Franchise Brands plc
Annual Report and Accounts 2017

FOCUSED

FRANCHISE BRANDS

At Franchise Brands we are passionate about helping our franchisees succeed and grow. This is at the very heart of our success as a franchisor.

We focus on the things that make a

DIFFERENCE

OUR STRATEGY

For more information see pages 4-9

OUR MODEL

For more information see pages 10-11

OUR BRANDS

For more information see pages 14-21

OUR EXPERIENCE

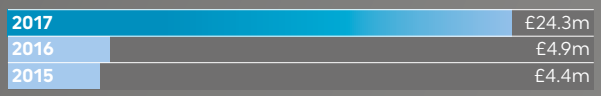
For more information see pages 30-33

Front cover image:
Ian Williams, Metro Rod franchisee, Swansea

Financial highlights

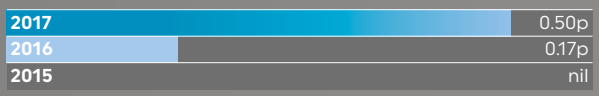
Revenue

£24.3m +399%



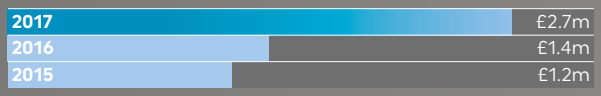
Dividend per share

0.5p +194%



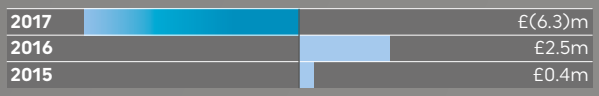
Adjusted EBITDA

£2.7m +101%



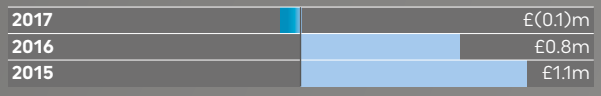
(Net debt)/Cash

£(6.3)m -352%



(Loss)/Profit before tax

£(0.1)m –151%



Adjusted earnings per share

2.5p +4%

Operational highlights

- Acquisition of Metro Rod on 11 April 2017.
- Size and scale of the Group significantly increased.
- New strategy formulated for Metro Rod delivered through investment in sales, marketing and IT systems.
- Strengthening of the senior management team and the Board.
- Shared support services expanded and extended.

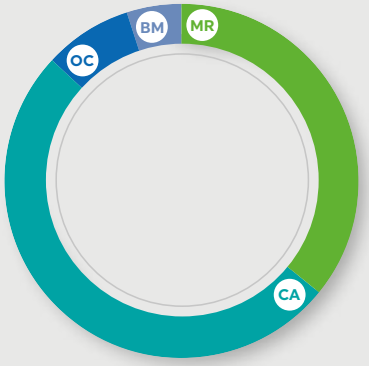
AT A GLANCE

Franchise Brands plc is an international multi-brand franchisor with a combined network of over 450 franchisees in 12 countries across four brands.

Franchise Brands' vision is to create a group of market-leading franchise businesses that benefit from sharing the same support services. This model allows the management of our individual brands to focus on expanding their networks, and supporting their franchisees to grow their businesses. We believe this can really make a difference.

Currently the Group has four brands;
Metro Rod, ChipsAway, Ovenclean and Barking Mad.

Portfolio split by Adjusted EBITDA (excluding central costs)



MR Metro Rod	36%
CA ChipsAway	51%
OC Ovenclean	08%
BM Barking Mad	05%

Our guiding principles

At Franchise Brands we have five guiding principles that inform the way we work with each other, support our franchisees and serve our customers:

We demand integrity:
We are professional in everything we do and treat people with respect. Nothing is more important to us than acting with integrity at all times.

We empower our people:
We empower our people and expect them to take ownership of a situation and to be accountable for their actions and the results they generate.

We are challenging of ourselves:
We set high standards, are demanding of ourselves, are prepared to challenge the norm and have a relentless focus on continual improvement.

We are fair:
We consider that fairness and transparency are essential to creating high trust working relationships with each other, and with our franchisees, partners and suppliers.

We work as a team:
We place a huge amount of importance on teamwork between our colleagues and our franchisees in creating a dynamic business which delivers impressive results. We are inclusive, encourage ideas and innovation and welcome diversity.

"In a relatively short space of time, we have created a high-quality portfolio of businesses with significant critical mass in the franchising sector. We plan to continue our growth both organically and by acquisition."

Stephen Hemsley
Executive Chairman

IN FOCUS

Our brands

Founded in 1983, Metro Rod is a leading provider of drain clearance and maintenance services to the commercial market. These services are provided by 41 franchisees on a 24/7/365 basis with geographical coverage across the majority of the UK. In 2016, Metro Rod expanded its service offering with the launch of Metro Plumb. Franchise Brands acquired Metro Rod in April 2017.

Number of franchisees

41

Years of operation

34

Adjusted EBITDA (£m)

2017*	£1.3m
2016	n/a
2015	n/a

For more information see pages 8, 9, 14, 15

* From 11 April 2017

ChipsAway is the UK's leading and longest established mobile car paintwork repair specialist focusing on SMART ("Small to Medium Area Repair Technology") repairs. ChipsAway was established in 1994 and has 214 franchisees in the UK. It also has a presence in ten countries outside the UK through master franchise arrangements. ChipsAway franchisees primarily serve consumers, and operate from branded vehicles which are mobile workshops or Car Care Centres, which are small workshop facilities.

Number of franchisees

214

Years of operation

23

Adjusted EBITDA (£m)

2017	£1.9m
2016	£1.6m
2015	£1.4m

For more information see pages 6, 7, 16, 17

Established in 1994, Ovenclean is the leading and longest established oven cleaning business in the UK and has a network of 106 franchisees. Ovenclean franchisees are able to clean all domestic oven brands and models, including electric ovens, gas ovens, range-style ovens, microwaves, and also hobs, extractor fans, and barbecues. Ovenclean employs an environmentally friendly system which helps ensure customers benefit from a safe and hygienic environment.

Number of franchisees

106

Years of operation

23

Adjusted EBITDA (£m)

2017	£0.3m
2016	£0.3m
2015	£0.2m

For more information see pages 6, 7, 18, 19

Established in 2000, Barking Mad is a leading provider of dog home boarding services (dog holidays) and has 77 franchisees nationwide. As well as marketing to dog owners, the franchisees recruit dog-loving host families who can take in and look after a dog when the owners are away from home. Customers enjoy peace of mind with a professional service which focuses on the individual needs of every dog. Franchise Brands acquired Barking Mad in 2016.

Number of franchisees

77

Years of operation

18

Adjusted EBITDA (£m)

2017	£0.2m
2016	£(0.01)m
2015	n/a

For more information see pages 6, 7, 20, 21

OUR STRATEGY

Our strategy is to develop franchise businesses which have market-leading positions that primarily provide services to individuals and businesses. Our focus is on established brands which can benefit from our shared support services as well as our management expertise and experience.

We aim to take franchise businesses from 'good to great', rather than focus on developing early stage businesses.

The execution of this strategy is achieved through a combination of organic growth and growth through acquisition. The focus of future acquisitions will be on market-leading B2B and B2C franchise businesses of scale and where we believe our management and financial resources can significantly enhance an already profitable business.

Growing organically

Our strategy is to continue to actively expand the ChipsAway, Ovenclean and Barking Mad franchise systems through recruiting new franchisees, improving franchisee quality and assisting franchisees to grow their businesses. We believe this will improve the quality of earnings by increasing the contribution from recurring Management Service Fee ("MSF") income and reducing the Group's reliance on recruitment income.

2017 progress

- Growth of total number of franchisees from 391 to 397 following the recruitment of 80 new franchisees and 74 leavers.
- Improvement of the quality of the earnings with an increasing number of franchisees now paying a turnover-related MSF.
- Continued strong cash flow generation from each brand.

Growing by acquisition

In 2017 we acquired Metro Rod. The central objective of Metro Rod's new strategy is to grow franchisee sales ("system sales") and their profitability whilst also building our MSF income. In order for the strategy to succeed, a significant investment is being made in information technology and business systems, and also in sales and marketing.

2017 progress

- Launch of a number of operational changes to support the new strategy of growing system sales.
- Initial restructuring of business processes and systems to improve efficiency and provide our customers with a first class service.
- Launch of new marketing and branding strategy.

Shared support services

All the Group's brands are supported by our shared support services. These services allow the management of our individual brands to focus on expanding their networks and helping their franchisees to grow their businesses. In 2017 we developed Group capabilities in IT and finance to add to our well established marketing, franchise recruitment and franchise support capabilities. We now consider the range of capabilities we offer to our franchisee businesses to be substantially complete.

2017 progress

- Creation of a Group IT function based in Macclesfield, and migration of Metro Rod's existing IT systems onto a Cloud-based platform. Development of Group IT vision.
- Integration of Group finance function, based in Macclesfield.
- Expansion of the marketing team based in Kidderminster and introduction of a National Advertising Fund ("NAF") for Metro Rod.

Growing each brand

Each brand has a Managing Director who is responsible for achieving the budget set by the Board. A Management Board was established in 2017 to ensure each brand is making full use of our shared support services, as well as facilitating the sharing of expertise, experience and learnings across all the Group's brands. We believe this will really make a difference to the way the Group operates.

2017 progress

- Managing Directors now more focused on business building as a result of a full range of support services now established.
- Overhead functions centralised which has created cost and operational efficiencies.
- Separate Key Performance Indicators ("KPIs") established for all brands, which provides greater focus.

GROWING ORGANICALLY

Franchise Brands continues to place a strong focus on generating organic growth from its existing brands ChipsAway, Ovenclean, and Barking Mad.

Overview

ChipsAway, Ovenclean, and Barking Mad are all well-established B2C service brands with long trading histories. The Group believes that the market for the services of these brands is substantial and that all brands benefit through their market-leading positions in their respective sectors and the quality of the services they provide.

ChipsAway

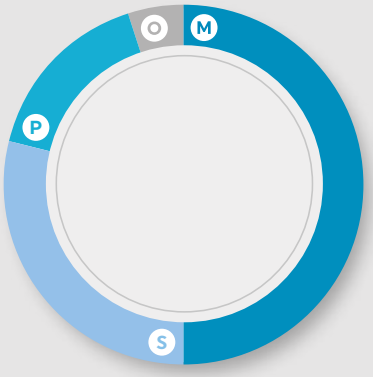
A key priority at ChipsAway is to support existing franchisees who wish to grow their businesses through the development of Car Care Centres, and the purchase of additional vans and postcodes to increase capacity and territory size. 67 ChipsAway franchisees (31% of the network), now have operations which are either multi-van, multi-territory or include Car Care Centres.

Of this group, 32 franchisees now operate a Car Care Centre which represents a 20% increase since 2016. The move to Car Care Centres in the network has been accelerated by our development of more compact unit sizes which now start at 1,000 square foot. In addition, 30 franchisees now operate more than one territory.

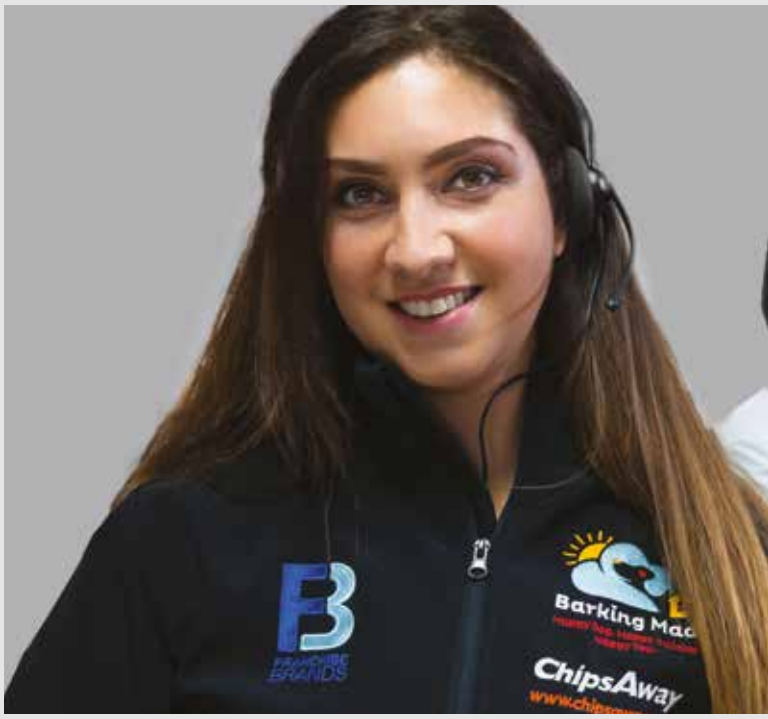
An increased number of ChipsAway franchisees are now paying an MSF rather than the lower minimum monthly fee. We believe this will improve the quality of earnings by increasing the contribution from recurring turnover-related MSF income.

In 2017, the ChipsAway franchise network reduced in size slightly from 218 to 214 as 33 franchisees were recruited and 37 franchisees left the network. The slight reduction in size reflects an increase in quality including the shift to multi-operations as outlined above.

Statutory revenue breakdown



M MSF	50%
S Sales of franchise territories	29%
P Product sales	16%
O Other income	05%



Ovenclean

The primary strategic objective at Ovenclean remains the growth of the number of franchisees in the system. This will be achieved by the recruitment of new franchisees and a reduction in the number of franchisees leaving the system.

The effectiveness of our marketing resulted in an increase in the average franchisee turnover which, in turn, allowed us to increase the monthly fee from £300 to £335.

In 2017, the Ovenclean franchise network increased in size from 102 to 106 as 23 franchisees were recruited and 19 franchisees left the network.

Barking Mad

The Group believes there is the potential for 250 viable franchise territories in the UK compared to the 80 territories currently operated by 77 franchisees. Using the Group's resource and expertise in franchise recruitment will enable us to accelerate growth, and expansion of the Barking Mad franchise community will continue to be an important Key Performance Indicator.

We also intend to continue Barking Mad's system sales growth by supporting individual franchisees' expansion through leveraging the well-established franchisee support capability at Barking Mad, together with the Group's shared support services, in particular marketing.

In 2017, the Barking Mad franchise network increased in size from 71 to 77 as 24 franchisees were recruited and 18 franchisees left the network.

The Group's shared support services

All our existing brands benefit from the Group's high quality and well established shared support services. As we grow both organically and by acquisition, we will be able to use this additional scale to optimise these functions by combining resources and further streamline proven processes.

By way of example, the marketing team now manages national marketing and advertising campaigns on behalf of four brands and can thereby leverage our agency relationships, which include Universal McCann, enabling budgets and effectiveness to be optimised.

A Group IT capability was created during the course of 2017 following the acquisition of Metro Rod and the recruitment of Colin Rees as our Chief Information Officer. This has enabled us to start streamlining the provision of IT and management information (MI) services across the Group, with significant further progress expected in 2018.

We have also integrated the Group finance capability across the different businesses following the appointment of Chris Dent as Chief Financial Officer.

Focus for 2018

- Actively expand the ChipsAway, Ovenclean and Barking Mad franchise systems through recruiting new franchisees as well as improving franchisee retention rates.
- Support existing franchisees in growing their businesses, in particular, ChipsAway franchisees who wish to develop Car Care Centres.
- Continue to leverage the Group's increased range of shared support services across all our brands.

Tim Harris
Managing Director, ChipsAway and Ovenclean

For more information see pages 16-21

IN FOCUS

GROWING BY ACQUISITION

Franchise Brands acquired Metro Rod in April 2017 for £28.4m which was a transformational step in our buy and build strategy.

Why Metro Rod

Founded in 1983, Metro Rod is a leading provider of drain clearance and maintenance services. The services are provided by 41 franchisees with geographical coverage across the whole of the UK (excluding Northern Ireland). Metro Rod was an attractive acquisition for the Group in that it was a leader in its market, had significant scale and would benefit from our expertise in marketing.

Growth potential

Franchise Brands sees considerable potential to grow the core Metro Rod drainage business and position the brand as the market leader in commercial drainage. The market is large but very fragmented, with approximately 1,500 providers, and there is a substantial opportunity to increase sales from business customers in the franchisee's local territories. Sales from these customers currently account for just under 40% of total sales and the strategy is to increase these to 60% of sales

We have recruited a new team of Regional Sales Managers to work with franchisees to grow sales locally. A substantial investment in marketing is also underway, underpinned by the recent introduction of a NAF at 1% of franchisee turnover. A key objective of the marketing strategy is to raise the brand profile and improve brand awareness among key decision makers.

Launched in February 2016, we also see potential to grow Metro Plumb on a national basis. Metro Plumb offers a focused range of plumbing services mainly to the emergency insurance market and is operated by most of our franchisees. Sales volumes have been growing and we continue to actively pursue new opportunities to further develop this early-stage business.

Operational efficiencies

There is significant scope to improve the efficiency of Metro Rod's highly manual operational processes and systems. Through automating and upgrading a number of these processes and systems, we will be able to provide a superior service to our customers and franchisees. We are also re-designing the core business processes to drive further automation, improve efficiency and improve service to our franchisees and customers. A key part of this activity will be the introduction of a management information suite which will provide us with greater insight into our business to inform the changes required.

The substantial investment in IT that is being made will ultimately enable Metro Rod to grow more rapidly and will allow central overheads to become a reducing percentage of income, thereby enhancing our operational gearing.

How we both benefit

Franchise Brands

- Opportunity to enter the B2B franchising market at a size and scale that is attractive strategically.
- Potential for an enhanced range of Group shared support services.
- Opportunity to optimise certain activities that were previously sub scale.

Metro Rod

- Leverage the Group's shared support services notably in marketing, franchise recruitment and IT.
- Benefit from the substantial experience and expertise of the Group's management team, the Board and the Group's resources.
- First time in the Company's history that Metro Rod is part of a Group entirely focused on franchising.

"The new vision I have set out for Metro Rod since being appointed Managing Director is to become the undisputed market leader in commercial drainage. We have set an ambitious target to grow system sales and have commenced investments in sales, marketing and IT systems to support the achievement of this strategy.

I have also introduced a number of operational changes which are designed to encourage franchisees to take more responsibility for their businesses, grow their sales and reward that growth."

Focus for 2018

- Increase brand awareness of Metro Rod as the leading solution for commercial drainage clearance and maintenance by targeting specific customer sectors on a national basis. This will help provide access to customers who are previously unaware of Metro Rod and its range of services.
- Drive local sales from business customers in franchisee's territories by:
  - leveraging the capability of the newly created Regional Sales Team; and
  - providing our franchisees with new marketing assets and training in order for them to be highly efficient at creating and converting potential customers.
- Automate and deliver incremental improvements to the IT systems to provide our franchisees and customers with a better level of service as well as to enable more efficient resource optimisation in the Support Centre.

Peter Molloy
Managing Director, Metro Rod

For more information see pages 14-15

IN FOCUS

OUR MODEL

Shared support services

The Franchise Brands business model enables all our brands to benefit from our high quality shared support services, allowing the management of these brands to focus on expanding their networks and supporting their franchisees to grow their businesses.

In 2017 we added to our original shared support services of marketing, franchise recruitment and franchise support by developing new Group IT and finance capabilities to service all the Group's brands. We now consider the range of capabilities we offer to our franchisee businesses to be complete.

Julia Choudhury
Corporate Development Director

"Our business model is highly scaleable. The same shared services will be able to support multiple brands as our business grows. This will allow overhead savings to accrue quickly from future acquisitions and give better operational gearing as the Group expands."

DRAWING ON OUR KEY STRENGTHS...

Inputs

EXPERTISE

- Our very well established franchise recruitment capability delivers new franchisees to the Group's brands. In 2017 we recruited a total of 82 new franchisees across the four brands.
- Our experienced marketing team is responsible for growing the profile and awareness of the Group's brands, enhancing the impact and effectiveness of brand messaging and for measuring and tracking all marketing activity.
- Our franchise support teams work with our franchisees to help them create and grow profitable, sustainable businesses over the long term.
- Our IT team ensures our franchisees and our Support Centre teams have the systems they need to operate their businesses effectively and efficiently.

