M Winkworth PLC

Annual Report & Accounts 2019

Winkworth

for every step...

Contents

Company Information

DIRECTORS
S P Agace
D C M Agace
L M Alkin
J S Nicol
A J D Nicol

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Chief Executive Officer's Statement

At the time of writing we are waiting to see how great an impact the COVID-19 crisis will have on the current year's trading. Our thoughts and sympathies go out to all that have been affected by the virus either directly or indirectly.

After a good year's performance in 2019, we have entered the crisis in robust financial health. The 2019 sales market was characterised by strength in underlying demand, and it became evident over the course of the year that people had moved on beyond Brexit. Each time that the dramatic news-flow eased, sales picked up significantly, in particular after the March delay and post the November election and associated 'Boris bounce', the size of which showed that the debate had moved on to fears over either the potential impact of some of Labour's policies or an unending political deadlock resulting from a hung parliament.

With asking prices significantly lower (by as much as 20% in London) since the 2014 stamp duty changes, employment remaining high and money cheap, we believe that there was, and still is, significant pent up demand from those that have been holding off moving for several years and want to take advantage of this environment when they can, thus keeping up with their life needs.

Winkworth saw an 8% increase in transactions across the board, increasing its market share both nationally and in London in particular, where we ranked second in Sales Subject to Contract with a market share of 4.2%, up from 3.6% in 2018. Notwithstanding some weakness in Central London, our total transactions in the capital increased by 2% while our country offices marked a 15% increase.

Lettings and management services underwent a significant year with the ending of tenant fees in June. Our revenues continue to grow despite this, with overall UK income up by 6% on 2018, driven by our country offices growing at 16%. Our London offices recorded a respectable 4% increase in revenues and represented 84% of total lettings and management income (2018: 86%).

Within this division, revenues from property management continued to show excellent growth, increasing by 12% to represent 20% of total gross revenues (2018: 18%). As the stickiest income stream within our business, it is positive to see the network responding to increased regulation by converting more landlords to our management services proposition and building a closer relationship to help them through the increased regulatory burden. Converting service to a more advisory one adds value to our clients and strengthens our overall business.

With commission levels stable, and both sales and lettings and management services showing growth on 2018, total gross revenues for the franchised office network rose by 4% to £48.3m (2018: £46.5m) with sales up by 2% to £23.8m (2018: £23.4m) and lettings and management up 6% to £24.4m (2018: £23.0m). London offices accounted for 78% of gross revenues (2018: 81%) following a 1% rise, while total gross revenues were bolstered by a 16% increase from our country offices.

This performance came just 4% short of the peak level achieved by the Winkworth network in 2014, despite sales transactions in our heartland of the South-East being significantly lower than they were in that year. This reflects both the 6-10% per annum growth of our lettings and management business over the past five years and market share gains achieved in a weaker sales market.

Winkworth's revenues, incorporating six months trading of Tooting Estates Limited, revenues grew by 10% to £6.42m (2018 as restated: £5.83m) and profit before taxation increased by 12% to £1.63m (2018: £1.45m). The Group's cash stood at £3.57m (2018: £2.94m). Dividends of 7.8p were declared for the year (2018: 7.45p).

Chief Executive Officer's Statement continued

Reflecting the ebb and flow of market uncertainty, new applicants approached opening new offices with caution. Despite this, we opened three new franchisee offices and, as part of our portfolio management process, re-sold a further three franchisee offices to new operators. This transition improves the quality of the offices in our network and, when added to the portfolio management of previous years, increases the pool of talented operators that help us to grow dynamically.

At a time, outside of the impact of COVID-19, when the profitability of pure lettings and management businesses is under pressure from a shortening of supply, increased regulation, and the loss of tenant fees, we believe that our business model, equally balanced between rentals and the more profitable sales business, not only benefits our existing franchisees but is also attractive to new franchise talent looking for a blended proposition to suit changing market conditions.

We backed one new franchisee through equity participation in Tooting Estates Limited, looking to increase our financial return to above the 8% that we receive as part of our regular franchise agreement, and we remain open to repeating this approach where we find the right local market and the right operator. This type of endorsement can provide a quality operator, who otherwise would not be able to take the step, to become their own boss and build a business. Having analysed the data across all our London offices, we see further opportunities to develop this approach in due course.

We look forward to seeing the conclusions from the work of the Regulation of Property Agents (ROPA) working group. Having always focussed on the quality of the people in our network, we expect its recommendations to be in line with our thoughts on the future for the business. Our existing initiatives, such as the Knowledge and Regulation hub that is accessible to all Winkworth agents, should help us to maintain our position at the leading edge of the industry.

We are now waiting to see how great an impact the coronavirus crisis will have on the current year's trading and doing all we can to safeguard our franchisees, customers and employees. The long-term fundamentals for the housing market remain in place and with a strong financial position and a proven, defensive model, we are well placed to withstand this fast-moving situation.

D C M Agace
Director

4 April 2020

Winkworth

Non-Executive Chairman’s Statement

As we report on a successful year in 2019, we are getting to grips with the unprecedented outbreak of COVID-19 and government directives on how best to respond to it. Our group will do all that it can to mitigate the impact of this crisis while safeguarding the health of all concerned.

On reading the Winkworth results, shareholders will note that, since the Brexit vote, our gross turnover generated by franchisee operations has fallen yet our profits have grown, and we are satisfied that this is one of the strengths of the Winkworth franchise model. Markets fluctuate, but as a boutique group of franchised estate agents, Winkworth’s managers have managed their costs with agility and successfully promoted the overall business.

Winkworth is in the fortunate position of being able to adapt to the cycle. In 2014-15, the market peaked followed by market turbulence due to substantial increases in stamp duty and uncertainty over Brexit. Higher stamp duty has had a negative impact on buying power and no one has yet found a way to borrow money to pay it, so this remains a hurdle in the London market. Since the increases, the volume of sales has reduced right across the market, offset to some extent by growth in rentals.

Meanwhile, the trend to buying for investment was originally propelled by mortgage interest offset encouraging investors to compete with home buyers. Changes in tax treatment have caused this to adjust, with landlords now buying through corporate envelopes where mortgage relief and costs can be offset against income, and net income paid as corporation tax. I believe, therefore, that we are undergoing a period of adjustment from landlords in the rental market.

Service and personal connections, rather than volume, have always been key drivers of Winkworth’s business. We continue to expand our software and internet services to back this up and, with a small increase in sales volumes, we anticipate that Winkworth will benefit from the increased profitability that you would expect from a business with a flexible cost base.

Finally, we are extremely pleased to be in the top ten of YouGov’s 2019 independent survey of most recommended property brands, and fifth in the estate agency category, reflecting the high standards that we set ourselves. We hope that through the investment that we make in our Knowledge and Regulation team, delivering increased training across the group both online and through face to face sessions, we can maintain or improve this position going forward. As a high touch advisory business, continuing to evolve digitally and operating in prime local markets, we believe that we can continue to grow market share and attract the right individuals to join our group, rewarding their efforts and enabling us to transition to the next generation of quality operators.

THE CHAIRMAN’S STATEMENT ON CORPORATE GOVERNANCE

As Chairman, it remains my responsibility, working with my fellow board colleagues, to ensure that good standards of corporate governance are embraced throughout M Winkworth PLC (“Winkworth”, the “Company” or the “Group”) and its franchised offices.

As a board, we set clear expectations concerning the Group’s culture, values and behaviour. Every new starter at Winkworth attends an induction course covering not only our vision and values, but also explaining how we work with our customers and franchisees.

Non-Executive Chairman's Statement continued

We firmly believe that this approach is key to helping us drive our premium high-street estate agency franchise. Our offering is based on local ownership and experienced staff with strong local knowledge supported by the centralised infrastructure, policies, processes, training and services provided by us as franchisor. Within this framework, our franchisees are encouraged to be entrepreneurial and thereby deliver long-term value for our shareholders.

Further details about the way in which the Company addresses the key governance principles as defined in the QCA Code are contained in the rest of the Annual Report and Accounts. Further information on compliance with the QCA Code is also provided on our website: www.winkworthplc.com

S P Agace
Non Executive Chairman

4 April 2020

Winkworth

Group Strategic Report

The directors present their strategic report of the company and the group for the year ended 31 December 2019.

PRINCIPAL ACTIVITY
The principal activity of the group in the year under review was that of franchisor to the Winkworth estate agencies.

REVIEW OF BUSINESS
A review of the business during the year and an indication of likely future developments can be found in the Chairman and Chief Executive's Statements.

The key performance indicators used by management in the year were as follows:

Turnover grew to £6.42 million, an increase of 10% on the 2018 level as restated of £5.83 million.

Profit before taxation was £1.63 million, 12.1% higher than 2018's result of £1.45 million.

Year-end cash balance of £3.57 million (2018: £2.94 million).

6 new franchisees in the year with 3 offices opened in the UK (2018 – 6) and 3 resold to new management.

Dividends of 7.8p declared (2018: 7.45p).

The key business highlights during the year were as follows:

Franchised office network revenue of £48.3 million (2018: £46.5 million).

Rental income 51% of total revenues (2018: 50%).

The group acquired 55% of Tooting Estates Limited on 1 July 2019.

FRANCHISE OFFICES
In line with the Group's plan to grow and improve the network, a further three offices were opened in 2019 and three were resold to new management.

REVENUE
The increase in network revenue fed through to the group's revenue in the year. In addition, the acquisition of Tooting Estates Limited resulted in the inclusion of c£0.5m of revenue and a profit before tax of £48k in the second half of 2019.

COST OF SALES
In 2018, the Group spent a considerable amount of money ensuring that the Group and its franchisees were compliant with the GDPR legislation that was introduced. Expenditure at that level was not required in 2019 reducing the cost to the business by more than £0.1m. The remaining fall was driven by a slight reduction in expenditure on our advertising and on our European presence.

PROFIT BEFORE TAXATION
As a result of the increase in revenues and the lower cost of sales, profits before tax increased to £1.63m despite higher administrative costs in 2019.

