

“Building on strong foundations”



Company number 10281033

Franchise Brands plc
Annual Report and Accounts 2016



Franchise Brands plc is a group of multi-brand franchisors with a combined network of over 400 franchisees in 12 countries across 3 brands.

Our current principal brands are:

➔ For more on our current brands see page 14

➔ Visit www.franchisebrands.co.uk for more information

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2016

Highlights

Financial

£4.9m (2015: £4.4m) Revenue	1.28p (2015: 2.44p) Earnings per share
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£784k (2015: £1,115k) Profit before tax	0.17p (2015: nil) Dividend per share
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£1,112k (2015: £1,246k) Cash generated	£3.0m (2015: £0.5m) Cash balance
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“Our strategy is to develop franchised businesses that build on our core skills of marketing, franchisee recruitment and support.”

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Operational

- Admission of Franchise Brands to AIM on 5 August 2016 at 33p per share, raising a net £2.9m.
- Acquisition of Barking Mad on 31 October 2016
- Strengthening of the Board
- Terms agreed, subject to shareholder approval, for the proposed acquisition of Metro Rod Limited



Stephen Hemsley /
Executive Chairman

Q&A

Meet the founders

After the Franchise Brands IPO, we asked the founders to comment on the reasons for the floatation, the success so far, and their future plans.

Who are the initial founders of Franchise Brands plc?**Stephen Hemsley - Executive Chairman**

In addition to being Executive Chairman of Franchise Brands, I am also Non-Executive Chairman of Domino's Pizza. Having originally joined Domino's as Finance Director in 1998 when it was still a private company, I led Domino's to an IPO on AIM in 1999 before being appointed CEO. During my nearly 20-year association with Domino's, the Company has grown from a market capitalisation of £25 million to around £1.7 billion and from around 100 to over 1,000 stores across the UK, Ireland and Europe. I originally qualified as a Chartered Accountant and spent 10 years in the venture capital industry before joining Domino's.

Nigel Wray - Non-Executive Director

I am an entrepreneurial investor in a wide range of both public and private companies. Currently I am a shareholder and/or director in a wide range of companies in sectors as diverse as property, leisure, technology, pharmaceuticals, IT, stockbroking, engineering, e-learning, hotels and restaurants, to name a few. I was one of the early investors in Domino's Pizza, which is how I first met Stephen, and I worked with him at Domino's between 1999 and 2014 when I was also a director. Outside of investing, I have a passion for sports, and I am the Chairman and co-owner of Saracens Rugby Club.

Why did you decide to IPO last year?

SH: From the very early days of Franchise Brands we felt that in addition to growing the existing businesses organically, there was a great opportunity to acquire new franchise businesses to benefit from the strong base of expertise and support services that Franchise Brands has to offer. It soon became clear that an IPO would not only provide the means to facilitate that expansion, but, importantly, it would allow all team members to participate in the success and growth of the business as shareholders. Finally an IPO helps to raise the profile of the organisation, it gives new opportunities to our team and allows us to both attract and retain great people.

Did you sell down any of your stakes at the time of the IPO?

NW: None of the existing shareholders sold any shares at all, which, given the strength of the opportunity and future plans, is perhaps unsurprising. In fact, the Directors, employees and franchisees subscribed for over 20 per cent of the offering.

What was your original vision for the Company?

SH: Our vision was to create a group of franchise businesses that could benefit from sharing the same central support services, therefore allowing the management of these businesses to focus on expanding their networks, and supporting their franchisees to grow their businesses.

What sort of acquisitions do you expect to be looking at?

SH: The Group's strategy is to pursue the selective acquisition of franchise businesses that could benefit from the Company's central support services, such as marketing, and also the experience of the Board and management team in developing franchise businesses. However, we have received many approaches from a wide variety of franchise businesses and are open to exploring a number of opportunities.

What attracted you to Barking Mad as your first acquisition following the IPO?

SH: This is a market leading B2C business which is attractive because it's an established brand and proven concept that serviced a similar customer base to the Group's existing brands. It has performed well previously and we now have the ability to leverage its brand recognition by raising its profile and use Franchise Brands' expertise to further grow its appeal and recognition with both existing and new customers.

“franchisee unit level economics are critical to system success.”

How do you hope to grow your existing franchise businesses?

SH: There are two main approaches. The first is to work with our franchisees to grow their turnover and profitability. With ChipsAway, Ovenclean and Barking Mad we use both national and local marketing to help grow the awareness of the brands and consumer enquiries. For example, we generated over 248,000 consumer enquiries for ChipsAway in 2016, which was our best year ever. The second approach is to focus on attracting new franchisees to the networks; our ability to attract and retain franchisees is a vital component in ensuring a robust healthy network.

Will you have to invest heavily in your central support services to support a larger group as you acquire?

SH: One of the key benefits of the Franchise Brands model is that the scalability means that in the majority of departments there will be no need for additional investment. It's likely that there will be modest, incremental increases in areas such as Finance and IT.

How would you compare the opportunity for Franchise Brands with that of Domino's Pizza in its early days?

SH: In the early days the store level economics of Domino's were challenging and needed to be established at a level that was viable for the franchisees to invest £250,000 in each store. Once this was achieved the scope for growth in profitability and a roll-out across the whole of the UK was and remains huge. The brands that go to make up Franchise Brands are, by contrast, all well established with proven viability for the franchisee. They are however smaller both in terms of the capital needed to start-up and the returns that are likely to be generated for both the franchisee and franchisor. This is why multiple brands sharing the relatively fixed cost of central support services is the model we have adopted at Franchise Brands.

Executive

Chairman's statement

In my first Chairman's Statement since our IPO in August 2016 I would like to welcome our new shareholders. I would also like to recognise our original shareholders from the formation of the Company in 2008, who have not only all stayed with us, but in many cases added to their investment in the Company at the IPO. Thank you all for your support.

The main purpose of the IPO was to put the Company in a position to make complementary acquisitions of other franchise businesses using a combination of cash and, most importantly, quoted paper. The management team at Franchise Brands, whilst very experienced, is small and it was therefore vital that any acquisition brought with it talented and committed management. I believe that such management would only be attracted to the opportunity offered by joining Franchise Brands if part of the consideration was paid in marketable equity that allowed them to share in the rewards of further growing their businesses.

Another key-objective of the IPO was to allow our long-serving team members and franchisees, who are vital to our future growth, the opportunity to participate in the ownership of the Company. As a result all Franchise Brands team members employed at the time of the IPO are now shareholders or option holders. This is an opportunity we will be offering to team members of the businesses we acquire in the future. I am also pleased to report that a number of franchisees subscribed for shares in the offer made to them.

Overall, the IPO raised £2.87 million (net of expenses) which, combined with the highly cash generative nature of our business, gave us the capability to pursue a number of acquisition opportunities we had been considering. The first was completed in October 2016, with the acquisition of Barking Mad, the leading franchise provider of professionally-organised dog sitting services in the UK.

Stephen Hemsley / Executive Chairman

“The main purpose of the IPO was to put the Company in a position to make complementary acquisitions.”

As part of this acquisition, we are delighted to welcome Lee Dancy, Barking Mad's founder and Managing Director, to our senior management team. Lee and her husband received a consideration of £900,000 for their business, of which £400,000 was paid in Franchise Brands shares at the price prevailing at completion.

Our second proposed acquisition has just been announced. We have agreed, subject to shareholder approval, to acquire Metro Rod Limited, a leading provider of drain clearance and maintenance services, which are delivered on a predominately reactive basis by 40 regional franchisees. The total consideration for this acquisition will be £28 million (subject to adjustment based on the financial position of Metro Rod Limited at completion), which together with estimated costs of £1.8 million, will be satisfied in cash at completion.

It is proposed that the consideration, associated costs and additional working capital will be funded by the issue of new Ordinary Shares to raise £20 million and bank facilities of up to £17 million. Given the scale of the proposed acquisition when compared to the existing Group, the transaction is considered under the AIM Rules to be a Reverse Takeover and therefore requires us to issue a new Admission Document and seek Shareholders approval at a General Meeting scheduled for 10 April 2017.