EXPERIENCE AND BOARD ACUMEN

- Our Board and senior management team have, between them, substantial experience of franchising and of operating and growing profitable businesses.
- Our Chairman, Chief Information Officer and Marketing Director have, or have had, experience with FTSE250 companies in these roles.

RESOURCES

- Our cash-generative model allows us to invest in areas of the business where this is required.
- We have good access to the equity and debt capital markets.
- Our major shareholders are long-term investors which gives certainty and stability.
- We are able to work with high quality partners and suppliers.

...AND APPLYING OUR SKILLS AND EXPERTISE...

Value added

1. RECOGNISED BRANDS

- ChipsAway, Ovenclean and Barking Mad are market leaders in their sectors and enjoy a high level of brand awareness.
- ChipsAway has a level of brand awareness which is 10 times higher than its nearest competitor.
- We are investing heavily to position the Metro Rod brand as the market leader in commercial drainage.

2. ESTABLISHED BUSINESS MODELS

- Each of our brands has a long trading history and the combined trading history of all the Group's brands is 97 years.
- Our business model has proven franchisee unit level economics which are critical to the success and growth of any franchise system.
- Our franchisee networks are well established. The combined number of years our franchisees have traded for is nearly 2,500.

3. NEW BUSINESS GENERATION

- In 2017 our marketing team delivered 288,000 new consumer leads to ChipsAway and Ovenclean franchisees.
- Metro Rod achieved system sales of £26.1m in the period under our ownership.
- Barking Mad achieved system sales of £3.6m in 2017.

4. SUPPORT

- We provide business management support with the objective of enabling our franchisees to build efficient, profitable and sustainable businesses.
- We provide sales and marketing support focused on local business development.
- We provide the right IT systems, which are right sized for each brand, and provide day-to-day IT support.

5. INVESTMENT

- A substantial investment in Metro Rod's IT systems is now underway to help automate processes, improve efficiency and reduce costs over the long term.
- A NAF has been introduced at Metro Rod to fund brand development and national marketing initiatives.
- An investment has been made in a new regional sales team at Metro Rod to help franchisees win business in their territories.

...WE HELP OUR FRANCHISEES SUCCEED

Who benefits

CUSTOMERS

- Delivering a first class service at all times.
- Developing brand loyalty.
- Building long-term relationships.

Total system sales

£50m

FRANCHISEES

- Providing a comprehensive range of support.
- Tailoring our support to each brand.
- Helping our franchisees to grow their businesses and profits.

Total number of UK franchisees

438

EMPLOYEES

- Strengthening our ownership culture (share option scheme and equity ownership).
- Attracting and retaining high quality people.
- Training and development opportunities.

Total number of employees

187

SHAREHOLDERS

- Plan to deliver long-term sustainable growth.
- Progressive dividend policy.

Dividend per share

0.5p

MEET THE MARKETING DIRECTOR

Q&A with Robin Auld

Following our interview last year with the co-founders of Franchise Brands, Stephen Hemsley and Nigel Wray, we asked Robin Auld to comment on his approach to marketing the Group's brands and helping our franchisees to grow sales.

Robin Auld
Marketing Director

Q How would you best describe Franchise Brand's marketing philosophy?

A Our overall philosophy is that marketing is a science and not an art. We are investing not only ours but also our franchisees' money to grow the Group's brands. We are acutely aware of the huge responsibility this brings, which means we invest wisely and effectively to get the best possible return on our marketing investment. My team, which is headed by Ella Pugh, spend a considerable amount of time carefully analysing where we are spending money, what messages we are communicating, who we are communicating to and what results we are generating.

Q What is the key focus of this scientific analysis?

A The critical path is to understand what behavioural change is being triggered. For example, are we seeing an increase in customer enquiries? Are we seeing a lower cost per lead or a higher click through rate? Whatever the metric is, it's about really trying to understand what results are being generated, what the return on the investment is and whether that money could be more effectively spent elsewhere.

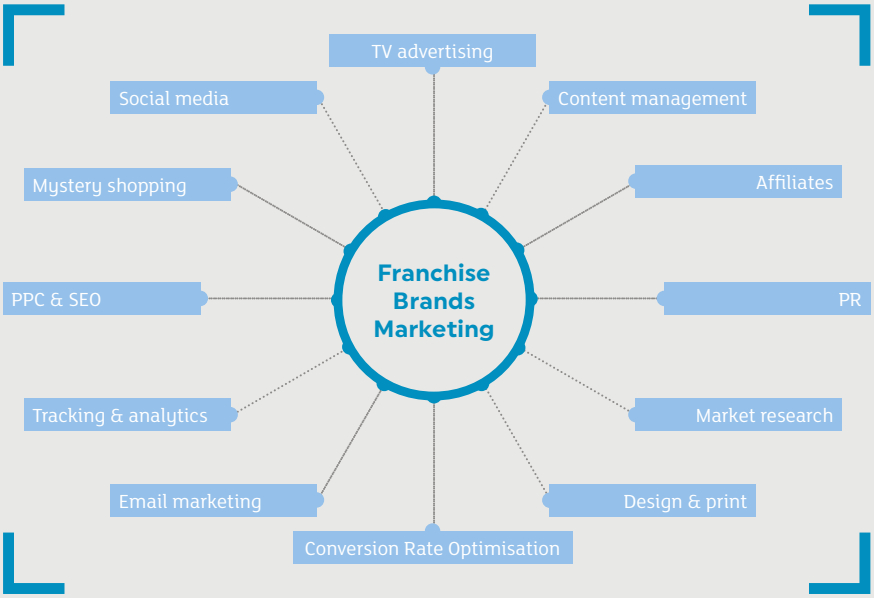
Q What is your approach to growing the awareness of the Group's brands in a sustainable and manageable way over the long term?

A The key element is to identify very clearly who the target customers are. At Franchise Brands we are targeting everyone from B2B decision makers in the case of Metro Rod, to consumers who may be interested in the services of ChipsAway, Ovenclean and Barking Mad. It always comes down to understanding as much as we can about those customers, the media sources they may use and really examining what it is they are looking for in the services we provide. In particular, what is it that offers reassurance to them that we will provide not only a great service but also real value for money.

Then it's about communicating those brand messages succinctly and powerfully, including identifying the most effective media channels to use. Finally, growing brand awareness over time is about measuring and tracking the effectiveness of all of our communications.

Ella Pugh, Head of Marketing

The new Barking Mad TV advert



Robin Auld presenting at the annual Metro Rod franchisee conference

Q **Another key marketing philosophy of Franchise Brands is that everyone is responsible for marketing. Can you elaborate on what this means in practice?**

A What's vital in all the marketing communications that we develop is our ability to engage with the customer, introduce the services that we offer and make them aware of the features and benefits of our offering. Once they have engaged, it's then essential that we meet, and preferably exceed, their expectations.

Marketing is so much more than just the production of marketing materials or adverts. Marketing is every single touch point that our customers have with the brand. For example, if franchisees are engaging and personable, communicative, keep the customer informed, and really delight the customer, that has a far bigger impact on the brand than marketing materials. The same is true of our teams in the Support Centres. It's therefore vital that our franchisees and our Support Centre teams understand the importance of exceptional customer service and the positive impact this can have on our customers' impressions of the brand.

Q **How do you work with franchisees at a local level to maximise the value of their local marketing?**

A One of the key things my team encourage all our franchisees to do locally is to really understand what's working for them, and conversely what isn't working. We recommend they speak to their customers to get as much feedback as they can to find out, for example, what local media they use and how they first heard about the brand. We also encourage our franchisees to work directly with the Franchise Brands' marketing team to develop bespoke marketing plans to meet their needs. The reason this is so important is that different franchisees have different needs.

The other essential piece of advice we give franchisees is to be consistent with their local marketing. Consistency is almost the pulse of a marketing campaign. The temptation is for franchisees to ease off on marketing when they are really busy, or to suddenly become very active if business is quiet. For all our brands there is a cyclical nature to demand, so we encourage our franchisees to be consistent with marketing, especially when they have identified marketing that is productive and effective for them.

"Marketing is every single touch point that the customers have with the brand. It's therefore vital that our franchisees and our Support Centre teams understand the importance of exceptional customer service and the positive impact this can have on our customer's impressions of the brand. That's what really makes a difference."

OUR BRANDS

Founded in 1983, Metro Rod is a leading provider of drain clearance and maintenance services to the commercial market. The services are provided on a 24/7/365 basis by 41 franchisees with geographical coverage across the entire UK (excluding Northern Ireland). In 2016, Metro Rod expanded its service offering with the launch of Metro Plumb.

Introduction

Metro Rod's specialist drain clearance and maintenance services include high pressure water jetting, CCTV surveys, drain or sewer lining, excavation, electro mechanical cleaning and fat and grease management. Metro Plumb offers a focused range of plumbing services mainly to the emergency insurance market. Metro Rod also operates a division, Kemac, which provides plumbing and plumbing related services to water companies and other customers as well as operating six Metro Plumb franchise territory areas, predominantly in the Greater London area.

Focused on our customers

Metro Rod serves national business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality, and insurance, as well as local businesses and other customers in the private and public sectors. Metro Rod's 300-plus engineers completed nearly 110,000 individual jobs since 11 April 2017.

Metro Rod makes a difference to its customers by providing a first class and efficient service to ensure blockages are cleared quickly and with minimum disruption to the customer's facility or business. Having addressed the initial problem, Metro Rod is able to recommend any further work that is required to prevent a recurrence of the problem. This further work can be carried out on a scheduled return visit.

Focused on franchisee support

Metro Rod's Support Centre, based in Macclesfield, provides a very wide range of support services to our franchisees. An important service is new business generation and Metro Rod currently secures approximately 60% of sales for franchisees in the form of local servicing of national accounts. A newly established regional sales team are now providing additional support to franchisees to win business in their local territories. Other services provided to franchisees include the call centre, IT, invoicing and credit control, health and safety systems and processes, technical training and business management and support.

Going forward, we will right size and focus the Support Centre services to include only those services that we can best provide as franchisor, and then allow our franchisees to provide the services they do best locally. This re-assigning of responsibilities between franchisor and franchisee is one of the key drivers for growing this business.

Franchisee business model

Metro Rod is a management franchise in that the franchisee manages individuals who provide the service. On average, franchisees employ nine engineers and operate seven vans.

The average sales of a Metro Rod franchisee is approximately £830,000 with a number achieving a sales of over £1m.

Sources of revenue for Franchise Brands

Virtually all the revenue to the Group derives from MSF income. The standard rate of MSF for drainage is 22.5% of franchisee sales (although in practice this amount is slightly lower as a result of some special incentives and allowable expenses).

Metro Rod typically resells two to three franchises every year when franchisees retire and/or are replaced, and these area sales currently represent a small additional source of revenue for Metro Rod. Area sales may increase going forward as a result of the recent operational changes that we have announced and our ambitions for growth in system sales.

System sales*

£26.1m

* From 11 April to 31 December 2017

FOCUS

Number of jobs completed*

108,750

"I enjoy owning my own business which I can build to secure my future. Metro Rod's proven business model gives me the freedom to be an entrepreneur within my local area whilst having the benefit of central support and expertise when I require it. I particularly value Metro Rod's national account relationships many of whom are with household names. I am very confident about the future and am excited about Franchise Brand's growth aspirations for Metro Rod".

Andrew Gilroy-Smith
Metro Rod franchisee for Reading

OUR BRANDS

ChipsAway
Scratches and scuffs won't dent your pocket

ChipsAway is the UK's leading mobile car paintwork repair specialist focusing on SMART ("Small to Medium Area Repair Technology") repairs. We have been operating successfully for over 20 years and currently have 214 UK franchisees.

IN

Introduction

ChipsAway franchisees repair small scale damage on vehicles such as bumper scuffs, paintwork scratches, minor dents and kerbed alloy wheels. Our mobile franchisees conveniently come to the customer's house or office, working from branded vehicles which serve as mobile workshops. Pricing can be competitive when compared to a typical body shop.

Focused on consumer demand

Our marketing team works very hard to provide our franchisees with a constant source of high quality customer leads and in 2017, ChipsAway franchisees benefited from 246,000 enquiries (2016: 248,000).

ChipsAway franchisees contribute to a NAF which collectively invests in TV advertising, Search Engine Optimisation, Pay Per Click campaigns, point of sale materials, public relations and other national and local marketing initiatives.

In 2017 we re-designed and re-launched the ChipsAway website (www.chipsaway.co.uk) and the number of visits to the website increased by 7%. ChipsAway is the only franchise of its type to use regular national television advertising campaigns, having done so since 2009.

Focused on franchisee recruitment

ChipsAway has a proven track record in franchisee recruitment and 33 new franchisees joined the network in 2017. A key focus of the marketing team is to ensure that the franchise recruitment budget is employed as efficiently as possible across a wide range of media to generate a steady stream of enquiries from prospective franchisees. These enquiries are necessary to fill currently vacant territories as well as the re-selling of territories of franchisees who leave the system. In 2017, 37 franchisees left the system. In recent years we have placed much more of an emphasis on quality rather than quantity of leads, aiming to attract franchisees who want to build larger businesses, including investing in Car Care Centres.

Focused on franchisee support

We are passionate about providing our franchisees with first class training and day-to-day support to help them grow their businesses. All new franchisees complete four weeks of initial training at the Group's facility which is accredited by the Institute of the Motor Industry, and this includes sales and marketing training. We support all franchisees to successfully launch their businesses. Post launch, franchisees are provided with on-going support and development to help them build successful and profitable businesses. 67 ChipsAway franchisees now have operations which are either multi-van, multi-territory or include Car Care Centres.

Franchisee business model

The business model provided by the Group to prospective new franchisees demonstrates how turnover of £75,000 per annum and operating profits of £45,000 per annum can be achieved by the second year of trading. The business model assumes 2.2 jobs per day are carried out, 20 days per month (which allows for seasonality) and an average repair value of £140. These figures can be exceeded by working longer hours, carrying out additional jobs per day and by developing multi-van and Car Care Centre operations.

Sources of revenue for Franchise Brands

Each new franchisee pays an initial fee to ChipsAway, currently £29,995. The franchise agreement provides for a number of ongoing monthly fees, the combined effect of which results in franchisees making a monthly payment to the Group equivalent to 10% of their sales. Additional revenue is generated from the sale of products used in the repair process such as paints, lacquer and consumables.

Number of Car Care Centres in the network

32

FOCUS

"ChipsAway is a great business with a really strong brand, a great identity and a fantastic business model. The support I receive is second to none, and I'm so pleased I went down the franchising route with ChipsAway instead of going it alone. Thank you!"

Luke Hall
ChipsAway franchisee for Esher

Consumer leads generated for our franchisees

246,000

OUR BRANDS

OVENCLEAN
The original oven cleaning specialists

Ovenclean is the longest established and leading oven cleaning business in the UK, and has been successfully operating for over 20 years. There are currently 106 franchisees in the network who clean a wide variety of domestic appliances using our specialist process and equipment.

Introduction

Ovenclean franchisees are able to clean all domestic oven brands and models, including electric ovens, gas ovens, range-style ovens, microwaves, hobs and extractor fans, and also barbecues. All removable components such as racks and other removable parts are cleaned using specialist equipment in the fully equipped Ovenclean liveried vans. Ovenclean employs a no added caustic system which has been assessed and approved to ISO 14001 standards. This helps ensure customers benefit from a safe and hygienic environment.

Focused on consumer demand

Our franchisees profit from a regular stream of high quality consumer leads which they can then convert into customers. Ovenclean is a "milk round" business where the aim is to establish a stable base of individual customers who have, on average, two cleans per annum. A regular Ovenclean is of benefit to both the customers and the franchisees and they can be conveniently diarised ahead of time.

Franchisees contribute to a Central Advertising Fund. This operates on the same basis as the Group's NAFs but on a more regional basis. Consumer demand for our services received a huge boost from the launch of the new Ovenclean website (www.ovenclean.com) and in 2017 the number of visits to the website increased by 12%. Television advertising continues to work hard for our franchisees and is a clear point of difference with other oven-cleaning brands.

In 2017 our franchisees benefitted from 42,000 consumer leads which we generated (2016: 45,000). Ovenclean continues to receive consistently good customer reviews and is ranked 9.7 out of 10 on Trustpilot.

Focused on franchisee recruitment

Similar to ChipsAway, it is important that the brand continues to recruit good quality new franchisees to the network. The marketing team ensures that Ovenclean franchise opportunity is seen across a wide range of media and constantly measures, tracks and optimises the response rate to ensure the optimum deployment of the budget. In 2017, 23 franchisees joined the system and 19 left.

Focused on franchisee support

New Ovenclean franchisees benefit from a comprehensive training programme in the field with established Ovenclean trainers. The Ovenclean trainers are experienced franchisees appointed by the Group to provide new starters with intensive in-field training on all aspects of the oven cleaning process, operational set up and customer and business management. This practical in-field experience is supplemented by a programme which includes a tailored sales and marketing course and a health and safety induction. Post launch, franchisees are provided with a full range of comprehensive support from a dedicated team.

Franchisee business model

The business model provided by the Group to prospective new franchisees demonstrates how turnover of £50,000 per annum and operating profits of £32,000 per annum can be achieved by operating one van, carrying out two-to-four cleans per day (which reflects seasonality) and charging the average £65 rate per clean. These figures can be exceeded by up-selling additional services, carrying out additional cleans and by adding additional vans and staff.

Sources of revenue for Franchise Brands

Each new franchisee pays an initial franchise fee to Ovenclean, currently £14,995 and an ongoing monthly license fee currently of £195 in the first year, followed by £335 in the second and subsequent years and £350 at renewal. These monthly fees are increased from time to time. A small amount of additional revenue is generated from the sale of products used in the cleaning process.

Consumer leads generated for our franchisees

42,000

FOCUS

Trustpilot ranking

9.7 out of 10

"I was so impressed with the professionalism of the team on the Open Day that I knew investing in an Ovenclean franchise was the right decision. My training and launch was first class and my business has continued to go from strength to strength. My only regret is that I didn't join the Ovenclean network sooner!"

James Arthur
Ovenclean franchisee for Macclesfield

OUR BRANDS

Established in 2000, Barking Mad has successfully grown to become one of the most trusted dog care providers in the UK. Barking Mad provides customers with peace of mind while they are away by delivering a professional, tailor made service.

Introduction

Barking Mad currently has 77 franchisees operating across the UK. Barking Mad's franchisees market to individual customers and also recruit dog loving "host" families who look after the customers' dogs in their own homes. This is described to customers as a "dog holiday".

Hosts range from people who are retired and have plenty of free time, to families who enjoy having a dog to stay during school holiday periods. The franchisee organises all aspects of this service, including matching the dogs to the appropriate hosts, collection and delivery of the dogs, and customer communications.

Focused on consumer demand

Following a rebrand in May 2017, Barking Mad started advertising on TV for the first time on national ITV and Sky channels. TV advertising brings a number of important benefits in that it is a great way to reach people who perhaps might not have been aware of the brand previously and it is a very economical way to reach a large number of potential consumers very quickly. The advert was seen more times by viewers than originally projected and led to a significant increase in website traffic during the periods the campaign was live. We are building on this success in 2018.

We also built on the success of the Trustpilot initiative which commenced in 2016. Barking Mad is now ranked first out of 188 providers in the Pets category and number one in a further three categories.Barking Mad is ranked 9.9 out of 10, and 96% of customers have rated the brand 5-star, or excellent.

Focused on franchisee recruitment

Barking Mad recruited 24 new franchisees in 2017, more than any year in the Company's history. The marketing department works hard to ensure we generate a steady stream of enquiries from prospective franchisees for currently vacant territories and the re-selling of territories for franchisees who leave the system. In 2017 we expanded the scope of our franchise recruitment budget and media sources to attract a higher proportion of quality franchisees to the brand.