Group Strategic Report continued

DIVIDENDS
The Group paid a dividend of 1.9p for each of the first three quarters of the year and a fourth quarter dividend of 2.1p, bringing total distribution for the year to 7.8p compared to 7.45p in 2018. This reflects our level of confidence in our business.

WORKING CAPITAL
We have maintained our working capital levels at a consistent level with 2018, including cash balances of £3.57m (2018: £2.9m), with no external debt.

COVID-19
As highlighted elsewhere in the accounts, we expect COVID-19 to have a significant impact on trading in the next few months, but we are not yet clear about the extent of this impact.

PRINCIPAL RISKS AND UNCERTAINTIES
The group is exposed to more external than internal risks, the main ones being competitive pressures, the state of the housing market and the legal and regulatory environment.

EXTERNAL HEALTH AND POLITICAL UNCERTAINTIES

COVID-19
Risk: Whilst the year has started strongly and broadly in line with Board expectations, COVID-19 will inevitably impact on the market in the remainder on 2020 and the current outcome for the next few months is extremely uncertain. The health and safety of staff, franchise staff and customers remains paramount and, for as long as government directives prevent franchisees from working from their branches, these will rely on the Group's recently updated website and other on-line channels to conduct their business.

Mitigation: We are working with the franchisees to follow all Government advice addressing public safety and the economic impacts of the pandemic on them and their customers. The government has announced support mechanisms, including subsidised wages, which should enable franchises to continue to trade given the group's digital infrastructure and systems. Our franchise model, strong cash position and debt-free balance sheet all mean we are comparatively well-place to deal with the evolving situation and any fall in income. We are working with franchisees and suppliers on ways to preserve cash. Any short-term measures will be balanced against ensuring the long term health of the business.

BREXIT
Whilst we now have clarity about our exit date, an element of uncertainty will remain until we get clarity over the exact details of Britain's exit.

COMPETITION
Risk: Winkworth faces ongoing competition from all three types of agencies – corporate networks, independent businesses and franchise networks. With the growth of online estate agents, the margins on estate agents' commissions may come under pressure, resulting in lower revenues for the group. In the future, increased private sales activity is another factor that could affect the group's revenues.

Management action: We monitor the market and our competitors' activities closely and are constantly working to ensure that quality and value remains at the heart of our service offering.

Group Strategic Report continued

MARKET
Risk: Winkworth is exposed to material fluctuations in the housing market. In a low volume market pressure on fees is increased, leading to lower revenues on a smaller number of transactions. In particular, Winkworth is exposed to material fluctuations in the London market, with the majority of revenues generated by franchisees concentrated in the London area.

Management action: We have a significant London market bias and continue to have a high level of local market knowledge and expertise in this area.

LEGAL & REGULATORY ENVIRONMENT
Risk: The legal and regulatory environment in which Winkworth operates is changing and evolving. Winkworth needs to comply with these developments and avoid or manage situations or actions that could negatively impact on its finances, brand and reputation.

Mitigation: The group requires adherence to membership of regulatory bodies which monitor developments and also, where able, participates in industry forums set up to respond to issues. Along with the training made available to all staff via the central Academy, support is provided to offices by centralised legal and compliance teams who also oversee the group's dispute resolution procedure.

RECRUITMENT OF FRANCHISEES AND THE BUILDING OF FRANCHISES
Risk: Winkworth looks to attract new franchisees with the necessary skills, expertise and resources either to set up a "cold start" in a new territory, or convert their existing business to the Winkworth brand. Winkworth also looks to support existing franchisees looking to purchase businesses.

Failure to do so may have a detrimental effect upon Winkworth's trading performance.

Mitigation: As part of its strong franchise offering, Winkworth has an established new franchising department which runs a robust selection process to reduce the risk of failure. The department conducts checks on the suitability of its prospective franchisees and maintains ongoing training and monitoring. The Board continually monitor the performance of the new franchising team and is focused on identifying innovative ways of attracting successful new franchise owners.

REPUTATIONAL RISK
Risk: Winkworth's brand and reputation is central to its strong franchise offering.

The way in which Winkworth and its franchisees conduct their business and the service they provide help drive the financial results of the business.

Failure by the franchisees to meet the expectations of their sellers, buyers, landlords and tenants may have a material impact on Winkworth's business, operations and financial performance. Similarly, failure to comply with regulations or legislation may also adversely affect Winkworth' reputation and its brand

Mitigation: All franchisees are required to be members of trade bodies and the Property Ombudsman Service.

Winkworth strives to make sure that its franchisees achieve the service levels set down for them and remain compliant with the law by regular training provided through the Winkworth Academy and internal auditing.

Group Strategic Report continued

Whilst Winkworth conducts extensive checks on the suitability of its prospective franchisees, it cannot be entirely certain that a franchisee does not have some potentially embarrassing adverse history which may come to light and which risks damaging the reputation of the brand.

COMPANIES ACT S.172 STATEMENT
The directors set out their statement of compliance with s172 (1) of the Companies Act 2006 which should be read in conjunction with the rest of the annual report and with the Corporate Governance section of the M Winkworth plc website.

The directors preside over the Group for the benefit of all stakeholders. In making decisions, the directors take into account their potential short- and long-term implications. The basic goal is the long-term sustainable growth of the business which will see returns to shareholders increasing, enable franchisees and employees to realise their ambitions and help customers of the Winkworth network achieve their goals.

The acquisition of the stake in Tooting Estates Limited, whilst not representing a departure from our traditional franchising approach, will improve our own awareness of day-to-day market issues and their impact on customers, suppliers and other stakeholders. This will be of long term benefit to our franchisees in addition to our own business.

As a number of significant shareholders sit on the Board, the discussions on the quarterly dividend payments ensure that the wishes of shareholders are aligned with those of the company over both the short and longer term. Our intention in paying dividends is to ensure that, in addition to providing a regular income to our shareholders, we retain sufficient funds in the business to continue to invest in new and existing franchisees, together with our franchise infrastructure. A special dividend was paid in 2018 as the directors considered that the group held more cash than would be needed for investment in the foreseeable future.

Looking at the individual stakeholder groups in more detail:

Shareholders: The directors provide information for the shareholders through the AGM, the annual report, the interim report and public announcements made through RNS. The Board recognises the AGM as an important opportunity to meet private shareholders and the Directors are available to listen to the views of shareholders informally immediately following the AGM. There is only one class of share and therefore all members are treated equally.

Franchisees: Franchisees are the customers of the company, however it is their customers who generate our company’s income. We have invested heavily in a website which will enable our franchisees to provide a market leading service. Formal regular meetings are held with representative groups of franchisees to get their input on key strategic and operational issues.

Employees: When considering the long term prosperity of the Company, the directors takes serious account of the outcome of all decisions on its employees and undertake to act in their best interests. Employees are given regular assessments and equal opportunities. We are committed to providing a working environment that promotes employee’s wellbeing whilst facilitating their performance.

Community and environment: The Company is mindful of the impact of its operations on both the community and the environment, and expects both its employees and its suppliers to meet exacting standards in their everyday business conduct.

Group Strategic Report continued

Winkworth strives to maintain a reputation for the highest standards of business conduct. The directors always endeavour to operate to the highest ethical standards in order to maintain and promote the reputation of the Company, this being its greatest asset.

Our adoption of the QCA Corporate Governance Code provides the oversight and context for how we achieve these standards. We support best practice in estate agency through involvement with regulatory bodies such as NAEA and NALS as well as providing training through our Academy.

OUTLOOK

The first quarter of this year started extremely well, with sales applicants rising by 30-40% on the comparable period in 2019. We also saw a positive start in lettings, albeit with supply reducing as fewer buy-to-let investors entered the market due to additional stamp duty changes on second home purchases. Some existing investors consolidated their portfolios or sold off investments, taking advantage of the uptick in sales activity as the reduction of relief on interest payments comes to an end.

Now, however, we have entered a period of considerable uncertainty as measures are taken to defend the UK against the spread of COVID-19. These are having an increasingly severe impact on the business of each and every one of our franchisees and it is too early to predict what the full effect will be on activity in the remaining nine months of 2020. We will, of course, update shareholders on trading as soon as we have some greater clarity on a return to more normal trading conditions. In the meantime, our key concern is the wellbeing and safety of our customers and the group's employees and we are taking all possible steps to mitigate health risks.

This is a non-adjusting PBSE, but will have a significant impact on the results for the current year.

ON BEHALF OF THE BOARD:

D C M Agace
Director

4 April 2020

Report of the Directors

The directors present their report with the financial statements of the company and the group for the year ended 31 December 2019.

PAYMENTS TO SHAREHOLDERS
Dividends of £967,726 (2018 – £942,260) were paid during the year.

DIRECTORS
The directors shown below have held office during the whole of the period from 1 January 2019 to the date of this report.

S P Agace
D C M Agace
L M Alkin
J S Nicol
A J D Nicol

The Directors names, together with biographical details, are shown on the group's website www.winkworthplc.com. The directors' remuneration for the year is set out in note 5 to the financial statements. There were no changes to the directors during the period.

Compliance with the QCA Code
As mentioned in the Chairman's Statement on Corporate Governance, Winkworth adheres to the QCA Code on Corporate Governance. Full details of how the ten principles have been applied are shown on our website www.winkworthplc.com.

Composition, experience and training
The Board comprises two Executive Directors and three Non-executive Directors. The Non-executive Directors are all professionally qualified and experienced in Winkworth's areas of operation. Whilst Lawrence Alkin owns more than 3% of the Ordinary Shares of M Winkworth PLC, he is considered to be independent, and all the Non-executives Directors are considered to bring an independent judgement to bear notwithstanding their relationships, varying lengths of service, and investments in M Winkworth PLC.

The chairman and CEO consider the balance of skills, knowledge and experience on the board and make appropriate recommendations for consideration by the whole board. The directors consider that the board is well-balanced and has the right number of members for the size of the group. The Non-executive Directors are professionally qualified and have considerable property, estate agency and franchise experience and expertise. Andrew Nicol is a chartered accountant with broad finance and operational experience. Dominic Agace has grown through the ranks of the business and has been CEO of Winkworth since flotation.