I am pleased to confirm that the new equity fund raising will once again be well supported by your Board, with approximately £12 million of the £20 million required being committed by Board members and their associates. As part of the fund raising, Nigel Wray, my founding partner, and I will each be subscribing £5 million. I am also pleased to confirm that the existing senior management of Metro Rod Limited will be staying with the business, joining the Franchise Brands leadership team and will be investing in the fund raising. Full details are presented in the new AIM Admission Document which was published on 23 March 2017.

The Directors believe the acquisition represents a transformational step in respect of implementing the Group's stated buy and build strategy. In particular, the Directors believe the Acquisition represents an opportunity to enter the B2B franchising market at a size and scale that is attractive strategically and at an acquisition price that the Directors consider is significantly accretive to Shareholders. Furthermore, the Directors believe the range of potential future acquisition opportunities for the Group is likely to be increased as a result of the Acquisition, as both the B2B and B2C franchise sectors would be within its scope. The Directors also believe the Acquisition is likely to lead to an enhanced range of shared services within the Group which have the capability to be leveraged across its range of brands and furthermore, will potentially allow the Group to optimise some activities that were previously sub-scale.

The Directors propose a dividend of 0.17 pence in respect of the year ended 31 December 2016. We recognise the importance of dividend income to Shareholders and, subject to the availability of distributable reserves, the retention of funds required to finance future growth of the Enlarged Group, both organically and by acquisition, and such other factors which the Directors may from time-to-time deem relevant, anticipate paying a regular dividend.

Our results and current trading and prospects are detailed on pages 12 and 13, with a market overview on page 6. At the same time, the Directors consider the social, ethical and environmental impact of Group activities in line with its Corporate Social Responsibilities.

2016 has seen a strengthening of the Group's Board. I would like to welcome David Poutney and Rob Bellhouse as independent Non-Executive Directors. David brings with him a wealth of experience in capital markets, having until recently been Head of Corporate Broking at Numis Securities.

Rob is a very experienced corporate governance professional, having been Company Secretary at several FTSE 100 and 250 companies.

The wisdom and experience they bring to our Board will be of tremendous value as we grow the Group. We value diversity within our Group, as outlined in our Director's report on page 30.

Andrew Mallows joined the Board prior to the IPO as Finance Director of the Group. Following a short break, he has now returned as part-time Finance Director of the ChipsAway, Ovenclean and Barking Mad brands. I would also like to welcome Paul Below, an experienced interim CFO, who has recently joined us in the Group role to assist with the current acquisition and reverse takeover. We will be recruiting his permanent replacement in due course.

Finally, I would like to thank and pay tribute to our franchisees who are the backbone of our business.

Their entrepreneurial skill and application in delivering the Group's brands to our customers each and every day is what sets us apart from our competition. I would also like to recognise and thank our team members for the great job they do in supporting our franchisees. It is this teamwork and mutual support that is allowing us to further develop this great business.



Stephen Hemsley / Executive Chairman

1.28p
Earnings per share

0.17p
Dividend per share

Market overview

According to the British franchise association (bfa), most people use the services of a franchise business each week either personally or professionally, even if they don't realise it at the time.

Number of UK franchise systems

UK franchising market

The size and reach of franchising in the UK has grown considerably over the past 20 years. According to the bfa / NatWest Franchise Survey 2015, the contribution of franchising to the UK economy is now over £15 billion, an increase of 46 per cent over the past 10 years and an increase of 10 per cent since 2013, leading to franchising setting a number of new records in 2015.

- The number of franchisee-owned businesses has grown by 14 per cent to 44,200 in the last two years.
- 29 per cent of franchisees run multiple units.
- 80 per cent of the franchise systems are UK owned and run. This is a complete turnaround from the early days of the industry when the majority were imported from the US via master franchise arrangements.
- 38 per cent of franchisors operate outside of the UK.
- 49 per cent of franchisees who launched their business in the last 2 years or less were between the ages of 41-50 when they did so.
- There are 901 franchise systems in operation in the UK.
- The total number of people employed in franchising in the UK is 561,000.
- There are estimated to be 22,400 franchisees in total.

"One of the benefits of franchising is that there is a much lower failure rate than other new businesses, due to the proven business model, and the range of central support the franchisee is provided with to launch and grow the business. According to the bfa / NatWest Franchise Survey 2015, 97 per cent of franchise businesses are profitable."

Tim Harris /
Chief Executive Officer

901

Operating in the UK
Franchise systems

97%

Franchise units
Profitable

561,000

Employees

Industry annual turnover:

£5bn	£15.1bn
1993	2015

Number of franchise systems:

379	901
1993	2015

Number of franchisee outlets:

18.2k	44.2k
1993	2015

Our strategy

Our strategy is to develop franchise businesses that build on our core skills of marketing, franchisee recruitment and support. This strategy will be executed in two key ways:

01 Growth through acquisition

The Group intends to continue to grow by acquisition focusing on both B2B and B2C franchise businesses where we believe that the Group's financial and management resources can add value, in particular to businesses which have the following characteristics:

"We were delighted to announce our first acquisition, of Barking Mad, in 2016. The acquisition broadens Franchise Brands' portfolio of businesses with a market-leading brand which has an attractive model for franchisees, a strong management team and a similar customer base to ClipsAway and OvensClean."

Julia Chaudhury
Corporate Development Director

A market presence has been established, however the businesses have reached a level where the existing management cannot grow them further;

Sales and marketing resources are not economically available;

The next stage of growth will require the investment of additional capital not available to the existing owners; and

In addition to one or more of the requirements above, the shareholders of the businesses wish to achieve a realisation on their investment or convert their investment into a more marketable form.

£900k

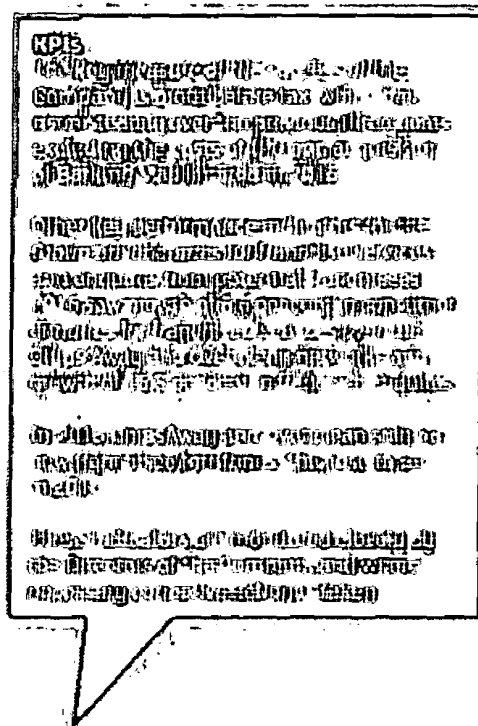
Total consideration for Barking Mad



02 Organic growth

The Group aims to generate organic growth as follows:

- Barking Mad:** The Directors believe there is substantial scope to grow Barking Mad's system sales by supporting franchisees' growth by leveraging the Group's established central support services, in particular marketing. The Directors also believe there is a considerable opportunity over time to increase the number of franchised territories from the current 77 territories to over 250 territories. The Group also intends to explore opportunities to extend the Barking Mad brand in related sectors of the market.
- ChipsAway and Ovensclean:** The Group intends to continue to actively expand the ChipsAway and Ovensclean franchise systems through recruiting new franchisees as well as improving retention rates, thereby improving the quality of earnings by increasing the contribution from recurring management service fee income. The Group aims to continue to support existing franchisees, in particular existing ChipsAway franchisees, who wish to grow their businesses through the development of CarCare Centres.