Focused on franchisee support

Franchisees undergo a comprehensive training programme at Barking Mad's head office prior to launch. Post-launch, Barking Mad provide a regular programme of support and development for franchisees. An important element of the support is the customer contact centre that Barking Mad operates on behalf of all of its franchisees. The customer contact centre takes calls from customers and potential customers, explains the Barking Mad service, facilitates bookings and deals with general enquiries. Over the past three years it has helped to support more than 50,000 customer bookings and registrations on behalf of its franchisees.

Franchisee business model

The average sales of a Barking Mad franchisee is £50,000 with a number achieving sales of close to £100,000. The profit before tax that franchisees are able to achieve varies according to how they have chosen to structure and resource their businesses locally.

Sources of revenue for Franchise Brands

Each new franchisee pays an initial franchise fee to Barking Mad, currently £15,110. Barking Mad also receives revenues from the resale of franchises. Franchisees pay a MSF of 10% each month based on the prior month's sales.

Trustpilot ranking

9.9 out of 10

IN

FOCUS

"The Barking Mad business model really appealed to me, as it allowed me to have the flexibility of running my own business and still be part of a franchise organisation that would support and guide me. Having never run my own business, I felt this would work really well and in 2005 I launched Barking Mad, Northumberland. To me, the definition of franchising is working together, growing together and supporting each other. Barking Mad doesn't stand still and that is why we remain the brand leader."

Tina Young (and Max)
Barking Mad franchisee for Northumberland

System sales

£3.6m

CHAIRMAN'S STATEMENT

Stephen Hemsley
Executive Chairman

"2017 has been a year of substantial progress in the development of your Company."

Adjusted EBITDA
£2.7m

Total no. of UK franchisees
438

When we were admitted to AIM in August 2016 our strategy was to build a multi-brand franchisor group through organic growth and acquisition. I am pleased to report that our existing brands continue to deliver strong organic growth and the acquisition of Metro Rod in April 2017 has propelled the Group into becoming one of the largest franchise groups in the country.

Metro Rod

Following completion of the acquisition of Metro Rod, we launched a wide-reaching and detailed feedback exercise designed to improve our understanding of the business. Together with our Corporate Development Director, Julia Choudhury, I toured the country to meet all our franchisees in their offices and depots to hear first-hand the opportunities and challenges presented by Metro Rod and Metro Plumb. We were impressed by the market opportunity and the ambition of many of our franchisees. We also met a large cross-section of the Support Centre teams and listened to their views and recommendations. The feedback from both groups reaffirmed our view that Metro Rod has a market-leading national offering in the commercial drainage market which has never been fully exploited. We also felt that Metro Plumb, whilst an early stage business, had real potential but that the strategic direction was unclear. Work is continuing to establish the right strategy for Metro Plumb, including how it should operate with the Metro Rod drainage business.

Taking account of the feedback we formulated a new strategy for Metro Rod, the central objective of which is to grow franchisee sales ("system sales") and their profitability whilst also building our Management Service Fee ("MSF") income. In particular, we have identified a significant opportunity to grow sales won by franchisees in their territories. These locally-won sales currently represent only 40% of total system sales. The market for drainage services is extremely fragmented with approximately 1,500 providers, most of whom are small local firms. This presents a clear opportunity for Metro Rod, with a strong brand and good quality IT systems, to take market share from these smaller firms. I would like to see these locally-won sales representing 60% of total system sales in the future whilst still increasing the level of national account sales which are secured centrally on behalf of the franchisees. To help achieve this strategic aim, we have created a regional sales team whose objective is to work with franchisees and win this local work.

We also felt that the franchisees' entrepreneurial flair had been stifled by too many of the business processes being undertaken by the Macclesfield Support Centre. This, in part, resulted from the poor IT systems available to franchisees. A further key part of the strategy therefore is to improve these systems so we can devolve more responsibility to the franchise community. This will allow them to be more autonomous and provide their customers with a superior and more responsive service.

The IT investment required to fully develop the opportunity at Metro Rod is therefore greater than originally anticipated, but it is now factored into the Group's budget. I am confident that the additional investment in IT will enable us to build a significantly larger and more efficient business than we originally projected and to reduce the cost base at the Macclesfield Support Centre. The scale of the

investment has required us to create an in-house capability and I was pleased to welcome Colin Rees as Chief Information Officer. Prior to joining us, Colin held a similar role at Domino's Pizza Group plc. The systems being developed are initially designed to enhance and automate the business systems and management information at Metro Rod but will have applications for all current and future Group brands.

A further key element of the strategy is to significantly improve the profile and awareness of the Metro Rod brand amongst key decision makers. The investment in sales and marketing is being partly funded through the introduction of a National Advertising Fund ("NAF") at Metro Rod. The franchisees are making a contribution of 1% of sales and Metro Rod is also contributing an initial share equivalent to our MSF contribution of 22.5%. The NAF will allow us to expand the Group's central marketing team, which manages the marketing funds for all the brands. We believe that the economies of scale and shared expertise this affords us is of huge benefit to each of the underlying brands in growing system sales and thereby our MSF.

It was clear that this change of strategy could only be achieved with a change of leadership at Metro Rod and we were pleased to appoint Peter Molloy as Managing Director (previously Commercial Director at Metro Rod). After consultation with representatives of the franchise community, the new strategy and associated operational changes were introduced by Peter at Metro Rod's annual conference in November 2017 and implementation of most of the strategic and operational changes started in January 2018. The early signs are that these initiatives are having the desired effect and will give us a platform from which to significantly build this business. However, there is much work still to do and we anticipate some additional churn in the franchise community before we establish a group of franchisees aligned with our ambition for the business.

We are also in the process of developing a new strategy for the direct labour plumbing business, Kemac, which we acquired as part of the Metro Rod acquisition, as well as continuing with the restructuring process. Kemac's very disappointing results in 2017 were the reason for the shortfall in our earnings compared to market expectations at the time of the Metro Rod acquisition.

As a result of our continued emphasis on developing the significant opportunities within the Metro Rod business, our focus during 2018 is likely to be on organic expansion rather than external growth.

ChipsAway, Ovenclean and Barking Mad

ChipsAway and Ovenclean reported strong adjusted EBITDA growth of 15% during the period and exceeded budget. Under the experienced direction of Tim Harris, ChipsAway continues to recruit new franchisees, however, the real opportunity lies in helping franchisees grow their businesses and profits so that they can develop from being "man-in-a van" operators to management franchisees who operate from premises ("Car Care Centres"). At present, 32 of our 214 franchisees operate from Car Care Centres and a further 35 operate multiple vans or multiple territories. Once they reach this stage of development our MSF income becomes turnover-related rather than a fixed monthly fee and therefore provides us with a real incentive to help them grow.

Ovenclean remains a fundamentally "man-in-a van" franchise, however, the effectiveness of our consumer marketing is resulting in an increase in the average franchisee turnover, which, in turn, allowed us to increase the monthly fee to approximately 10% of the expected sales. Given the fixed cost nature of this operation, this significantly enhances profitability.

Barking Mad, which was acquired in October 2016, made a good contribution under the continued leadership of Lee Dancy and also exceeded budget. We accelerated the recruitment of new franchisees by leveraging the Group's franchise recruitment capability and we estimate that there is the potential for up to 250 viable Barking Mad territories in the UK. System sales, on which we collect a 10% MSF, continued to grow at a satisfactory rate, although the VAT threshold does represent a challenge for franchisees in growing sales beyond this level.

Board changes

I am pleased to report we have strengthened the plc Board with the appointment of Peter Molloy, Managing Director of Metro Rod, and Colin Rees, Chief Information Officer as Directors of the Company. Both Peter and Colin are key members of the senior management team and have made a valuable contribution to the business since their appointments. We also welcomed Chris Dent to the Board in 2017 as Chief Financial Officer. Chris has prior experience with AIM-quoted companies and spent the earlier part of his career with Deloitte. In view of Peter's role as Managing Director of Metro Rod and my role as Executive Chairman, we are re-aligning the Board titles and Tim Harris is now the Managing Director of ChipsAway and Ovenclean.

Regrettably, I also have to report that Robin Auld, our well-respected Marketing Director, will be stepping down from the Board at the AGM on health grounds. Fortunately, Robin will continue to oversee our marketing strategy during his recovery, and the Board and I wish him a speedy recovery.

Conclusion

It remains for me to thank our franchisees for their continuing hard work and dedication to our brands. As I have often said, our franchisees are the backbone of the business and it is their passion and entrepreneurial flair that allows us to grow. I would also like to thank the "home team" who have continued to support our franchisees and grow our business through a year of significant change and development. Finally, I would like to express my gratitude to our shareholders for their support in the fundraising that financed the Metro Rod acquisition and for their continuing support in what has been an eventful year.

2018 will be a year in which we continue to build on the foundations we have created. I am pleased to report that the year has started in line with our expectations and we look forward to the remainder of the year and beyond with confidence.

Stephen Hemsley
Executive Chairman

FINANCIAL REVIEW

Chris Dent
Chief Financial Officer

"I am pleased to present my first Financial Review since becoming Chief Financial Officer in July 2017."

Dividend per share
0.5p

Adjusted earnings per share
2.5p

Our first full year as an AIM-quoted company has been transformational. The acquisition of Metro Rod has significantly increased the scale of the business and whilst there have been challenges there are also opportunities. The results represent solid progress in the delivery of the Company's strategy and lay the foundation for an exciting future.

The 2017 numbers contain a full year of ChipsAway, Ovenclean and Barking Mad and almost nine months of Metro Rod, following the completion of our acquisition of the business in April 2017. The 2016 numbers contain the full year for ChipsAway and Ovenclean, two months of Barking Mad and nearly five months of being a quoted company following our IPO in August 2016. During this period, the capital structure and financial position of the Company have also changed significantly.

Statutory revenue & fee income

Statutory consolidated revenue has increased five-fold from £4.9m to £24.3m with virtually all the additional revenue coming from Metro Rod. Statutory revenue is made up of a number of different income streams that have differing accounting policies and therefore is not a KPI that management track on a consolidated basis. It is, however relevant to the individual brands as in most cases it drives our MSF income.

The Group has three main fee income streams: MSF received from our franchisees either based on fixed monthly fees or as a percentage of system sales; fees generated from the sale or resale of franchise territories; and income from the sale of products to franchisees. During 2017 MSF income increased to 62% of total fee income, from 42% in the previous year. The increase in recurring MSF income reflects our focus on improving the quality of our income stream to one which is more aligned to the growth in franchisees sales, rather than recruitment income.

	2017 £'000	2016 £'000	Change £'000
Statutory revenue	**24,292**	**4,870**	**19,422**
Franchisee payments	(12,131)	–	(12,131)
Fee income	**12,161**	**4,870**	**7,291**
Other cost of sales	(3,067)	(1,572)	(1,495)
Gross profit	**9,094**	**3,298**	**5,796**
Administrative expenses	(6,378)	(1,946)	(4,432)
Adjusted EBITDA	**2,715**	**1,352**	**1,363**
Depreciation	(96)	(66)	(30)
Amortisation of intangibles	(156)	(10)	(146)
Share-based payment	(58)	(30)	(28)
Finance expense	(277)	(7)	(270)
Adjusted profit before tax	**2,128**	**1,239**	**889**
Tax expense	(392)	(260)	(132)
Adjusted profit after tax	**1,737**	**979**	**758**
Non-recurring items (net of tax)	(1,849)	(455)	(1,394)
Statutory (loss)/profit	**(112)**	**524**	**(636)**

Note: "Adjusted" items are before costs of acquisitions of subsidiaries, costs of transition of subsidiaries, bad debt provision and IPO expenses and, in relation to EBITDA only, share-based payment expense.

Trading results

Adjusted EBITDA for the Group increased by 101% to £2.7m from £1.4m in the previous year.

The original brands ChipsAway and Ovenclean grew strongly, increasing their EBITDA contribution by 15% to £2.2m from £1.9m in the previous year. This resulted from a significant improvement in MSF income, as an increasing number of franchisees began paying turnover-related fees, rather than a fixed monthly fee. A total of 56 new franchisees were recruited during the year which maintained the size of the franchise community for these two brands at 320.

Barking Mad, in its first full twelve months as part of the Group, contributed £0.2m, as a result of both increasing MSF income from growing system sales and strong recruitment income. A total of 24 franchise territories were sold during the year bringing the total franchise community to 77 at the year-end.

Metro Rod, which includes Metro Plumb, made an initial contribution of £1.3m in the nearly nine months since acquisition. This was derived almost entirely from MSF income on system sales from our national network of 41 franchisees. System sales grow through both increases in operational capacity, as franchisees invest in capital equipment such as new tankers and vans, and through the demand for drainage and plumbing services, which is driven by external factors such as adverse weather conditions. In addition to driving profits through growth in system sales we have also reviewed the cost base of the business to maximise the synergies from the acquisition, which has resulted in a reduction in headcount from 132 to 103. This process has continued in the current year with a further reduction, however, the resulting cost savings have been re-invested in areas such as IT and the regional sales team.

Trading at the direct-labour division Kemac, which formed part of the Metro Rod acquisition, was very disappointing, contributing only £34,000 of EBITDA in the period. It is the reason that profits for the Group were below the level anticipated at the time of the acquisition. This resulted from a significant and rapid reduction in work from water utility companies. The contribution from this business has now stabilised but at a lower level than originally planned. This direct-labour business is under strategic review at present, with a view to franchising the Metro Plumb element of its activities.

Group overheads, increased from £0.5m to £1.0m mostly as a result of the annualisation of our first full year cost of being a quoted company.

Non-recurring items

2017 has seen a high level of non-recurring items totalling £1.8m (2016: £0.5m), with the majority of these relating to the acquisition of Metro Rod which constituted a Reverse Takeover under the AIM Rules and resulted in a readmission to AIM. £1.1m of acquisition costs were recognised as non-recurring items in the income statement, with a further £0.4m set-off against the share premium arising on the issue of new shares. In addition, £0.7m of transitional costs related to the set-up of a standalone IT environment for Metro Rod and a post-acquisition restructuring of the business. A further £0.3m provision was established following the liquidation of Carillion plc in January 2018 to provide for the monies which were owed to Metro Rod on 31 December 2017.

Earnings and dividend

Underlying profit before tax increased by 72% to £2.1m (2016: £1.2m). The Group made a statutory loss before tax of £65,000 (2016: profit of £784,000) as a result of the acquisition-related non-recurring items. The tax charge of £47,000 (2016: £260,000) arose due to certain acquisition costs being disallowable for tax.

As a result of the shares issued to finance the Metro Rod acquisition, the average number of shares in issue during the year increased substantially to 69,553,746 (2016: 40,837,885), resulting in a basic loss per share of 0.16p (2016 profit per share of 1.28p). Based on adjusted profit after tax of £1.7m (2016: £1.0m), adjusted earnings per share in 2016 are 2.50p (2016: 2.40p), an increase of 4%.

The Board is pleased to propose a final dividend of 0.33 pence per share (2016: 0.17 pence per share), taking the total dividends for the year to 0.50 pence per share (2016: 0.17 pence per share). The cost of the proposed final dividend is £257,000. The total dividend for the year is five times covered by adjusted profit after tax.

Subject to shareholder approval at the AGM on 25 April 2018, the final dividend will be paid on 15 May 2018 to shareholders on the register at the close of business on 27 April 2018.

Financing and cash flow

The Group generated cash from operations of £2.6m (2016: £1.6m) before the post-taxation exceptional acquisition costs of £1.9m. After those costs, the Group generated net cash from operations of £0.7m (2016: £0.9m).

The Group raised proceeds of £19.6m by placing 29,850,746 shares at 67p each, net of expenses of £0.44m. The Group also negotiated a five-year term loan of £12m with HSBC, raising £11.8m after expenses. The proceeds of the equity placing and debt financing were used to acquire Metro Rod for £28.4m, net of cash acquired of £0.47m. The outstanding shareholder loans of £0.42m at 30 June 2016 were repaid from existing cash resources in anticipation of the transaction, enabling HSBC to be the sole lender to the enlarged Group. The Group also entered into a £5m revolving credit facility ("RCF") with HSBC to provide additional headroom.

On 8 December 2017, the Group used excess cash to make an early repayment of £5.6m of the five-year term loan, and at the same time drew down £3.5m of the RCF, in order to reduce our on-going financing costs. Therefore, at 31 December 2017 the Group's gross debt (including accrued interest and finance lease debt) stood at £9.4m, compared to the £11.8m originally arranged. Cash balances were £3.2m (2016: £3.0m), resulting in net debt of £6.3m (2016: net cash £2.5m).

The acquisition of Metro Rod has led to a significant increase in the size of our balance sheet, especially in relation to acquired intangible assets in the Group. Shareholders' funds at 31 December 2017 were £23.2m (2016: £3.9m) against net debt of £6.3m, giving modest gearing of 27% (2016: nil).

Chris Dent
Chief Financial Officer

KEY PERFORMANCE INDICATORS

Financial and non-financial measures used by management

Metro Rod

Adjusted EBITDA (£m)

£1.3m

2017	£1.3m
2016	n/a
2015	n/a

Description

Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Performance in 2017

Metro Rod contributed £1.3m in the first nine months of ownership by the Group.

Total number of jobs completed

108,750

2017	108,750
2016	n/a
2015	n/a

Description

This is the total number of drainage and plumbing jobs completed and is a useful measure of activity levels within the business.

Performance in 2017

In the first nine months of ownership by the Group, 108,750 jobs were completed.

System sales (£m)

£26.1m

2017	£26.1m
2016	n/a
2015	n/a

Description

System sales are the total aggregate sales of franchisees and Metro Rod owned operations of services to third party customers.

Performance in 2017

In the first nine months of ownership by the Group, system sales were £26.1m.

ChipsAway

Adjusted EBITDA (£m)

£1.9m +18%

2017	£1.9m
2016	£1.6m
2015	£1.4m

Description

Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Performance in 2017

EBITDA increased by 18% in 2017 as a result of an increase in recurring MSF revenue.

Number of franchisees recruited

33 –3%

2017	33
2016	34
2015	38

Description

The number of franchisees recruited is an indicator of the interest in the brand from a franchise sales perspective. However, it is not measured in isolation as the Group also assesses the quality of new franchisees.

Performance in 2017

Over the past three years, ChipsAway has recruited over 30 franchisees annually. While one fewer franchisee was recruited in 2017 compared to 2016, the Group is placing more emphasis on quality rather than quantity.

Total number of franchisees

214 –2%

2017	214
2016	218
2015	213

Description

The total number of franchisees is an indicator of the overall health of the franchise system however, the Group is placing more emphasis on the quality of franchisees and their ability to grow their businesses.

Performance in 2017

While the number of franchisees in the system in 2017 was 2% lower in 2017 than 2016, the quality of the franchisees has increased and over 30% of the network now operate multi-operations.

In order to continue to implement, develop and measure the Group's strategic performance, we monitor a number of financial and non-financial KPIs which are specifically tailored to each brand. These KPIs are monitored closely by the Directors of the Group and corrective action is taken where necessary.

Ovenclean

Adjusted EBITDA (£m)

£0.3m

2017	£0.3m
2016	£0.3m
2015	£0.2m

Description
Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Performance in 2017
EBITDA was flat between 2016 and 2017 as fewer franchisees were recruited in 2017 than 2016.

Number of franchisees recruited

23 –18%

2017	23
2016	28
2015	19

Description
The number of franchisees recruited is an indicator of the interest in the brand from a franchise sales perspective. However, it is not measured in isolation as the Group also assesses the quality of new franchisees.

Performance in 2017
While five fewer franchisees were recruited in 2017 compared to 2016, this partly reflects a very strong performance in 2016, whereas the 23 new joiners in 2017 is 23% higher than 2015.

Total number of franchisees

106 +4%

2017	106
2016	102
2015	94

Description
The total number of franchisees is an indicator of the overall health of the franchise system, however, the Group is placing more emphasis on quality of franchisees and their ability to grow their businesses.

Performance in 2017
The number of franchisees in the system grew by 4% as a result of 23 new joiners and 19 franchisees leaving the system. While franchise recruitment was lower in 2017, the number of leavers improved slightly resulting in growth in the system.