Regular briefings on legislative developments such as GDPR, Money Laundering, and the like are provided by the company's lawyers and General Counsel. The Board also received training on compliance with the AIM Rules for Companies and aspects of the Market Abuse Regulations. As members of the ICAEW, Andrew Nicol and John Nicol keep up-to-date through their CPD.

Performance evaluation
All Directors undergo a performance evaluation before being proposed for re-election to ensure that their performance is, and continues to be, effective; that, where appropriate, they maintain their independence; and that they are demonstrating continued commitment to the role. Appraisals are carried out each year for all Executive Directors.

The Board carries out an evaluation of its performance annually, taking into account the Financial Reporting Council's Guidance on Board Effectiveness.

Report of the Directors continued

Time commitments
The Executive Directors are expected to devote substantially the whole of their time, attention and ability to their duties, whereas, as one would expect, the Non-executives have a lesser time commitment. It is anticipated that each of the Non-executives will dedicate 15 days a year. The Non-executive directors have all confirmed that they are able to allocate sufficient time to meet the expectations of their role.

Meeting attendance
Details of the meetings of the Board and the various sub-committees of the Board during 2019, together with the attendance of the different Directors is as follows:-.

Meeting Attendance in 2019

Director	Board	Remuneration Committee	Audit Committee
Simon Agace	10	–	–
Lawrence Alkin	10	1	3
John Nicol	10	1	3
Dominic Agace	9	–	–
Andrew Nicol	10	–	–

Board Committee Reports

Remuneration Committee	The Committee, chaired by Lawrence Alkin and with John Nicol in attendance met in December to discuss and approve certain bonuses in respect of 2019 and the 2020 remuneration of the Executive Directors and key senior managers in the group.
Audit Committee	The Committee, chaired by John Nicol, and with Lawrence Alkin in attendance met three times in 2019. In April the Committee met with BDO to discuss and approve the 2018 Accounts and to review the Audit. In September the Committee met to discuss and approve the 2019 Interim results and Announcement. In November, the Committee met to discuss Risk and approve the Accounting Policies.

GOING CONCERN
The Board of Directors has undertaken a recent thorough review of the group's budgets and forecasts and has produced detailed and realistic cash flow projections. Various scenarios have been run on the potential impact of COVID-19, including the modelling of worst case scenarios, reflecting significantly lower levels of income as a result of lower sales and lettings activity, and including a lower cost base and the lockdown of franchise branches for a number of months. These cash flow projections, when considered in conjunction with the group's existing cash balances (including consideration of reasonable possible changes in trading performance), demonstrate that the group has sufficient working capital for the foreseeable future. Consequently, the directors believe that the group has adequate resources to continue its operational existence. The financial statements have accordingly been prepared on a going concern basis.

WEBSITES
The group's website is www.winkworthplc.com

The commercial website is www.winkworth.co.uk

Report of the Directors continued

STATEMENT OF DIRECTORS' RESPONSIBILITIES
The directors are responsible for preparing the Group Strategic Report, the Report of the Directors 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 International Financial Reporting Standards as adopted by the European Union. 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 the group and of the profit or loss of the group for that period. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on AIM. 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 that the financial statements comply with IFRS;
- 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 and the group's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group 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 the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION
The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation of the financial statements may differ from legislation in other jurisdictions.

STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS
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 group's auditors are 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 group's auditors are aware of that information.

DIRECTORS' INDEMNITIES
Third-party Director's and Officers' liability insurance was in place for all directors throughout the financial year and is currently in force.

ON BEHALF OF THE BOARD:

D C M Agace
Director

4 April 2020

Report of the Independent Auditors to the Members of M Winkworth Plc continued

Opinion
We have audited the financial statements of M Winkworth plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit or Loss and Other Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies and the notes to the Statements of Cash Flows.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

– the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;

– the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

– the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and

– the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent 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 as applied to listed entities, 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

– the Directors' use of the going concern basis of accounting in the 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 Group's or the Parent 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.

Report of the Independent Auditors to the Members of M Winkworth Plc continued

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report:

Key audit matter	How we addressed the key audit matter in the audit
As a consequence of the COVID-19 pandemic, we identified going concern as a key audit matter based on our assessment of the significance of the risk and the effect on our audit strategy.	Our audit procedures in response to this key audit matter included the following: • We critically reviewed the latest board approved cash flow forecasts for the group, which covered 12 months from the date of approval of these financial statements. We challenged management's assumptions in respect of revenue receipts, the split of discretionary and non-discretionary expenditure and the recovery of the trading environment. • As summarised in Note 2 and detailed in the Directors report, management have modelled a number of scenarios to incorporate the expected impact of the COVID-19 pandemic. We challenged management on the completeness of the scenarios assessed and potential impact on the business as reasonably possible to impact the Group as a consequence of COVID-19. • We challenged the nature of mitigating actions identified by management in their assessment and the quantum ascribed to these mitigating actions. • We reviewed the disclosures in the Directors report and Note 2 ensuring a comprehensive explanation of the impact of COVID-19 was provided.

Report of the Independent Auditors to the Members of M Winkworth Plc continued

Key audit matter	How we addressed the key audit matter in the audit
Completeness of revenue Group revenue was derived mainly from its principal activity, being commissions and subscriptions to the Group under franchise agreements, the accounting policy for which is disclosed in note 2. Revenue in respect of commissions due on house sales is recognised upon completion of the sale of the relevant property by the franchisee. Revenue in respect of commission due on lettings, property management and administration services is recognised in the period to which the services relate. There is a risk that revenue is received and not recorded, especially due to the under-reporting of revenue on part of the franchisees. Therefore there is a potential risk in terms of the completeness of the revenue being recognised.	In this area our audit procedures included: • We performed a completeness check over the franchisee commission income by agreeing 8% of total franchisee revenue made in the year against income recognised. • We agreed a sample of sales income to completion statements from lawyers and franchisees in respect of house sales. • For a sample of rental and sales transactions we checked the accuracy of commission received to source documentation such as franchisee returns and completion statements, to the nominal ledger to check that revenue had been accurately calculated. • We tested completeness of income from 'for sale' and 'lettings available' information on franchisee websites in the year through to a subsequent receipt of commission. • We checked that the Group internal compliance procedures, which are carried out to ensure completeness of income, had been undertaken on a monthly basis. **Key observation:** Based on the outcome of the above procedures, we did not identify any material misstatements in our assessment of completeness of income.
Business combination – valuation of intangible (pages 24-27, 32, 42) A 55% interest in a subsidiary was acquired part way through the year. Given that the previous group was made up of 100% owned entities, there is a risk that the business combination may have been inaccurately accounted for especially as regard the fair value of the customer list. In addition, the accounts disclose that there has been a bargain purchase.	In this area our audit procedures included: • Assessing how the transaction was accounted for at the point of acquisition to ensure in accordance with IFRS 3. • Assessing that the fair value adjustment on acquisition is adequately substantiated by a discounted cashflow model, by assessing the appropriateness of the key inputs such as discount rate and assumptions used in the model by reference to supporting documentation such as industry benchmarks.

Report of the Independent Auditors to the Members of M Winkworth Plc continued

Key audit matter	How we addressed the key audit matter in the audit
	• Comparing the valuation basis with recent market transaction. • Reviewing the purchase documentation for clauses which could have future impact on the valuation of the assets acquired. • Discussing the operation with the agency manager to verify that the assumptions made were consistent with the trading operation. • Carrying out a thorough review of the consolidation, including adjustments and reclassifications. **Key observation:** We considered management's assessment of fair value of assets acquired to be reasonable and that the acquisition had been appropriately accounted for.

Our application of materiality
We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

We determined the materiality for the Group financial statements as a whole to be £75,000 (2018: £80,000), calculated with reference to a benchmark of Group profit before tax averaged over 3 years, of which it represents 5%. This is the threshold above which missing or incorrect information in financial statements is considered to have an impact on the decision making of users.

Whilst materiality for the financial statements of a whole was £75,000, each component of the Group was audited to a lower level of materiality. Component materiality ranged from £35,000 to £70,000 (2018: £5,000 to £75,000).

Performance materiality is the application of materiality at the individual account or balance level set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The Group's performance materiality was set at £52,000 (2018: £56,000) which represents 70% (2018: 70%) of the above materiality levels.

We reported to the Audit and Risk Committee all potential adjustments in excess of £1,500 (2018: £4,000) being 2% (2018: 5%) of the materiality for the financial statements as a whole.

The Company materiality was £35,000 (2018: £35,000).

Report of the Independent Auditors to the Members of M Winkworth Plc continued

An overview of the scope of our audit
We considered the risk of the financial statements being misstated or not prepared in accordance with the underlying legislation or standards. We then directed our work toward areas of the financial statements which we assessed as having the highest risk of containing material misstatements.

There are three trading companies in the group, which are all registered and operate in the UK. One is subject to a full scope audit by BDO LLP, one to a full scope audit by a subsidiary auditor and one, subject to audit exemption, to an audit to group materiality.

We tested and examined information using both analytical procedures and tests of detail, to the extent necessary to provide us with a reasonable basis to draw conclusions. These procedures gave us the evidence that we need for our opinion on the Group's financial statements as a whole and, in particular, helped mitigate the risks of material misstatement mentioned above.

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 this regard.

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

– the information given in the Group Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and

– the Group Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Group Strategic Report or the Report of the Directors.

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

– adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

Report of the Independent Auditors to the Members of M Winkworth Plc continued

- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors
As explained more fully in the Statement of Directors' Responsibilities set out on page 13, 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 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 Group's and the Parent 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 Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 a Report of the Auditors 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 Report of the Auditors.