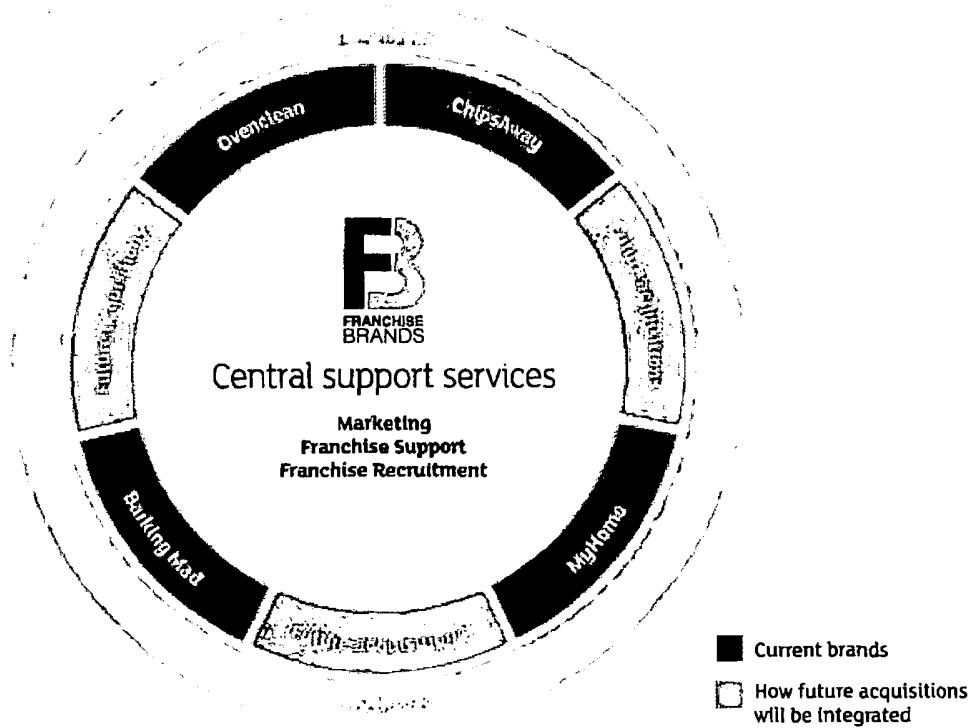


50

New franchise territory sales

Our business model

The Franchise Brands business model very simply allows strong brands to benefit from our high quality central support services, including Marketing, Franchise Support and Franchise Recruitment.



Marketing
Established by the Marketing Director of a FTSE250 company, our marketing expertise is highly valued by our franchisees.

Franchise Support
We have a dedicated and highly experienced and specialist franchise support team which focuses on areas where we can add value to our franchisees as well as providing technical assistance.

Franchise Recruitment
We have an extremely well established franchise recruitment capability and recruit over 50 franchisees per annum across the Group.



Key strengths:
Franchise Brands has a number of core strengths.

Senior Management and Directors:
Franchise Brands plc has a very experienced group of Directors and Senior Management with expertise in a number of areas such as Franchising, Marketing and Operations.

Marketing:
The Group works with a number of well known marketing agencies including Universal McCann part of one of the world's largest media groups. Universal McCann manages media buying, search engine optimisation and pay per click campaigns on behalf of Franchise Brands companies.

Operations:
The Group can add value in a number of areas by driving operational expertise, for example, by introducing new CRM systems.

Robin Auld /
Marketing Director

03

Current principal brands

Over 50

Franchisees recruited per annum

Creating value

Customers

For all brands in the Franchise Brands Group, the customer comes first. Understanding, meeting and exceeding our customers' needs and desires is paramount to efficiently delivering a first class service that hugely contributes to brand loyalty, growing turnover and increasing market share. We regularly monitor customer feedback in the form of independent market research, customer reviews, franchisee surveys, mystery shopping and anecdotal customer feedback.

Franchisees

The ethos of Franchise Brands is to ensure that our franchisees are provided with the advice, tools and guidance to create profitable, sustainable businesses over the long-term. We work with franchisees to help them realise their ambitions which vary from running a successful, profitable territory to growing into a multi site, multi territory operation.

Employees

In keeping with most franchise businesses, a small number of people are responsible for leveraging a much larger overall business system. Our head office team is vital to the future success of the business and in order to reward our people, as well as encourage an ownership culture, we have introduced a share option scheme. We also provided the opportunity for our staff and franchisees to buy shares in the recent IPO.

Shareholders

Franchise Brands' focus is on delivering long-term sustainable shareholder value through the acquisition and subsequent development of profitable franchise businesses. By leveraging the expertise of the Board and Senior Management, Franchise Brands is able to focus on key areas of individual franchise businesses to create improved growth and greater efficiency.

Financial review

The year ended 31 December 2016 has been both a successful and eventful year for your Company. We have become a publicly quoted company, made our first acquisition since the IPO, repaid all the original shareholders' loans and embarked on a further transformational acquisition that we hope to complete in April 2017. We are also proposing to pay a small dividend in recognition of our confidence in the business model.

Sales

In the year ended 31 December 2016 statutory revenue increased 11 per cent to £4,870,000 (2015: £4,379,000). Statutory revenue includes management service fees ("MSF") received from franchisees on a monthly basis (42 per cent of Franchise Brand's revenues); fees generated from the sale of franchise territories (30 per cent of revenue); and income from the sale of products to franchisees, mainly to ChipsAway franchisees used in the repair of vehicles (19 per cent of revenue) and other income including national accounts sales (9 per cent of revenue). The ChipsAway brand currently generates approximately 80 per cent of total revenue with most of the balance generated by Ovensclean in 2016, although this will obviously change in 2017 following the acquisition of Barking Mad.

The MSF income and that generated from the sale of product to the franchisees, which represents 61 per cent of our income, is dependent on the number of franchisees in the system and the sales revenue they generate. In the year to 31 December 2016, the number of UK franchisees in the Group (excluding Barking Mad) grew from 307 to 320. Including Barking Mad on a pro-forma basis the number grew from 364 to 389. Whilst the improvement may seem small, it represents good progress in stabilising the system after an extended period of decline that resulted from our efforts to improve the quality (rather than quantity) of the franchisees that operate our brands.

The revenue generated from the sale of franchise territories is primarily driven by the recruitment of new franchisees into new virgin territories.

However, an important part of this activity is also re-selling the territories of franchisees who leave the system and selling additional franchise territories to existing franchisees who wish to expand their businesses.

In 2016, 69 franchises were sold of which 62 were new territories sold to new franchisees, 7 were new territories sold to existing franchisees. We consider that the mix of the franchise sales to both new and existing franchisees to be a good indication of the health and viability of the system.

Cost of Sales and Gross Profit

The rate of growth of gross profit exceeded the growth in revenue as a result of lower cost of sales achieved through efficiency in franchisee launches. This resulted in gross profit increasing in the year by 14 per cent to £3,298,000 (2015: £2,892,000). Cost of sales includes the cost of product sold to franchisees and the launch cost of new franchisees.

Trading Results

Administrative expenses increased by £737,000 from £1,770,000 to £2,507,000. These included £455,000 of non-recurring costs. Other costs increased by £282,000. Overheads included staff costs (42 per cent), sales and marketing costs incurred in recruiting new franchisees (17 per cent) and establishment expenses (6 per cent). Operating profit was £791,000 (2015: £1,122,000).

During 2016 the Group continued to trial the MyHome brand to establish if a full relaunch would be economically worthwhile. The total costs incurred in 2016 were £92,000. We concluded that a full re-launch of the domestic cleaning

business would not be in our shareholders long-term interest and these costs will therefore not recur in future years. Our research did however, highlight other opportunities in the domestic services sector, particularly for small repairs and maintenance. To test this opportunity we have a single franchisee operating under the brand "The Handyman Van" using similar branding to MyHome. This test will be cost neutral for the Group.

Barking Mad was acquired on 31 October 2016 and the results for the two months to 31 December 2016 are included within the consolidated accounts. Barking Mad incurred a small loss of £12,000 in this period due to the seasonality of its recruitment income.

Non-Recurring Items

Non-recurring costs include the element of the costs incurred in the IPO that were written off against profits of £397,000. A further £233,000 was set off against the share premium arising on the issue of the new shares, bringing the total IPO costs to £630,000. The balance of the non-recurring costs related to costs of £58,000 incurred in the acquisition of Barking Mad.