Barking Mad

Adjusted EBITDA (£m)

£0.2m

2017	£0.2m
2016	£(0.01)m
2015	n/a

Description
Adjusted EBITDA (profit before interest, tax, depreciation, amortisation, share-based payments, non-recurring items and excluding central costs) is the KPI which the Group uses to measure the underlying performance of its brands.

Performance in 2017
In the first full year of ownership by the Group, Barking Mad contributed £0.2m of EBITDA. In November and December 2016, Barking Mad contributed EBITDA of £(0.01m).

Number of franchisees recruited

24

2017	24
2016	0
2015	n/a

Description
The number of franchisees recruited is an indicator of the interest in the brand from a franchise sales perspective. However, it is not measured in isolation as the Group also assesses the quality of new franchisees.

Performance in 2017
24 franchisees were recruited in 2017. In November and December 2016, no franchisees were recruited.

System sales (£m)

£3.6m

2017	£3.6m
2016	£0.4m
2015	n/a

Description
System sales are the total aggregate sales of franchisees of services to third party customers.

Performance in 2017
System sales in 2017 were £3.6m. In November and December 2016, system sales were £0.4m.

PRINCIPAL RISKS AND UNCERTAINTIES

The Directors confirm that, so far as they are each aware, the Board regularly reviews the process for identifying, assessing and mitigating any significant risks faced by the Group, and regularly reviews the impact of any significant risks faced by the Group on the prospects of the Group. Below is a summary of current principal risks and uncertainties which may be subject to change following any review.

Strategic risks

Market risks	Impact	Mitigation	Trend
Franchisees	› The ability of the Group to attract and retain franchisees with the appropriate attitude, expertise and skills, in available and suitable locations, cannot be guaranteed. This may have a detrimental effect on trading performance and growth. › Franchisees could default on their obligations under their respective franchise agreements or underperform, or affect the integrity of the brand, all of which could negatively impact the Group's performance, reputation and prospects.	› The Group has an experienced franchise marketing and recruitment capability. KPIs are monitored on regular basis for all Group businesses in order to ensure a suitable number of new enquiries are being received to achieve the recruitment targets. › The Group provides a comprehensive range of training and support services to its franchisees with the objective of achieving high standards. It monitors performance and compliance where required through the franchise support and operations teams and through regular inspections and audits.	↑
Customers	› Metro Rod has a number of large customer relationships, in particular in the facilities management sector, where reactive services are being provided nationally through framework agreements. The loss of a number of these large customers, and/or a significant reduction in the amount of reactive work that is provided to Metro Rod, could have a detrimental impact on system sales and hence profits.	› No one customer accounts for a significant proportion of sales. With the large investment that is being made in the Metro Rod brand and sales team, the ability of the business to replace lost sales should increase. › Metro Rod has long-standing relationships with many of these customers, and also their end-customers, and is able to be very responsive to changing requirements and customer feedback.	↓

Financial risks	Impact	Mitigation	Trend
Ability to generate revenues & profit	› Failure of the Group to grow sales may result in Group MSF revenues increasing more slowly than anticipated. Due to the fixed nature of the Group's central overhead, the ability of the Group to reduce this in the short term is limited which may affect profits. › The Group relies on the receipt/collection of ongoing monthly payments from ChipsAway and Ovenclean franchisees.	› The Group has well positioned brands and will continue to invest and develop its sales and marketing strategies to further drive sales. › Factors likely to affect a ChipsAway or Ovenclean franchisee's ability to make payments are monitored by our Franchise Support teams on a daily basis and by Finance on a monthly basis. Any material concerns are raised with the department manager who will investigate and direct appropriate help and assistance to individual franchisees.	↑

Operational risks

Legal risks	Impact	Mitigation	Trend
Changes in legislation	› Legislation and regulations that impact the business may change and/or new legislation and regulation may come into effect which could have an adverse effect on the Group's franchise model and business. › In particular, the Group could be impacted by changes in health and safety regulations, franchising legislation, employment law, data protection and other legislative areas.	› The Group closely monitors regulatory and legal developments to determine its response and to ensure ongoing compliance with its obligations. › The Group works closely with third parties to ensure that it meets its obligations, including independent environmental and health and safety consultants as well as legal advisers.	■

↑ Increasing ↓ Decreasing ■ No movement

Operational risks (cont.)

Operational risks	Impact	Mitigation	Trend
Dependence on key personnel	› Loss of key personnel, either at Executive level, or in relation to key skills, could have adverse consequences for the Group. › The inability to recruit additional skilled and experienced personnel in a competitive market for suitably qualified candidates may impact the performance of the business.	› Each of the Executive Directors and a number of other key personnel are shareholders in the Company. › All employees in key positions are participants in the Company's Long-Term Incentive Plan. › In 2017 the Group appointed a Group HR Manager covering all brands. › The Group encourages and supports employees to undertake training to expand existing skills where necessary.	■
Health and Safety	› Metro Rod operates in sectors where the health and safety risk is higher than the Group's other brands due to the nature of the equipment used and the locations in which the services are carried out. Metro Rod has a good long-term health and safety record; however, a serious incident could have adverse consequences to the business. › The chemical compounds used to carry out ChipsAway repairs and Ovenclean process are compliant with current health and safety regulations, however, should regulations change, compliance with new regulations could result in increased costs for the Group's franchisees which may impact their viability.	› Metro Rod has developed health and safety systems and processes for its franchisees and company owned operations, the objective of which is the creation of a safe environment. › A point of work risk assessment is inbuilt into our works management system and must be completed prior to work commencing. › Franchisees are provided with health and safety training and are audited for compliance through a number of inspections. Metro Rod's processes are the subject of independent review and accreditation. All health and safety KPIs are carefully monitored and assessed on a regular basis. › The Group closely monitors industry developments that may result in a change to the regulation of products used in the ChipsAway repair and Ovenclean process. In such an event the Group will work with key suppliers with the objective of ensuring compliance and managing cost. › All brands hold ISO certification.	^
Information Technology	› The Group's business is dependent on network and information systems, the internet and other technologies. Shutdowns or service disruptions could adversely affect the Group. › The Group is dependent on products, technologies and services provided by third parties in order for customers to use its services, as well as to deliver, measure and report advertising.	› The architecture of the Metro Rod systems has recently been restructured and the systems are now hosted using the Microsoft Cloud. They are backed up regularly and there are standard processes in place to restore critical services. However, Metro Rod's business is very reliant on these systems. › For the other Group brands, the most critical systems are also externally hosted and regularly backed up. Their operation is monitored closely by a third party professional services company. Annual penetration tests are conducted. › The IT department continually reviews the suitability of the Group's systems and identifies any legacy or aging systems that need to be replaced.	^
External suppliers (excluding IT)	› The Group relies on certain other suppliers, without whom the Group's revenue generation, efficiency of operations and cash flow may not be optimised. › The Group cannot guarantee that service and products delivered from third parties will remain of a high quality in the future and be provided without interruption.	› The Group maintains good working relationships with its key suppliers to ensure the supply of the highest quality products and services at all times. › The Group continually assesses the quality and value of the products and services supplied and have identified alternative suppliers for all key products and services should alternatives be required at any time. › Metro Rod's reliance on sub-contractors has reduced substantially following the establishment of a new franchisee in Scotland.	■

This Strategic Report (which includes all of the content from pages 1 to 29 inclusive) was approved by the Board on 21 March 2018 and signed on its behalf by

Stephen Hemsley / Executive Chairman

OUR EXPERIENCE

Our team has considerable experience of operating and growing profitable franchise businesses.

For our senior management see page 32

■ Audit Committee
● Remuneration Committee
▲ AIM Rules Compliance Committee

Board of Directors

Stephen Hemsley | Executive Chairman

Stephen co-founded Franchise Brands in 2008. He has long-standing experience in franchising and currently holds the position of Non-executive Chairman, Domino's Pizza. Having originally joined the then private company Domino's Pizza as Finance Director in 1998, he led Domino's to an IPO on AIM in 1999, and subsequently as CEO, he led the business through a period of growth. During his nearly 20-year association with Domino's Pizza, Stephen has taken Domino's from a market capitalisation of £25m to around £1.6 billion and membership of the FTSE 250 Index and from around 100 to over 1,000 stores across the UK, Ireland and Europe. He was appointed as a Director of the Company on 15 July 2016.

Chris Dent | Chief Financial Officer

Chris has substantial accounting and financial experience from his time in the profession and as a Finance Director of private and publicly quoted companies. Chris spent 4 years as Finance Director of AIM-quoted 7digital Group plc (formerly UBC Media Group plc) and began his career at Deloitte LLP where he spent 10 years within audit, corporate finance and transactional accounting services. Chris is a Fellow of the Institute of Chartered Accountants of England and Wales. Chris was appointed as Chief Financial Officer of Franchise Brands on 17 July 2017.

Tim Harris | Managing Director, ChipsAway and Ovenclean

Tim is a seasoned franchise professional with 20 years' experience of successfully developing automotive, commercial and domestic franchise businesses in both international and UK markets. Tim joined the Group in 2008. Formerly Sales Director, Tim was appointed CEO in 2012 and has led the brands through a period of increased profitability and international reach, with Master franchises opened in the Americas and across Europe. Prior to joining the Group, Tim held senior sales positions at a number of franchisor companies including Autosheen, Pitman Training and Jani-King. He was appointed as a Director of the Company on 15 July 2016.

Peter Molloy | Managing Director, Metro Rod

Peter is a seasoned sales professional with over 35 years of management and commercial experience. Peter joined Metro Rod in 2003 and was promoted to the position of Commercial Director in 2005. In this role, he was responsible for national account sales and support. Prior to joining Metro Rod, Peter was Managing Director of Solaglas Replacement Glazing, part of the Saint-Gobain Group, with national responsibility for the network branches, field engineers, call centre and sales and marketing. Peter was appointed Managing Director of Metro Rod on 4 September 2017, and a Director of the Company on 21 March, 2018.

Julia Choudhury | Corporate Development Director

Julia has over 25 years of commercial, finance and investment experience. Julia joined the Group in 2008 and has a particular focus on corporate development, which includes acquisitions. Between 1997 and 2005, Julia held a number of senior management roles with AXA Investment Managers including Strategic Development Director, Head of Marketing, Head of Retail, and latterly Managing Director of AXA Investment Manager's UK operation. Her early career was spent in Corporate Finance at BZW predominantly in mergers and acquisitions and equity financing. Between 1993 and 1997 she was Product Development Manager and subsequently Assistant Director at BZW Investment Management. She was appointed as a Director of the Company on 15 July 2016.

Colin Rees | Chief Information Officer

Colin is a highly experienced IT professional. He was appointed to the new position of Chief Information Officer on 1 April 2017. Colin was until recently Director of IT at Domino's Pizza where he was responsible for all IT systems of the business from the point-of-sale system in over 1,000 stores, via the mobile and Web ordering system, through to the recently launched ERP system. He previously held a number of senior IT roles at EasyJet including Head of Software Delivery. Colin started his career at Argos plc and held a number of positions over a 10-year period. He was appointed a Director of the Company on 21 March 2018.

Nigel Wray | Non-executive Director

Nigel co-founded Franchise Brands in 2008. He is an entrepreneurial investor in both public and private companies. Currently he is a substantial shareholder and Director at Prestbury Investment Holdings Ltd and many other companies. He is also the Chairman and co-owner of Saracens Rugby Club. He is a significant investor in a wide-ranging number of AIM quoted companies including Avingtrans Plc, Rotala plc, Hunters plc, Tekcapital plc, Reach4Entertainment Enterprises plc and MXC Capital plc, as well as a number of private companies in the domiciliary care, computer network solutions, hotel and restaurant sectors. He is a former director and former significant shareholder in Domino's Pizza. He was appointed as a Director of the Company on 15 July 2016.

David Poutney | Independent Non-executive Director

David has over 40 years of finance and investment experience. David is Executive Chairman of Dowgate Capital Stockbrokers Ltd and a Non-executive Director of Be Heard Group plc. From 2001 to January 2016 he was Director and Head of Corporate Broking at Numis Securities Limited during which time he helped establish Numis as a leading institutional stockbroker and corporate adviser to companies on both AIM and the main market. Between May 2014 and February 2016, he was an Executive Director of Numis Corporation plc. In his 20 years as a corporate broker, David was involved in the listings of over 30 companies and advised many through extended periods of growth. In particular, he advised Domino's Pizza from 2002 to January 2016. He was appointed as a Director of the Company on 15 July 2016.

■ ● ▲
Chairman

Rob Bellhouse | Independent Non-executive Director

Rob is an experienced company secretary with strong commercial experience gained over a period of over 30 years, working mainly in listed companies with a strong focus on governance, compliance and risk management activities. He is currently deputy secretary of a FTSE15 natural resources business, having previously been the company secretary of a number of listed companies including Domino's Pizza (2015-2016, on an interim basis), Lonmin (2003-2015) and Greene King (1998-2003). Rob was interim company secretary of AIM-quoted Alliance Pharma in 2016-17. He was voted ICSA Company Secretary of the Year in 2014. Rob was appointed as a Director of the Company on 15 July 2016.

■ ● ▲
Chairman Chairman

Senior management

Lee Dancy | Managing Director, Barking Mad

Lee is an experienced franchise professional with over 25 years of commercial experience, primarily in sales and marketing. In 2000, Lee founded Barking Mad and successfully franchised the business in 2002. As Managing Director, Lee led the business through a period of considerable expansion from 2002 to 2016. She has continued in her role as Managing Director following the acquisition of Barking Mad by Franchise Brands. Prior to establishing Barking Mad, Lee was an independent marketing consultant.

Robin Auld | Marketing Director

Robin joined Franchise Brands as Group Marketing Director in 2010 and established consumer marketing campaigns for the brands, generating increases in demand and raising brand awareness. Robin has a successful track record of consumer marketing success over nearly 20 years. He is best known for his work at Domino's Pizza. As Head of Marketing, and then Sales and Marketing Director, working closely with Stephen Hemsley, Robin guided the brand through a period of growth during the period 2004 to 2010. Prior to joining Domino's Pizza, Robin had a senior role at a WPP Group agency working with a range of blue-chip clients. More recently Robin has also worked as Head of Marketing for Topps Tiles helping to reposition and re-launch the brand. He was appointed as a Director of the Company on 15 July 2016, and will step down from the Board at the AGM on 25 April 2018.

Andrew Mallows | Commercial Director

Andrew has spent his career in the consumer sector and has particular experience in franchising. He rejoined Franchise Brands on 31 March 2017 having originally assisted the Group prepare for and complete the IPO. Andrew works on a part-time basis as Commercial Director for all the Group's brands. Andrew was Finance Director of Domino's Pizza during the period 2001 to 2004, having taken over that role from Stephen Hemsley when he was promoted to CEO. In 2004 he was appointed Business Development Director at Domino's with responsibility for the property, franchise sales and food service Division of the business.

Tim Roberts | Head of IT

Tim has over 20 years' experience as a freelance IT consultant and project manager in a wide range of business sectors. His career has included secondments at Dell, NatWest, Argos, EasyJet, Freshfields and Telefonica. Prior to joining Franchise Brands, Tim was Head of Corporate Systems at Domino's Pizza where he responsible for all head office IT systems. In particular, he was responsible for implementing Domino's franchisee CRM email solution and GPS real-time delivery tracking system for its delivery drivers. Tim joined Franchise Brands in 2017.

Ella Pugh | Head of Marketing

Ella spent five years working in the consumer goods sector prior to joining Franchise Brands. Her focus was product marketing and development and she was responsible for developing innovative product ranges for new markets and for online re-branding. From Franchise Brand's Marketing Centre of Excellence based in Kidderminster, Ella works across all of the Group's brands. She is passionate about building brand awareness and delivering results-orientated multi-channel campaigns. Ella joined Franchise Brands in 2016.

Mark Peters | Company Secretary

Mark is a pragmatic and entrepreneurial lawyer of more than 30 years' standing. He is currently a senior consultant to Sherrards Solicitors LLP, having previously been Senior Partner, and was instrumental in successfully establishing the firm's London office. During his 17 year association with Sherrards, Mark carried out a wide variety of work for clients, primarily in the field of real estate and investment, as well carrying out business development, management, and certain regulatory and compliance duties. Mark has performed Company secretarial duties for Franchise Brands since 2008.

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Stephen Hemsley
Executive Chairman

"Franchise Brands is an AIM-quoted company and we have chosen to follow the QCA's Corporate Governance Code for small and mid-size quoted companies (the 'Code') as we believe that this provides an appropriate governance framework for a group of our size."

Adoption of this Code is not mandatory and therefore this report does not need to follow the "comply or explain" approach with respect to any departures from the Code. However, the Company remains committed to high standards of corporate governance and seeks to comply with the Code to the extent practicable for a quoted company of our size.

The Code invites me to introduce this section of the annual report and I am very happy to do so. Corporate governance plays a crucial role in helping to preserve value for shareholders by providing a process for decision-making which should ensure that all major decisions are considered in good time, that the Board is provided with good quality briefing materials which cover all relevant factors and that our deliberations consider the risks, as well as the opportunities, in the issues before us. Having directors drawn from a range of backgrounds, with a cumulatively wide range of relevant skills and experiences, helps us to take decisions in the interests of all shareholders and which take into account the interests of a wide range of stakeholders. It is for these reasons that the Board is committed to achieving high standards of corporate governance.

As a result, good corporate governance is vital in supporting the Company's growth strategy and in turn its long-term success. The remainder of this report explains how we have applied the Code during 2017.

Stephen Hemsley
Executive Chairman

CORPORATE GOVERNANCE

Board composition and support

The Board currently comprises eight Directors, being an Executive Chairman, four Executive Directors and three Non-executive Directors. As explained in the Chairman's Statement on page 22, reflecting the development of the Group's business during 2017 we have appointed two further Executive Directors to the Board but one of the long-serving Executive Directors, Robin Auld, is not seeking re-election at the AGM. The Board believes that its revised composition will provide a sufficiently wide range of skills and experience to enable it to pursue its strategic goals following the acquisition of Metro Rod and to address anticipated issues in the foreseeable future. Its deliberations are not dominated by one person or a group of people.

The Board regards David Poutney and Rob Bellhouse as being independent. While Nigel Wray fulfils his duties to the Company in an exemplary way and demonstrates independence of character and judgment, the Board does not regard him as independent as he is a significant shareholder.

During the year the Board had an Executive Chairman and a CEO. While the respective responsibilities of the Chairman and CEO are not recorded in writing, the division has always been very clearly understood. The Chairman is responsible for leading the Board, facilitating the effective contribution of all members and ensuring that it operates effectively in the interests of the shareholders. As an Executive Chairman, he is also responsible for the development and implementation of the Group's strategy. The CEO's responsibility related to the operational leadership of the business on a day-to-day basis, with particular focus on the ChipsAway and Ovenclean businesses. Following the year end, the Board reorganisation referred to above means that there is no longer a CEO. The Executive Chairman continues to perform the same function, but the Managing Directors will provide operational leadership to their respective businesses.

The Board has not felt that the appointment of a senior independent director was necessary but keeps this issue under review.

The Company Secretary is responsible, on behalf of the Executive Chairman, for ensuring that all Board and Committee meetings are conducted properly, that the Directors receive the appropriate information prior to the meeting, for ensuring that governance requirements are considered and implemented and for accurately recording each meeting. The Directors may have access to independent professional advice where needed at the Group's expense.

The Directors are provided with good quality information on a timely basis including monthly management accounts, regular updates on operational, business development and marketing and IT issues and detailed briefing papers on all substantive matters to be discussed at Board meetings.

"Across the Group we are committed to high standards of corporate governance."

Responsibilities of the Board

The Board is responsible to the Company's shareholders for:

- Setting the Group's strategy;
- Maintaining the policy and decision-making process through which the strategy is implemented;
- Checking that necessary financial and human resources are in place to meet the strategic aims of the Group;
- Providing entrepreneurial leadership within a framework of good governance and sound risk management;
- Monitoring performance against key financial and non-financial indicators;
- Overseeing the systems of risk management and internal control; and
- Setting values and standards in corporate governance matters.

