

**Company Registration No. 01680058**

**Foxtons Limited**

**Annual Report and Financial Statements**

**For year ended 31 December 2018**



# **Foxtons Limited**

## **Annual report and financial statements 2018**

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# **Foxtons Limited**

## **Annual report and financial statements 2018**

### **Company information**

#### **Directors**

N Budden  
M Berry  
P Franco

#### **Company Secretary**

C Hough

#### **Registered Office**

Building One  
Chiswick Park  
566 Chiswick High Road  
London  
W4 5BE  
United Kingdom

#### **Registered Number**

01680058 (England and Wales)

#### **Bankers**

Barclays Bank PLC Level 28  
1 Churchill Place  
London  
E14 5HP

#### **Solicitors**

Dickson Minto WS  
Broadgate Tower  
20 Primrose Street  
London  
EC2A 2EW

#### **Auditor**

Deloitte LLP  
Statutory Auditor  
1 New Street Square  
London  
EC4A 3HQ

# Foxtons Limited

## Strategic report

The directors present their strategic report for the year ended 31 December 2018.

Foxtons Limited is the leading London estate agency, offering residential property sales and lettings services through its network of 61 branches. The Company focuses on the higher-volume, higher-value property markets in London.

The Company combines:

- A strong, single brand;
- High levels of centralisation allowing low cost expansion;
- An innovative application of technology; and
- A powerful culture of sales and service through outstanding training and staff development.

The Company has a clear strategy to grow profitability by:

- Targeting higher volume, higher value residential property markets in London;
- Maintaining a balance between sales and lettings;
- Providing a premium service;
- Expanding organically to maximise return on capital; and
- Positioning itself for sales volume market growth.

The Company comprises of two business segments of Sales and Lettings. The majority of operations are in the London area with two branches in the adjacent area of Surrey. Sales revenue was 35% of total revenue while lettings revenue was 65%. This balance across the Sales and Lettings segments provides financial strength in the Company to withstand fluctuations in the property market.

The Company has a successful track record of profitable organic expansion and now covers over 85% of the Greater London area. Leveraging our existing platform of 61 branches, we are aiming to cover the rest of London by optimising territories, 'up-skilling' our people and investing in technology. Average revenue per branch was £1.7 million (2017: £1.6 million) reflecting the fall in company revenue in the year and the decrease in the number of branches from 67 to 61 (at 31 December 2018).

Foxtons is a multi-award winning estate agency, winning many prestigious awards for its service, training, website and marketing, both nationally and internationally. These awards demonstrate the unwavering commitment of our people to delivering exceptional service to clients, day in, day out.

### Key performance indicators

**Revenue:** The London property sales market was significantly impacted by a marked step down in activity resulting from lower consumer confidence due to ongoing political uncertainty, the impact of stamp duty changes introduced in 2016, and affordability concerns. Total revenue for 2018 was £103.2m down £5.7m when compared to 2017 (£108.9m). The business performed well despite tougher trading conditions in 2018.

**Sales:** During the year, sales commissions decreased by 15%, which was largely volume driven by a 15% fall in number of deals, while revenue per deal remained relatively flat. The average revenue remained flat due to a combination of factors with a slightly higher proportion of higher value transactions in the central London area being offset by lower overall prices, Sales for 2018 was £36.2m (2017: £42.6m).

**Lettings:** Lettings revenue increased by 1% versus prior year which was driven by increased revenue per deal resulting from longer deal length and broadly flat deal volumes, this resulted in Lettings revenue in 2018 of £67.0m (2017 £66.3m).

# Foxtons Limited

## Strategic report (continued)

**Adjusted EBITDA margin<sup>1</sup>** - Total Adjusted EBITDA margin fell to 4% (2017: 14%). Refer to adjusted EBITDA in note 24. This reduction reflects the decrease in sales volumes that were widespread across most of our branch network. Also administrative expenses excluding adjusted items in the period were £4.7 million higher than prior year with planned new investments and general cost inflation, being partially offset by lower net commissions and depreciation.

**(Loss)/Profit before tax** – Loss before tax of £7.8 million (2017: profit of £5.8 million) is 234% down on prior year. Included in the loss before tax is a £5.9 million charge in respect of adjusted items. £5.0 million relates to the closure of six branches in the second half of the year, and a further four branches had their net assets impaired by £0.9 million (refer to note 6).

Total net assets have fallen to £15.0m (2017: £21.6m), the decrease was driven by a £5.5m asset write down in 2018 relating to branch closures.

### Future developments

In February 2018 we laid out plans to shift investment away from branch roll outs and into other areas of our business including our brand. Foxtons is the most recognised estate agent in London and we feel our proposition – of excellent service which delivers results – is highly relevant in today's market and yet not as well understood as it could be. To address this, in 2018 we embarked on a series of brand building initiatives to reinforce our proposition amongst potential customers, buyers and tenants.