Earnings and Dividend

Profit before tax in the year was £784,000 (2015: £1,115,000). The tax charge in 2016 represented 33.2 per cent (2015: 20.4 per cent) of profit before tax, which is greater than the statutory rate of 20 per cent because of certain costs being disallowable for tax, in particular, the non-recurring costs of the IPO and the acquisition. If adjustment is made for these non-recurring costs, underlying profit before tax would have increased by 11 per cent to £1,239,000 (2015: £1,115,000) and the tax charged would have fallen to 21 per cent.

Profit for the year was £524,000 (2015: £888,000), and the average number of shares in issue during the year were 40,837,885 (2015: 36,324,429), resulting in basic earnings per share of 1.28 pence (2015: 2.44 pence). Based on adjusted profit after tax of £979,000, earnings per share in 2016 would have been 2.40 pence per share (2015: 2.44 pence).

The Board is pleased to propose a dividend of 0.17 pence per share (2015: Nil). This represents a pro-rata dividend in respect of the five month period since the IPO. Had the Company been a public company for the whole year the dividend recommendation would have been 0.41 pence per share.

The cost of the proposed dividend of £81,000 is 12.1 times covered by adjusted profit after tax of £979,000. Subject to the needs of the business and compliance with any future banking covenants, it is the intention of the Directors to adopt a progressive dividend policy with the cost of any dividend being approximately five times covered by profit after tax.

Balance Sheet

The balance sheet of the Group has strengthened significantly over the last twelve months following another year of successful and cash generative trading, the fund raising at the IPO and the subsequent acquisition of Barking Mad.

The Group started the year with net liabilities of £380,000, funded by interest-free shareholder loans totaling £1,764,000. The cash generation of the business and a structured interest bearing loan of £500,000 from companies owned by Nigel Wray and me, allowed the shareholders loans that were originally put in place to fund the acquisition of the original businesses, to be repaid in full immediately prior to the IPO.

Cash generated from operations in the year was £1,112,000 (2015: £1,246,000).

The IPO raised gross proceeds of £3,500,000, which after expenses of £630,000 netted the Company £2,870,000. In October 2016 the Company acquired Barking Mad for a total consideration of £900,000, of which £500,000 was settled in cash and the remainder by the issue of 761,193 shares at the then market price of 52.5 pence per share.

At 31 December 2016 the Group was in a very strong position, with net assets of £3,903,000 (2015: net liabilities £380,000) of which cash in hand totalled £2,999,000 (2015: £496,000) and debt of £519,000 (2015: £1,905,000).

Current Trading and Prospects

Trading at the start of 2017 has been in line with management expectations. The integration of Barking Mad into the Group is progressing well and the business is beginning to benefit from our shared support services particularly in the areas of marketing and IT. The proposed acquisition of Metro Rod Limited will significantly increase the size and scale of the Group and we are looking forward to integrating this business into the Group. 2017 promises to be a further year of transformation and growth which we are very much looking forward to.

Brand review

ChipsAway is the UK's leading mobile car paintwork repair specialist focusing on SMART (Small to Medium Area Repair Technology) repairs. It has been operating in the UK for over 20 years and currently has 221 franchisees operating in the UK.

Consumer Demand

YouGov estimated there were 37 million cars in the UK in 2016, with 61 per cent having minor bodywork damage that could be repaired by ChipsAway franchisees. With an average repair value of £165, this equates to a total potential market size of approximately £3.6 billion.

Several long-term trends are fuelling growth in the market. There's been a steady increase in the number of cars on the roads in the UK and there's now over 37 million cars on the road, an increase of 1.6 million since 2011. In addition the biggest source of minor collisions are car park related accidents, which have seen a 35 per cent increase over the last 2 years. According to Accident Exchange, there are now more than 675,000 car parking collisions and scrapes every year, or 1,559 per day as a result of the increasing size of cars and increasing popularity of larger cars (for example sales of Sports Utility Vehicles have increased 44 per cent in the last year).

Capitalising on this increased demand, ChipsAway has witnessed record breaking numbers of consumer enquiries, with an almost 10 per cent increase in 2016 versus 2015, resulting in 248,000 enquiries. August was the peak of the demand with over 26,000 enquiries in that month alone.

Investment in marketing activity has also helped to drive growth in the number of consumer enquiries for ChipsAway.

Consumer Enquiry Growth

Franchisees contribute towards a National Advertising Fund which collectively invests in TV advertising, Search Engine Optimisation, Pay per Click campaigns, point of sale material, public relations, and other national and local marketing initiatives. In 2016 the visits to the ChipsAway website increased by over 20 per cent versus 2015, whilst the TV advertising campaign delivered 17 per cent more enquires as a result of optimising both digital and offline marketing spends.

Recruitment Growth

A key focus for the marketing team at ChipsAway is to ensure that the marketing budget is employed as efficiently as possible to successfully target prospective franchisees. The marketing team work closely with Universal McCann to continuously measure and review both the creative message and the various media channels used to reach prospective franchisees. The marketing strategy

"ChipsAway was launched in the UK in 1994. We have consistently invested every year to grow the awareness of the ChipsAway brand. As a result we now have a brand awareness level that is more than 10 times our nearest competitor as measured by YouGov. We will continue to aggressively invest in the brand going forward."

Tim Harris /
Chief Executive Officer

continually evolves throughout the year based on feedback from the review of existing activity. It's important that the pipeline of good quality prospects is continually replenished to fill currently vacant territories and replace franchisees that have left the ChipsAway system.

As a result of optimising the marketing expenditure, the number of franchisee territories sold has increased by over 50 per cent since 2014, in addition the number of prospective ChipsAway franchisee enquiries increased by 12 per cent year-on-year.

Case study

Andy Darby (Huntingdon and Cambridge)

Thanks to ChipsAway, I've achieved my ambition of having a great lifestyle. I'm lucky enough to drive around in a sports car, and my take home earnings are about 3 times what they would have been if I had stayed in the army.

I launched a 'man in a van' business 14 years ago, and today I've grown that to a multi-van operation spanning 3 territories with a ChipsAway CarCare Centre (fixed-based workshop) and a team of trained technicians providing high quality automotive paintwork repairs to a growing customer base.

My business has gone from strength to strength and demand is accelerating thanks to increase investment in marketing from the Franchisor, including a successful TV campaign. It's this support that's helped me grow my business since joining ChipsAway, and I've never looked back.

I really enjoyed being a soldier, but I have no regrets whatsoever about investing in my own business. I certainly chose the best franchise and have been very happy with my decision to expand and open a ChipsAway CarCare Centre.

221

Franchisees in the UK

£16m

UK system sales

1994

ChipsAway franchise
launched in UK

“I feel proud that I can enjoy an excellent lifestyle, whilst still afford to substantially re-invest in developing a successful franchise.”

Case study

Owen Rowlands (Stevenage)

After 15 years working in highway construction and maintenance, I was given notice of redundancy. After spotting an advert in the newspaper I attended an Ovensclean Open Day, and was really impressed with the business.

I'd arrived a bit early so I was able to chat to one of Ovensclean's existing franchisees, a really genuine guy who told me how he'd made a real success of his business. The management team were also friendly and informative but not at all pushy.

I achieved a record start at Ovensclean and by pursuing local marketing opportunities I managed to achieve an incredible turnover of £2,500 in week 7. This gave me confidence that the market was there and that the opportunity was an exciting one. Although I'm really busy in my original territory, the response has been so positive that I've taken the plunge and invested in an adjacent second territory – now I'm rushed off my feet, so I'm planning to get a third vehicle on the road this year. Ovensclean have been fantastic, their brilliant start-up team gave me all the tools I needed to make my own success!

“Joining Ovensclean was definitely the right decision for me. I feel thoroughly appreciated and I’m happier in my work than I’ve ever been!”



Ovenclean is the longest established oven cleaning business in the UK, and has been successfully operating for over 20 years. There are currently 101 Ovenclean franchisees who clean a wide variety of domestic appliances including electric and gas ovens, microwaves, hobs and extractor fans and barbeques.