Non-executive Directors

The role of the Non-executive Directors is to:

- Challenge constructively and help develop proposals on strategy;
- Satisfy themselves as to the integrity of the financial reporting systems and the information they provide;
- Satisfy themselves as to the robustness of the internal controls;
- Ensure that the systems of risk management are robust and defensible; and
- Review management performance and the reporting of such performance to shareholders.

Each of the independent Non-executive Directors sits on the Remuneration Committee, enabling them to have a role in determining the pay and benefits of the Executive Directors and to oversee Board and management succession plans.

Board meetings

The Board meets on scheduled dates, typically six times per annum, with ad hoc meetings when necessary. The Board met seven times in 2017.

Committees

The Board has delegated and empowered an Audit Committee, an AIM Rules Compliance Committee and a Remuneration Committee, each of which is accountable to the Board on all matters within its remit and has a written terms of reference. A summary of the responsibilities of each committee and their work during the year is given below. There is no Nominations Committee as the matters it would consider have been retained as a Board responsibility.

Attendance records

The participation of the individual Directors at the meetings of the Board and its committees they were eligible to attend during 2017 was as follows:

Director	Board	Audit Committee	Remuneration Committee	AIM Rules Compliance Committee
Stephen Hemsley	7 of 7	–	–	–
Tim Harris	7 of 7	–	–	–
Chris Dent	4 of 4	–	–	–
Julia Choudhury	7 of 7	–	–	–
Robin Auld	6 of 7	–	–	–
Nigel Wray	4 of 7	–	1 of 1	–
David Poutney	7 of 7	2 of 2	1 of 1	1 of 1
Rob Bellhouse	7 of 7	2 of 2	1 of 1	1 of 1

CORPORATE GOVERNANCE continued

Board effectiveness review

The Company is at an early stage of its life as a quoted company. Following the acquisition of Metro Rod, a new Chief Financial Officer was recruited to support the Group's accounting and reporting needs and, as noted above, Board composition continues to evolve in line with the business challenges and opportunities facing the Group. While recognising the value that a properly structured effectiveness review could add, the timing of such a process has yet to be determined.

Diversity

The Board is aware of the current focus on diversity in relation to Board and Senior Management appointments, which tends to focus on gender and race. The Company and the Board always seeks to search for, recruit and appoint the best available person regardless of any personal or background factors.

Legislation

The Company is committed to meeting the requirements of applicable legislation, and particularly values and adheres to the principles of both the Bribery Act and the Modern Slavery Act.

Corporate social responsibilities

All companies have broader social responsibilities and obligations. In fulfilling their duties, the Directors take into account the short- and long-term consequences of their decisions on employees, franchisees, suppliers, customers and others, as well as the ethical, environmental and reputational impacts that these could create.

Relations with shareholders

The Executive Chairman, the Chief Financial Officer, and the Corporate Development Director meet with the institutional shareholders from time to time and provide the Board with feedback from those meetings and other communications with shareholders. The Board is provided with research notes from sell-side analysts plus insight into shareholders' views from the Company's nominated advisors.

The Group welcomes the personal investment in its equity that many employees and franchisees have made, as well as our retail investors. We regularly update the Investor Relations section of the Group's website with the aim of providing useful information for all investors, but particularly our retail shareholders.

All Directors are invited to attend the AGM at which there is an opportunity for shareholders to ask questions formally, and the Directors are available following the meeting for informal discussions. While voting at the AGM is on a show of hands, the proxy voting results (including any votes withheld) are announced at the meeting, and subsequently to the market and published on the website.

Board Committees

As noted above, the Board has delegated certain of its responsibilities to Board committees:

Audit Committee

The role of the Audit Committee is to monitor the quality of internal controls and check that the financial performance of the Group is properly assessed and reported on. It receives and reviews reports from the Chief Financial Officer, other members of management and external auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Group.

The members of the Audit Committee are:
- David Poutney (Chairman)
- Rob Bellhouse

The Company Secretary acts as secretary to the Audit Committee. The Executive Chairman and Chief Financial Officer are invited to attend all meetings, with other senior financial managers required to attend when necessary. The external auditors attend meetings to discuss the planning and conclusions of their work and meet with the members of the Committee without any members of the executive team present after each meeting. The Committee is able to call for information from management and consults with the external auditors directly as required.

The objectivity and independence of the external auditors is safeguarded by reviewing the auditors' formal declarations, monitoring relationships between key audit staff and the Company and tracking the level of non-audit fees payable to the auditors.

The Committee met twice during the year, to review the 2016 annual accounts and the interim accounts to 30 June 2017, and to note the auditors' views on those accounts.

The Company received a letter during the year from the Financial Reporting Council's (FRC) Corporate Reporting Review Team on 27 July 2017, which raised questions on certain aspects of our annual report for the year ended 31 December 2016. The Company responded fully to the matters raised in the FRC's letter, enabling it to conclude its enquiry. As a result of the FRC's enquiry, the Company has made improvements to the disclosures in this annual report in the following areas:

- Note 1 Accounting policies: Segmental Reporting.
- Note 1 Accounting policies: National Advertising Fund and Central Advertising Fund accounting.
- Note 2 Critical accounting estimates and judgements: Revenue recognition; Deferred payments.

The FRC's enquiry did not result in any change to reported profit or net assets.

Scope and limitations of the FRC's review

We recognise that the FRC's review was based on a review of our annual report for the year ended 31 December 2016 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. Its review did not provide any assurance that the Company's annual report and financial statements are correct in all material respects. It is not the FRC's role to verify the information provided to it; it considers compliance with reporting requirements. The FRC (which includes its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

Audit tender
An audit tender process was undertaken in 2017, led by the Audit Committee. The Group's auditors, BDO LLP, have held office for a number of years, while Metro Rod has used PricewaterhouseCoopers LLP as its auditors in recent years. A tender process was undertaken involving four audit firms, managed by the Chief Financial Officer on behalf of the Committee. Two firms were selected to take part in the final round, being BDO and PwC. While the Birmingham office of BDO historically led the Group audit, recognising the significance of Metro Rod to the Group, BDO's Manchester office participated in the tender process. The Committee unanimously recommended that BDO be appointed as auditors to the enlarged group, and the recommendation was accepted by the Board. A resolution for the reappointment of BDO as the Group's auditors will be tabled at the Annual General Meeting.

Remuneration Committee
The role of the Remuneration Committee is to review the performance of the Executive Directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The Committee also makes recommendations to the Board on proposals for the granting of share awards and other equity incentives pursuant to any share award scheme or equity incentive scheme in operation from time to time.

The members of the Remuneration Committee are:
- Rob Bellhouse (Chairman)
- David Poutney

The Company Secretary acts as secretary to the Remuneration Committee. The Executive Chairman is invited to attend meetings of the Remuneration Committee, but does not participate when his own remuneration is being discussed. All members of the committee are independent Non-executive Directors.

The Company's remuneration policy and details of the amounts due to the Directors of the Company in or in respect of the year are set out in the Remuneration Report on pages 38 and 39. As the Company is not listed, it is not required to produce a formal remuneration policy or seek shareholder approval of that policy.

The Committee met once during the year, to approve the award of options under the Long-Term Incentive Plan ("LTIP"). A further meeting was held in early 2018 to review the basis of the performance condition to which the vesting of options is subject, and to grant options to an employee.

AIM Rules Compliance Committee
The role of the AIM Rules Compliance Committee is to ensure that the Company has in place sufficient procedures, resources and controls to enable it to comply with the AIM Rules for Companies. The Committee makes recommendations to the Board and proactively liaise with the Company's nominated adviser on compliance with the AIM Rules. The Committee also monitors the Company's procedures to approve any share dealings by Directors or employees in accordance with the Company's share dealing code and the requirements of the Market Abuse Regulation.

The members of the Committee are:
- Rob Bellhouse (Chairman)
- David Poutney

The Company Secretary acts as secretary to the AIM Rules Compliance Committee. In addition, all other Directors of the Company are invited to attend its meetings.

The Committee met once during the year, at the time of our last annual report, to discuss compliance with certain aspects of the AIM Rules for Companies and to receive assurances from the other Directors that there were no matters they should be disclosing to the Company under AIM Rule 17.

DIRECTORS' REMUNERATION REPORT

Directors' remuneration

Remuneration Policy

The objective of the Company's remuneration policy is to facilitate the recruitment and retention of executives of an appropriate calibre, to ensure that the senior executives of the Company are provided with appropriate incentives to encourage enhanced performance and are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Company.

Strategic alignment

The Remuneration Committee is satisfied that the pay that can be earned is appropriate for a company of comparable size and complexity, at each level of performance. All of the Executive Directors have significant exposure to the company's share price: Stephen Hemsley has a significant personal shareholding in the Company and the other Executive Directors have material personal investments in our shares, supplemented by options granted under our LTIP. The vesting of LTIP options is subject to a performance condition requiring a pre-determined and challenging rate of compound annual growth in adjusted earnings per share, which the Board regards as the key performance metric. As a result, there is a clear incentive to drive earnings per share growth over the longer term and also to mitigate downside risks that could affect the Company's profitability. Reputational risks could reasonably be expected to affect the share price, so the Executive Directors are further incentivised to mitigate these exposures to maximise the potential value of their options.

Remuneration in practice

The remuneration that the Company offers to its Executive Directors has three principal components:

1. **Basic salaries and benefits in kind** – Basic salaries are determined by the Remuneration Committee bearing in mind the salaries paid in AIM-quoted companies of similar size and complexity. Benefits in kind include a car allowance and health care.
2. **Pensions** – The Company operates a defined contribution scheme for all Executive Directors and employees. Only basic salaries are pensionable.
3. **Equity exposure** – The Company operates a share option scheme covering permanent employees (including the Executive Directors, other than Stephen Hemsley) under which share options have typically been granted once to each individual. Subject to achieving compound EPS growth targets, options can vest no earlier than the third anniversary of the date of grant and, once vested, may be exercised until the tenth anniversary. The exercise price of the options is set at the market value of the Company's shares at the time of grant, so that the individual only benefits if there has been share price growth. The share option scheme is overseen by the Remuneration Committee which determines the terms under which eligible individuals may be invited to participate, including the level of awards. The scheme utilises HMRC-approved EMI options to the extent possible and non-tax advantaged options thereafter.

Directors' service contracts

All Executive Directors are employed under service contracts. The services of the Executive Directors may be terminated by the Company, on the expiry of six months' notice (nine months, in the case of Tim Harris).

The Non-executive Directors are employed under letters of engagement which may be terminated by the Company (i) giving three months' notice or (ii) immediately, in the event that the Director is not re-elected by shareholders at an AGM.

Directors' remuneration (audited)

The aggregate remuneration payable to the Directors for the year ended 31 December 2017 was as follows:

Director	Salary or fees (£)	Benefits in kind (£)	Pension contributions (£)	Total (£)	2016 comparison (£)[3]
Stephen Hemsley	59,812	–	–	59,812	39,000
Tim Harris	116,416	8,400	385	125,201	125,000
Andrew Mallows[1]	–	–	–	–	38,000
Chris Dent[2]	45,897	3,580	–	49,477	–
Julia Choudhury	120,000	–	–	120,000	57,000
Robin Auld	70,000	–	98	70,098	47,000
Nigel Wray	16,667	–	–	16,667	10,000
David Poutney	21,667	–	–	21,667	6,000
Rob Bellhouse	21,667	–	–	21,667	6,000

Notes:
1 Andrew Mallows served as a Director of the Company from 15 July 2016 to 13 October 2016.
2 Chris Dent serves as a Director of the Company from 17 July 2017.
3 2016 comparison is from 15 July 2016 to 31 December 2016.

No Director made any gains on exercise of a share option during the year or received any remuneration from a third party in respect of their service as a Director of the Company.

As seen from the table above, two Directors are currently accruing retirement benefits, and do so through defined contribution schemes. The Company does not operate a defined benefits scheme. No Director or former Director received any benefits from a retirement benefits scheme that were not otherwise available to all members of the scheme.

Directors' share options (audited)

Details of options held under the Company's LTIP by the Directors who served during the year are as follows:

					Changes in the remainder of the year					
Director	Date of grant	Exercise price (pence)	Performance condition	2016 Number of shares	Granted	Exercised	Lapsed	2017 Number of shares	Exercisable from	Exercisable to
Tim Harris	01-Aug-16	33	EPS growth	303,030	–	–	–	303,030	01-Aug-19	01-Jul-26
Chris Dent	12-Dec-17	49.5	EPS growth	–	303,030	–	–	303,030	12-Dec-20	12-Dec-27
Julia Choudhury	01-Aug-16	33	EPS growth	303,030	–	–	–	303,030	01-Aug-19	01-Jul-26
Robin Auld	01-Aug-16	33	EPS growth	303,030	–	–	–	303,030	01-Aug-19	01-Jul-26

DIRECTORS' REPORT

Scope of this report

The Directors' biographies on pages 30, 31, and 32, the discussion of corporate governance matters on pages 34 to 37 and the Remuneration report on pages 38 and 39 are hereby incorporated by reference to form part of this Directors' report.

As permitted under the Companies Act, certain matters which would otherwise need to be included in this Directors' report have instead been discussed in the Strategic Report. These matters are the discussion of the performance and likely future developments in the business of the Company and its subsidiaries. Disclosures relating to financial risk management are included in Note 3 to the financial statements.

Principal activities

The principal activity of the Group is the acquisition, development and brand marketing of multiple franchised businesses. The principal activity of the Company is to act as a holding company and to provide management services to its subsidiary companies.

Research and development

The Group did not have any material activities in the field of research and development during the year.

Directors

Names, biographical details and appointment dates of the Directors of the Company at the date of this report are shown on pages 30, 31 and 32. In addition, Andrew Mallows served as an Executive Director until 13 October 2016.

Directors' interests

The following table shows the interests of the Directors (and their spouses and minor children) in the shares of the Company.

Director	At 31 December 2017	At 31 December 2016
Stephen Hemsley[1]	**20,640,117**	13,000,431
Tim Harris[2]	**1,059,284**	999,762
Chris Dent	**15,000**	–
Julia Choudhury[3]	**1,204,258**	1,010,229
Robin Auld[4]	**846,195**	908,882
Nigel Wray[5]	**21,720,120**	14,080,434
David Poutney[6]	**2,260,791**	606,060
Rob Bellhouse	**82,768**	45,455

Notes:

1. Included in the holding of Stephen Hemsley are 1,616,431 Ordinary Shares held by his wife, 7,477,612 Ordinary shares held by CTG Investment Limited, a company owned by a discretionary trust of which Mr Hemsley and his family are potential beneficiaries, and 1,492,537 Ordinary shares held by his Self-Invested Personal Pension (SIPP).
2. Included in the holding of Tim Harris are 59,522 shares held by his SIPP.
3. Included in the holding of Julia Choudhury are 381,819 Ordinary Shares held jointly with her husband, 411,985 Ordinary shares held by her SIPP and 37,313 Ordinary Shares held by Winsham Capital Partners Ltd, a Company controlled by Julia Choudhury and her husband.
4. Included in the holding of Robin Auld are 113,071 Ordinary shares held by his SIPP.
5. Included in the holding of Nigel Wray are 14,026,380 Ordinary shares held by Damor Investments Limited, acting as nominee for RBC Trustees (Jersey) Limited as trustee of Mr Wray's family trust. Also included are 3,731,343 Ordinary Shares and 3,684,463 Ordinary shares held by Euroblue Investments Limited and Glengrace Limited, respectively, companies wholly owned by Nigel Wray. Also included in Nigel Wray's interest are 223,880 Ordinary shares owned by The Priory Foundation, a charitable trust of which he is the settlor and a trustee. Nigel Wray controls this interest but is not the beneficial owner of these shares.
6. Included in the holding of David Poutney are 1,584,627 Ordinary shares held by his SIPP and an interest in 676,164 Ordinary shares held by his wife and adult daughters. David Poutney controls the interest held by his wife and adult daughters but is not the beneficial owner of these shares.

In addition, Tim Harris, Chris Dent, Julia Choudhury and Robin Auld held or hold options over shares of the Company through their participation in the Company's LTIP, which are detailed in the Remuneration report on pages 38 and 39.

Major shareholders

Insofar as is known to the Company and in addition to the holdings of the Directors above, the following persons hold, as at the date of this document, and are expected (based on the information available as at the date of this document), to hold directly or indirectly 3% or more of the enlarged Share Capital:

	Current	
Shareholder	Number of Ordinary shares	Percentage of existing share capital
Netcap Limited	3,373,134	4.3%
Hargreave Hale	3,351,033	4.3%

Directors' responsibilities statement

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company Law requires the Directors to prepare financial statements for each financial year. Under that Law the Directors have elected to prepare the Group and Company financial statements in accordance with International Financial Reporting Standards (IFRS) 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 Group's profit or loss 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 judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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 and dissemination of financial statements may differ from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors, as is the ongoing integrity of the financial statements contained therein.

Going concern

The Directors have made appropriate enquiries and consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Directors' and Officers' liability insurance and indemnification of Directors

The Company maintains Directors' and Officers' liability insurance which gives appropriate cover for any legal action brought against its Directors.

The Company has also granted indemnities to each of its Directors to the extent permitted by law. Qualifying third party indemnity provisions (as defined in Section 324 of the Companies Act 2006) were adopted for those Directors on the Board at that time and have been agreed by all Directors joining the Board since that date. These indemnities remain in force in relation to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company.

Directors' obligations to the auditors

The Directors confirm that:

- so far as each of the Directors is aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have each taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Dividends

A final dividend of 0.17p per share was paid on 28 April 2017 in respect of the 2016 financial year.

An interim dividend of 0.17p per share in respect of the 2017 financial year was paid on 22 September 2017. The Directors are recommending a final dividend of 0.33p per share which, subject to shareholders' approval at the AGM, will be paid on 15 May 2018 to shareholders on the register at the close of business on 27 April 2018.

Share capital

The Company's entire issued share capital comprises Ordinary Shares of 0.5 pence each. Note 23 to the financial statements summarises the number issued during 2017.

Voting rights

Subject to any rights or restrictions attached to any class of shares, on a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly authorised representative and is entitled to vote shall upon a show of hands have one vote and on a poll every member who is present in person or by proxy or corporate representative and entitled to vote shall have one vote for every share of which he is the holder. Where a registered holder or any other person appearing to be interested in such shares fails to comply with any notice given by the Company under section 793 of the Act, then not earlier than 14 days after service of such notice the shares in question may be disenfranchised.

Statutory disclosures

In accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 the Directors disclose the following information:

- The Company's capital structure and voting rights are detailed on page 41. There are no restrictions on voting rights nor any agreement between holders of securities that result in restrictions on the transfer of securities or on voting rights;
- There exist no securities carrying special rights with regard to the control of the Company;
- Details of the substantial shareholders and their shareholdings in the Company are detailed on page 40;
- The rules concerning the appointment and replacement of Directors, amendment to the Articles of Association and powers to issue or buy back the Company's shares are contained in the Articles of Association of the Company and the Companies Act 2006;
- There exist no agreements to which the Company is party that may affect its control following a takeover bid; and
- There exist no agreements between the Company and its Directors providing for compensation for loss of office that may occur because of a takeover bid.

Branches

There are no branches of the Company outside the UK.

Political and charitable donations

No political or charitable donations were made or political expenditure incurred during the period.

Auditor

A resolution to reappoint BDO LLP as auditor will be proposed at the AGM.

Post-balance sheet events

On 15 January 2018 a customer of Metro Rod Limited, Carillion plc, went into liquidation. The Directors determined that this was an adjustable post-balance sheet event and accordingly made a bad-debt provision for the amounts owing at the balance sheet date of £316,000.

Financial instruments and risk management

The Company's use of financial instruments and its financial risk management objectives and policies are set out in Note 3 of the financial statements.

Annual general meeting

The 2018 Annual General Meeting of the Company will be held on 25 April 2018, the business of which is set out in the notice of meeting. A circular containing the notice of meeting and an explanatory letter from the Chairman is being posted to shareholders and is also available on the Company's website.

Approved by the Board.

