Company Registration No. 01680058

Foxtons Limited

Annual Report and Financial Statements

For year ended 31 December 2017

Foxtons Limited

Annual report and financial statements 2017

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Foxtons Limited

Annual report and financial statements 2017

Company information

Directors

N Budden
M Berry
P Franco

Company Secretary

J McDonald

Registered Office

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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
London
United Kingdom

Foxtons Limited

Strategic report

The directors present their strategic report for the year ended 31 December 2017.

Foxtons Limited is the leading London estate agency, offering residential property sales and lettings services through its network of 67 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 of branches;
- 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.

Foxtons Limited comprises 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 39% of total revenue while lettings revenue was 61%. This balance across the sales and lettings segments provides financial strength in the Company to withstand fluctuations in the property market. Both estate agency segments are profitable.

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 67 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 (2016: £2.2 million) reflecting the fall in company revenue in the year and the increase in the number of branches from 65 to 67 (at 31 December 2017).

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.

Revenue

The London property sales market was significantly impacted by a marked step down in activity following the result of the EU referendum and stamp duty changes.

Sales: During the year, sales commissions decreased by 23%, which was volume driven with a 26% fall in number of deals offset by an increase in revenue per deal of 4%. The average revenue increased as underlying London price inflation was partially offset by the mix effect of volume reductions in the higher valued central London area and increased volumes at lower average sales prices as the business expanded further into outer London.

Lettings: Lettings revenue decreased by 3% versus prior year which was driven by downward pressure on rents due to affordability constraints, and a growth in large scale institutional build to rent developments outside central London leading to tenants widening their search areas to TFL transport zones 3-6.

Adjusted EBITDA margin[1] - Total Adjusted EBITDA margin fell to 14% (2016: 20%). Refer to adjusted EBITDA in note 23. This reduction reflects the reduction in sales volumes in the higher priced central London area together with roll out of newer branches operating mainly in lower priced areas.

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[1] Adjusted EBITDA is defined as profit before tax, finance costs, finance income, depreciation, amortisation, profit on disposal of assets, share-based payments, adjusted items and exceptional items. Refer to note 23, page 26 for a reconciliation to operating profit.

Profit before tax (PBT) - PBT of £5.8 million (2016: £18.5 million) is 68% down on prior year. Cost reductions were implemented during the latter part of the year resulting in a non-recurring charge to the income statement of £2.3 million.

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 decision by the UK to leave the EU. The market is also reliant on the availability of mortgage finance, a deterioration in which may adversely affect Foxtons Limited. 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: Foxtons 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: Foxtons continually collects information on competitor activity through its branch network and centralised Business Development teams. Foxtons 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. However, the challenge of online agents will be kept under review.

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 Group is supported by Compliance and Legal teams who monitor regulatory reform proposals and participate in industry forums. Foxtons centralised service structure provides it with a flexible platform from which to respond to regulatory change.

IT systems and cyber risk

- Impact on company: Foxtons business operations are dependent on sophisticated IT systems which could fail or be deliberately targeted by cyber-attacks, leading to interruption of service or corruption of 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 Foxtons 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

Strategic report (continued)

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 Foxtons may not be able to recruit and retain sufficient people to satisfy its organic expansion plans. In addition, senior staff may be recruited by competitors.
- Mitigation of risk: Foxtons 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. Foxtons 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.W.Berry

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M Berry
Director
Date: 25th September 2018.

Foxtons Limited

Directors' report

The directors present their annual report with the audited financial statements of the company for the year ended 31 December 2017.

Dividends

Dividends of £nil were paid in the year ended 31 December 2017 (2016: £14.0 million). No further dividends have been proposed.

Future developments

Our investment programme is focused on areas that are both core to our offering and where we can reinforce our differentiation, namely in our brand, people and technology. We know customers want results, they want to sell their house or let their property for the best price with a professional, personal service. Estate agency remains a people business and customer's value experienced, knowledgeable and professional people committed to working hard to achieve results.

Our brand is well known and work has begun on how we can use it to reinforce our differentiation ensuring Foxtons is closely associated with satisfying customer needs. Our business has been built on the skill, knowledge and work ethic of our people and we are investing in initiatives to improve retention and hire experienced staff to augment our teams.

We also have a vast customer database which, with new analytical tools, presents an opportunity for us to better understand customer behaviour.