Use of our report
This report is made solely to the Parent 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 Parent Company's members those matters we are required to state to them in a Report of the Auditors and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Clark *(Senior Statutory Auditor)*
for and on behalf of **BDO LLP**
Chartered Accountants and Statutory Auditor
55 Baker Street
London
W1U 7EU

4 April 2020

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Consolidated Statement of Profit or Loss and other Comprehensive Income

for the year ended 31 December 2019

	Notes	2019 £'000	2018 as restated £'000
Revenue	4	**6,416**	5,831
Cost of sales		**(1,320)**	(1,547)
GROSS PROFIT		**5,096**	4,284
Administrative expenses		**(3,561)**	(2,915)
Negative goodwill	25	**68**	–
OPERATING PROFIT		**1,603**	1,369
Finance costs	6	**(29)**	–
Finance income	6	**54**	83
PROFIT BEFORE TAX	7	**1,628**	1,452
Tax	8	**(320)**	(288)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,308**	1,164
Profit and total comprehensive income attributable to:			
Owners of the parent		**1,285**	1,164
Non-controlling interests		**23**	–
		1,308	1,164
Earnings per share expressed in pence per share:	10		
Basic		**10.09**	9.14
Diluted		**10.07**	9.14

The notes form part of these financial statements

Consolidated Statement of Financial Position

31 December 2019

	Notes	2019 £'000	2018 as restated £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	11	**668**	71
Property, plant and equipment	12	**607**	121
Prepaid assisted acquisitions support	13	**541**	603
Investments	14	**43**	53
Trade and other receivables	15	**372**	724
		2,231	1,572
CURRENT ASSETS			
Trade and other receivables	15	**913**	1,026
Cash and cash equivalents	16	**3,571**	2,935
		4,484	3,961
TOTAL ASSETS		**6,715**	5,533
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	**64**	64
Share based payment reserve	19	**51**	51
Retained earnings	19	**4,867**	4,550
		4,982	4,665
Non-controlling interests	17	**97**	–
TOTAL EQUITY		**5,079**	4,665
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	20	**294**	–
Deferred tax	22	**66**	17
		360	17
CURRENT LIABILITIES			
Trade and other payables	20	**1,085**	722
Tax payable		**191**	129
		1,276	851
TOTAL LIABILITIES		**1,636**	868
TOTAL EQUITY AND LIABILITIES		**6,715**	5,533

The financial statements on page 21 were approved and authorised for issue by the Board of Directors on 4 April 2020 and were signed on its behalf by:

D C M Agace
Director

The notes form part of these financial statements

Winkworth

Company Statement of Financial Position

31 December 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
NON-CURRENT ASSETS			
Investments	14	**63**	63
		63	63
CURRENT ASSETS			
Trade and other receivables	15	**1,268**	1,268
Cash and cash equivalents	16	**424**	424
		1,692	1,692
TOTAL ASSETS		**1,755**	1,755
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	18	**64**	64
Other reserves	19	**51**	51
Retained earnings	19	**1,640**	1,640
TOTAL EQUITY AND LIABILITIES		**1,755**	1,755

As permitted by Section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of these financial statements. The profit for the year was £968,000.

The financial statements were approved and authorised for issue by the Board of Directors on 4 April 2020 and were signed on its behalf by:

D C M Agace
Director

The notes form part of these financial statements

Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Balance at 1 January 2018	64	3,742	1,793	51	5,650	–	5,650
Changes in equity							
Capital reduction	–	–	(1,146)	–	(1,146)	–	(1,146)
Capital reduction expenses	–	(61)	–	–	(61)	–	(61)
Transfer of excess share premium	–	647	(647)	–	–	–	–
Dividends	–	(942)	–	–	(942)	–	(942)
Profit and total comprehensive income	–	1,164	–	–	1,164	–	1,164
Balance at 31 December 2018	64	4,550	–	51	4,665	–	4,665
Changes in equity							
Dividends	–	(968)	–	–	(968)	–	(968)
Acquired with subsidiary	–	–	–	–	–	74	74
Profit and total comprehensive income	–	1,285	–	–	1,285	23	1,308
Balance at 31 December 2019	**64**	**4,867**	**–**	**51**	**4,982**	**97**	**5,079**

The notes form part of these financial statements

Company Statement of Changes in Equity
for the year ended 31 December 2019

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Other reserves £'000	Total equity £'000
Balance at 1 January 2018	64	1,053	1,793	51	2,961
Changes in equity					
Capital reduction	–	–	(1,146)	–	(1,146)
Capital reduction expenses	–	(61)	–	–	(61)
Transfer of excess share premium	–	647	(647)	–	–
Dividends	–	(942)	–	–	(942)
Total comprehensive income	–	943	–	–	943
Balance at 31 December 2018	64	1,640	–	51	1,755
Changes in equity					
Dividends	–	(968)	–	–	(968)
Total comprehensive income	–	968	–	–	968
Balance at 31 December 2019	**64**	**1,640**	**–**	**51**	**1,755**

The notes form part of these financial statements

Consolidated Statement of Cash Flows

for the Year Ended 31 December 2019

	Notes	2019 £'000	2018 as restated £'000
Cash flows from operating activities			
Profit before tax		**1,628**	1,452
Depreciation charges		**573**	270
Profit on disposal of fixed assets		**–**	(3)
Reduction in fair value of fixed asset investments		**10**	32
Negative goodwill		**(68)**	–
Finance costs		**29**	–
Finance income		**(54)**	(83)
		2,118	1,668
Increase in trade and other receivables		**(1,464)**	(133)
Increase/(decrease) in trade and other payables		**1,621**	77
Cash generated from operations		**2,275**	1,612
Tax paid		**(255)**	56
Net cash from operating activities		**2,020**	1,668
Cash flows from investing activities			
Purchase of intangible fixed assets		**(170)**	(104)
Purchase of tangible fixed assets		**(9)**	(70)
Assisted acquisitions support		**(98)**	(15)
Purchase of fixed asset investments		**–**	(78)
Repayment of assisted acquisitions support		**–**	21
Cash acquired on acquisition		**116**	–
Cash paid to acquire subsidiary		**(23)**	–
Interest received		**54**	83
Net cash from investing activities		**(130)**	(163)
Cash flows from financing activities			
Capital Reduction		**–**	(1,146)
Costs relating to capital reduction		**–**	(61)
Principal paid on lease liabilities	27	**(257)**	–
Interest paid on lease liabilities		**(29)**	–
Equity dividends paid		**(968)**	(942)
Net cash from financing activities		**(1,254)**	(2,149)
Increase/(decrease) in cash and cash equivalents		**636**	(644)
Cash and cash equivalents at beginning of year		**2,935**	3,579
Cash and cash equivalents at end of year		**3,571**	2,935

The notes form part of these financial statements

Company Statement of Cash Flows

For the Year Ended 31 December 2019

	2019 £'000	2018 £'000
Cash flows from operating activities		
Profit before tax	**968**	943
Finance income	**(969)**	(943)
	(1)	–
Increase in trade and other receivables	**–**	1,206
Increase/(decrease) in trade and other payables	**–**	–
Cash generated from operations	**(1)**	1,206
Net cash from operating activities	**(1)**	1,206
Cash flows from investing activities		
Interest received	**1**	1
Dividends received	**968**	942
Net cash from investing activities	**969**	943
Cash flows from financing activities		
Capital Reduction	**–**	(1,146)
Costs relating to capital reduction	**–**	(61)
Equity dividends paid	**(968)**	(942)
Net cash from financing activities	**(968)**	(2,149)
Increase in cash and cash equivalents	**–**	–
Cash and cash equivalents at beginning of year	**424**	424
Cash and cash equivalents at end of year	**424**	424

The notes form part of these financial statements

Notes to the Consolidated Financial Statements
for the year ended 31 December 2019

1. STATUTORY INFORMATION
M Winkworth Plc is a public company, registered in England and Wales and listed on AIM. The company's registered number and registered office address can be found on the Company Information page.

2. ACCOUNTING POLICIES
Basis of preparation
The financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union ("IFRS"), under the historical cost convention, with the exception of financial instruments as set out below. The financial statements are presented in pounds sterling, which is also the company's functional currency. The following principal accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Going concern
The directors have, at the time of approving the financial statements, a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. Whilst the timing and ultimate impact cannot be assessed with any precision at the time of writing, various scenarios, reflecting the closure of franchisee shops for at least a three month period, have been run on the potential impact of COVID-19, as detailed in the Report of the Directors on page 12, which demonstrate that the group has sufficient working capital for the foreseeable future. The group has a strong cash base and no borrowings, with a high level of discretionary expenditure, which can be cut at short notice. Income would need to fall very substantially for a prolonged period, beyond six months, before a cash shortfall arose, at which point stronger measures would be taken to cut costs. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

Basis of consolidation
The group financial statements consolidate the financial statements of M Winkworth Plc and all its subsidiary undertakings. All subsidiary companies have coterminous year ends.

Acquisitions of companies that are consolidated are accounted for using the purchase method, by allocating their acquisition cost to the acquired identifiable assets and liabilities at the time of acquisition. Where the acquisition cost exceeds the net fair value of the acquired assets and liabilities, the difference is recognised as goodwill. Goodwill is not amortised but is tested for impairment at least annually and written down only in the event of impairment. Negative goodwill is recognised in the statement of comprehensive income immediately.

The only acquisition in the year was of Tooting Estates Limited (see note 25).

Revenue
Revenue represents the value of commissions and subscriptions due to the group under franchise agreements, together with the value of fees earned by its subsidiary lettings business. Revenue in respect of commissions due on house sales is recognised at the point of the relevant property sale having been completed by the franchisee. Revenue in respect of commissions due on lettings, property management and administration services is recognised in the period to which the services relate. The group earns a straight 8% by value on all sales and lettings income generated by the franchisees.

In Tooting Estates Limited, revenue in respect of commissions due on house sales is recognised on completion. Revenue in respect of commissions due on lettings and property management is recognised over the life of the rental agreement.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Intangible assets

Intangible assets represent customer lists acquired with an acquisition in the year and website development costs relating to the franchisee platform.

The website development costs are amortised over their useful life which is deemed to be 3 years. Customer lists are amortised over 15 years on a straight line basis. They are assessed for impairment by performing a value in use calculation when indicators of impairment exist. Amortisation is included within administrative expenses in the statement of comprehensive income.

If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new estimates.

Prepaid assisted acquisitions support

Prepaid assisted acquisitions support represents amounts paid to franchisees on the incorporation of their business into the Winkworth brand. The amounts paid to franchisees are contributions towards their growth plans, which in turn will grow the Winkworth brand.