Mark Peters
Company Secretary
21 March 2018

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANCHISE BRANDS PLC

For the year ended 31 December 2017

Opinion

We have audited the financial statements of Franchise Brands plc (the "Parent Company") and its subsidiaries (the "Group") for the year ended 31 December 2017 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of cash flows, the consolidated and company statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies.

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 2017 and of the Group's loss 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.

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 an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the 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.

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.

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.

Risk of fraud/misstatement in revenue	How We Addressed the Key Audit Matter in the Audit
Refer to the Accounting Policies (page 53), Note 2 (pages 56-57) and Note 4 (page 59) Total Group revenue is £24.3m (2016: £4.9m). The Group's significant revenue streams include franchise fees, licence fees and the sale of goods. The acquisition of Metro Rod Limited in the year has given rise to a significant increase in revenue recognised, as well as additional management judgement in assessing principal vs agent considerations, as disclosed in note 2 of the financial statements. In addition, the accounting treatment for deferred franchise fees (see note 2) requires the use of judgement by management in determining the quantum of expected future receipts. In accordance with the auditing standards and in view of the judgements involved above, as well as management being in a position to be able to override controls, we have presumed a risk of fraud within this area.	Our audit work over the recognition of the deferred franchise fees included a review of historic recoveries and comparison to current year estimates in support of the Directors' assessment of the timing and quantum of amounts the group ultimately expects to receive. In respect of Metro Rod Limited, we reviewed Franchisee agreements and customer contracts to verify management's judgement with regard to principal vs agent considerations. We further ensured that the accounting policy for the arrangements has been appropriately applied. In addition, we undertook the following audit procedures in relation to revenue: › We interrogated the system to identify any manual journals made to revenue to ascertain if any were outside the normal course of business, as well as reviewing the nominal ledger revenue accounts for unusual activity and corroborated evidence to ensure appropriate. › We performed detailed testing, on a sample basis, of sales transactions across the year and across each significant revenue stream to provide evidence for the completeness, existence and accuracy of recorded transactions. › We performed detailed cut off procedures to test transactions around the year end and verified a sample of sales to originating documentation to provide evidence that transactions were recorded in the correct period. Based on the work performed we consider that revenue has been recognised appropriately and is in accordance with the Group's revenue recognition accounting policy.
National Advertising Fund and Central Advertising Fund	**How We Addressed the Key Audit Matter in the Audit**
Refer to the Accounting Policies (page 53) and Note 2 (page 56) Franchisees pay contributions which are collected by the Group for specific use within the National Advertising Fund (NAF) for ChipsAway International Limited and the Central Advertising Fund (CAF) for Oven Clean Domestic Limited. The funds are operated by the Group on behalf of franchisees with the objective of driving revenues for franchisees. The costs allocated to the funds require judgement to determine the appropriateness of and extent of costs to be recharged from the Group to the fund. The recharging of expenditure incurred by the Group on behalf of the NAF and CAF is susceptible to management override through inappropriate expenditure being charged to the NAF and CAF. The franchisee contributions allocated to the funds are also susceptible to the risk of amounts being included in revenue.	We inspected the franchise framework agreements to determine the extent of influence that the Group has over the use of the resources held by the NAF and CAF and to determine whether it should be consolidated with the Group's accounts. We performed testing of a sample of costs allocated to the funds to confirm that they were permitted costs under the fund rules, corroborating these with supporting documentation. We identified and tested manual journals posted to the NAF and CAF funds, obtaining an understanding of the rationale for significant journals and agreeing them to relevant supporting documentation. We performed a proof in total of franchisee contributions to the NAF and CAF based on the number of franchisees and expected contribution rates. We noted no exceptions through performing these procedures.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANCHISE BRANDS PLC continued

For the year ended 31 December 2017

Acquisition Accounting	How We Addressed the Key Audit Matter in the Audit
As described in Note 22, on 11 April 2017 the Group acquired the entire share capital of Metro Rod Limited. We focused on this area because the accounting treatment for the provisional opening balance sheet is inherently judgemental and requires the Directors to exercise many judgements, including in respect of the fair values of intangible assets and the calculation of associated goodwill.	We reviewed the sale and purchase agreement entered into on 22 March 2017 and considered management's accounting treatment. We tested the acquisition balance sheet to assess the fair value adjustments made by management and to assess if other adjustments or alignment of accounting policies were required. In particular, we tested the fair values ascribed to intangible assets by understanding the assumptions adopted in the valuation model, which critically include the royalty rate applied to the brand valuation, the forecast attrition rate in relation to existing customers, the expected longevity of the brand name and the customer relationships, and the sales and margin forecasts. We engaged specialists to assist us in validating those underlying assumptions and enabled us to confirm that the Directors had adopted reasonable assumptions in each circumstance. We reviewed the disclosures within the financial statements to ensure the completeness and accuracy of management's disclosure of the transaction. Based on the evidence obtained, we did not identify any indications that the fair value adjustments identified by management were inappropriate. We read the disclosures in the financial statements and found them to be consistent with the information we obtained during the course of our audit.
Impairment of goodwill and intangible assets	**How We Addressed the Key Audit Matter in the Audit**
Refer to the Accounting Policies (page 53) and Note 11 (page 62) The Group has goodwill and indefinite life intangible assets, which requires management to test these balances for impairment at least annually. There is a high degree of management judgement in assessing the value in use of the Cash Generating Units ("CGU") to which the Goodwill and Intangible assets are allocated and therefore determining any potential impairments.	We obtained the impairment analysis performed by management for each CGU. We performed testing over the impairment analysis for logical and arithmetic accuracy and to ensure that it has been undertaken in accordance with IAS 36. We performed procedures to obtain an understanding of the underlying assumptions made by management. The key assumptions included: › Future trading projections; › The discount rate applied; and › The long term growth rate. The reasonableness of these key assumptions was tested through reviewing the group's detailed calculations and challenging the methodology applied in preparing the trading and cash flow forecasts. We engaged specialists to assist us in validating those underlying assumptions and enabled us to confirm that the Directors had adopted reasonable assumptions in each circumstance. We also performed sensitivity analysis to understand the relative impact of changes in the key assumptions within the impairment models, as well as to confirm that management's disclosure of sensitivities in respect of the impairment review are complete and balanced. Based on our procedures we noted no exceptions and found management's key assumptions to be within a reasonable range. We read the disclosures in the financial statements and found them to be consistent with the information we obtained during the course of our audit.

Our application of materiality

We consider materiality to be the magnitude by which misstatements, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£104,000 (2016: £49,000)
Basis for materiality	5% of profit before tax, after adjusting for non-recurring items (inclusive of costs of acquisition of subsidiaries, costs of transition of subsidiaries and bad debt expense) (2016: 1% of revenue).
Rationale for the benchmark adopted	Pre-tax profit after adjusting for non-recurring items is determined to be a stable basis of assessing business performance and is considered to be a significant determinant of performance used by shareholders.

In considering individual account balances and classes of transactions we apply a lower level of materiality (performance materiality) in order to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality. Performance materiality was set at £78,000 (2016: £36,750), representing 75% of materiality. The performance materiality threshold was selected based on the expected low level of misstatements and the relatively low number of accounts that are subject to management estimation.

We agreed with the audit committee that we would report to the committee all individual audit differences identified during the course of our audit in excess of £2,000 (2016: £2,000). We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

Our audit work on each component was executed at levels of materiality applicable to each individual entity which was lower than Group materiality. Component materiality ranged from £94,000 to £1,000 (2016: £46,500 to £1,000). Parent Company materiality was £94,000.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group manages its operations from two principal locations in the UK. The acquisition of Metro Rod Limited has meant that the Group has two financial systems, and has different processes and controls covering this significant component compared to the other significant components and wider Group. The audit of all significant components was performed by the same audit team.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the ten reporting components of the Group, we determined that four components represented the principal business units within the Group.

For the ten reporting components, we performed a full scope audit of the complete financial information.

As a consequence of the audit scope determined, we achieved coverage of 100% (2016: 96%) of revenue, 100% (2016: 97%) of profit before tax and 100% (2016: 99%) of net assets.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FRANCHISE BRANDS PLC continued

For the year ended 31 December 2017

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 strategic report or the Directors' report.

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- 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 Directors' responsibilities statement set out on page 40, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the 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.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Gary Harding
(Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Manchester, UK
21 March 2018

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Revenue	4	**24,292**	4,870
Cost of sales		**(15,198)**	(1,572)
Gross profit		**9,094**	3,298
Adjusted earnings before interest, tax, depreciation, amortisation, share-based payments & non-recurring items ("Adjusted EBITDA")		**2,715**	1,352
Depreciation	5	**(96)**	(66)
Amortisation	5	**(156)**	(10)
Share-based payment expense	5	**(58)**	(30)
Costs of acquisition of subsidiaries	5	**(1,144)**	(58)
Costs of transition of subsidiary	5	**(734)**	–
Bad debt provision	5	**(316)**	–
IPO expenses	5	**–**	(397)
Total administrative expenses		**(8,882)**	(2,507)
Operating profit	5	**212**	791
Finance income	8	**–**	2
Finance expense	8	**(277)**	(9)
(Loss)/profit before tax		**(65)**	784
Tax expense	9	**(47)**	(260)
(Loss)/profit for the year and comprehensive income attributable to equity holders of the Parent Company		**(112)**	524
All amounts relate to continuing operations			
Earnings per share	10		
Basic		**(0.16)**	1.28
Adjusted basic		**2.50**	2.40
Diluted		**(0.16)**	1.28
Adjusted diluted		**2.47**	2.38

The notes on pages 53 to 69 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

Company Number: 10281033

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Intangible assets	11	27,025	2,142
Property, plant and equipment	12	162	121
Trade and other receivables	14	–	112
Total non-current assets		27,187	2,375
Current assets			
Inventories	13	252	193
Trade and other receivables	15	9,670	307
Cash and cash equivalents	16	3,245	2,999
Total current assets		13,167	3,499
Total assets		40,354	5,874
Liabilities			
Current liabilities			
Trade and other payables	17	7,132	1,078
Loans and borrowings	18	4,164	167
Obligations under finance leases	19	21	29
Current tax liability		–	211
Total current liabilities		11,317	1,485
Non-current liabilities			
Loans and borrowings	18	5,255	250
Obligations under finance leases	19	65	73
Deferred tax liability	20	526	163
Total non-current liabilities		5,846	486
Total liabilities		17,163	1,971
Total net assets		23,191	3,903
Issued capital and reserves attributable to owners of the Parent			
Share capital	23	388	239
Share premium	24	22,621	3,214
Share-based payment reserve	24	88	30
Merger reserve	24	396	396
Retained earnings		(301)	24
Total equity attributable to equity holders		23,191	3,903

The financial statements on pages 47 to 69 were approved and authorised for issue by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Chris Dent
Director

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2017

Company Number: 10281033

	Note	2017 £'000	2016 £'000
Assets			
Non-current assets			
Fixed asset investments	21	**30,097**	972
Total non-current assets		**30,097**	972
Current assets			
Trade and other receivables	15	**3,212**	2,823
Cash and cash equivalents	16	**232**	750
Total current assets		**3,444**	3,573
Total assets		**33,541**	4,545
Liabilities			
Current liabilities			
Trade and other payables	17	**191**	1
Loans and borrowings	18	**4,164**	167
Total current liabilities		**4,355**	168
Non-current liabilities			
Loans and borrowings	18	**5,255**	250
Total liabilities		**9,610**	418
Net assets		**23,931**	4,127
Issued capital and reserves attributable to owners of the Parent			
Share capital	23	**388**	239
Share premium	24	**22,621**	3,214
Share-based payment reserve	24	**88**	30
Merger reserve	24	**276**	276
Retained earnings		**558**	368
Total equity attributable to equity holders		**23,931**	4,127

No statement of comprehensive income is presented by the Company as permitted by section 408 of the Companies Act. Franchise Brands plc reported a profit for the financial period ended 31 December 2017 of £403,000 (2016: £368,000).

The financial statements on pages 47 to 69 were approved and authorised for issue by the Board of Directors on 21 March 2018 and were signed on its behalf by:

Chris Dent
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
(Loss)/profit for the year		(112)	524
Adjustments for:			
Depreciation of property, plant and equipment	12	96	66
Amortisation of intangible fixed assets	11	156	10
Share-based payment expense	7	58	30
Finance income		–	(2)
Finance expense	8	277	9
Income tax expense	9	47	260
		522	897
Increase in trade and other receivables	15	(1,229)	(31)
Increase in inventories	13	(17)	(15)
Increase in trade and other payables	17	1,629	261
Cash generated from operations		905	1,112
Income taxes paid		(204)	(203)
Net cash generated from operating activities		701	909
Cash flows from investing activities			
Purchases of property, plant and equipment	12	(98)	(10)
Purchase of software	11	(21)	–
Gain on disposal of assets		13	–
Interest received	8	–	2
Acquisition of subsidiary including costs, net of cash acquired	22	(28,403)	(333)
Net cash used in investing activities		(28,509)	(341)
Cash flows from financing activities			
Bank and other loans – repaid		(6,417)	(1,847)
Bank loans – received		15,330	500
Interest paid – bank and other loan		(186)	(6)
Interest paid – finance leases		(10)	(3)
Proceed from issue of shares		20,000	3,562
Share issue expenses and other expenses of IPO		(444)	(233)
Dividends paid	27	(213)	–
Capital element of finance lease repaid		(6)	(38)
Net cash generated from financing activities		28,054	1,935
Net increase in cash and cash equivalents		246	2,503
Cash and cash equivalents at beginning of year		2,999	496
Cash and cash equivalents at end of year	16	3,245	2,999

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Note	2017 £'000	2016 £'000
Cash flows from operating activities			
Profit for the year		**403**	368
Adjustments for:			
Finance expenses	8	**273**	6
Income tax expense		**(202)**	(17)
Share-based payment expense		**24**	16
Cash generated from operations		**498**	373
Increase in trade and other receivables	15	**(151)**	(2,805)
Increase in trade and other payables	17	**190**	–
Net cash generated from/(used in) operating activities		**537**	(2,432)
Cash flows from investing activities			
Acquisition of subsidiary including costs	22	**(29,125)**	(558)
Net cash used in investing activities		**(29,125)**	(558)
Cash flows from financing activities			
Bank loans – repaid		**(6,417)**	(83)
Bank loans – received		**15,330**	500
Interest paid – bank and other loans		**(186)**	(6)
Proceed from issue of shares		**20,000**	3,562
Share issue expenses and other expenses of IPO		**(444)**	(233)
Dividends paid	27	**(213)**	–
Net cash flows generated by financing activities		**28,070**	3,740
Net (decrease)/increase in cash and cash equivalents		**(518)**	750
Cash and cash equivalents at beginning of year		**750**	–
Cash and cash equivalents at end of year	16	**232**	750

CONSOLIDATED AND COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

Group	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2016	120	–	–	–	(500)	(380)
Profit for the period	–	–	–	–	524	524
Acquisition of subsidiary	4	–	–	396	–	400
Issue of shares	114	3,214	–	–	–	3,328
Share-based payment	1	–	30	–	–	31
At 1 January 2017	**239**	**3,214**	**30**	**396**	**24**	**3,903**
Loss for the year	**–**	**–**	**–**	**–**	**(112)**	**(112)**
Dividend paid	**–**	**–**	**–**	**–**	**(213)**	**(213)**
Placing in relation to acquisition	**149**	**19,407**	**–**	**–**	**–**	**19,556**
Share-based payment	**–**	**–**	**58**	**–**	**–**	**58**
At 31 December 2017	**388**	**22,621**	**88**	**396**	**(301)**	**23,191**

Company (from incorporation 15 July 2016)	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 15 July 2016	–	–	–	–	–	–
Profit for the period	–	–	–	–	368	368
Issue of share capital	120	–	–	(120)	–	–
Acquisition of subsidiary	4	–	–	396	–	400
Issue of shares	114	3,214	–	–	–	3,328
Share-based payment	1	–	30	–	–	31
At 1 January 2017	**239**	**3,214**	**30**	**276**	**368**	**4,127**
Profit for the year	**–**	**–**	**–**	**–**	**403**	**403**
Dividend paid	**–**	**–**	**–**	**–**	**(213)**	**(213)**
Placing in relation to acquisition	**149**	**19,407**	**–**	**–**	**–**	**19,556**
Share-based payment	**–**	**–**	**58**	**–**	**–**	**58**
At 31 December 2017	**388**	**22,621**	**88**	**276**	**558**	**23,931**

NOTES FORMING PART OF THE FINANCIAL STATEMENTS

For year ended 31 December 2017

1 Accounting policies

General Information

Franchise Brands plc (the "Company", and together with its subsidiaries, the "Group"), is a public company incorporated in England and Wales under the Companies Act 2006 with Company Number 10281033.

On 11 April 2017 the Group acquired the entire issued share capital of Metro Rod Limited ("Metro Rod"). Although the acquisition of Metro Rod by Franchise Brands plc was a reverse acquisition under the Alternative Investment Market ("AIM") Rules, the transaction was an acquisition under IFRS3. Therefore, Franchise Brands plc continues to be the legal and accounting parent.

The comparative period was accounted for under merger accounting principles, following the introduction of a new holding company on 15 July 2016, and is presented as if Franchise Brands plc has always been the holding company for the Group. Merger accounting principles were followed since the Directors concluded that the introduction of a new holding company was a group reconstruction, and was outside the scope of IFRS3 Business Combinations. Under merger accounting, the carrying values of the assets and liabilities of the parties to the combination are not adjusted to fair value on consolidation. The difference between the cost of investment and the nominal value of the share capital acquired was taken to a merger reserve.

The Company's registered office and principal place of business is at 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire, DY11 7RA.

The principal activities of the Group is franchising and related activities. The principal activity of the Company is that of a holding company of a group of companies engaged in franchising and related activities.

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Company and its subsidiary undertakings. Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control and continue to be consolidated until the date control ceases. All inter-company transactions and balances between Group entities are eliminated upon consolidation. Acquisitions during the year have been consolidated using the acquisition method.

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2017 and applied in accordance with the Companies Act 2006. The Group's consolidated financial statements are prepared under the historical cost convention. The principal accounting policies adopted are set out below and have been consistently applied to all the years presented. The Group's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000s) except where indicated.

The Group's financial statements have been prepared on a going concern basis as the Directors have a reasonable expectation that the Group has adequate resources to continue in existence for the foreseeable future. Please refer to the Directors Report for further details.

There were no impacts from new standards adopted in the period. At the time of publication of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective:

IFRS 16 Leases	01/01/2019
IFRS 9 Financial Instruments: Classification and Measurement	01/01/2018
IFRS 15 Revenue from Contracts with Customers	01/01/2018

The full impact of these standards is currently being assessed. However, IFRS 15 and IFRS 16 may have an impact on these financial statements.

IFRS 15 Revenues from Contract with Customers, effective for periods commencing on or after 1 January 2018. The Directors have completed their initial assessment to the potential impacts of this standard. The Directors believe that there will be two key changes derived from the adoption of the standard:

- Metro Rod revenue recognition: The Directors believe that the introduction of IFRS15 will result in a minor shift of the revenue recognition point based on the assessment of control being transferred and when the Company has a legal and enforceable right for payment. Given the nature of the work performed at Metro Rod – being a large number of small value jobs – the shift will not have a significant impact in terms of the financial statements, as the Company will see approximately the same number of jobs being reported into the relevant period as previously. The impact on profit is anticipated to be negligible.
- National advertising funds: As disclosed below, the national advertising funds for our different networks have not been recognised as revenue under IAS18. The Directors do not believe that the Group met the criteria for recognising revenue due to the fact that the Group is not exposed to the risks and rewards of the transactions. The management of the funds does not result in any profit or loss for the Group as they are run on a break-even basis. With the adoption of the precepts of IFRS15 with its control based approach, the Directors conclude that the Group will recognise the costs expended by the funds in the year within the costs of the business, and will recognise an equal amount as revenue, with any difference from the amount of cash received from our franchisees as accrued or deferred revenue within the balance sheet. Therefore, there will be no effect on profit. If this change had been effective in 2017, a further £640,000 would have been recognised in both revenue and costs.

