

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

18. Share capital

Authorised, allotted, called up and fully paid	Year ended 2021 £000	Year ended 2020 £000
2021: 6,347,000 (2020: 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 2021 £000	Year ended 2020 £000
Capital		
Ordinary shares	6,347	6,347
Other Reserves	(466)	-
Retained earnings	14,339	13,604
	20,220	19,951

The other reserve in the Company relates to the impairment of the carrying value of Hall & Benson Limited. The trade and assets of this subsidiary was hived up into Connells Residential so the investments have been revalued to £Nil.

The Company 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.

19. Related Party Transactions

19.1 Transactions with Group companies

The Company has taken advantage of the exemptions conferred by FRS 101 from the requirements to make disclosures concerning transactions with other wholly owned members of the Connells Group and Skipton Group, as the company is a wholly owned subsidiary and consolidated accounts are publicly available for both the immediate parent and ultimate parent undertaking.

Outstanding balances between Group entities as at the Statement of Financial Position date are disclosed within notes 13 and 15 above.

The Company has related party relationships within the Skipton group as detailed below. All such transactions are priced on an arm's length basis.

The Company has related party relationships within the Skipton Group as detailed below. All such transactions are priced on an arm's length basis.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19. Related Party Transactions (continued)

19.1 Transactions with Group companies (continued)

The Company has taken advantage of the exemptions conferred by FRS 101 from the requirements to make disclosures concerning transactions with other wholly owned members of the Connells Group and Skipton Group, as the company is a wholly owned subsidiary and consolidated accounts are publicly available for both the immediate parent and ultimate parent undertaking.

Outstanding balances between Group entities as at the Statement of Financial Position date are disclosed within notes 13 and 15 above.

The Company has related party relationships within the Skipton group as detailed below. All such transactions are priced on an arm's length basis.

The Company has related party relationships within the Skipton Group as detailed below. All such transactions are priced on an arm's length basis.

	2021			2020		
	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	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**
b) Sales of goods and services						
Estate agency services			162	-	-	208
Search fees	-	-	372	-	-	1,406
Total	**-**	**-**	**534**	**-**	**-**	**1,614**
c) Purchase of goods and services						
Shared service recharges	-	-	(86)	-	-	(83)
Administration charges	-	-	-	-	-	-
Energy performance certificates			(585)			(256)
Total	**-**	**-**	**(671)**	**-**	**-**	**(339)**
d) Outstanding balances						
Receivables from related parties	-	-	6	-	-	15
Payables to related parties	-	-	(36)	-	-	(20)
Total	**-**	**-**	**(30)**	**-**	**-**	**(5)**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19. Related Party Transactions (continued)

19.2 Transactions with Directors and close family members

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

	Year ended 2021 £	Amount outstanding 31 December 2021 £	Year ended 2020 £	Amount outstanding 31 December 2020 £
Lettings fees, paid by Directors and Directors' family members	-	-	4,709	-
Total	**-**	**-**	**4,709**	**-**

The above fees payable by Directors were at rates available to all staff.

20. Capital commitments

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

	Year ended 2021 £000	Year ended 2020 £000
Motor vehicles	477	354
Other/Improvements	46	160
	523	**514**

21. 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 £1,183,000 (2020: £1,004,000). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

22. Government grants

	2021 £000	2020 £000
At 1 January	-	-
Received during the year	772	5,652
Released to the income statement	(772)	(5,652)
At 31 December	**-**	**-**
Current	-	-
Non-current	-	-

Government grants have been received relating to business rates relief £772,000 (2020: £1,240,000 within other operating expenses Note 2), the Coronavirus Job Retention Scheme £nil (2020: £4,162,000 within employee benefit expenses), Retail Cash Grant Scheme £nil (2020: £250,000 within other income).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

23. Acquisitions

On February 27th 2021, Connells Residential completed the acquisition of the entire share capital of Hall & Benson Limited, for a total consideration of £725,000. Hall & Benson Limited was purchased in line with the strategic direction of the Company and has been successfully integrated into the Sequence business.

The Company incurred acquisition-related costs of £48,500 on legal fees and due diligence costs. These costs have been included in 'administrative expenses'. If the acquisition had occurred on 1 January 2021, contributions to Company income and contribution to Company profit for the year ended 31 December 2021 would have been £1,651,000 and £451,000 respectively.

These acquisitions generated the following goodwill:

	Total £'000
Intangible assets	780
Deferred tax	(148)
Net assets	**632**
Cash paid to acquire the businesses	**725**
Deferred consideration	**250**
Goodwill	**343**
Contribution to Company income from acquisition	**1,376**
Contribution to Company profit from acquisition	**376**

24. 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 that Company are available to the public and can be obtained from:

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