Amounts paid to franchisees are amortised over the initial 10 year franchise agreement on a straight-line basis as a reduction in revenue.

Property, plant and equipment

Property, plant and equipment is recognised at cost. Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Fixtures and fittings	–	15% – 33% straight line,
Computer equipment	–	25% straight line.

Property, plant and equipment is subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantively enacted by the statement of financial position date.

Deferred tax

Deferred tax is recognised in respect of all material temporary differences that have originated but not reversed at the reporting date.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Employee benefit costs

The group operates a defined contribution pension scheme. Contributions payable to the group's pension scheme are charged to profit or loss in the period to which they relate.

Investments

Unlisted investments are classified as non-current assets and are stated at cost less provision for any necessary impairments at fair value.

Listed investments are recognised at fair value by reference to publicly available share prices.

Share based payments

The company operates an Enterprise Management Incentive scheme which allows employees of the group to acquire shares in the parent company. The fair value of share-based payment awards granted is recognised as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using the Black-Scholes pricing model, taking into account the terms and conditions upon which the options were granted. The fair value is charged as an expense in the statement of comprehensive income over the vesting period and the charge is adjusted each year to reflect the expected and actual level of vesting, taking into account the terms and conditions upon which the options were granted. The share based payment vested in the year and the charge was immaterial.

Cash and cash equivalents

Cash and cash equivalents is defined as cash balances in hand and in the bank (including short term cash deposits).

Dividends

All dividends paid to shareholders are recognised when they have been paid.

Financial assets

The group has only financial assets classified into the amortised cost category and these comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

These assets arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

The group recognises an allowance for expected credit losses (ECLs) based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the group expects to receive, discounted at an approximation of the original effective interest rate.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Financial assets - continued

Impairment provisions for current and non-current trade receivables are recognised based on the simplified approach within IFRS 9 using a provision matrix in the determination of the lifetime expected credit losses. During this process the probability of the non-payment of the trade receivables is assessed. This probability is then multiplied by the amount of the expected loss arising from default to determine the lifetime expected credit loss for the trade receivables. For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within cost of sales in the consolidated statement of comprehensive income. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Impairment provisions for receivables due from related parties and loans to related parties are recognised on the general approach within IFRS 9 applying 12 months expected credit losses, unless there has been a significant increase in credit risk since initial recognition of the financial asset, in which case lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Financial liabilities

The group has only financial liabilities classified into the amortised cost category. These liabilities consist of trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Leases

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the group's incremental borrowing rate on commencement of the lease is used.

Right of use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease.

When the group revises its estimate of the term of any lease (because, for example, it re-assesses the probability of a lessee extension or termination option being exercised), it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted using a revised discount rate. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised, except the discount rate remains unchanged. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term. If the carrying amount of the right-of-use asset is adjusted to zero, any further reduction is recognised in profit or loss.

Short term leases of 12 months or less or leases of low-value assets are charged to the statement of comprehensive income on a straight-line basis over the life of the lease.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Leases – continued

In the previous year, in accordance with IAS 17, lease arrangements where substantially all the benefits and risks of ownership remain with the lessor were treated as operating leases and charged to the statement of comprehensive income on a straight line basis over the life of the lease.

Critical accounting estimates and judgements

The group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Impairment of website development and franchise prepaid acquisitions assisted support
The group is required to test, where indicators of impairment exist, whether website development and franchise prepaid acquisitions assisted support have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires a number of estimates to be made including the estimation of future cash flows from franchisees, which are based on historic trends, and the choice of a discount rate in order to calculate the present value of the cash flows. At 31 December 2019 there were no indicators of impairment.

(b) Valuation and impairment of customer lists
The valuation of customer lists was based on industry multiples of 150% of the historic lettings revenue and 100% of the sales revenue, discounted by 30% for lettings and 70% for sales revenues, to reflect the future prospects and inherent goodwill relating to the staff of the business. An assumption has been made that cash flows from the lettings business will fall by 7% per annum.

The group is required to test, where indicators of impairment exist, whether customer lists have suffered any impairment. At 31 December 2019 there were no indications of impairment. Should future cash flows from the lettings business fall by 15%, this would give rise to an impairment of £85,769.

(c) Recoverability of trade receivables
The group determines concentrations of credit risk by quarterly monitoring of the creditworthiness rating of franchisees and through a monthly review of the trade receivables' ageing analysis. The group recognises an allowance for ECLs for trade receivables in accordance with the Financial assets accounting policy on page 29.

Standards and interpretations in issue but not yet effective

A number of new standards and amendments to existing standards have been published which are mandatory but are not effective for the year ended 31 December 2019. The directors do not anticipate that the adoption of these revised standards and interpretations will have a significant impact on the figures included in the financial statements in the period of initial application.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

2. ACCOUNTING POLICIES – continued

Changes in Accounting Policies

IFRS 16 Leases

The accounting policies and the explanations and disclosures in the notes to IFRS group financial statements for year ended 31 December 2019 are fundamentally based on the same accounting policies used in the 2018 group financial statements. An exception to this is the changes described below due to the initial application of IFRS 16 and the changes in international financial reporting under IFRS to be applied by the group since 1 January 2018.

The effects of the transition to IFRS 16 are detailed in note 26.

3. PRIOR YEAR ADJUSTMENT

The directors have reconsidered the nature of the payments made to franchises on inception of a franchise arrangement, which are intended to assist with branding and other costs. These had previously been presented as an intangible asset under IAS 38, but the directors are now of the view that the payments do not result in the group receiving a distinct good or service from the franchisee and, in consequence, consider them to meet the definition of consideration payable to a customer under IFRS 15.

Consequently, this asset is described as "Prepaid assisted acquisitions support" on the Group statement of financial position. The asset continues to be amortised over 10 years on a straight-line basis, however, the amortisation is now recognised as a deduction in revenue rather than an amortisation charge to administrative expenses. As a result, revenue and administrative expenses reported at 31 December 2018 have been restated by £148,639. There is no impact on the profit or net assets reported for the year in 2018.

A full balance sheet as at 31 December 2017 has not been presented in accordance with IAS 1 given the limited number of line items affected. The effect of the adjustment posted to correct this historical error has been included in the table below:

	2018 As previously Presented £'000	2018 Effect of adjustment £'000	2018 As restated £'000
Prepaid assisted acquisitions support	–	603	603
Intangible assets	603	(603)	–

	2017 As previously Presented £'000	2017 Effect of adjustment £'000	2017 As restated £'000
Prepaid assisted acquisitions support	–	665	665
Intangible assets	665	(665)	–

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

4. SEGMENTAL REPORTING
The directors believe that the group has only one segment, that of a franchising business. Currently, these operations principally occur in the UK, with only limited business in other territories. Accordingly no segmental analysis is considered necessary.

5. EMPLOYEES AND DIRECTORS

	2019 £'000	2018 £'000
Group		
Wages and salaries	**1,942**	1,584
Social security costs	**234**	186
Other pension costs	**32**	14
	2,208	1,784

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

	2019	2018
Office and management	**44**	33

Details of the remuneration of the directors individually and in total are shown below:

	Salary (including bonus) £'000	Pension contributions £'000	Benefits in kind £'000	**Year to 31 December 2019 Total £'000**	Year to 31 December 2018 Total £'000
D C M Agace	172	1	–	**173**	160
S P Agace	50	–	2	**52**	52
J Nicol	20	–	1	**20**	20
L M Alkin	20	–	–	**20**	20
A J D Nicol	110	1	–	**112**	112
Total	372	2	3	**377**	364

Key management personnel are defined as directors of the group.

The number of directors to whom retirement benefits were accruing during the year was 2 (2018 – 2).

At the year end, D C M Agace held 305,000 (2018 – 305,000) share options with a historic value of £20,306 (2018 – £20,306) and A J D Nicol held 150,000 (2018 – 150,000) share options with a value of £192 (£192). There was no charge for the year in respect of share options.

Company
The company had no employees other than the directors, who were remunerated by Winkworth Franchising Limited.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

6. NET FINANCE INCOME

	2019 £'000	2018 £'000
Finance income:		
Interest receivable	**54**	83
Finance costs:		
Lease interest payable	**29**	–
Net finance income	**25**	83

7. PROFIT BEFORE TAX

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

	2019 £'000	2018 £'000
Depreciation – owned assets	**40**	47
Depreciation – right of use asset	**304**	–
Profit on disposal of fixed assets	**–**	(3)
Intangible assets and prepaid assisted acquisitions support amortisation	**229**	223
Fees attributable to the auditors of the parent company		
– audit of the group	**50**	30
Fees attributable to the component auditors' remuneration unaffiliated with the parent company auditors		
– audit of the subsidiary	**6**	–
– non-audit	**17**	–
Bad debts	**162**	28
Rents payable under operating leases	**–**	259

Included within auditor's remuneration above is £11,000 (2018 – £11,000) relating to the company.