Maintaining our leadership in technology is vital as it will play an increasingly important role in enabling us to deliver exceptional service to our customers. As part of our strategy to identify future growth areas within residential property, Foxtons regularly considers partnerships with companies that potentially offer diversified income streams, complementary technology, and access to new customer segments. In 2018 we made a strategic investment in Propoly, a young company providing business to business white label digital estate agency software services, currently focused on lettings. This investment gives us access to nascent technology, which we may potentially leverage in the future. We also invested in a partnership with Zero Deposit, a service which offers an alternative to traditional cash deposits for tenants when renting a property. It gives renters greater choice and flexibility while helping landlords maximise the marketing of their properties.

Estate agency is a people-based industry and it is therefore important that we attract and retain the best talent, and that our agents stay motivated. In 2018 we invested more heavily in people, including new remuneration structures, a higher number of negotiators focused on lettings and additional property managers to enhance our service to landlords.

We believe our investment in technology, our people, and our brand over the last year has been a key driver of the improved performance in lettings and we expect to continue to see its benefit.

Looking ahead, we expect trading conditions to remain challenging in 2019. Whilst our sales pipeline remains at a similar level to the same time last year, the sales market remains very subdued with less visibility on exchanges proceeding. Our less cyclical lettings business provides resilience against sales market cycles and we continue to target growth in this area. Enhanced operational focus, customer initiatives and utilisation of technology and data have already shown some progress; we aim to build on this going forward.

In the longer term, whilst recent political events have produced uncertainty for buyers and sellers, we expect London to remain a highly attractive property market for sales and lettings. We have several initiatives underway to promote growth in our lettings business and remain focused on growing market share in our less mature branches. Our commitment to achieving the best result for our customers and powerful brand continue to be key differentiators. We have become accustomed to operating in these conditions, and are well placed to withstand them given our leaner cost base and continued strong balance sheet with no debt.

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<sup>1</sup> Adjusted EBITDA is defined as profit before tax, other gains, finance costs, finance income, depreciation, amortisation, profit on disposal of assets, share-based payments and adjusted items. Refer to note 24 for a reconciliation to operating profit.

# Foxtons Limited

## Strategic report (continued)

### Principal risks and uncertainties

The directors continually assess the risks and uncertainties facing the Company and ensure that controls are in place to mitigate them. Risks and uncertainties facing the company include:

#### Market risk

- Impact on company: Continuous high property price inflation may impact affordability which in turn may reduce transaction levels in the market. The market may also be affected by any reduction in London's standing as a major financial city caused by the UK's decision to leave the EU. The market is also reliant on the availability of mortgage finance, a deterioration in which may adversely affect the Company. The market may also be impacted by any changes in Government policy such as increases in Stamp Duty taxes or increased regulation in the lettings market.
- Mitigation of risk: The Company endeavours to maintain a generally even balance between its sales and lettings revenues and profits in order to provide protection against volatility within the property sales market.

#### Competitor challenge

- Impact on company: The Company operates in a highly competitive marketplace. New or existing competitors could develop new services or methods of working including online and hybrid agents which could give them a competitive advantage over Foxtons.
- Mitigation of risk: The Company continually collects information on competitor activity through its branch network and centralised Business Development teams. The Company's flat management structure allows this competitor intelligence to be fed back to management accurately and quickly so that the Company can rapidly consider appropriate responses. The Board believes that the emotional and complex nature of estate agency transactions means that it is unlikely that online agents will play a major role in the exchange or completion of sales or lettings transactions without the involvement of an estate agent. Any market share gained by online agents is likely to be at the expense of traditional estate agents with low levels of service who compete on price.

#### Cash flow risk

- Due to the nature of the financial instruments used by the company there is no exposure to price risk. The Company's approach to managing other risks applicable to the financial instruments concerned is shown below.
- Mitigation of risk: Trade debtors are managed in respect of cash flow risk by policies concerning the regular monitoring of amounts outstanding. Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

#### Credit risk

- The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables.
- Mitigation of risk: An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

#### Liquidity risk

- The Company does not maintain liquidity to ensure that sufficient funds are available for ongoing operations and future development.
- Mitigation of risk: The Company is cash positive and regularly reviews its cash position/funding requirements in line with forecasts/budgets. Should there be a need for additional funding, the business is able to access Foxtons Group plc £5m revolving credit facility.

#### Compliance with the legal and regulatory environment

- Impact on company: Breaches of laws or regulations could lead to financial penalties and reputational damage.
- Mitigation of risk: The Company is supported by Compliance and Legal teams who monitor regulatory reform proposals and participate in industry forums. The Company's centralised service structure provides it with a flexible platform from which to respond to regulatory change.