Consumer Demand

There are 27 million households in the UK, and one-third now employ someone on either a regular or occasional basis to offer domestic support with an average consumer spend of £127 per month, equating to a market worth more than £26 billion per annum. The rise in working mothers has been a key demographic driver of this long-term trend. According to the Office of National Statistics there are now more than 5.3 million working mothers which is almost 800,000 more than the mid 1990s.

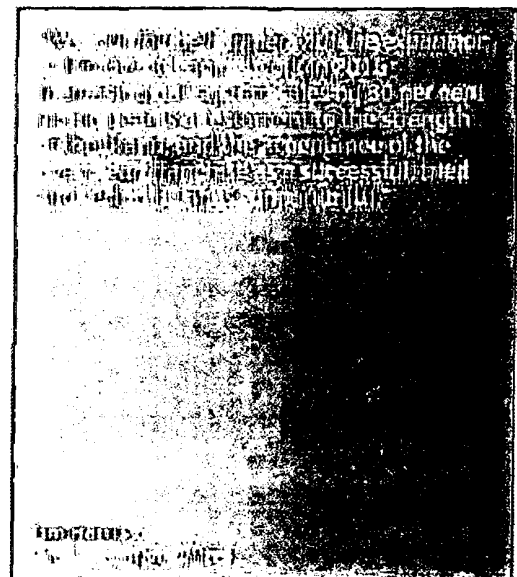
This demographic increase in demand has been further driven by investment in marketing activity. Ovenclean franchisees invest in a Central Advertising Fund that deploys these marketing funds on behalf of the network in national TV advertising, Pay per Click campaigns, Search Engine Optimisation, public relations and local marketing support. As the only oven cleaning brand to advertise on TV this gives the brand a clear point of difference and an opportunity to speak to consumers in an environment uncluttered by competitors.

Recruitment Growth

As with ChipsAway, it's important that the Ovenclean brand continues to recruit good quality new franchisees to the network. The marketing team works closely with Universal McCann to ensure that the Ovenclean opportunity is seen by prospective franchisees across a wide range of media. The response rate from marketing activity is measured, tracked and optimised on a regular basis to ensure optimum deployment of marketing funds.

As a result, Ovenclean had a record number of enquiries from prospective franchisees, over 1,500, which significantly surpassed the 1,300 received in 2015. The 21 per cent increase in enquiries led to a 30 per cent increase in sales of franchisee territories versus 2015.

Recruitment marketing is invested primarily through online channels supported by traditional media channels such as newspapers and franchise magazines.



101
franchisees in the UK

£5m
UK system sales

1994
Ovenclean franchise launched in UK

Barking Mad was founded in 2000 by Lee Dancy, Managing Director. The origins of the business stemmed from Lee's own need to organise professional dog sitting for her family dog while she was away on holiday, and her realisation that there were few alternatives other than dog boarding kennels.

An introduction to Barking Mad

Barking Mad's customer proposition is that it provides peace of mind for dog owners while they are away by providing a professional, tailor made, and fully insured, dog sitting service, described to customers as a "dog holiday". Barking Mad's franchisees market to individual customers and recruit "host" families who look after the customers' dogs in their own houses. 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.

The pet care market has grown strongly in recent years as people spend increasingly more money on their pets. Barking Mad is the largest and longest established franchise provider of professional dog sitting services.

Recruitment growth

An additional 16 new starters were recruited in 2016 using a variety of digital and online channels. In particular, Facebook advertising has proved fertile ground by specifically targeting dog 'lovers' and dog enthusiasts with target campaigns.

Franchise support

The Head Office team continues to work closely with franchisees to drive turnover and profitability at a territory level. There

is regular person-to-person contact several times per year, plus telephone contact once a month and online contact once a week with ad-hoc webinars and workshops.

In addition, the customer call centre was expanded to assist franchisees during office hours when they were unable to take calls personally. Approximately 30,000 customer bookings and registrations have been taken for the service over the past 2 years.

Consumer demand

In a new initiative, Barking Mad started working with Trustpilot, to provide reassurance to potential customers who might otherwise be unfamiliar with the brand. After 6 months Barking Mad was rated 'best in category' with the top spot of 182 pet brands and 96 per cent of customers rating the brand 5 stars.

In October Barking Mad won the prestigious Amazon Micro Business of the Year Award 2016 which recognises successful fast growing businesses. Since its launch in 1999, the awards, backed by the CBI, have celebrated exceptional growing businesses with past winners including Innocent Drinks, Betfair, Lovefilm and Fever-Tree.

Lee Dancy on why she joined Franchise Brands:

"I retain a high level of autonomy within a bigger group that increases the prospect of sustained future growth. We enjoy the expertise of the Franchise Brands Board, infrastructure and purchasing power of the Group, giving us the impetus and confidence for a strong 2017 and beyond."

Lee Dancy /
Managing Director

£3m

System sales

73

franchisees in the UK

2000

Barking Mad launched
in UK

Case study

Melissa Sincock – Barking Mad Middlesex

My name is Melissa and I manage Barking Mad Middlesex. I live in Staines-upon-Thames with my young family, and we are all crazy about dogs and have a love of animals in general. I worked for one premium retail business for over 15 years in a variety of management roles, and whilst I loved every minute of it I was ready for a new challenge. I jumped at the chance to work with dogs and run my own business. I was amazed at the response I got after relaunching the business in my name and was rewarded with an increase in turnover of 50% in my first year!

The support I received from Barking Mad Head Office in that first year was really the key to my success and I am so grateful for their guidance. Having never run a business before, franchising with Barking Mad has given me the confidence and knowledge to continue my growth, and tremendous support in areas such as IT and organisational skills. Running my Barking Mad business offers me complete flexibility with my family life - something that wasn't achievable in my previous job. I love being part of a national network of varied individuals sharing ideas, tips and best practices at regular conferences and webinars. I am running my own successful business, but I never feel that I am on my own and there's always help at hand whenever I need it.




**“Melissa has been a valuable
addition to the Barking Mad
family.”**




Lee Dancy / Managing Director

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
Franchisees 	<ul style="list-style-type: none"> The ability of the Group to attract franchisees with the appropriate attitude, expertise and skills, in available and suitable locations, cannot be guaranteed. The Group may experience difficulties in retaining appropriate franchisees and the failure to do so may have a detrimental effect upon trading performance, growth of the Group's business and the reputation of its brands. Franchisees could default on their obligations under their respective franchise agreements or underperform, which could negatively impact the Group's performance, reputation and prospects. 	<ul style="list-style-type: none"> Internal reporting disciplines are designed to ensure marketing activities deliver a suitable number of new enquiries on a daily basis. Enquiries, Open Day attendees and new franchisee numbers are measured daily and reported to Board members on a weekly basis. The Group is committed to the continual improvement of the quality of its franchisees and services and its relationship with franchisees, with conferences and/or regional meetings held on a regular basis. The Group's franchisees have direct interaction with the end user of the Group's services: training and support is available to franchisees at all times in order to assist with promotions, brand recognition and customer service.
Financial Risks Ability to generate revenues & profit 	<ul style="list-style-type: none"> Failure of the Group to expand its share of its current markets may result in revenues growing more slowly than anticipated. The Group relies on the receipt/collection of ongoing monthly payments from franchisees. 	<ul style="list-style-type: none"> The Group currently has well-positioned brands, two of which benefit from national television advertising. The Group will continue to develop its marketing strategies to further improve brand recognition Factors likely to affect a franchisee's ability to make payments are monitored through Franchise Support on a daily basis and the Finance Department 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.
Ability to support future growth 	<ul style="list-style-type: none"> The Group's ability to manage future growth will depend on its ability to effectively implement and improve management, operational and financial information systems on a timely basis and expand, train, motivate and manage its workforce. In the future, the Group may require additional funds to take advantage of acquisition opportunities. Any additional equity funding may be dilutive to holders of Ordinary Shares. 	<ul style="list-style-type: none"> The Group maintains competitive and attractive employment terms and ensures there is a clear career path for individuals to progress their careers wherever possible. The Group will continue to monitor its management, operational and financial systems on a regular basis and implement improvements when necessary. Any future equity funding will be evaluated by the Group and consideration given to any and all consequences of the funding source.