8. TAX

Analysis of tax expense

	2019 £'000	2018 £'000
Current tax:		
Taxation	**311**	280
Adjustment re previous years	**6**	2
Total current tax	**317**	282
Deferred tax	**3**	6
Total tax expense in consolidated statement of profit or loss and other comprehensive income	**320**	288

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

8. TAX – continued

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:

	2019 £'000	2018 £'000
Profit before income tax	**1,628**	1,452
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%)	**309**	275
Effects of:		
Expenses not deductible for tax purposes	**10**	1
Adjustment in respect of prior periods	**6**	10
Depreciation in excess of capital allowances	**11**	2
Income not taxable	**(13)**	–
Other movements	**(3)**	–
Tax expense	**320**	288

9. DIVIDENDS

	2019 £'000	2018 £'000
Ordinary shares of 0.5p each	**968**	942

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

	Earnings £'000	2019 Weighted average number of shares '000	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,285	12,733	10.09
Effect of dilutive securities	–	25	–
Diluted EPS			
Diluted earnings	1,285	12,758	10.07

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

10. EARNINGS PER SHARE – continued

	Earnings £'000	2018 Weighted average number of shares '000	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	1,164	12,733	9.14
Effect of dilutive securities	–	4	–
Diluted EPS			
Diluted earnings	1,164	12,737	9.14

11. INTANGIBLE ASSETS
Group
Year ended 31 December 2019

	Customer lists £'000	Website development £'000	Total £'000
COST			
At 1 January 2019	–	255	255
Additions	–	170	170
Acquired with subsidiary (note 23)	496	–	496
At 31 December 2019	496	425	921
AMORTISATION			
At 1 January 2019	–	184	184
Charge for year	18	51	69
At 31 December 2019	18	235	253
NET BOOK VALUE			
At 31 December 2019	478	190	668

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

11. INTANGIBLE ASSETS – continued
Year ended 31 December 2018

	Website development £'000	Total £'000
COST		
At 1 January 2018	241	241
Additions	14	14
At 31 December 2018	255	255
AMORTISATION		
At 1 January 2018	110	110
Charge for year	74	74
At 31 December 2018	184	184
NET BOOK VALUE		
At 31 December 2018	71	71

12. PROPERTY, PLANT AND EQUIPMENT
Group
Year ended 31 December 2019

	Right of use £'000	Computer equipment £'000	Fixtures and fittings £'000	Totals £'000
COST				
At 1 January 2019	–	5	330	335
Additions	–	1	8	9
Modification of leases	675	–	–	675
Acquired with subsidiary (note 25)	132	3	11	146
At 31 December 2019	807	9	349	1,165
DEPRECIATION				
At 1 January 2019	–	5	209	214
Charge for year	285	1	58	344
At 31 December 2019	285	6	267	558
NET BOOK VALUE	522	3	82	607

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

12. PROPERTY, PLANT AND EQUIPMENT – continued

Year ended 31 December 2018 as restated

	Computer equipment £'000	Fixtures and fittings £'000	Totals £'000
COST			
At 1 January 2018	5	260	265
Additions	–	70	70
At 31 December 2018	5	330	335
DEPRECIATION			
At 1 January 2018	4	163	167
Charge for year	1	46	47
At 31 December 2018	5	209	214
NET BOOK VALUE			
At 31 December 2018	–	121	121

13. PREPAID ASSISTED ACQUISITIONS SUPPORT

Group

Year ended 31 December 2019

	Total £'000
COST	
At 1 January 2019	**1,554**
Additions	**98**
At 31 December 2019	**1,652**
AMORTISATION	
At 1 January 2019	**951**
Charge for year	**160**
At 31 December 2019	**1,111**
NET BOOK VALUE	
At 31 December 2019	**541**

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

13. PREPAID ASSISTED ACQUISITIONS SUPPORT – continued
Year ended 31 December 2018 as restated

	Total £'000
COST	
At 1 January 2018	1,480
Additions	104
Disposals	(30)
At 31 December 2018	1,554
AMORTISATION	
At 1 January 2018	815
Charge for year – to revenue	149
Eliminated on disposal	(13)
At 31 December 2018	951
NET BOOK VALUE	
At 31 December 2018	603

Payments to franchisees on the incorporation of their business into the Winkworth brand are presented as prepaid assisted acquisitions support. Additions represent sums provided to franchisees that have made qualifying acquisitions as contributions towards their growth plans.

Company
No prepaid assisted acquisitions support exists in the Parent Company.

14. INVESTMENTS
Group
Year ended 31 December 2019

	Listed investments £'000
AT COST OR MARKET VALUE	
At 1 January 2019	**53**
Reduction in fair value	**(10)**
At 31 December 2019	**43**
NET BOOK VALUE	
At 31 December 2019	**43**

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

14. INVESTMENTS – continued
Year ended 31 December 2018

	Listed investments £'000
COST	
At 1 January 2018	7
Additions	78
Reduction in fair value	(32)
At 31 December 2018	53
NET BOOK VALUE	
At 31 December 2018	53

The listed investments are considered at level 1 under the IFRS 13 hierarchy.

Company

	2019 £'000	2018 £'000
COST		
At 1 January	**63**	63
NET BOOK VALUE		
At 31 December	**63**	63

Subsidiary undertakings
M Winkworth Plc had the following subsidiary undertaking as at 31 December 2019:

	% holding
Winkworth Franchising Limited Country of incorporation: England and Wales Nature of business: Franchisor to the Winkworth estate agencies Class of shares: Ordinary shares	100

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

14. INVESTMENTS – continued

The following are shares held indirectly through Winkworth Franchising Limited:

Company Name	Country of Incorporation	Nature of Business	Class of Shares	% Holding
Winkworth Client Services Limited	England and Wales	Administration services to estate agencies	Ordinary Shares	100
Winkworth Financial Services Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Auctions Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Conveyancing Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Land and New Homes Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Management Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Private Clients Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Property Management Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Residential Lettings Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Residential Sales Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Short Lets Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Surveying Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Surveyors Limited	England and Wales	Dormant	Ordinary Shares	100
Winkworth Surveys Limited	England and Wales	Dormant	Ordinary Shares	100
See Things Differently Limited	England and Wales	Dormant	Ordinary Shares	100
Tooting Estates Limited	England and Wales	Estate agency and lettings management	Ordinary Shares	55

The registered office for Tooting Estates Limited is 17 Upper Tooting Road, London, SW17 7TS.

The registered office for each of the other above subsidiary companies is 4th Floor, 1 Lumley Street, London, W1K 6TT.

Winkworth Client Services Limited has taken advantage of s479A of the Companies Act 2006 to dispense with the need to have an audit. In order to qualify for this exemption M Winkworth Plc has provided a guarantee under this section of the Act.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Current:				
Trade receivables	**476**	591	**–**	–
Amounts owed by group undertakings	**–**	–	**1,268**	1,268
Loans to franchisees	**218**	283	**–**	–
Other receivables	**20**	–	**–**	–
Prepayments	**199**	152	**–**	–
	913	1,026	**1,268**	1,268
Non-current:				
Loans to franchisees	**372**	724	**–**	–
Aggregate amounts	**1,285**	1,750	**1,268**	1,268

Trade receivables are stated net of bad debt provisions of £306,121 (2018 – £293,317). £162,316 (2018 – £27,605) has been charged to the statement of comprehensive income as a bad debt expense.

The Group applies IFRS 9 simplified approach to measuring credit losses using a lifetime expected credit loss provision for trade receivables. To measure expected credit losses on a collective basis, trade receivables are grouped based on similar credit risk and aging. The expected loss rates are based on the Group's historical credit losses experienced over the previous year.

Expected credit loss assessment for customers as at 31 December 2019

The following table provides information about the exposure to credit risk and ECLs (expected credit losses) for trade receivables as at 31 December 2019. The simplified approach has been used, as permitted by IFRS 9.

31 December 2019	**Weighted average loss rate £'000**	**Gross carrying amount £'000**	**Impairment loss allowance £'000**
Current (not past due)	**0%**	**233**	**–**
1-30 days past due	**1%**	**98**	**1.0**
31-60 days past due	**2%**	**56**	**1.1**
Over 60 days past due	**77%**	**395**	**304.0**

31 December 2018	Weighted average loss rate £'000	Gross carrying amount £'000	Impairment loss allowance £'000
Current (not past due)	0%	301	–
1-30 days past due	1%	101	1.0
31-60 days past due	2%	26	0.5
Over 60 days past due	64%	456	291.8

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

15. TRADE AND OTHER RECEIVABLES – continued

Loss rates are based on actual credit loss experience. These rates are multiplied by scalar factors to reflect differences between economic conditions during the period over which the historical data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Impaired receivables are only written off following the conclusion of administration proceedings.

Movements in the allowance for impairment in respect of trade receivables

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

	2019 £'000	2018 £'000
Balance at 1 January	**293.3**	214.8
Amounts written off	**(162.3)**	(27.6)
Net remeasurement of loss allowance	**175.1**	106.1
Balance at 31 December	**306.1**	293.3

The directors consider that the carrying value of trade and other receivables approximates to their fair value.

Loans to franchisees are spread across varying terms and the agreements do not include any collateral on behalf of the franchisees. No bad debt provisions have been recognised in respect of franchise loans and other debtors in the current or previous years.

16. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 £'000	2018 £'000	**2019 £'000**	2018 £'000
Bank accounts	**3,571**	2,935	**424**	424

There were no overdrafts at either year end.

17. NON-CONTROLLING INTERESTS

Non-controlling interests relate to the minority 45% holding in Tooting Estates Limited.

Summarised financial information relating to Tooting Estates Limited is as follows:

	30 June 2019 £'000	31 December 2019 £'000
Non-current assets	642	618
Current assets	122	182
Current liabilities	(267)	(203)
Non-current liabilities	(333)	(396)
Net assets	164	201

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

17. NON-CONTROLLING INTERESTS – continued

The balances at 30 June 2019 include a fair value adjustment in respect of non-current assets of £246,000.

	6 months to 30 June 2019 £'000	6 months to 31 December 2019 £'000	Total £'000
Revenue	373	498	871
Profit after tax	20	48	68

18. CALLED UP SHARE CAPITAL

Authorised:		2019 £'000	2018 £'000
20,000,000	Ordinary shares of 0.5p	**100**	100

Issued and fully paid:		2019 £'000	2018 £'000
12,733,238	Ordinary shares of 0.5p	**64**	64

19. RESERVES

Retained earnings are earnings retained by the company not paid out in dividends.

Share premium is the premium paid on shares purchased in the company.

Other reserves are the fair value equity components recognised over the vesting period of share based payments.

On 24 July, 2018, the High Court of Justice of England and Wales made an order approving a Reduction of Capital. Under the terms of this arrangement, the Company's share premium account of approximately £1.793 million was cancelled and approximately £1.146 million of capital was returned to shareholders. The balance of approximately £0.647 million, less the costs of the Return of Capital, was transferred to the Company's profit and loss account.