IFRS 9 Financial Instruments, effective for periods commencing on or after 1 January 2018. The Directors have completed their initial assessment to the potential impacts of this standard. Given the low level of financial instrument use by the Group we do not believe that there will be a significant impact on our accounts. The Directors have considered the impairment considerations within IFRS9, particularly given the trade debtor book within Metro Rod. Whilst the publicised situation at Carillion has contributed to a significant provision at 31 December 2017, the Directors do not believe the application of IFRS9 will have a significant impact on the financial statements.

IFRS 16 Leases, effective for periods commencing on or after 1 January 2019. The impact of this standard is being assessed but is yet to be fully investigated.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

1 Accounting policies continued

Segmental reporting

Management has determined that the Group has one reportable segment.

IFRS 8 Operating Segments requires operating segments to be identified on the same basis as is used internally for the review of performance and allocation of resources by the "chief operating decision maker", who has been identified as the Executive Chairman. IFRS 8 permits the aggregation of these components into reportable segments for the purpose of disclosure in the Group's financial statements. In assessing the Group's reportable segments, the Directors have had regard to the similar economic characteristics of the operating segments (all the operating segments have the same sources of revenue, costs and processes), the similar nature of their business (all the operating segments are franchise networks with franchisees as their customers) and their long-term margins. Therefore, whilst the Group operates multiple franchise brands, across various business sectors, the Board has concluded that the key management and financial data used to manage them is the same, as the key drivers are attributable to them being franchises rather than the activity of the franchise. It is the strategy of Franchise Brands to generate revenue as a franchisor from MSF and licence fees, regardless of the underlying businesses and performance obligations of our franchisees.

All segment revenue and profit before taxation are attributable to the principal activity of the Group.

Business combinations

Other than for the introduction of the new holding company in 2016 the Group applies the acquisition method to account for business combinations. The consideration or the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity issued by the Group, plus if the business combination is acquired in stages the fair value of the existing interest in the acquiree. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Investments in subsidiaries are measured at cost in the parent company.

Intangible Assets

Intangible assets comprise goodwill, certain acquired separable corporate brand names, acquired customer relationships, and capitalised computer software not integral to a related item of hardware.

Goodwill represents the excess of fair value attributed to investments in businesses or subsidiary undertakings over the fair value of the underlying net assets, including intangible assets, at the date of their acquisition. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the net present value of future cash flows derived from the underlying assets using a projection period of up to five years for each cash-generating unit. After the projection period a steady growth rate representing an appropriate long-term growth rate for the industry is applied. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Corporate brand names, trade-marks, customer relationships and other intangibles acquired as part of acquisitions of businesses are capitalised separately from goodwill as intangible assets if their value can be measured reliably on initial recognition and it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group. Certain corporate brands of the Group are considered to have an indefinite economic life because of the institutional nature of the corporate brand names, their proven ability to maintain market leadership and profitable operations over long periods of time and the Group's commitment to develop and enhance their value.

The carrying value of these intangible assets is reviewed at least annually for impairment and adjusted to the recoverable amount if required. Recoverable amount is the higher of fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash generating unit exceeds its recoverable amount the asset or cash generating unit is considered impaired and written down to its recoverable amount. Any impairment is charged to the profit and loss in the period concerned.

Amortisation is provided at rates calculated to write-off the cost less estimated residual value of each asset on a straight-line basis over its estimated useful life as follows:

- Customer-related intangibles – 10 years.
- Other (including capitalised computer software) – 3-5 years.

Exceptional costs

Exceptional items are those significant items which are separately disclosed by virtue of the size or incidence to enable a full understanding of the Group's financial performance.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of consideration received or receivable, net of returns, rebates and value-added taxes. The following criteria must also be met before revenue is recognised:

- ***Management service fees:*** Management service fees are charged for the continuing use of the rights and continuing services provided during the franchise agreements term. They are recognised as the service is provided and the rights are used.
- ***Sales of franchise territories:*** Sales of franchise territories represent the charges for packages which include training, other start-up support and equipment. No element of these charges relate to subsequent services. Revenue from franchise fees is recognised when a franchisee completes the relevant training. Where deferred payment terms are offered the revenue is recognised to the extent that there is not considered to be significant doubt over the eventual recovery (see note 2).
- ***Product sales:*** Revenue from sales of products is recognised on delivery to customers.

Adjusted EBITDA
Adjusted EBITDA is utilised as a key performance indicator for the Group and is calculated utilising profit before before tax, adjusted for finance income and costs, amortisation and depreciation on non-current assets, share-based payments and non-recurring items. It allows stakeholders to better evaluate the performance of the business.

National advertising fund and central advertising fund accounting
In addition to franchise fees, franchisees pay contributions which are collected by the Group for specific use within the national and central advertising funds. The Group operates the funds on behalf of the franchisees with the objective of driving revenues for the franchisees. The fund is planned to break even with any short-term surplus or deficit carried in the consolidated statement of financial position within working capital. As all fund contributions are designated for specific purposes and do not result in a profit or loss for the Group, revenue recognition criteria are not met and therefore the income and expense of the fund are not included in the consolidated statement of comprehensive income. During the year the funds spent a total of £640,000, and at the end of the year there was a short-term surplus in the scheme of £20,000, which was recognised as a liability within the accounts. As noted above the Directors believe that the adoption of IFRS15 will change the accounting for the funds.

Inventories
Inventories are valued at the lower of cost and net realisable value, after making due allowances for obsolete and slow moving items. Cost is determined on a first in, first out basis. Net realisable value is based on estimated selling price less any further costs expected to be incurred to disposal.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the term of the borrowings using the effective interest method.

Property, plant and equipment
Property, plant and equipment assets are carried at cost less accumulated depreciation and any recognised impairment in value. Cost comprises the aggregate amount paid and the fair value of any other consideration given to acquire the asset and includes cost directly attributable to making the asset capable of operating as intended.

The Group adds to the carrying amount of an item of fixed assets the cost of replacing part of such item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Group. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the statement of comprehensive income in the period they are incurred.

Depreciation is provided to write-off the cost, less the estimated residual values, of all tangible fixed assets evenly over their expected useful lives.

It is calculated at the following rates:

Leasehold property improvements	–	7% straight line
Short-term leasehold improvements	–	33% straight line
Motor vehicles	–	25% straight line
Long-term fixtures and fittings	–	10% straight line
Short-term fixtures and fittings	–	33% straight line
Computer equipment	–	33% straight line

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate on an annual basis. Any gain or loss arising on recognition of an asset is included in the statement of comprehensive income in the year that the asset is derecognised.

Share-based payment
When share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive income over the vesting period. When the terms and conditions of options are modified before they vest, the increase in fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive income over the remaining vesting period.

Where share options vesting is contingent on a future event a charge is recognised only if the future event is considered probable.

Fair value is measured by the use of an appropriate valuation model, which takes into account conditions attached to the vesting and exercise of the equity instruments. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. The volatility in the model is calculated by reference to an implied volatility of a group of listed entities that have similar characteristics and are in the same industry sector.

Income taxes
Current tax assets and liabilities are measured at the amount expected to be received or paid to the taxation authorities. Income tax is charged or credited to the income statement, except when it relates to items charged directly to other comprehensive income or to equity, in which case the income tax is also dealt with in other comprehensive income or equity respectively.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

1 Accounting policies continued

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit; and
- investments in subsidiaries where the Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

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 substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership (finance leases) the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable over the term of the lease. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the statement of comprehensive income over the shorter of estimated useful economic life and the period of the lease.

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor.

All other leases are treated as operating leases. Their annual rentals are charged to the statement of comprehensive income on a straight-line basis over the term of the lease.

2 Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the period. The nature of estimation means that actual outcomes could differ from those estimates.

The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

Revenue recognition

Deferred payments

The Group offers deferred payment terms in relation to some of the franchisee fees payable. The Group assesses the level of doubt over the ultimate recovery of the deferred fees based on historic experience. If there is significant doubt over the recovery of the franchisee fee the balance is not recognised until the level of risk associated reduces to an acceptable level. As at 31 December 2017 £147,000 (2016: £124,000) had been recognised as a debtor, and £132,000 (2016: £134,000) was not recognised.

Advertising funds

Franchisees within the Group pay a fee into a central fund designed to build sales. The fund is managed for the benefit of franchisees in the system with the objective of driving revenues. The fund is used to pay for national and local marketing strategies and promotional plans. The fund is planned to operate at break even with any short-term surplus or deficit carried in the consolidated statement of financial position. As all fund income is designated for specific purposes and does not result in a profit or loss for the Group, the revenue recognition criteria as outlined in our accounting policy are not met and therefore the income and expenses of the fund are not included in the consolidated statement of comprehensive income as the Directors consider this to be an agency arrangement. The cash flows relating to the fund are included within the cash generated from operations in the consolidated statement of cash flows due to the close interrelationship between the fund and the trading operations of the Group. During the year the funds expended a total of £640,000 (2016: £559,000), which resulted in a surplus of £20,000 (2016: a deficit of £11,000), which has been recognised within Other Creditors (2016: Other Debtors) within the Group balance sheet.

Metro Rod revenue recognition

In line with our other networks Metro Rod charges its franchisees a management service fee at the rate of 22.5% of their underlying system sales. The franchise network has two types of system sales: Key Accounts and Commercial. Key Account sales are derived from Metro Rod and the work is serviced by franchisees. Commercial sales are derived from the franchisees themselves. In both cases the underling service is provided by the franchisee. However, in the case of Key Accounts Metro Rod bears the credit risk in relation to the sale. Therefore, for Key Accounts, the Directors believe that we are acting as a principal and recognise the whole of the system sales as revenue, with a cost of 77.5% to leave a gross margin of 22.5%. In relation to Commercial sales the Directors believe that we are acting as an agent, and we only recognise our 22.5% management fee as revenue.

Business combinations

Determining a value for assets acquired

Determining the fair value of acquired intangible assets and goodwill acquired in business combinations requires the use of estimates regarding the value of intangible assets. The values are determined using discounted cash flows and based upon latest approved budgets which include estimates concerning factors such as new franchise sales and timing of such sales.

Performing impairment tests

Subsequent impairment reviews also require the use of estimates to value the cash generating units to which goodwill and indefinite life intangibles has been allocated. The value in use calculations, which are run on an annual basis for goodwill and indefinite life intangibles, or when there is an indicator of impairment for tangible and finite life intangible fixed assets, determine whether there is any impairment to the carrying value of assets arising from business combinations. More details of these estimated can be found in note 11.

Indefinite life assessment

Management has determined that the brands and trademarks acquired with Barking Mad Limited ("Barking Mad") and Metro Rod are to be treated as an indefinite life asset. Management has determined that there is nothing to suggest the future economic benefits will have a finite life. Management further believes the sectors Barking Mad and Metro Rod operate in are sufficiently large and contain sufficient opportunity to support these assumptions. As with all tangible and intangible assets the brands and trademarks will be reviewed at the end of each reporting period to determine whether there is any indication that they have suffered an impairment loss.

3 Financial instruments – risk management

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to meet their financial obligations as they arise while maximising the return to stakeholders.

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, and long- and medium-term debt facilities. Term Loans are used to finance long-term investment such as acquisitions. Revolving credit facilities are used to manage short-term cash requirements. The Group's financing facilities contain the usual financial covenants including maximum gearing, minimum interest cover and minimum operating cash flow. The Group met these requirements throughout the year.

The Group's dividend policy is to provide sustainable dividends to shareholders, consistent with the Group's earnings growth, to attract long-term investors and to enable shareholders to enjoy returns on their investment in tandem with the Group's growth. The payment and amount of any dividends or distributions to shareholders is at the discretion of the Board.

Categories of financial instruments

Group	2017 £'000	2016 £'000
Financial assets		
Cash and cash equivalents	3,245	2,999
Receivables	9,413	170
Financial liabilities at amortised cost		
Trade and other payables	(6,762)	(918)
Loans and borrowings including finance leases	(9,505)	(519)

Company	2017 £'000	2016 £'000
Financial assets		
Cash and cash equivalents	232	750
Receivables	2,950	2,823
Financial liabilities at amortised cost		
Trade and other payables	(191)	(1)
Loans and borrowings	(9,419)	(417)

Financial instruments not measured at fair value include cash and cash equivalents, trade and other receivables, trade and other payables, and loans and borrowings. Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables, trade and other payables approximates to their fair value.

Financial and market risk management objectives

It is, and has been throughout the year under review, the Group's policy not to use or trade in derivative financial instruments. The Group's financial instruments comprise its cash and cash equivalents and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of the financial assets and liabilities is to provide finance for the Group's operations in the year. The Group is exposed to interest rate risk as the Group borrows funds at variable interest rates

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

3 Financial instruments – risk management continued

Interest rate sensitivity

The effect on both income and equity, based on exposure to non-derivative floating rate instruments at the balance sheet date, is shown in the table below. The Group arranged a £12m term loan during 2017 in order to fund the acquisition of Metro Rod. At 31 December 2017 £6.1m of this term loan was outstanding, offset in the financial statements by £0.1m of loan arrangement fee. The loan carries a variable interest rate of 2.72% and is repayable in instalments until 2022. The Group had also utilised £3.5m of its £5m Revolving Credit Facility, which carries a variable interest rate of 2.72% and is due on the 8 March 2018.

	Sensitivity income 2017 £'000	Sensitivity equity 2017 £'000	Sensitivity income 2016 £'000	Sensitivity equity 2016 £'000
0.25% increase in interest rates	(22)	(22)	–	–
0.25% decrease in interest rates	22	22	–	–

Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities after assessing credit quality using independent rating agencies and if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. The Group's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits.

Ongoing credit evaluation is performed on the financial condition of accounts receivable. The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating assigned by international credit-rating agencies. The carrying amount of financial assets recorded in the financial statements, which is net impairment losses, represents the Group's maximum exposure to credit risk.

Liquidity risk management

The Group's policy throughout the year has been to ensure continuity of funds. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Group	Trade and other payables 2017 £'000	Loans and borrowings 2017 £'000	Total 2017 £'000	Trade and other payables 2016 £'000	Loans and borrowings 2016 £'000	Total 2016 £'000
On demand	–	–	–	–	–	–
Within one year	6,762	4,353	11,115	918	221	1,139
More than one year and less than two years	–	1,155	1,155	–	279	279
More than two years and less than five years	–	4,586	4,586	–	19	19
In more than five years	–	–	–	–	–	–
Total	6,762	10,094	16,856	918	519	1,437

Company	Trade and other payables 2017 £'000	Loans and borrowings 2017 £'000	Total 2017 £'000	Trade and other payables 2016 £'000	Loans and borrowings 2016 £'000	Total 2016 £'000
On demand	–	–	–	–	–	–
Within one year	191	4,318	4,509	1	167	168
More than one year and less than two years	–	1,131	1,131	–	250	250
More than two year and less than five years	–	4,559	4,559	–	–	–
In more than five years	–	–	–	–	–	–
Total	191	10,008	10,199	1	417	418

Fair value of financial instruments

The fair value of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

4 Revenue

	2017 £'000	2016 £'000
Sale of services	23,346	3,861
Sale of goods	946	1,009
	24,292	4,870

5 Operating profit

	2017 £'000	2016 £'000
Operating profit is stated after charging:		
Depreciation	96	66
Amortisation	156	10
Share-based payment expense	58	30
Operating lease rentals	236	124
Auditors' remuneration:		
Fees for audit of the Company	15	15
Fees for the audit of the Company's subsidiaries	37	33
Fees for non-audit services:		
Taxation services	15	15
Corporate finance services	155	75
Other assurance services	17	22

No non-audit services were provided on a contingent fee basis.

In 2016, fees payable to the Auditor for corporate finance services were in respect of work required for the Group to complete its IPO. As a result of the readmission to AIM in 2017 further corporate finance fees were incurred. BDO were selected to undertake this work after consideration of the impact this may have on their independence, which it was concluded would not be impinged by undertaking the work. Fees of this type are ad hoc in nature and occur in respect of major events. Any such further occurrence will require Audit Committee approval.

During the year, the Company incurred significant costs which management believe due to both their one-off nature and magnitude should be brought to the attention of users of the accounts as non-recurring items. In the current year these costs included the costs of acquiring Metro Rod, the transitional costs related to the set-up of a standalone IT environment for Metro Rod and the post-acquisition restructuring of the business, and a provision which was established following the liquidation of Carillion plc in January 2018 to provide for the monies which were owed to Metro Rod at 31 December 2017. In the prior year the Company incurred significant costs associated with both its admission to AIM and its acquisition of Barking Mad.

	2017 £'000	2016 £'000
Cost of acquisition of subsidiaries	1,144	58
Cost of transitioning acquisitions	734	–
Provision for bad debt of Carillion plc	316	–
IPO expenses	–	397
	2,194	455

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

6 Staff costs

	2017 £'000	2016 £'000
Wages and salaries	3,628	731
Social security costs	343	76
Pension costs	47	8
Share-based payment expense	58	30
	4,076	845
The average monthly number of persons (including Directors) employed by the Group was:		
Administration	139	11
Sales	13	2
Training	3	2
Warehouse	2	2
Operations	18	1
Directors	12	7
	187	25

Directors' remuneration

	2017 £'000	2016 £'000
Directors' emoluments	484	321
Share-based payment expense	31	16
Company contributions to money purchase pension schemes	–	7
	515	344

Information regarding the highest paid Director is as follows

	2017 £'000	2016 £'000
Highest paid Director	125	125

The Board of Directors are considered to be the key management personnel. Their cost to the Group is £565,000 (2016: £372,000), after including employer's National Insurance. The Company had no employees (other than the Directors) or staff costs. Directors' emoluments include £77,000 (2016: £90,000) paid to companies controlled by Directors (see note 26).

7 Share-based payments

The Company has established a LTIP in the form of a share option scheme. Awards are granted and approved at the discretion of the Remuneration Committee. Awards vest on or after the third anniversary of their issue, based on compound growth in the underlying earnings per share of the Group for the three-year period. If the compound annual growth rate is below 8%, then none of these options will vest. Between 8% and 15% growth then a proportion of these options will vest on a straight-line basis. Currently, 47 members of staff hold options for shares in the Company under the scheme. The share-based payments expense recognised in respect of employee services received during the year ended 31 December 2017 was £58,000 (2016: £30,000). This all arises on equity-settled share-based payment transactions.

	2017 Options	Weighted average exercise price	2016 Options	Weighted average exercise price
Outstanding at the beginning of the period	–	–	1,628,788	33p
Granted during the period	2,545,172	57p	–	–
Forfeited during the period	(585,000)	77p	(121,213)	33p
Exercised during the period	–	–	–	–
Outstanding at the end of the period	1,960,172	51p	1,507,575	33p
Exercisable at the end of the period	–	–	–	–

The fair value of the options granted is estimated at the date of grant using a Black-Scholes model, after taking into account the terms and conditions upon which they were granted.

The following table lists the inputs to the model used for the options granted in 2017 and 2016.

Black-Scholes option pricing model

	5 August 2016	31 March 2017	11 April 2017	12 December 2017
Closing stock price, £	0.35	0.88	0.94	0.50
Exercise price, £	0.33	0.88	0.67	0.50
Risk-free interest rate	0.46%	0.46%	0.46%	0.46%
Expected life of option (years)	6.5	6.5	6.5	6.5
Volatility	37.8%	37.8%	37.8%	37.8%
Dividend yield	0%	1%	1%	1%

8 Finance income

	2017 £'000	2016 £'000
Bank interest	–	2

Finance expense

	2017 £'000	2016 £'000
Interest element of hire purchase agreements	4	3
Loan interest	273	6
	277	9

9 Income tax

	2017 £'000	2016 £'000
Current tax expense		
Current tax on profits for the period	(10)	251
Adjustment for prior period	(34)	9
Deferred tax expense		
Origination and reversal	91	–
Total tax expense	47	260
Accounting profit multiplied by the UK statutory rate of corporation tax	(13)	157
Expense not deductible for tax purposes	94	94
Adjustment for prior period	(34)	9
Total tax expense	47	260
Effective tax rate	(70.7%)	33.2%

The current rate of UK corporation tax is 19%. A reduction in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 17% (effective from 1 April 2020) was substantively enacted in October 2015 and has therefore been considered when calculating deferred tax at the reporting date.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

10 Earnings per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to Ordinary equity holders of the Parent by the weighted average number of Ordinary shares outstanding during the year.