In addition, we will continue to ensure our offer matches customers' growing expectations. This will be through initiatives like dedicated account management for our largest landlords in lettings, and in sales the launch of Foxtons Prime, a new offering for high net worth buyers and sellers.

Looking ahead, we expect trading conditions to remain challenging in 2018. 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 are managing the business according to these conditions and remain well placed to take advantage of any change in conditions.

Directors

The directors shown below have held office during the whole of the year from 1 January 2017 to the date of this report:

N Budden

The following directors were appointed or resigned from 1 January 2017 to the date of this report:

M Berry	appointed on 27 September 2017
P Franco	appointed on 27 September 2017
G Nieslony	resigned on 31 January 2018

Going concern

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

Foxtons Limited

Directors' report (continued)

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 companies' 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.

Statement as to disclosure of information to auditor

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) 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 in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Auditor

The auditor, Deloitte LLP, will be proposed for re-appointment at the forthcoming Annual General Meeting.

Approved on behalf of the Board:

M. Berry ....

M Berry
Director

Date: 25th September 2018.

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:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with 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 of Foxtons Limited (the 'company') which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 23.

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 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 the 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.

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 Financial Reporting Council's website at: 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.

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.

Claire Faulkner

Claire Faulkner (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

Date: 26 September 2018

Foxtons Limited

Statement of comprehensive income
For the year ended 31 December 2017

Continuing operations	Notes	2017 £'000	2016 £'000
Revenue	3	108,897	123,838
Administrative expenses		(102,315)	(104,486)
Operating profit		6,582	19,352
Finance income		-	17
Finance costs	5	(739)	(842)
Profit before tax	7	5,843	18,527
Tax	8	(1,690)	(4,105)
Profit and total comprehensive income for the year		4,153	14,422

Turnover and operating 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 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Intangible assets	10	1,869	1,104
Property, plant and equipment	11	23,756	27,765
Deferred tax asset	12	411	399
		26,036	29,268
Current assets			
Trade and other receivables	13	7,077	7,919
Prepayments		6,100	5,431
Cash at bank and in hand		15,550	6,991
		28,727	20,341
Total assets		54,763	49,609
Current liabilities			
Trade and other payables	14	(14,730)	(27,831)
Current tax liabilities		(721)	(1,172)
Provisions	15	(998)	-
Deferred revenue and lettings refund liability	16	(4,192)	(4,184)
		(20,641)	(33,187)
Non-current liabilities			
Borrowings	17	(12,526)	-
		(12,526)	-
Total liabilities		(33,167)	(33,187)
Net assets		21,596	16,422
Equity			
Share capital	18	10	10
Share based payment reserve	18	2,924	1,903
Capital contribution	18	2,464	2,464
Retained earnings		16,198	12,045
Equity attributable to owners of the Company		21,596	16,422

The financial statements of Foxtons Limited, registered number 01680058 were approved by the Board of Directors on 25 September 2018 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 2017

	Share capital £'000	Share based payment reserve £'000	Capital contribution £'000	Retained earnings £'000	Total equity £'000
Balance at 1 January 2016	10	688	2,464	11,623	14,785
Total comprehensive income for the year	-	-	-	14,422	14,422
Share based payments - net of deferred tax (Note 21)	-	1,215	-	-	1,215
Dividends (Note 9)	-	-	-	(14,000)	(14,000)
Balance at 31 December 2016	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 21)	-	1,021	-	-	1,021
Balance at 31 December 2017	10	2,924	2,464	16,198	21,596

The notes form part of these financial statements.

Notes to the financial statements
For the year dated 31 December 2017

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.

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 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. At 31 December the company had net assets of £21,596k (2016: £16,422k), and £15,550k (2016: £6,991k) in cash and cash equivalents. Foxtons Group plc has a £10 million Revolving Working Capital Facility which remains undrawn and do not forecast a need to drawdown on this facility in the going concern period. The facility expires in July 2019 and the Group will seek to re-finance the facility during the second half of 2018.

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.

Commission earned on lettings 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.

2. Accounting policies (continued)

Revenue (continued)

Commissions earned on the above services are recognised as follows:

1) Commissions earned on securing the lettings 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 company recognises an estimated lettings refund liability (see note 16) based upon the historical experience of commission repayments over the last 12 months; and

   b) a deferral of turnover in recognition that the company 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.

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.

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

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.

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

2. Accounting policies (continued)

Valuation of share options (continued)

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.

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 director 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 deduced.

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.