The share price at close of business on 23 July 2018, the day before the High Court made the order was 130.0p for each 0.5p share.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

20. TRADE AND OTHER PAYABLES

	Group		Company	
	2019	2018	**2019**	2018
	£'000	£'000	**£'000**	£'000
Current:				
Trade payables	**362**	299	**–**	–
Other taxes and social security	**257**	251	**–**	–
Lease liability	244	–	**–**	–
Other payables	**104**	2	**–**	–
Accruals and deferred income	**66**	163	**–**	–
VAT	**52**	7	**–**	–
	1,085	722	**–**	–
Non-current:				
Lease liability	**294**	–	**–**	–
	294	–	**–**	–
Aggregate amounts	**1,379**	722	**–**	–

The directors consider that the carrying value of trade and other payables approximates to their fair value.

21. FINANCIAL INSTRUMENTS

Capital management

The group manages its capital to ensure its operations are adequately provided for, while maximising the return to shareholders through the effective management of its resources.

The group's objectives when managing capital are to safeguard its ability to continue as a going concern and so provide returns for shareholders and benefits for other members. The group meets its objectives by aiming to achieve a steady growth while mitigating risk, which will generate regular and increasing returns to the shareholders.

The group also seeks to minimise the cost of capital and optimise its capital structure. The capital structure of the group consists of cash and cash equivalents and equity attributable to equity holders of the parent comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity. The group currently does not carry any debt.

Risk management

The group is exposed through its operations to the following financial risks:

- Credit risk
- Liquidity risk
- Market risk

In common with all other businesses, the group is also exposed to risks that arise from its use of financial instruments. This note describes the group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

21. FINANCIAL INSTRUMENTS – continued

There have been no substantive changes in the group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

Categories of financial instruments

The group has the following financial instruments:

	2019 £'000	2018 £'000
Financial assets that are debt instruments measured at amortised cost		
Trade receivables	**476**	591
Loans to franchisees	**590**	1,007
Other receivables	**20**	–
Financial liabilties measured at amortised cost		
Trade payables	**362**	299
Lease liability	**244**	–
Other payables	**104**	2
Financial assets measured at fair value		
Listed investments	**36**	46

Listed investment are valued by reference to publicly available share prices.

Principal financial instruments

The principal financial instruments used by the group, from which financial instrument risk arises, are as follows:

- trade receivables
- cash at bank
- trade payables

These are considered below.

General objectives, policies and processes

The Board has overall responsibility for the determination of the group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the group's finance function. The Board receives monthly reports from the group financial controller through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the Board is to set polices that seek to reduce risk as far as possible without unduly affecting the group's competitiveness and flexibility. There are no significant concentrations of risk within the group. Further details regarding these policies are set out below:

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

21. FINANCIAL INSTRUMENTS – continued

Credit risk

Credit risk is the risk of financial loss to the group if a franchisee or a counterparty to a financial instrument fails to meet its contractual obligations. The group is mainly exposed to credit risk from franchise commissions and loans to franchises. It is group policy to assess the credit risk of new franchisees before entering contracts.

The directors have established a credit policy under which each new franchisee is analysed individually for creditworthiness before a franchise is offered. The group's review includes external ratings, when available, and in some cases bank references.

Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with minimum rating "A" are accepted.

The group does not enter into derivatives to manage credit risk, although in certain isolated cases may take steps to mitigate such risks if it is sufficiently concentrated.

Liquidity risk

Liquidity risk arises from the group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the group will encounter difficulty in meeting its financial obligations as they fall due.

The group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due.

Market risk

Market risks are the inherent risks which arise from the group's presence within the market in which it operates. The directors consider there to be no key risks to the group that can be quantified and so no sensitivity analysis has been carried out on any potential impacts to the financial statements. No material market risk arises from the listed investments due to the size of the holding.

Interest rate and currency of cash balances

Floating rate financial assets of £3,570,090 (2018 – £2,934,197) comprise sterling cash deposits. There are no fixed rate financial assets. If interest rates had been 0.25% higher during the year, then the group would have generated c£9,000 of additional interest income.

Fair values of financial instruments

As a result of their short term nature, there are no material differences between book value and fair value of financial instruments as, where appropriate, all are subject to floating rates as set by the market.

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

22. DEFERRED TAX

Group

	Notes	2019 £'000	2018 £'000
Balance at 1 January		**17**	11
Transfer from profit or loss		**3**	6
Deferred tax asset recognised on acquisition of subsidiary	25	**(12)**	–
Fair value adjustment on acquisition of subsidiary	25	**58**	–
Balance at 31 December		**66**	17

Deferred tax comprises £46,000 in respect of the acquisition of Tooting Estates Limited and £20,000 in respect of accelerated capital allowances.

23. RELATED PARTY DISCLOSURES

During the year total dividends of £485,497 (2018 – £472,830) were paid to directors.

During the year the company received a dividend of £967,726 (2018 – £942,260) from its subsidiary undertaking Winkworth Franchising Limited. The balance owed by Winkworth Franchising Limited to the company at the year end was £1,267,587 (2018 – £1,267,587).

During the year the group purchased a 55% shareholding in Tooting Estates Limited from Bazmore Enterprise Limited, owned by a shareholder in the group, for consideration of £22,500.

24. SHARE-BASED PAYMENT TRANSACTIONS

Share options are granted to directors and to selected employees. The exercise price of the granted options is equal to the market price of the shares at date of the grant. Options are conditional on the employee completing two years' service (the vesting period). The options are exercisable starting two years from the grant date and expire ten years from the grant date. The company has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

Option series	Number	Grant date	Expiry date	Exercise price (p)	Fair value at grant date (p)
Granted on 1 July 2013	163,400	01/07/2013	30/06/2023	110	21
Granted on 10 May 2017	360,000	10/05/2017	09/05/2027	150	1

When the 10 May 2017 share options were granted the market price of shares was 112p. With the exercise price of these options being 150p this created a significant performance hurdle for the share price to reach the exercise price.

The weighted average fair value of options granted during 2017 determined using the Black-Scholes valuation model was £0.0041 per option. The significant inputs into the model were weighted average share price of £1.10 at the grant date, exercise price shown above, volatility of 21%, an expected option life of eight years and an annual risk-free interest rate of 1.17%. The volatility measured at the standard deviation of continuously compounded share returns is based on statistical analysis of daily share prices over the last year.

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

24. SHARE-BASED PAYMENT TRANSACTIONS – continued
The following reconciles the share options outstanding at the beginning and end of the year:

	2019 Number of options	**2019** Weighted average exercise price (p)	2018 Number of options	2018 Weighted average exercise price (p)
Balance at beginning of year	**523,400**	**138**	523,400	138
Granted during the year	**–**		–	
Balance at end of year	**523,400**	**138**	523,400	138

At 31 December 2019, 163,400 of the above options were exercisable. No options were exercised in 2019. The share options outstanding at the year-end had a weighted average contractual life of 6.1 years

The charge for the period has not been recognised because it is deemed to be trivial.

The Reduction of Capital, authorised by the High Court on 24 July 2018, impacted the calculations around the Share Options granted before that date. To adhere to the Rules of the Option Plan, the exercise price and number of shares must be adjusted so that the amount payable on full exercise and the value of the shares acquired on full exercise, and hence the value of the options, are kept constant. HMRC have been approached to get their agreement to the terms of the adjustment and we are awaiting their response. There is no impact on the cost of the options to the group.

25. ACQUISITION OF SUBSIDIARY
On 1 July 2019, Winkworth Franchising Limited acquired 55% of Tooting Estates Limited, which operates the Winkworth franchise in the Tooting area, for £22,500. The consideration of £22,500 was paid in cash. In addition, Winkworth Franchising Limited advanced £92,500 of loans to Tooting Estates Limited at an interest rate of 5% repayable over 5 years.

In addition to the financial impact, the acquisition of Tooting Estates Limited as a subsidiary, will keep Winkworth in touch with and learning from front end experiences and industry trends. It will also provide a live platform to test and develop future digital initiative and evolve our centralised CRM systems, which will be of benefit to all our franchisees.

	At 01/07/19 £'000	Fair value adjustment £'000	Fair value of net assets £'000
Customer lists	192	304	496
Tangible assets	146	–	146
Trade and other receivables	52	–	52
Cash and cash receivables	116	–	116
Payables < 1 year	(267)	–	(267)
Payables > 1 year	(333)	–	(333)
Deferred tax	12	(58)	(46)
Net asset acquired	(82)	246	164
Group share			91
Consideration paid			23
Negative goodwill			68

Notes to the Consolidated Financial Statements continued

for the year ended 31 December 2019

25. ACQUISITION OF SUBSIDIARY – continued

The purchase consideration of £22,500 was settled in cash, with negative goodwill included in the Consolidated Statement of Profit or Loss and Other Comprehensive Income.

The bargain purchase arose due to the vendor, a related party of the Group, valuing the intangible assets of the company, consisting of its customer lists, at lower than current fair value, being the amount paid when the business was previously purchased. The transaction benefitted the vendor through enabling it to recover debt from the business.

26. TRANSITION TO IFRS 16

In the context of the transition to IFRS 16, right of use assets £674,947 and lease liabilities of £674,947 were recognised as at 1 January 2019. Of these lease liabilities, £209,205 was due within one year.

Management calculated the lease term for each lease to be from the date of initial application (being 1 January 2019), as the modified retrospective transition approach was taken, to the agreed lease expiration date as stated within the signed lease agreements. Management are not reasonably certain that the leases will be extended past these dates.

Management have concluded that the interest rate implicit in the leases cannot not be readily determined therefore the leases held have been discounted by the incremental borrowing rate (IBR) of 4.2%, being the rate of interest that the group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain assets of a similar value to the right-of-use assets in a similar economic environment.