# Foxtons Limited

## Strategic report (continued)

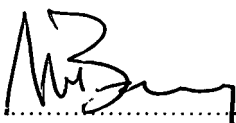
### IT systems and cyber risk

- Impact on company: The Company's business operations are dependent on sophisticated IT systems which could fail or be deliberately targeted by cyber-attacks, leading to interruption of service, corruption of data, or theft of personal data.
- Mitigation of risk: All key IT systems are closely monitored by internal and external specialist teams. Dedicated in-house IT development and maintenance teams exist to provide rapid response to IT service issues. This is supplemented by enterprise grade data loss prevention, network monitoring, traffic shaping and predictive countermeasures. Real-time automated monitoring of data flows is safeguarded by an independent 24/7 365 days a year Security Operations Centre, which works with the Company to ensure that all the protection is patched and appropriate for the threat level experienced. Thorough and regular penetration testing is conducted by world leading independent test teams, to ensure that all countermeasures are effective against the latest threats. Group disaster recovery plans are in place utilising a physically separate location for critical systems and multiple communications lines to all locations. Company data has been risk assessed and all sensitive and business critical data has safeguards appropriate to its importance. This is regularly reviewed and assessed with oversight by an independent party.

### People

- Impact on company: There is a risk that the Company may not be able to recruit and retain sufficient people to achieve its operational objectives as competition for talent increases due to challenging market conditions.
- Mitigation of risk: The Company's structured approach to recruitment using internal specialist teams enables us to increase the recruitment of high-quality people quickly, should it become necessary to do so. The Company continues to invest in training, development and succession planning so that future leaders can be identified and nurtured. Our culture of promoting from within generates significant staff loyalty within senior and mid-management employees.

Approved on behalf of the Board:



M Berry  
Director

Date: 4<sup>th</sup> JULY 2019.

# **Foxtons Limited**

## **Directors' report**

The directors present their annual report with the audited financial statements of the company for the year ended 31 December 2018.

### **Dividends**

No dividends were paid in the year ended 31 December 2018 (2017: £nil). No further dividends have been proposed.

### **Directors**

The directors shown below have held office during the whole of the year from 1 January 2018 to the date of this report:

N Budden

M Berry

P Franco

The following directors were appointed or resigned from 1 January 2018 to the date of this report:

G Nieslony resigned on 31 January 2018.

M Berry has announced he will be leaving the Company in July 2019 and will be resigning as a director. R Harris will be appointed as a director in July 2019.

### **Going concern**

The directors continue to adopt the going concern basis in preparing the financial statements. See note 2 for further information.

### **Financial risk management objectives and policies**

The Company's principal financial instruments comprise bank balances, trade creditors and trade debtors which are a normal part of any company's operations.

Due to the nature of the financial instruments used by the Company there is no exposure to price risk. The Company's approach to managing other risks applicable to the financial instruments concerned is shown below.

Trade debtors are managed in respect of cash flow risk by policies concerning the regular monitoring of amounts outstanding. Trade creditors liquidity risk is managed by ensuring sufficient funds are available to meet amounts due.

### **Disabled employees**

The Company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

### **Employee involvement**

During the year, the policy of providing employees with information about the Company has been continued through internal media methods in which employees have also been encouraged to present their suggestions and views on the Company's performance. Regular meetings are held between local management and employees to allow a free flow of information and ideas.

### **Events after the Balance Sheet date**

The ultimate parent of Foxtons Limited, Foxtons Group plc, has agreed a £5 million revolving credit facility as of 20 June 2019, replacing the previous £10 million revolving credit facility



# Foxtons Limited

## Directors' report

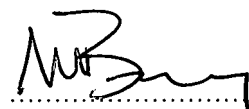
### Statement as to disclosure of information to auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Approved on behalf of the Board:



M Berry

Director

Date: 4<sup>TH</sup> JULY 2019.

# **Foxtons Limited**

## **Directors' responsibilities statement**

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), 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;
- 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 inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They 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.

# **Independent auditor's report to the members of Foxtons Limited**

## **Report on the audit of the financial statements**

### **Opinion**

In our opinion the financial statements of Foxtons Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

### **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 Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

### **Other information**

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in respect of these matters.

# Independent auditor's report to the members of Foxtons Limited

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements

### 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 the directors' report have been prepared in accordance with applicable legal requirements.

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 any material misstatements in the strategic report or the directors' report.

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

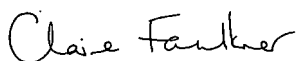
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

### 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.



Claire Faulkner (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
04 July 2019

## **Foxtons Limited**

### **Statement of comprehensive income For the year ended 31 December 2018**

		<b>2018</b>	<b>2017</b>
	<b>Notes</b>	<b>£'000</b>	<b>£'000</b>
<b>Continuing operations</b>			
<b>Revenue</b>	3	103,236	108,897
Administrative expenses		(110,429)	(102,315)
<b>Operating (loss)/profit</b>		(7,193)	6,582
Other gains		291	-
Finance income		82	-
Finance costs	5	(736)	(739)
<b>(Loss)/profit before tax</b>	7	(7,556)	5,843
Tax	8	13	(1,690)
<b>(Loss)/profit and total comprehensive (expense)/income for the year</b>		(7,543)	4,153

Turnover and operating (loss)/profit are all derived from continuing operations.