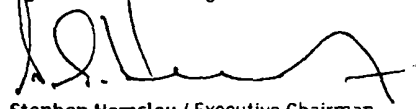
-  Increasing
-  Decreasing
-  No movement



Operational Risks

Legal Risks	Impact	Mitigation
Changes in legislation 	<ul style="list-style-type: none"> Changes in legislation may have an adverse effect on how the Group operates. In particular, this relates to changes in health & safety obligations, franchising legislation, employment law, data protection and other legislative areas. 	<ul style="list-style-type: none"> The Group will continue to monitor 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 an independent environmental and health & safety consultant and employment law advisors.
Operational Risks	Impact	Mitigation
Dependence on key personnel 	<ul style="list-style-type: none"> Loss of key management or any other key personnel could have adverse consequences for the Group. As the Group expands it will need to recruit and integrate additional personnel in a competitive market. The Group may not be successful in identifying and engaging suitably qualified people and integrating them into the Group. 	<ul style="list-style-type: none"> Employees within each department have an understanding of all roles within the department ensuring a sufficient level of cover is provided in case of short-term need. The Group will continue to work closely with existing personnel on this basis and continue to identify and engage suitably qualified people and integrate them into the Group in a timely manner. The Group encourages employees to undertake training to expand existing skills where necessary.
Products & technology 	<ul style="list-style-type: none"> The chemical compounds used to carry out the services are compliant with current health & safety requirements, however, should regulations change, compliance with new regulations could result in increased costs for the Group. 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 many 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. 	<ul style="list-style-type: none"> The Group monitors industry developments that may result in a change to regulation change for products used to provide Group services. In the event of a change to regulation, the Group will work with key suppliers to ensure compliance and keep any associated costs to a minimum. The Group regularly reviews the IT systems and environment to ensure they are suitable for the current and future requirements of the Group. Principal systems are cloud-based and can be accessed through IOS and Android operating systems. The Group's IT consultant receives daily reports from its service provider, which identifies any issues or concerns with system back-up. Systems are backed-up hourly or daily, limiting the risk of loss of data.
External suppliers 	<ul style="list-style-type: none"> The Group relies on certain 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. 	<ul style="list-style-type: none"> 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.

This Strategic Report (which includes all of the content from pages 1 to 21 inclusive) was approved by the Board on 22 March 2017 and signed on its behalf by



Stephen Hemsley / Executive Chairman

Board of Directors

07

01 / Stephen Hemsley / Executive Chairman

Stephen co-founded Franchise Brands in 2008. As Executive Chairman he has overseen the development of the business and steered the Company through the recent IPO. Stephen has long standing experience in franchising. He 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 the company from a market capitalisation of £25m to around £1.7 billion and membership of the FTSE 250 Index and from around 100 to over 1,000 stores across the UK, Ireland and Europe. Stephen originally qualified as a Chartered Accountant in 1982 and in 1984 joined the venture capital company 3i, rising to the position of Investment Director. He was appointed as a Director of the Company on 15 July 2016.

02 / Tim Harris / Chief Executive Officer

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.

03 / 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.

04 / 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.

“Our Board has considerable experience of operating and growing profitable franchise businesses.”

05

03

08

05 / 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, Alliance Pharma 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, engineering, hotel and restaurant sectors. He is a former director and significant shareholder in Carlton Communications plc, Singer & Friedlander plc and Domino's Pizza and a former director of Burford Group plc and Networkers International plc. He was appointed as a Director of the Company on 15 July 2016.

06 / David Poutney / Independent Non-Executive Director

David has over 40 years of finance and investment experience. David was recently appointed 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 advisor 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.

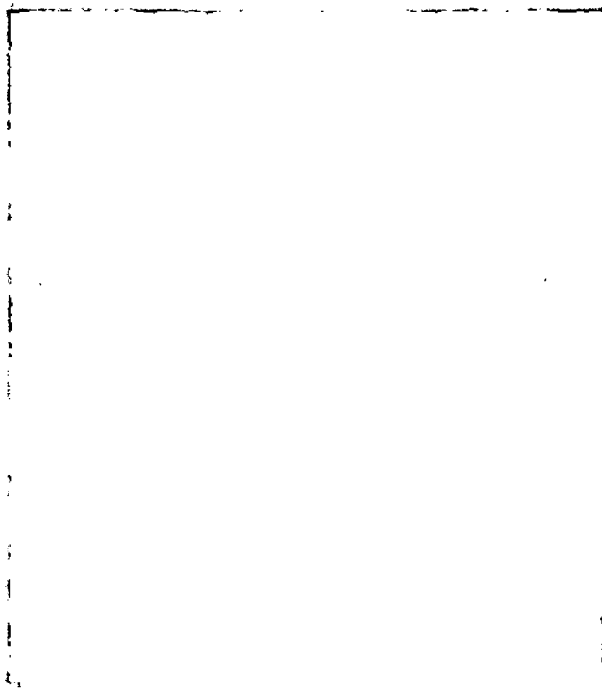
07 / Rob Bellhouse / Independent Non-Executive Director

Rob is an experienced Company Secretary with strong commercial experience gained over a period of over 30 years, working mainly in listed companies. He is currently Interim Company Secretary of AIM-quoted Alliance Pharma plc, where he is responsible for all legal, Board, governance, compliance and risk management activities. He was previously Company Secretary of Domino's Pizza Group (on an interim basis), Lonmin (2003-2015) and Greene King (1998-2003). He was voted ICSA Company Secretary of the Year in 2014. Rob is also the founder and Director of Governance Professionals Limited, which provides corporate governance and company secretarial services to quoted and listed companies. He was appointed as a Director of the Company on 15 July 2016.

08 / 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 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 each departure from the UK Code. However, the Company remains committed to high standards of corporate governance and seeks to comply with the UK Code to the extent practicable for a public company of its 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 since our IPO.

Stephen Hemsley / Executive Chairman

Corporate governance

“Across the Group we are committed to the highest standards of corporate governance.”

Board Composition and Support

The Board currently comprises seven Directors, being an Executive Chairman, 3 Executive Directors and 3 Non-Executive Directors. The Board believes that its current composition provides a sufficiently wide range of skills and experience to enable it to pursue its strategic goals 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, as he is a significant shareholder the Board does not regard him as independent.

While the respective responsibilities of the Chairman and CEO are not recorded in writing, the division is 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 is responsible for the operational leadership of the business on a day-to-day basis, with particular focus on the ChipsAway and Ovenclean franchises.

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 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 issues and detailed briefing papers on all substantive matters to be discussed at Board meetings.

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 strategic aims;
- 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 6 times in 2016 3 meetings were held between incorporation and the IPO and 3 meetings between IPO and the end of the year.

Corporate governance continued

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 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 the period from incorporation on 15 July 2016 to 31 December 2016 was as follows:

Director	Board	Audit Committee	AIM Rules Committee
Stephen Hemsley	6 of 6	-	-
Tim Harris	6 of 6	-	-
Julia Choudhury	6 of 6	-	-
Robin Auld	6 of 6	-	-
Nigel Wray	5 of 6	-	-
David Poutney	6 of 6	1 of 1	1 of 1
Rob Bellhouse	6 of 6	1 of 1	1 of 1

The Remuneration Committee did not meet during 2016 as explained below.

Board Effectiveness Review

As the Company was only incorporated in July 2016 and the current Directors took office at that time, no effectiveness review has been undertaken.

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 Board is committed to work within legislative requirements, and particularly values and adheres to the principles of both the Bribery Act and the Modern Slavery Act.

Corporate Social Responsibilities

The Directors recognise the importance of its CSRs and take into account the social, ethical and environmental impact of Group activities

Relations with Shareholders

The Executive Chairman 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 the retail investors who have joined us since IPO. We regularly update the Investor Relations section of the Group's website with the aim of providing useful information for all investors, but particularly retail shareholders.