The following statement summarises the impact of adopting IFRS 16 on the Company's 2019 statement of financial performance

	As reported £'000	Without IFRS 16 adoption £'000
Administrative expenses	(3,561)	(3,539)
Finance expense	(29)	–
Tax expense	(320)	(330)
Right of use assets	522	–
Lease liabilities	(538)	–

The following table presents the impact of adopting IFRS 16 in the Statement of Financial Position as at 1 January 2019:

	31 December 2018 as reported £'000	1 January 2019 adjusted for IFRS 16 £'000
Right of use assets	–	675
Lease liabilities	–	(675)

Notes to the Consolidated Financial Statements continued
for the year ended 31 December 2019

26. TRANSITION TO IFRS 16 – continued
The following table reconciles the lease commitments under IAS 17 and the lease liability recognised under IFRS 16:

	£'000
Operating lease commitment as at 1 January 2019 per IAS 17	727
Effects of applying discount rate	(52)
Lease liability as at 1 January 2019 per IFRS 16	**675**

27. NOTES SUPPORTING STATEMENT OF CASH FLOWS

	Non-current loans and borrowing £'000	Current loans and borrowing £'000	Total £'000
At 1 January 2019	–	–	–
Cash flows	–	(257)	(257)
Non-cash flows			
Right of use asset	294	501	795
At 31 December 2019	**294**	**244**	**538**

28. POST BALANCE SHEET EVENTS
Since the government's directive on the temporary closing of high street branches came into effect on 24 March 2020, we have undertaken a number of initiatives to help our franchisees through this difficult time. Besides cutting non-essential marketing and training courses, and passing on savings to our franchisees, we have provided them with comprehensive help on business topics including remote working, maintaining a dialogue with customers, employment rights and government loan schemes. On top of the daily flow of commercial information, our franchisees are providing us with regular updates of their financial health so that we can assess their individual situations and provide support where most needed.

At Group level we have modelled a range of scenarios to stress test our liquidity in the current financial year. The Board is comfortable that, even under the worst of these, the business has the required financial resources for the foreseeable future. Winkworth paid its 2019 fourth quarter dividend on 20 February 2020 as announced.

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of M Winkworth PLC (the "**Company**") (the "**AGM**") will be held on Tuesday 12 May 2020 at 10.30a.m. at 1 Lumley Street, London W1K 6TT to transact the following business, of which Resolutions 1 to 5 (inclusive) will be proposed as ordinary resolutions and Resolutions 6 and 7 will be proposed as special resolutions:

ORDINARY RESOLUTIONS

1. TO receive the accounts, the report of the directors and the auditors' report on the accounts for the year ended 31 December 2019.
2. TO re-appoint BDO LLP as auditors to the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
3. TO authorise the directors to determine the auditors' remuneration.
4. TO re-elect Andrew Nicol as a director of the Company.
5. THAT the directors be and they are hereby generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "**2006 Act**") in substitution for all existing and unexercised authorities:

    5.1 to exercise all the powers of the Company to allot shares and to make offers or agreements to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company (together, "**Relevant Securities**") up to an aggregate nominal amount of twenty-one thousand, two hundred and twenty-two pounds (£21,222); and

    5.2 to exercise all the powers of the Company to allot equity securities (within the meaning of section 560(1) of the 2006 Act) up to an additional aggregate nominal amount of twenty-one thousand, two hundred and twenty-two pounds (£21,222) provided that this authority may only be used in connection with a rights issue in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record dates as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held or deemed to be held by them or are otherwise allotted in accordance with the rights attaching to such equity securities, subject to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever,

    provided that the authorities in paragraphs 5.1 and 5.2 shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or, if earlier, on the date which is 15 months after the date of the annual general meeting, except that the Company may before such expiry make an offer or agreement which would or might require Relevant Securities or equity securities, as the case may be, to be allotted after such expiry and the directors may allot Relevant Securities or equity securities in pursuance of any such offer or agreement as if the authority in question had not expired.

SPECIAL RESOLUTIONS

6. THAT, subject to the passing of resolution 5, the directors be and are empowered generally, in accordance with section 570 of the 2006 Act, in substitution for all existing and unexercised powers, to allot equity securities (as defined in section 560(1) of the 2006 Act) for cash either pursuant to the

Notice of Annual General Meeting continued

authority conferred by resolution number 5 or by way of a sale of treasury shares as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall be limited to:

6.1 the allotment of equity securities in connection with a rights issue or other pro rata offer (but, in the case of the authority conferred by paragraph 5.2 above, by way of a rights issue only) in favour of holders of ordinary shares and other persons entitled to participate therein where the equity securities respectively attributable to the interests of all those persons at such record dates as the directors may determine are proportionate (as nearly as may be) to the respective numbers of equity securities held (or deemed to be held) by them or are otherwise allotted in accordance with the rights attaching to such equity securities subject in each case to such exclusions or other arrangements as the directors may consider necessary or expedient to deal with fractional entitlements or legal difficulties under the laws of any territory or the requirements of a regulatory body or stock exchange or by virtue of shares being represented by depositary receipts or any other matter whatsoever; and

6.2 the allotment (otherwise than pursuant to paragraph 6.1 above) of equity securities up to an aggregate nominal amount of twelve thousand, seven hundred and thirty-three pounds (£12,733),

and shall expire upon the expiry of the general authority conferred by resolution 5 above, except that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted and/or shares held by the Company in treasury to be sold or transferred after such expiry and the directors may allot equity securities and/or sell or transfer shares held by the Company in treasury in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

7. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the 2006 Act) of its ordinary shares of 0.5 pence each provided that in doing so it:

7.1 purchases no more than 1,273,323 ordinary shares in aggregate;

7.2 pays not less than 0.5 pence (excluding expenses) per ordinary share; and

7.3 pays a price per share that is not more (excluding expenses) per ordinary share than the higher of:

(i) 5% above the average of the middle market quotations for the ordinary shares as derived from the Daily Official List for the five business days immediately before the day on which it purchases that share; and

(ii) the higher of the price of the last independent trade and the highest current independent bid on the market where the purchase is carried out.

This authority shall expire at the conclusion of the Company's next annual general meeting or within 15 months from the date of passing of this resolution (whichever is the earlier), but the Company may, if it agrees to purchase ordinary shares under this authority before it expires, complete the purchase wholly or partly after this authority expires.

14 April 2020

REGISTERED OFFICE:
1 Lumley Street,
London W1K 6TT

BY ORDER OF THE BOARD
Margaret Ogunbunmi Doregos
Secretary

Notice of Annual General Meeting continued

PROXY VOTING

You will not receive a hard copy form of proxy for the AGM in the post. Instead, you will be able to vote electronically using the link www.signalshares.com. You will need to log into your Signal Shares account, or register if you have not previously done so, to register you will need your Investor Code, this is detailed on your share certificate or available from our Registrar, Link Asset Services.

Voting by proxy prior to the AGM does not affect your right to attend the AGM and vote in person should you so wish. Proxy votes must be received no later than 10.30 a.m. on 8 May 2020.

You may request a hard copy form of proxy directly from the registrars, Link Asset Services, on 0371 664 0300. Calls are charged at the standard geographical rate. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 09.00 – 17.30, Monday to Friday excluding public holidays in England and Wales.

Notice of Annual General Meeting continued

NOTES:

1. Shareholders are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the AGM. A proxy need not be a shareholder of the Company. A shareholder may appoint more than one proxy in relation to the AGM provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. The appointment of a proxy does not preclude a shareholder from attending and voting in person if he or she wishes to do so.

2. Your proxy could be the Chairman, another director of the Company or another person who has agreed to attend to represent you. Your proxy will vote as you instruct and must attend the meeting for your vote to be counted. Appointing a proxy does not preclude you from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.

3. Shareholders are recommended to vote their shares electronically at www.signalshares.com. On the home page, search "M Winkworth PLC" and then register or log in, using your Investor Code. To vote at the AGM, click on the "Vote Online Now" button by not later than 10:30 a.m. on 8 May 2020 (or 48 hours (excluding weekends and public holidays) before the time appointed for any adjournment of it). Electronic votes and proxy votes should be submitted as early as possible and, in any event, to be received by no later than 10:30 a.m. on 8 May 2020. Any power of attorney or other authority under which the proxy is submitted must be sent to the Company's Registrar (Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF) so as to have been received by the Company's Registrars by not later than 10:30 a.m. on 8 May 2020 (or 48 hours (excluding weekends and public holidays) before the time appointed for any adjournment of it).You are entitled to request a hard copy form of proxy directly from the Registrar, Link Asset Services. If a paper form of proxy is requested from the Company's Registrar, it must be completed and sent to the Company's Registrar (Link Asset Services, PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF) so as to have been received by not later than 10:30 a.m. on 8 May 2020 (or 48 hours (excluding weekends and public holidays) before the time appointed for any adjournment of it).

4. To change your proxy instructions simply submit a new proxy appointment using the methods set out in Note 3. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Link Asset Services at PXS1, 34 Beckenham Road, Beckenham, Kent, BR3 4ZF. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

5. (a) CREST members who wish to appoint a proxy or proxies by utilising the CREST electronic proxy appointment service may do so by utilising the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

   (b) In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent, Capita Asset Services, (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

Notice of Annual General Meeting continued

(c) The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

(d) CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

6. Only those shareholders registered in the Register of Members of the Company as at close of business on Friday 8 May 2020 (or, if the meeting is adjourned, on the date which is two days before the time of the adjourned meeting) shall be entitled to attend and vote at the meeting or adjourned meeting in respect of the number of shares registered in their respective names at that time. Changes to the Register of Members after that time will be disregarded in determining the rights of any person to attend or vote at the meeting or adjourned meeting.

7. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

8. You may not use any electronic address provided either in this notice of annual general meeting or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

9. As at 13 April 2020 (being the last business day before the publication of this Notice), the Company's issued share capital consisted of 12,733,238 ordinary shares carrying one vote each. The Company does not hold any shares in treasury. Therefore the total voting rights in the Company as at 13 April 2020 are 12,733,238.

10. Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if:

(a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information;

(b) the answer has already been given on a website in the form of an answer to a question; or

(c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

11. The following documents are available for inspection at the registered office of the Company during normal business hours on each weekday (public holidays excluded) and at the place of the annual general meeting for 15 minutes prior to and during the meeting:

(a) copies of the executive directors' service contracts with the Company; and

(b) copies of the letters of appointment of the non-executive directors.

M Winkworth PLC
1 Lumley Street
Mayfair, London
W1K 6TT

winkworthplc.com

Winkworth

for every step...