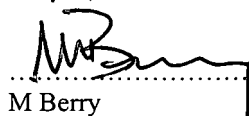
The notes form part of these financial statements.

# Foxtons Limited

## Statement of financial position As at 31 December 2018

	Notes	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Intangible assets	10	2,228	1,869
Property, plant and equipment	11	16,962	23,756
Interest in associate and investment	13	1,289	-
Deferred tax asset	12	544	411
		<u>21,023</u>	<u>26,036</u>
<b>Current assets</b>			
Trade and other receivables	14	8,400	7,077
Prepayments		5,992	6,100
Current tax asset		138	-
Cash at bank and in hand		14,859	15,550
		<u>29,389</u>	<u>28,727</u>
<b>Total assets</b>		<u>50,412</u>	<u>54,763</u>
<b>Current liabilities</b>			
Trade and other payables	15	(14,856)	(14,730)
Current tax liabilities		-	(721)
Provisions	16	(2,350)	(998)
Deferred revenue and lettings refund liability	17	(4,690)	(4,192)
		<u>(21,896)</u>	<u>(20,641)</u>
<b>Non-current liabilities</b>			
Borrowings	18	(13,262)	(12,526)
		<u>(13,262)</u>	<u>(12,526)</u>
<b>Total liabilities</b>		<u>(35,158)</u>	<u>(33,167)</u>
<b>Net assets</b>		<u>15,254</u>	<u>21,596</u>
<b>Equity</b>			
Share capital	19	10	10
Share based payment reserve	19	4,125	2,924
Capital contribution	19	2,464	2,464
Retained earnings		8,655	16,198
<b>Equity attributable to owners of the Company</b>		<u>15,254</u>	<u>21,596</u>

The financial statements of Foxtons Limited, registered number 01680058 were approved by the Board of Directors on 4.7.2019 and were signed on its behalf by:

  
M Berry  
Director

The notes form part of these financial statements.

## Foxtons Limited

### Statement of changes in equity As at 31 December 2018

	Share capital £'000	Share based payment reserve £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2017</b>	10	1,903	2,464	12,045	16,422
Total comprehensive income for the year	-	-	-	4,153	4,153
Share based payments - net of deferred tax (Note 22)	-	1,021	-	-	1,021
<b>Balance at 31 December 2017</b>	10	2,924	2,464	16,198	21,596
Total comprehensive loss for the year	-	-	-	(7,800)	(7,800)
Share based payments - net of deferred tax (Note 22)	-	1,201	-	-	1,201
<b>Balance at 31 December 2018</b>	10	4,125	2,464	8,398	14,997

The notes form part of these financial statements.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 1. General Information

Foxtons Limited (the Company) is a private Company limited by shares and incorporated in the United Kingdom under the Companies Act 2006. The Company is registered in England and Wales. The address of the registered office is given on page 1.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates.

### 2. Accounting policies

#### Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) and in accordance with applicable accounting standards and the Companies Act 2006.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash-flow statement, standards not yet effective and related party transactions.

The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the goods or services. Where relevant, equivalent disclosures have been given in the group accounts of Foxtons Group plc.

#### New standards, amendments and IFRIC interpretations

IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, are new accounting standards that are effective for the year ended 31 December 2018, however do not have a material impact on the Company. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2018 have had a material impact on the Company.

The directors of the Company (the "directors") have assessed the provisions of the above standards and concluded that the adoption of these standards will not have a material impact on the financial statements of the Company's in future periods, with the exception of:

- IFRS 16 was issued in January 2016, endorsed by the EU in 2017 and is effective from 1 January 2019 – it will result in a material increase to both the assets and liabilities of the Company and will also impact the timing of recognition of operating costs, as more fully detailed below. IFRS 16 introduces a single on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. There are optional exemptions for short term leases and leases of low value items. IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating lease incentives and SIC-27 Evaluating the substance of transactions involving the legal form.

The Company has completed a detailed assessment to quantify the impact on its reported assets and liabilities on adoption to IFRS 16. The Company will transition using the modified retrospective approach with no restatement of prior year comparatives. On 1 January 2019 the Company expects to recognise new right of use assets of approximately £62.0 million and lease liabilities of approximately £62.5 million with respect to its offices and company cars using an average discount rate of 4.25%, along with a £0.3 million opening adjustment to the statement of changes in equity. Short term leases and low value items have been excluded from these calculations.