All Directors are invited to attend the AGM at which there will be an opportunity for shareholders to ask questions formally, and the Directors will be 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) will be 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:

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 will also make 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, all of whom held office from IPO to the date of this report, are:

- Rob Bellhouse (Chairman)
- David Poutney

The Company Secretary acts as secretary to the Remuneration Committee. The Executive Chairman will be invited to attend meetings of the Remuneration Committee, but will not participate when his own remuneration is being discussed. This committee is considered to be independent as the members are independent non-executives.

The Committee did not meet during the period between IPO and the year-end as the Board approved the grant of options to employees following the IPO and there were no other decisions required during that period.

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 28 and 29. As the Company is not quoted, it is not required to produce a formal remuneration policy or seek shareholder approval of that policy.

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. It is intended that the Committee will make recommendations to the Board and proactively liaise with the Company's nominated adviser on compliance with the AIM Rules. The Committee will also monitor the Company's procedures to approve any share dealings by Directors or employees in accordance with the Company's share dealing code.

The members of the Committee, all of whom held office from IPO to the date of this report, 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.

The Committee met once during the period between IPO and the year-end, 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.

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 measured and reported on. It will receive and review reports from the Group's 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, all of whom held office from IPO to the date of this report, are:

- David Poutney (Chairman)
- Rob Bellhouse

The Company Secretary acts as secretary to the Audit Committee. The Executive Chairman and, when appointed, the Finance Director are invited to attend all meetings, with other senior financial managers asked 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 if 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 once during the period between IPO and the year-end, to review the interim accounts to 30 June 2016 and note the auditors' views on those accounts.

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 Long Term Incentive Plan (LTIP). The vesting of LTIP options is subject to a performance condition requiring a pre-determined and challenging rate of compound annual growth in 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 Director is further incentivised to mitigate these exposures if they wish 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:

- 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.
- Pensions** – The Company operates a defined contribution scheme for all Executive Directors and employees. Only basic salaries are pensionable.
- Equity exposure** – The Company operates a share option scheme covering all permanent employees (including the Executive directors, other than Stephen Hemsley) under which share options are normally granted once in each year. Subject to achieving compound EPS growth targets, options normally vest on the third anniversary of the date of grant and can then 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 3 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 2016 was as follows:

Director	Salary or fees (£)	Benefits in kind (£)	Pension contributions (£)	Total (£)	2015 comparison (£)
Stephen Hemsley	39,000			39,000	34,000
Tim Harris	107,000	11,000	7,000	125,000	130,000
Andrew Mallows ²	38,000			38,000	–
Julia Choudhury	57,000			57,000	40,000
Robin Auld	47,000			47,000	33,000
Nigel Wray	10,000			10,000	10,000
David Poutney	6,000			6,000	–
Rob Bellhouse	6,000			6,000	–

Notes:

- ² Andrew Mallows served as a director of the company from 15 July 2016 to 13 October 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, one Director is currently accruing retirement benefits, and does so through defined contribution (money purchase) 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:

Director	Date of Grant	Exercise price (pence)	Performance condition	Pre-IPO Number of shares	Changes in the remainder of the year			2016 ¹ Number of shares	Exercisable from	Exercisable to
					Granted	Exercised	Lapsed			
Tim Harris	01-Aug-16	33	EPS growth	303,030	-	-	-	303,030	01-Aug-19	01-Jul-26
Andrew Mallows ²	01-Aug-16	33	EPS growth	303,030	-	-	303,030	-	-	-
Julla 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

Notes:

1. At year-end or the earlier date of ceasing to hold office.
2. Andrew Mallows ceased to serve as a Director on 13 October 2016.

The closing mid-market price of Ordinary Shares on 30 December 2016 (being the last dealing day in the calendar year) was 64.1 pence and the range during the period from IPO was from 40.0 pence to 71.6 pence.

Directors' report

Scope of this Report

The Directors' biographies on pages 22 and 23, the discussion of corporate governance matters on pages 24 to 27 and the Remuneration report on page 28 and 29 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 22 and 23. 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 IPO	At 31 December 2016 (or earlier date of leaving)
Stephen Hemsley ¹	13,000,431	13,000,431
Tim Harris	999,762	999,762
Andrew Mallows ²	303,030	303,030
Julia Choudhury ³	1,010,229	1,010,229
Robin Auld ⁴	908,882	908,882
Nigel Wray ⁵	14,080,434	14,080,434
David Poutney ⁶	606,060	606,060
Rob Bellhouse	45,455	45,455

Notes:

- Included in the holding of Stephen Hemsley are 1,570,431 Ordinary Shares held by his wife, Sharon Hemsley and 3,000,000 Ordinary Shares held by CTG Investment Limited, a company owned by a discretionary trust of which Mr Hemsley and his family are potential beneficiaries.
- Andrew Mallows ceased to serve as a director on 13 October 2016.
- Included in the holding of Julia Choudhury are 381,819 Ordinary Shares held jointly with her husband, Robin Choudhury and 303,030 Ordinary Shares held by her Self Invested Personal Pension.
- Included in the holding of Robin Auld are 75,758 Ordinary Shares to be held by his Self Invested Personal Pension.
- Included in the holding of Nigel Wray are 14,026,380 Ordinary Shares held by Damor Investments Limited acting as nominee for RBC Trustees (C₂) Limited as trustee of Mr Wray's family trust.
- Held as to 50 per cent. via his Self Invested Personal Pension and 50 per cent. via his wife's Self Invested Personal Pension.

In addition, Tim Harris, Andrew Mallows, Julia Choudhury and Robin Auld held or hold options over shares of the Company through their participation in the Company's Long Term Incentive Plan, which are detailed in the Remuneration report on pages 28 and 29.

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 per cent or more of the enlarged Share Capital:

Shareholder	Current		On Admission	
	Number of Ordinary Shares	Percentage of Existing Share Capital	Number of Ordinary Shares	Percentage of Enlarged Share Capital
Netcap Limited	3,000,000	6.3%	3,000,000	6.4%

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.

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.

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' report continued

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

The Directors are recommending a final dividend of 0.17 pence per share which, subject to shareholders' approval at the AGM, will be paid on 28 April 2017 to shareholders on the register at the close of business on 7 April 2017.

Share Capital

The Company has only Ordinary Shares of 0.5 pence nominal value in issue. Note 23 to the financial statements summarises the number issued during 2016. The closing middle market price of a share of the Company on 30 December 2016, together with the range since floatation, is also shown on page 29.

Voting rights

Subject to any rights or restrictions attached to any class of shares, from time to time 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 have a vote shall upon a show of hands have one vote and on a poll every member who is present in person or by proxy and entitled to vote shall have one vote for every share of which he is the holder. Where, in respect of any shares, any 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.

Companies Act 2006 Disclosures

In accordance with Section 992 of the Companies Act 2006 the Directors disclose the following information:

- The Company's capital structure and voting rights are detailed on page 32. 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 exists 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 31;
- 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 exists 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 re-appoint BDO LLP as auditor will be proposed at the AGM.

Post-Balance Sheet Events

Terms have been agreed, subject to shareholder approval, for the proposed acquisition of the entire issued share capital of Metro Rod Limited, a leading provider of drain clearance and maintenance services, which are delivered on a largely reactive basis by regional franchisees. The total consideration is £28 million (subject to adjustment on the financial position of Metro Rod Limited on completion), which together with estimated costs of approximately £1.8 million, will be satisfied in cash at completion of the acquisition. It is proposed that the consideration, associated costs and additional working capital will be funded by the issue of placing shares to raise approximately £20 million and new bank facilities of up to £17 million. Given the scale of the acquisition when compared to the existing Group, the transaction will constitute a reverse takeover under the AIM rules.

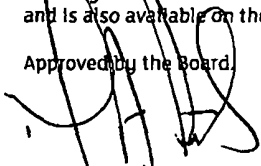
Financial instruments and risk management

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 2017 Annual General Meeting of the Company will be held on 27 April 2017, 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
22 March 2017

Independent auditor's report

For the year ended 31 December 2016

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

Opinion

We have audited the financial statements of Franchise Brands plc (the 'parent company') and its subsidiaries (the 'group') for the year/period ended 31 December 2016 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the company statement of financial position, the consolidated statement of cash flows, the company statement of cash flows, the consolidated statement of changes in equity, the 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 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Certain required disclosures relating to directors' remuneration have been presented within the directors' remuneration report on pages 28 and 29.