Diluted earnings per share are calculated by dividing the profit attributable to Ordinary equity holders of the Parent by the weighted average number of Ordinary shares outstanding during the year plus the weighted average number of Ordinary shares that would have been issued on the conversion of all dilutive potential Ordinary shares into Ordinary shares at the start of the period or, if later, the date of issue.

Earnings per share

	2017 £'000	2016 £'000
(Loss)/Profit attributable to owners of the Parent	(112)	524
Non-recurring items gross (note 5)	2,194	455
Tax on non-recurring	(345)	–
Adjusted profit attributable to owners of the Parent	1,737	979

	Number	Number
Basic weighted average number of shares	69,553,746	40,837,885
Dilutive effective of share options	741,726	147,654
Diluted weighted average number of shares	70,295,472	40,985,539

	Pence	Pence
Basic earnings per share	(0.16)	1.28
Diluted earnings per share	(0.16)	1.28
Adjusted earnings per share	2.50	2.40
Adjusted diluted earnings per share	2.47	2.38

11 Intangible assets

	Goodwill £'000	Brands, trade marks & other intangibles £'000	Customer relations £'000	Software £'000	Total £'000
Cost					
At 1 January 2016	1,185	1,856	–	–	3,041
Additions	129	763	–	–	892
At 31 December 2016	1,314	2,619	–	–	3,933
Additions	18,174	4,685	2,159	21	25,039
At 31 December 2017	**19,488**	**7,304**	**2,159**	**21**	**28,972**
Amortisation					
At 1 January 2016	–	(1,781)	–	–	(1,781)
Charge for year	–	(10)	–	–	(10)
At 31 December 2016	–	(1,791)	–	–	(1,791)
Charge for year	–	–	(156)	–	(156)
At 31 December 2017	**–**	**(1,791)**	**(156)**	**–**	**(1,947)**
Net book value					
At 31 December 2017	19,488	5,513	2,003	21	27,025
At 31 December 2016	1,314	828	–	–	2,142
At 1 January 2016	1,185	75	–	–	1,260

On 11 April the Group acquired 100% of the share capital of Metro Rod. Full details of this transaction are contained within note 22. This transaction resulted in the creation of £25.0m of new intangible assets.

	Goodwill £'000	Indefinite life intangibles £'000	2017 £'000	Goodwill £'000	Indefinite life intangibles £'000	2016 £'000
Metro Rod	18,174	4,685	22,859	–	–	–
ChipsAway	1,171	–	1,171	1,171	–	1,171
MyHome	14	–	14	14	–	14
Barking Mad	129	763	892	129	763	892
	19,488	5,448	24,936	1,314	763	2,077

The key assumptions for the value in use calculations are those regarding the discount rates and expected changes to operating results and cash flows during the period of five years from the statement of position dates. Management estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks in relation to the Cash Generating Unit ("CGU"). In the current year a rate of 9.3% was used. The Directors believe that the risk profiles of the divisions are broadly similar given their similar operational and geographic natures. Changes in operating results and cash flows including the sales of franchises and the level of sales of the franchisees, are based on past results and expectations of future performance. The Group prepares cash flow forecasts for the next two to five years derived from the most recent budgets and long-term business plans which have been approved by the Board of Directors. The key assumptions used for estimating cash flow projections are those relating to revenue growth and operating margin. No increase in growth has been assumed when extrapolating cash flow projections beyond the five-year period used in the long-term business plans. Based on the calculations prepared the recoverable amount for all CGUs exceed their carrying amount.

The recoverable amounts are not considered to be sensitive to reasonably possible changes in the discount rate. The recoverable amounts for ChipsAway and Barking Mad are not considered to be sensitive to reasonably possible changes in the growth rates. The recoverable amount for Metro Rod is more sensitive to movements in the growth assumptions within the forecasts, but the Directors do not believe that there is currently a reasonably possible change of key assumptions that would cause the units carrying amount to exceed its recoverable amount.

In the previous year the Group used different categorisation for the intangibles. The Franchise Network Asset identified in the previous year is now seen as being akin to the Brands due to similar economic characteristics. Following the acquisition of Metro Rod the Directors have realigned the categorisations of the balances to better reflect the ongoing nature of the balances.

12 Property, plant and equipment

	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Plant and equipment £'000	Total £'000
Cost						
At 1 January 2016	111	75	85	238	20	529
Additions on acquisition	–	35	57	–	4	96
Additions	–	–	6	4	–	10
At 31 December 2016	111	110	148	242	24	635
Additions on acquisition	–	15	33	–	5	53
Additions	11	4	31	40	12	98
Disposals	–	–	(2)	(130)	(9)	(141)
At 31 December 2017	**122**	**129**	**210**	**152**	**32**	**645**
Amortisation						
At 1 January 2016	(86)	(68)	(80)	(122)	(10)	(366)
Additions on acquisition	–	(21)	(55)	–	(3)	(79)
Charge for year	(7)	(7)	(6)	(45)	(4)	(69)
At 31 December 2016	(93)	(96)	(141)	(167)	(17)	(514)
Additions on acquisition	–	–	–	–	–	–
Charge for year	(7)	(13)	(20)	(46)	(10)	(96)
Disposals	–	–	3	115	9	127
At 31 December 2017	**(100)**	**(109)**	**(158)**	**(98)**	**(18)**	**(483)**
Net book value						
At 31 December 2017	**22**	**20**	**52**	**54**	**14**	**162**
At 31 December 2016	18	14	7	75	7	121
At 1 January 2016	25	7	5	116	10	163

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

12 Property, plant and equipment continued

The Group acquired two vans under hire purchase agreements in the year at a cost of £38,794. The net book value of assets held under hire purchase agreements under Group property, plant and equipment include an amount of £51,941 (2016: £35,821). The related depreciation charge on these assets for the year was £38,595 (2016: £27,410).

The Company has no fixed assets at 31 December 2017 or 31 December 2016.

13 Inventories

Group	2017 £'000	2016 £'000
Finished goods and goods for resale	252	193

All amounts are carried at cost and therefore no amounts are carried at fair value less cost to sell.

There are no material stock provisions at either period end. No material amounts have been written-off in either year ended 31 December 2017 or 31 December 2016 within the income statement of the Company. A fair value adjustment of £104,000 was made to the acquisition balance sheet of Metro Rod upon acquisition, as disclosed in note 22.

14 Trade and other receivables, due in more than one year

Group	2017 £'000	2016 £'000
Total trade and other receivables, due in more than one year	–	112

15 Trade and other receivables

Group	2017 £'000	2016 £'000
Trade receivables	7,693	358
Provision in the year	(646)	(204)
Other receivables	2,366	16
Total financial assets other than cash and cash equivalents	9,413	170
Prepayments	257	137
Total current trade and other receivables	9,670	307

	2017 £'000	2016 £'000
Bad debt provision:		
Brought forward	(204)	(177)
Additions on acquisition	(231)	–
Provision for the year (£316,000 relates to Carillion)	(415)	(57)
Utilised	204	30
Carried forward	(646)	(204)

	2017 £'000	2016 £'000
The ageing of the trade receivables is as follows:		
Due	5,494	138
Past due		
0-30 days	760	16
31-60 days	449	–
61-90 days	317	–
91-120 days	27	–
Past due and impaired		
Due	189	204
0-30 days	3	–
31-60 days	75	–
61-90 days	50	–
91-120 days	93	–
121+ days	236	–
Total	7,693	358

Company	2017 £'000	2016 £'000
Amounts owed by Group undertakings	2,940	2,803
Other debtors	10	20
Prepayments	67	–
Social security and other taxes	195	–
Total current trade and other receivables	3,212	2,823

16 Cash and cash equivalents

Group	2017 £'000	2016 £'000
Cash at bank and in hand	3,245	2,999

Company	2017 £'000	2016 £'000
Cash at bank and in hand	232	750

17 Trade and other payables

Group	2017 £'000	2016 £'000
Current		
Trade payables	3,485	296
Accruals	3,006	268
Other creditors	271	354
Social security and other taxes	370	160
Total trade and other payables	7,132	1,078
Company		
Trade payables	21	1
Accruals	170	–
Total trade and other payables	191	1

Carrying values approximate to fair value. Included within other creditors is an amount of £20,000 (2016 : £11,000 deficit included in debtors) which represents the net payable in relation to the National advertising funds.

18 Loans and borrowings

Group and Company	2017 £'000	2016 £'000
Current		
Other loans	4,164	167
Non-current		
Other loans	5,255	250

The loans are comprised of a £5,919,084 term loan, which carries a 2.72% interest rate and is repayable in instalments until 2022; and £3,500,000 revolving credit facility, due on the 8 March 2018, and carries a 2.72% interest rate.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

19 Obligations for finance leases ageing

Group	2017 £'000	2016 £'000
Current	21	29
Non-current (between 1 and 5 years)	65	73
Total obligation for finance lease	86	102

Finance leases are secured on the assets to which they relate.

20 Deferred tax liability

Group

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 17% (2017: 17%).

	Tax losses and credits £'000	Intangibles £'000	Accelerated capital allowances £'000	Other £'000	Total £'000
Cost					
At 1 January 2016	–	(14)	(17)	–	(31)
Charge in the year	–	–	(14)	–	(14)
Acquisition of subsidiaries	–	(118)	–	–	(118)
At 31 December 2016	–	(132)	(31)	–	(163)
Credit in the year	–	27	–	–	27
Acquisition of subsidiaries	–	(1,164)	774	–	(390)
At 31 December 2017	**–**	**(1,269)**	**743**	**–**	**(526)**

The deferred tax asset acquired relates to the capital allowances pool within Metro Rod, against which a deferred tax liability is netted against, recognised in relation to intangible assets recognised on the acquisition (see note 22).

21 Subsidiaries

The fixed asset investments held by the Company are as follows:

	£'000
Cost	
At 1 January 2016	–
Additions in year	958
Share based payment	14
At 31 December 2016	972
Additions in year	29,125
At 31 December 2017	**30,097**

The subsidiaries of the Company, all of which are 100% owned, which have been included in the consolidated financial statements, are as follows:

Name	Principal activity	2017 %	2016 %
FB Holdings Limited	Intermediate Holding Company	100	100
Metro Rod Limited	Operation and Management of a Franchise Business	100	–
ChipsAway International Limited	Operation and Management of a Franchise Business	100	100
Edwin Investments Limited	Intermediate Holding Company	100	100
Oven Clean Domestic Limited	Operation and Management of a Franchise Business	100	100
MyHome Marketing Limited	Operation and Management of a Franchise Business	100	100
Oven Clean (Ontario) Limited	Operation and Management of a Franchise Business	100	100
Barking Mad Limited	Operation and Management of a Franchise Business	100	100
Alloy Rescue Limited	Operation and Management of a Franchise Business	100	100
DentsAway Limited	Dormant	100	100
Oven Clean Limited	Dormant	100	100

The Company acquired Metro Rod on 11 April 2017 (note 22). Metro Rod previously had a financial year end of 30 April. This has been changed to 31 December to fall in line with the Group. The principal country and place of business of all the above companies is England and Wales. The registered office and principal place of business is 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire, DY11 7RA.

22 Business combinations

Acquisition of Metro Rod Limited

On 11 April 2017, the Group acquired 100% of the voting equity interests of Metro Rod, a company whose principal activity is that of a franchisor of drain care and environmental services. The acquisition was made as part of Group's stated strategy to expand its group of franchise businesses.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Intangible assets	429	6,415	6,844
Property, plant and equipment	53	–	53
Deferred tax asset	774	–	774
Current tax asset	4	(4)	–
Inventories	145	(104)	41
Trade and other receivables	9,009	(805)	8,204
Cash	469	–	469
Trade and other payables	(4,523)	–	(4,523)
Deferred tax liability	–	(1,164)	(1,164)
Total	6,360	4,338	10,698
Consideration paid in cash			28,872
Goodwill			18,174

Intangible asset adjustments comprise:

	£'000
Write off goodwill from previous acquisition (subsumed in Group goodwill)	(121)
Write off software costs	(308)
Recognise brand	4,685
Recognise customer relationships	2,159
	6,415

An adjustment has been made to write off £805,000 of trade and other receivables which management did not believe to be supported at the acquisition date. £494,000 related to support payments to franchisees for capital expenditure, which were previously recognised as receivables and written off as a deduction from revenue over seven years. The remaining amount related to trade debtors which management believed should have been provided for. A further adjustment of £104,000 was made to inventories to provide for obsolete stock.

The deferred tax liability has been calculated on the value of the intangible assets acquired at a corporation tax rate of 17% and a corresponding amount has been recognised as goodwill. The amount recognised as goodwill will not be deductible for tax purposes.

Customer relationships have a useful economic life of ten years, whereas the brand and goodwill both have indefinite lives. Goodwill represents the value of the business that does not qualify for separate recognition. The goodwill recognised includes certain intangible assets that cannot be separately identified and measured due to their nature. This includes control over the acquired business, and the scale and the future growth opportunities that it provides to the Group's operations.

The fair value of consideration paid and net cash paid comprised:

	£'000
Cash	28,701
Payment of vendor liabilities (warranty insurance, accounting)	171
Fair value of consideration paid	28,872
Less: cash acquired on acquisition	(469)
Net cash paid	28,403

Acquisition costs relating to this transaction amounted to £1,140,000 and have been disclosed within the statement of comprehensive income in the Group, of which £253,000 have been included within investments in the Company.

Since the acquisition date, Metro Rod has contributed £18.5m to Group revenue and £855,000 to adjusted Group profit before tax. If the acquisition had occurred on 1 January 2017, Group revenue would have been £30.3m, Group profit before tax would have been £0.7m and adjusted Group profit before tax would have been £2.4m.

NOTES FORMING PART OF THE FINANCIAL STATEMENTS continued

For year ended 31 December 2017

22 Business combinations continued

Acquisition of Barking Mad Limited.

On 31 October 2016, the Group acquired 100% of the voting equity instruments of Barking Mad, a Company whose principal activity is that of a management and operation of a franchise business. This acquisition was made as part of Franchise Brands' stated acquisition plan to expand its group of franchise businesses. The Group anticipated the close relationship between the franchised businesses will be mutually beneficial including shared resources in franchise sales, marketing and accounting.

Details of the fair value of the identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book value £'000	Adjustments £'000	Fair value £'000
Intangible assets	–	763	763
Property, plant and equipment	14	–	14
Inventories	8	–	8
Trade and other receivables	27	–	27
Cash	167	–	167
Trade and other payables	(34)	–	(34)
Current tax liability	(42)	–	(42)
Deferred tax liability	(3)	(129)	(132)
Total	137	634	771
Consideration			900
Goodwill			129

The fair values reflect the recognition of the intangibles being acquired. Based upon analysis of all of the relevant factors, the Board have concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash flows for the entity and accordingly the brand was determined to have an indefinite life.

Deferred tax has been calculated on the value of the intangibles acquired at a corporation tax rate of 17% and a corresponding amount recognised as goodwill. The amount recognised as goodwill will not be deductible for tax purposes.

The fair value of consideration paid and net cash paid comprised:

	£'000
Cash	500
Shares 761,193 at 52.55 pence per share	400
Fair value of consideration paid	900
Less: cash acquired on acquisition	(167)
Net cash paid	733

Acquisition costs relating to this transaction amounted to £58,000 and have been disclosed within the statement of comprehensive income.

On acquisition shares to the value of £400,000 were issued as part of the consideration. The number of shares issued was based on the volume weighted average price for a share in Franchise Brands plc for the period of five days preceding completion of this transaction and resulted in a total of 761,193 new shares being issued by the Company.

During the course of 2016, Barking Mad contributed £74,000 to Group revenues and a loss of £12,000 to Group profit before tax. If the acquisition had occurred on 1 January 2016, Group revenue would have increased by £568,000 and Group profit before tax for the period would have increased by £151,000.

23 Share capital

Allotted, called up and fully paid	2017 No. of shares	2016 No. of shares
At 1 January	**47,881,286**	–
On incorporation	–	12,171,344
On admission to AIM	–	10,606,061
Acquisition consideration shares for Barking Mad	–	761,193
Shares issued in exchange for entire issued share capital of FB Holdings Limited	–	24,342,688
Placing in relation to acquisition of Metro Rod	**29,850,746**	–
At 31 December	**77,732,032**	47,881,286

Share capital comprises the nominal value of the Company's Ordinary shares of 0.5 pence each.

24 Other Reserves

Share premium

The share premium reserve is the premium paid on the Company's 0.5 pence Ordinary shares.

Share-based payment reserve

The share-based payment reserve represents the movement in cost of equity-settled transactions in relation to the long-term incentive plan.

Merger reserve

The merger reserve represents the premium above the nominal value of the equity issued to the owners of Barking Mad in relation to its acquisition by the Company on 31 October 2017.

Movements on these reserves are set out in the consolidated statement of changes in equity.

25 Operating leases

The Group leases its office premises and holds contract hire agreements on vehicles. The total value of minimum lease payments due until the end of the lease is payable as follows:

	2017 £'000	2016 £'000
Less than one year	302	74
More than one year but not less than five years	871	240
More than five years	56	173
	1,229	487

The Group maintains a number of leased properties over varying terms. The Company has no operating leases.

26 Related party transactions

The following are payments to entities controlled by Directors of the Company.

		2017 £'000	2016 £'000
Mark Peters (Miserden Ltd)	Company Secretary Fee	10	10
Julia Choudhury (Winsham Capital Partners Limited)	Director's Fee	–	5
Julia Choudhury (Winsham Capital Partners Limited)	Consultancy Service	50	35
Robin Auld (Auld Associates Limited)	Director's Fee	–	5
Robin Auld (Auld Associates Limited)	Consultancy Service	–	25
Nigel Wray (Brendon Street Investments Limited)	Director's Fee	17	10
Related party transactions		77	90

From 5 August 2016 Julia Choudhury and Robin Auld were remunerated directly through the payroll and their remuneration is contained within the figures in note 6.

During the previous year, the Group had the following transactions and balances relating to shareholder loans with Solent Capital Partners Limited (a Company controlled by Stephen Hemsley) and Glengrace Limited (a Company controlled by Nigel Wray). Loans of £250,000 were granted by both Solent Capital Partners Limited and Glengrace Limited on 1 August 2016. Loan repayments £42,000 were made to each company and interest paid on shareholder's loans amounted to £6,000 in total. These loans were repaid in full following the entry of the Company into the facilities agreement with HSBC in the year.

27 Dividends

	2017 £'000	2016 £'000
Final 2016 dividend of 0.17p per Ordinary share paid and declared (2015: nil)	81	–
Interim dividend of 0.17p per Ordinary share paid and declared (2016: nil)	132	–
	213	–

A final dividend of 0.33p per share is proposed.

28 Post balance sheet event

On 15 January 2018 a customer of Metro Rod, Carillion plc, went into liquidation. The Directors determined that this was an adjustable post-balance sheet event and accordingly made a bad-debt provision for the amounts owing at the balance sheet date of £316,000 (please see note 5).

COMPANY INFORMATION

Country of incorporation of parent company
United Kingdom

Legal form
Public limited company

Directors

Stephen Glen Hemsley	Executive Chairman
John Christopher ("Chris") Stewart Dent	Chief Financial Officer
Timothy ("Tim") John Harris	Managing Director, ChipsAway and Ovenclean
Peter John Molloy	Managing Director, Metro Rod
Julia Rosalind Choudhury	Corporate Development Director
Colin David Rees	Chief Information Officer
Nigel William Wray	Non-executive Director
David John Poutney	Non-executive Director
Robin ("Rob") Christian Bellhouse	Non-executive Director

all of:

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DY11 7RA

Company Secretary
Mark Andrew Peters

Registered Office and Principal Place of Business
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