The nature of expenses related to these leases will also change as the straight line operating lease expense will be replaced with a depreciation charge for the right-of-use assets and interest expense on lease liabilities.



# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 2. Accounting policies (continued)

In the first year of adoption these are expected to be approximately £9.8 million and £2.4 million respectively against lease payments of approximately £11.4 million, thereby reducing profit before tax by £0.8m. Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*. This will replace the previous requirement to recognise a provision for onerous lease contracts.

#### Going Concern

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. The directors have considered the Company's forecasts and projections, taking account of reasonably possible changes in trading performance and the current economic uncertainty, and are satisfied that the Company should be able to operate within the level of its current facilities. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. As at 31 December 2018, the Company had net assets of £14,997k (2017: £21,596k), and £14,415k (2017: £15,550k) in cash and cash equivalents. Foxtons Limited's ultimate parent, Foxtons Group plc, has agreed a £5 million revolving credit facility as of 20 June 2019, replacing the previous £10 million revolving credit facility. The group does not forecast a need to drawdown on this facility in the going concern period. The new facility expires in June 2022.

#### Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts (if any) and VAT. Revenue is generated from the Company's operations which are wholly based in the UK.

Commission earned on sales of residential property is recognised on exchange of contract.

In connection with lettings, the company offers the following services:

- 1) Securing the letting for the landlord including rent collection; and
- 2) Managing the letting on behalf of the landlord.

Commissions earned on the above services are recognised as follows:

- (1) Commissions on securing the letting are recognised immediately subject to the following:
  - (a) a percentage of contracts have break clauses and may require a refund if the tenant breaks early for which the Group recognise an estimated lettings refund liability (see note 17) based upon the historical experience of commission repayments over the last 12 months; and
  - (b) a deferral of revenue in recognition that the Group is contracted to provide a rent collection service for the estimated duration of the outstanding tenancies and the related revenue associated with the service is recognised on a straight-line basis over that period.
- (2) The management fee is billed and recognised monthly at a fixed percentage of the monthly rental.

Commission earned on financial services is recognised when insurance policies go on risk and when mortgage contracts complete. Income from other services is recognised in the period or periods when the services are provided. Commission is recognised at fair value which takes account of expected future cancellations.

#### Property, plant and equipment

Property, plant and equipment are stated at cost net of depreciation and any provision for impairment.

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life or, if held under a finance lease, over the lease term, whichever is the shorter.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 2. Accounting policies (continued)

Leasehold property	-	Over the term of the lease
Fixtures, fittings and equipment	-	25% on cost
Motor vehicles	-	25% on cost

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

#### Intangible assets

Intangible assets that are acquired by the Company, principally represent purchased contracts and computer software, are stated at cost less accumulated impairment losses. Purchased contracts and computer software are amortised on a straight line basis over their estimated useful economic lives of five years.

#### Adjusted items

Adjusted items include costs or revenues which due to their size and incidence and departure from the Company's strategy require disclosure in the accounts to give a true representation of the underlying performance of the Company and allow comparability of performance from one period to another. Items include restructuring and impairment charges together with any particular one-off items. See note 6.

#### Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

#### Employee benefit costs

The Company operates a defined contribution pension scheme. Contributions payable to the Company's pension scheme are charged to the income statement in the period to which they relate.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

A provision for restructuring is recognised when management has a formal plan for the restructuring that identifies that portion of the business and principal locations that will be affected in detail and timing, and has raised an expectation among those affected that it will proceed with the restructuring.

#### Valuation of share options

Equity-settled share-based payments (in relation to Foxtons Group plc shares) to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

# **Foxtons Limited**

## **Notes to the financial statements For the year dated 31 December 2018**

### **2. Accounting policies (continued)**

#### **Taxation**

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date. In accordance with the requirements of the parent undertaking, the Company makes or receives payment in respect of group relief surrender at 100% of the value of the relief given.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are recognised only to the extent that the directors considers that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

#### **Dividends**

Final dividend distributions to the Company's shareholders are recognised as a liability in the financial statements in the period in which they are approved by the Company's shareholders. Interim dividends are recognised in the period in which they are paid.

#### **Foreign currencies**

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

#### **Financial instruments**

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

#### **Critical accounting judgements and key sources of estimation uncertainty**

In the application of the Company's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### **Critical judgements in applying the Company's accounting policies**

The following are the critical judgements that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### **Client funds**

Client monies and the associated liabilities are not shown on the balance sheet because the Company treats the monies as belonging to the clients and not as its own funds. Client monies are held by the Company in specifically designated client accounts and, on that basis, the Company expects that, in the event of the Company becoming insolvent, such monies would be ring-fenced and not be available to the Company's creditors as a whole. They are not available for offset against any other account held with the bank. Treatment of client monies are subject to Association of Residential Lettings Agency Rules.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 2. Accounting policies (continued)

#### Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period, are discussed below:-

#### *Revenue recognition – Estimate of lettings refund liability*

For those contracts with break clauses, there is judgement involved in determining the appropriate refund liability to be recognised in relation to the potentially refundable portion of the commission. Since the Company uses standard terms for its letting contracts, and its lettings business is focused in one geographical area (London), management considers its lettings portfolio to be a homogenous population and estimates the amount of the commission that will be refunded based upon historical data for all lettings contracts, which is considered reliable evidence supporting this estimate. The Company maintains robust data which demonstrates that patterns of rental behaviour do not change significantly period by period, and thus the Company believes that historical data is a relatively accurate proxy for future trends and circumstances. Should future patterns of rental behaviour be demonstrably different from that predicted by historic data, such as an increase or decrease of c.30% in actual refunds from break clause invocation versus our estimates, this could increase or decrease the refund lettings liability provision (which is disclosed in note 17) by c. £1 million.

### 3. Revenue

The revenue and (loss)/profit before taxation are attributable to the one principal activity of the Company and is all generated in the United Kingdom.

An analysis of revenue is given below:

	2018 £'000	2017 £'000
Sales	36,227	42,583
Lettings	67,009	66,314
Total	<u>103,236</u>	<u>108,897</u>

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 4. Employees and directors

	2018 £'000	2017 £'000
Wages and salaries	51,068	49,613
Social security costs	5,737	5,667
Other pension costs	457	256
	<u>57,262</u>	<u>55,536</u>

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

	2018	2017
Number of administrative staff	393	369
Number sales staff	704	723
	<u>1,097</u>	<u>1,092</u>

Employee numbers include executive directors.

	2018 £'000	2017 £'000
Directors' remuneration: -emoluments	<u>1,708</u>	<u>1,456</u>

	2018 £'000	2017 £'000
Company contributions to money purchase schemes - Directors	<u>134</u>	<u>130</u>

Number of Directors in money purchase schemes	<u>3</u>	<u>3</u>
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	2018 £'000	2017 £'000
Emoluments	<u>909</u>	<u>914</u>
Company contributions to money purchase schemes	<u>83</u>	<u>83</u>

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 5. Finance costs

	2018 £'000	2017 £'000
Other similar charges payable	-	17
Interest arising on amounts owed to group undertakings	736	722
	<u>736</u>	<u>739</u>

### 6. Adjusted items

	2018 £'000	2017 £'000
Property restructure costs	2,442	771
Reorganisation costs	744	1,059
Branch asset write downs	2,717	447
	<u>5,903</u>	<u>2,277</u>

Adjusted items comprise the following:

- £2,442k (2017: £771k) of property restructure costs comprising £601k (2017:£244k) of dilapidation costs and £1,841k (2017: £527k) of onerous contract costs.
- £744k (2017: £1,059k) in respect of reorganisation costs relating to a limited number of senior management changes.
- £2,717k (2017: £447k) associated with branch asset impairments.

### 7. (Loss)/Profit before tax

The (loss)/profit before tax is stated after charging/(crediting):

	2018 £'000	2017 £'000
Operating leases	12,653	12,985
Depreciation - owned assets	4,050	4,788
Profit on disposal of fixed assets	(166)	(59)
Intangible fixed asset amortisation	182	101
Adjusted items (refer to note 6)	5,903	2,277
Auditor remuneration - audit of the financial statements	44	75
Auditor remuneration - other assurance services	4	4
	<u></u>	<u></u>

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 8. Tax

#### Analysis of tax expense:

	2018 £'000	2017 £'000
Current tax:		
Corporation Tax	255	1,935
Deferred tax	(268)	(245)
	<hr/>	<hr/>
Total tax (credit)/expense in statement of comprehensive income	(13)	1,690
	<hr/>	<hr/>

#### Factors affecting the tax expense

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below:

	2018 £'000	2017 £'000
(Loss)/Profit on ordinary activities before income tax	(7,813)	5,843
	<hr/>	<hr/>
(Loss)/Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	(1,484)	1,125
	<hr/>	<hr/>
Effects of:		
Expenses not deductible for tax purposes	548	137
Share options	255	146
Non-qualifying depreciation/amortisation	141	263
Other short term timing, differences	43	9
Adjustment in respect of prior years	432	(17)
Change in tax rate	52	27
	<hr/>	<hr/>
Tax (credit)/expense	(13)	1,690
	<hr/>	<hr/>

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Act 2019 (February 2019). These include reductions to the main rate to reduce the rate to 17% from 1 April 2020. Deferred taxes at the balance sheet date have been measured using these enacted tax rates and reflected in these financial statements.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 9. Dividends

	2018 £'000	2017 £'000
Ordinary shares of £1 each – Dividend for the year ended 31 December 2018 of £-nil per ordinary share (2017: £-nil per ordinary share)	-	-