Notes to the financial statements
For the year dated 31 December 2017

2. Accounting policies (continued)

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 judgement. 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.

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.

3. Revenue

The revenue and 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:

	2017 £'000	2016 £'000
Sales	42,583	55,489
Lettings	66,314	68,349
Total	108,897	123,838

Notes to the financial statements
For the year dated 31 December 2017

4. Employees and directors

	2017 £'000	2016 £'000
Wages and salaries	49,613	52,820
Social security costs	5,667	5,960
Other pension costs	256	270
	55,536	59,050

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

	2017	2016
Number of administrative staff	369	370
Number sales staff	723	861
	1,092	1,231

Employee numbers include executive directors.

	2017 £'000	2016 £'000
Directors' remuneration: -emoluments	1,456	1,464

	2017 £'000	2016 £'000
Company contributions to money purchase schemes - directors	130	126

Information regarding the highest paid director is as follows:

	2017 £'000	2016 £'000
Emoluments	914	981
Company contributions to money purchase schemes	83	83

Notes to the financial statements
For the year dated 31 December 2017

5. Finance costs

	2017 £'000	2016 £'000
Other similar charges payable	17	-
Interest arising on amounts owed to group undertakings	722	842
	739	842

6. Adjusted items

	2017 £'000	2016 £'000
Lease exit costs	1,218	-
Reorganisation costs	1,059	-
	2,277	-

Lease exit costs comprised costs associated with exiting a small number of prospective branches which are no longer required, and in the case of one property, the recognition of an onerous lease provision.

Reorganisation costs comprised costs associated with a limited number of staff changes.

7. Profit before tax

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

	2017 £'000	2016 £'000
Other operating leases	12,985	13,427
Depreciation - owned assets	4,788	4,886
Profit on disposal of fixed assets	(59)	(115)
Acquired portfolio amortisation	101	101
Auditor remuneration - audit of the financial statements	75	64
Auditor remuneration - other assurance services	4	3
Auditor remuneration - fees for tax compliance services	-	151
Auditor remuneration - fees for tax advisory services	-	31

Notes to the financial statements
For the year dated 31 December 2017

8. Tax

Analysis of tax expense:

	2017 £'000	2016 £'000
Current tax:		
Corporation Tax	1,935	4,123
Deferred tax	(245)	(18)
Total tax expense in statement of comprehensive income	1,690	4,105

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:

	2017 £'000	2016 £'000
Profit on ordinary activities before income tax	5,843	18,527
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19.25% (2016: 20.00%)	1,125	3,705
Effects of:		
Expenses not deductible for tax purposes	137	214
Share options	146	-
Non-qualifying depreciation/amortisation	263	325
Other short term timing, differences	9	(64)
Adjustment in respect of prior years	(17)	(75)
Change in tax rate	27	-
Tax expense	1,690	4,105

On 1 April 2017, the UK corporate tax rate was reduced from 20% to 19%. There will be a further reduction in the UK corporation tax rate to 17% by April 2020.

9. Dividends

	2017 £'000	2016 £'000
Ordinary shares of £1 each – Dividend for the year ended 31 December 2017 of £-nil per ordinary share (2016: £1,400.00 per ordinary share)	-	14,000

Notes to the financial statements
For the year dated 31 December 2017

10. Intangible fixed assets

	Patents and licences £'000	Computer software £'000	Totals £'000
Cost			
At 1 January 2017	494	783	1,277
Additions	-	866	866
At 31 December 2017	494	1,649	2,143
Amortisation			
At 1 January 2017	118	55	173
Amortisation for year	101	-	101
At 31 December 2017	219	55	274
Net book value			
At 31 December 2017	275	1,594	1,869
At 31 December 2016	376	728	1,104

11. Property, plant and equipment

	Leasehold property £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Assets under construction £'000	Totals £'000
Cost					
At 1 January 2017	38,563	24,315	2,904	759	66,541
Additions	65	398	77	967	1,507
Disposals	(1,071)	(330)	(749)	(69)	(2,219)
Reclassification/transfer	1,411	122	-	(1,533)	-
At 31 December 2017	38,968	24,505	2,232	124	65,829
Depreciation					
At 1 January 2017	17,801	20,021	954	-	38,776
Charge for the year	2,485	1,630	673	-	4,788
Eliminated on disposal	(672)	(301)	(518)	-	(1,491)
At 31 December 2017	19,614	21,350	1,109	-	42,073
Net book value					
At 31 December 2017	19,354	3,155	1,123	124	23,756
At 31 December 2016	20,762	4,294	1,950	759	27,765

Capitalisation of expenditure on new branches totalled £1,533k (2016: £4,628k) and is reflected in leasehold property and fixtures, fittings and equipment £122k (2016:£456k). Depreciation is charged on assets once the office set-up is complete.