### 10. Intangible fixed assets

	Patents and licences £'000	Computer software £'000	Totals £'000
<b>Cost</b>			
At 1 January 2018	494	1,649	2,143
Additions	-	541	541
At 31 December 2018	494	2,190	2,684
<b>Amortisation</b>			
At 1 January 2018	219	55	274
Amortisation for year	101	81	182
At 31 December 2018	320	136	456
<b>Net book value</b>			
At 31 December 2018	174	2,054	2,228
At 31 December 2017	275	1,594	1,869



# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 11. Property, plant and equipment

	Leasehold property £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Assets under construction £'000	Totals £'000
<b>Cost</b>					
At 1 January 2018	38,968	24,505	2,232	124	65,829
Additions	(5)	272	37	6	310
Disposals	-	-	(971)	-	(971)
Reclassification/transfer	103	5	-	(108)	-
At 31 December 2018	39,066	24,782	1,298	22	65,168
<b>Depreciation</b>					
At 1 January 2018	19,614	21,350	1,109	-	42,073
Charge for the year	2,287	1,341	422	-	4,050
Eliminated on disposal	-	-	(665)	-	(665)
Impairment	2,590	127	-	-	2,717
At 31 December 2018	24,491	22,818	866	-	48,175
<b>Net book value</b>					
At 31 December 2018	14,575	1,964	432	22	16,993
At 31 December 2017	19,354	3,155	1,123	124	23,756

### 12. Deferred tax

The movement in the deferred taxation account during the year was:

	2018 £'000	2017 £'000
At 1 January	411	399
Profit and Loss account movement during the year	268	245
Statement of changes in equity movement during the year	(135)	(233)
At 31 December	544	411

The directors have assessed that it is more likely than not that taxable profits will arise in the future in accordance with FRS 101. This is due to the continued growth in the Lettings market, with increases in the commissions rates being positively accepted in the market, along with the continued focus on cost base will more likely than not generate taxable profits, hence a deferred tax asset is expected to be realised over the period which the taxable profits can be reasonably forecasted.

## **Foxtons Limited**

### **Notes to the financial statements For the year dated 31 December 2018**

#### **12. Deferred tax (continued)**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Excess of depreciation over taxation allowances	78	(15)
Held-over gains	(53)	(53)
Other timing difference	178	479
Losses	341	-
	<hr/>	<hr/>
At 31 December	<b>544</b>	<b>411</b>
	<hr/>	<hr/>

#### **13. Interest in associate and investments**

	<b>2018 £'000</b>	<b>2017 £'000</b>
Interest in associate	1,039	-
Investment in convertible loan notes	250	-
	<hr/>	<hr/>
	<b>1,289</b>	<b>-</b>
	<hr/>	<hr/>

The Company has a seat on the board of directors in the associate, and can exercise significant influence over the business and as such will equity account its interest.

The convertible loan notes can be converted, by the Company to ordinary shares at any time, otherwise these will automatically convert to ordinary shares by 30 September 2019.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 14. Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	7,178	6,715
Amounts owed by group undertakings	891	-
Other debtors	110	157
Deposits paid	221	205
	<u>8,400</u>	<u>7,077</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand. Within amounts owed from group undertakings, the total amount is due from Foxtons Group plc relating to recharges of cost of services borne by Foxtons Limited, relating to Foxtons Group plc.

### 15. Trade and other payables

	2018 £'000	2017 £'000
<b>Amounts payable within one year:</b>		
Trade creditors	2,194	1,715
Amounts owed to group undertakings	2,543	3,222
Social security and other taxes	2,430	2,307
VAT	808	880
Other creditors	1,549	1,111
Accruals	5,589	5,495
	<u>14,856</u>	<u>14,730</u>
Included in current liabilities		

Amounts owed to group undertakings are unsecured, interest free and repayable on demand. Within amounts owed to group undertakings, the amount is split between amounts due to Alexander Hall (£19k) relating to recharges and Foxtons Operational Holdings Limited (£2,524k) relating to amounts due from when Foxtons Group plc listed on the stock exchange.

### 16. Provisions

	Provision for adjusted items £'000	Legal provision £'000	Totals £'000
At 1 January 2018	453	545	998
Increase in provision	1,611	109	1,720
Utilisation of provision	(148)	(220)	(368)
At 31 December 2018	<u>1,916</u>	<u>434</u>	<u>2,350</u>

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 16. Provisions (continued)

All provisions are classified as current liabilities.

#### Provision for adjusted items

This provision relates to the rent, rates, service charges and other unavoidable costs under onerous leases relating to branches that are no longer required. The provision is based on the present value of rentals and other unavoidable costs payable during the lease term after taking into account rents expected to be received from sub-lessees typically over an average of three years.

#### Legal provision

This relates to legal costs incurred in the ordinary course of business.

### 17. Deferred revenue and lettings refund liability

	2018 £'000	2017 £'000
Deferred income	159	134
Lettings refund liability	4,531	4,058
	<u>4,690</u>	<u>4,192</u>

### 18. Borrowings

	2018 £'000	2017 £'000
<b>Unsecured borrowings</b>		
Amounts owed to group undertakings	<u>13,262</u>	<u>12,526</u>

The Company's borrowings are in relation to a related party loan with Foxtons Intermediate Holdings Limited which was renewed in May 2017. The loan is repayable in full at the end of a 5 year period. The loan carries an interest rate at 5% per cent above 12-month LIBOR.

### 19. Share capital

	2018 £'000	2017 £'000
<b>Authorised, called up, allotted, and fully paid</b>		
10,000 ordinary shares of nominal value £1.00 each	<u>10</u>	<u>10</u>

The share based payment reserve of £4,125k (2017: £2,924k) relates to capital contributions arising from share based payments. The capital contribution of £2,464k (2017: £2,464k) is made up of £2,074k relating to the receipt of corporation tax group relief in 2013 from the Company's pre-IPO holding company, and £390k relating to the capital reorganisation of the group in 2010.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 20. Ultimate parent company

Foxtons Operational Holdings Limited is the immediate parent undertaking of Foxtons Limited. Foxtons Group PLC represents the ultimate parent of Foxtons Limited. The consolidated financial statements of Foxtons Group PLC are publicly available at [www.foxtonsgroup.co.uk](http://www.foxtonsgroup.co.uk) with a registered office of Building One, Chiswick Park, 566 Chiswick High Road, London.

The parent company of the smallest and largest group to consolidate Foxtons Limited is Foxtons Group plc

### 21. Operating lease commitments

#### The Company as lessee

	2018 £'000	2017 £'000
Lease payments under operating leases recognised as an expense in the period	12,653	12,985

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	11,587	12,114
In the second to fifth years inclusive	35,773	38,331
After five years	28,684	37,011
	76,044	87,456

Operating lease payments represent rentals payable by the Company for certain of its office properties and cars under contract hire. The branch restructuring in 2018 has had an effect of reducing the outstanding commitments in the second to fifth years inclusive by £67k and after five years by £1,096k, as these branches will be exited at the break clause date.

Leases on offices comprise an average term of 15 years and rentals are fixed for an average of five years.

#### The Company as lessor

	2018 £'000	2017 £'000
Lease receipts under operating leases recognised in the period	363	336

At the balance sheet date, third parties had outstanding commitments due to the Company for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2018 £'000	2017 £'000
Within one year	335	286
In the second to fifth years inclusive	547	761
After five years	69	-
	951	1,047

Operating lease payments represent rentals payable to the Company for certain recharges for rental of a proportion of its office properties.

# Foxtons Limited

## Notes to the financial statements For the year dated 31 December 2018

### 22. Share-based payments

During 2017 the Company introduced a Share Option Plan for executives and a limited number of senior staff. The awards have been made in the form of an option price of 105.667p. The vesting period is circa five years. If the options remain unexercised after a period of ten years from the date of grant, the options expire. The treatment of leavers before options vest is determined by good leaver/bad leaver provisions as detailed in the plan rules.

The Company also has a number of outstanding share option schemes for employees of the Group from prior years. These awards have been made in the form of an option over shares of Foxtons Group plc with a nil option price. The vesting period is under three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. The treatment of leavers before options vest is determined by good leaver/bad leaver provisions detailed in the plan rules.

The options outstanding at 31 December 2018 had a weighted average remaining contractual life of 8 years (2017: 9 years). In 2017, options were granted on 17 May 2017 and 28 July 2017. The aggregate of the estimated fair values of the options granted in 2017 is £4,400k.

The movement in the share based payment reserve is presented net of deferred tax.

### 23. Client monies

At 31 December 2018, client monies in approved bank and building society accounts amounted to £90.2 million (2017: £88.1 million). Neither this amount nor the matching liabilities to the clients concerned is included in the Company's balance sheet. The Company's terms and conditions provide that interest income on these deposits accrues to the Company.

Client funds are protected by the Financial Services Compensation Scheme ("FSCS") under which the government guarantees amounts up to £85,000 each. This guarantee applies to each individual client's deposit monies, not the sum total on deposit.

### 24. Adjusted EBITDA

	2018 £'000	2017 £'000
Operating (loss)/profit	(7,450)	6,582
Add back depreciation — owned assets	4,050	4,788
Add back amortisation — owned assets	182	101
Less (profit) on disposal of fixed assets	(166)	(59)
Add share based payments charge in profit and loss	1,303	1,292
Add back adjusted items (see note 6)	5,903	2,277
<b>Adjusted EBITDA</b>	<b>3,822</b>	<b>14,981</b>