Notes to the financial statements
For the year dated 31 December 2017

12. Deferred tax

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

	2017 £'000	2016 £'000
At 1 January	399	8
Profit and Loss account movement during the year	245	18
Statement of changes in equity movement during the year	(233)	373
At 31 December	411	399

The balance of the deferred taxation account consists of the tax effect of timing differences in respect of:

	2017 £'000	2016 £'000
Excess of depreciation over taxation allowances	(15)	(103)
Held-over gains	(53)	(56)
Other timing difference - unpaid staff remuneration	479	558
At 31 December	411	399

13. Trade and other receivables

	2017 £'000	2016 £'000
Trade receivables	6,715	7,260
Amounts owed by group undertakings	-	157
Other debtors	157	297
Deposits paid	205	205
	7,077	7,919

Notes to the financial statements
For the year dated 31 December 2017

14. Trade and other payables

	2017 £'000	2016 £'000
Amounts payable within one year:		
Trade creditors	1,715	1,601
Amounts owed to group undertakings	3,222	17,683
Social security and other taxes	2,307	2,306
VAT	880	847
Other creditors	1,111	152
Accruals	5,495	5,242
Included in current liabilities	14,730	27,831

15. Provisions

	Provision for adjusted items £'000	Legal provision £'000	Totals £'000
At 1 January 2017	-	-	-
Increase in provision	453	545	998
At 31 December 2017	453	545	998

All provisions are classified as current liabilities.

Provision for adjusted items

This provision relates to the rent service charges under an onerous lease which the company has no intention to occupy during the lease term.

Legal provision

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

16. Deferred revenue and lettings refund liability

	2017 £'000	2016 £'000
Deferred income	134	117
Lettings refund liability	4,058	4,067
	4,192	4,184

Notes to the financial statements
For the year dated 31 December 2017

17. Borrowings

	2017 £'000	2016 £'000
Unsecured borrowing		
Amounts owed to group undertakings	12,526	-

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

18. Share capital

	2017 £'000	2016 £'000
Authorised, called up, allotted, and fully paid		
10,000 ordinary shares of nominal value £1.00 each	10	10

The share based payment reserve of £2,924k (2016:£1,903k) relates to capital contributions arising from share based payments. The capital contribution of £2,464k(2016:£2,464k) is made up of £2,074k relating to the receipt of corporation tax group relief in 2013 from the companies pre-IPO holding company, and £390k relating to the capital reorganisation of the group in 2010.

19. 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 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.

Notes to the financial statements
For the year dated 31 December 2017

20. Operating lease commitments

The company as lessee

	2017 £'000	2016 £'000
Lease payments under operating leases recognised as an expense in the period	12,985	13,427

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

	2017 £'000	2016 £'000
Within one year	12,114	12,119
In the second to fifth years inclusive	38,331	39,601
After five years	37,011	43,776
	87,456	95,496

Operating lease payments represent rentals payable by the Group for certain of its office properties and cars under contract hire. Leases on offices are negotiated for an average term of 15 years and rentals are fixed for an average of three years.

The company as lessor

	2017 £'000	2016 £'000
Lease receipts under operating leases recognised in the period	336	343

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

	2017 £'000	2016 £'000
Within one year	286	286
In the second to fifth years inclusive	761	936
After five years	-	-
	1,047	1,222

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

21. Share-based payments

During the year the Company introduced a new 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 2017 had a weighted average remaining contractual life of 9 years (2016: 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 is £4,400k (2016: £4,100k).

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

22. Client monies

At 31 December 2017, client monies in approved bank and building society accounts amounted to £88.1 million (2016: £87.4 million). Neither this amount nor the matching liabilities to the clients concerned is included in the company 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.

23. Adjusted EBITDA

	2017 £'000	2016 £'000
Operating profit	6,582	19,352
Add back depreciation — owned assets	4,788	4,886
Add back amortisation — owned assets	101	101
Less (profit) on disposal of fixed assets	(59)	(115)
Add share based payments charge in profit and loss	1,292	854
Add back adjusted items (see note 6)	2,277	-
Adjusted EBITDA	14,981	25,078