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, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

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 description	Our response to the risk	Our conclusions
<p>Risk of fraud/misstatement in revenue</p> <p>Refer to the Accounting Policies page 47, Note 2 page 51 and Note 4 page 54.</p> <p>Total group turnover is £4.9m (2015: £4.4m). The group's significant revenue streams include franchise fees, licence fees and the sale of goods.</p> <p>There is a risk of misstatement of revenue due to the susceptibility to management override through recording of inappropriate manual journals.</p> <p>In addition, the accounting treatment of deferred franchise fees requires the use of judgment by management in determining the quantum of expected future receipts</p>	<p>We reviewed a sample of the contracts with franchisees and performed detailed testing over revenue as follows:</p> <p>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.</p> <p>We performed detailed testing, on a sample basis, of sales transactions across the year and across each significant revenue stream.</p> <p>We performed 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.</p> <p>We reviewed credit notes raised after the year end</p> <p>Our audit work over the recognition of the deferred franchise fees included a review of historic recoveries in support of the directors' assessment of the timing and quantum of amounts the group ultimately expects to receive.</p>	<p>There were no matters identified in respect of inappropriate manual journals impacting revenue.</p> <p>Revenue was recognised in accordance with the group's accounting policies and no matters in respect of the recognition of deferred franchise fees or cut off around the year end were identified.</p>
<p>National Advertising Fund and Central Advertising Fund</p> <p>Refer to the Accounting Policies page 49 and Note 2 page 50.</p> <p>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.</p> <p>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 funds. 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.</p> <p>The franchisee contributions allocated to the funds are also susceptible to the risk of amounts being included in revenue.</p>	<p>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 within the group's accounts.</p> <p>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.</p> <p>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.</p> <p>We performed a proof in total of franchisee contributions to the NAF and CAF based on the number of franchisees and expected contribution rates.</p>	<p>The franchisee's ability to control the use of the resources in the NAF and CAF supports the group's judgement not to consolidate the income and expenditure of the NAF and CAF.</p> <p>Due to the nature of the existing framework agreements, judgement is required over items that are allocated to the NAF and CAF. Based on our testing, we did not identify any expenses which had been inappropriately allocated to the NAF and CAF funds and our audit work supports the correct allocation of franchisee contributions to the Funds.</p>

Independent auditor's report continued

For the year ended 31 December 2016

Risk description	Our response to the risk	Our conclusions
<p>Impairment of goodwill and intangible assets</p> <p>Refer to the Accounting Policies page 47 and Note 11 page 59.</p> <p>The group has goodwill and an indefinite life intangible asset, which despite the group being profitable and cash generative, requires management to test these balances for impairment at least annually.</p> <p>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.</p>	<p>We obtained the impairment analysis performed by management for each CGU.</p> <p>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.</p> <p>We performed procedures to obtain an understanding of the underlying assumptions made by management.</p> <p>The key assumptions included:</p> <ul style="list-style-type: none"> • Future trading projections, • The discount rate applied; and • The long term growth rate <p>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.</p> <p>We also performed sensitivity analysis to understand the relative impact of changes in the key assumptions within the impairment models.</p>	<p>The impairment assessments prepared by management, including the appropriateness of the forecasts, the basis of allocation of assets to the CGU's and determination of the discount rate, support the carrying value of the assets for each CGU.</p> <p>Sensitivity analysis has confirmed that the levels of headroom are sufficient to support the conclusion that no reasonably foreseeable events or circumstances would lead to any impairments being required and the disclosures in the financial statements include all relevant matters.</p>
<p>Intangible assets acquired with Barking Mad</p> <p>Refer to the Accounting Policies page 48, Note 2 page 50 and Note 22 page 64.</p> <p>The group acquired 100% of the share capital of Barking Mad Limited during the year.</p> <p>Assessment of the fair values of the acquired assets, including the Franchise Network Asset, together with consideration of useful lives attributed to intangibles is both complex and judgemental.</p>	<p>We reviewed and challenged the assessment of the fair values of the assets acquired, including separately identifiable intangibles, performed by management in line with the requirements of IAS 38.</p> <p>We also considered the evidence provided in support of the conclusion that £763,000 of the acquired intangibles represented a "Franchise Network Asset", to which an indefinite life has been attributed.</p>	<p>The fair values attributed to the separable intangible assets acquired has been undertaken using a methodology and approach which complies with appropriate accounting standards.</p> <p>Management have a reasonable and supportable basis for the adoption of an indefinite life, and the evidence supporting their conclusion accords with the requirements of accounting standards.</p>

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and forming our opinions.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the group to be £49,000, which was based on 1% of turnover.

Reporting threshold

An amount below which identified misstatements are considered to be clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £2,500, which was set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We evaluated any uncorrected misstatements against both quantitative measures of materiality discussed above and in light of other relevant qualitative considerations when forming our opinion.

An overview of the scope of our audit

The group manages its operations from a single location in the UK and has common financial systems, processes and controls covering all significant components. The audit of all significant components was performed by the same audit team. The audit team included tax and valuation specialists.

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 four reporting components of the group, we determined that two components represented the principal business units within the group.

For these two components, we performed an audit of the complete financial information.

For the remaining components, we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements, either because of the size of these accounts or their risk profile. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the group.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 2016, 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.

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 any 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 31, 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.

Independent auditor's report continued

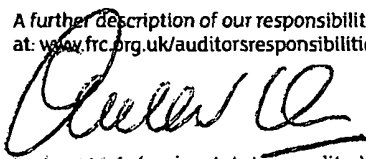
For the year ended 31 December 2016

Auditor's responsibilities for the audit of the financial statements

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

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.



Andrew Mair (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
Birmingham
United Kingdom
22 March 2017

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 2016

	Note	2016 £'000	2015 £'000
Revenue	4	4,870	4,379
Cost of sales		(1,572)	(1,487)
Gross profit		3,298	2,892
Administrative expenses before exceptional costs		(2,052)	(1,770)
Costs of acquisition of subsidiaries	5	(58)	–
IPO costs	5	(397)	–
Total administrative expenses		(2,507)	(1,770)
Operating profit	5	791	1,122
Finance income	8	2	1
Finance expense	8	(9)	(8)
Profit before tax		784	1,115
Tax expense	9	(260)	(227)
Profit for the year and comprehensive income attributable to equity holders of the parent company		524	888
All amounts relate to continuing operations			
Earnings per share	10		
Basic		1.28	2.44
Adjusted basic		2.40	2.44
Diluted		1.28	2.44
Adjusted diluted		2.39	2.44

The notes on pages 45 to 67 form part of these financial statements.

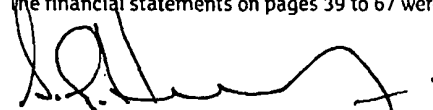
Consolidated statement of financial position

As at 31 December 2016

Company number 10281033

	Note	2016 £'000	2015 £'000
Assets			
Non-current assets			
Intangible assets	11	2,142	1,260
Property, plant and equipment	12	121	152
Trade and other receivables	13	112	115
Total non-current assets		2,375	1,537
Current assets			
Inventories	14	193	170
Trade and other receivables	15	307	249
Cash and cash equivalents	16	2,999	496
Total current assets		3,499	915
Total assets		5,874	2,452
Liabilities			
Current liabilities			
Trade and other payables	17	1,078	785
Loans and borrowings	18	167	1,764
Obligations under finance leases	19	29	35
Current tax liability		211	131
Total current liabilities		1,485	2,695
Non-current liabilities			
Loans and borrowings	18	250	-
Obligations under finance leases	19	73	106
Deferred tax liability	20	163	31
Total non-current liabilities		486	137
Total liabilities		1,971	2,832
Total net assets/(liabilities)		3,903	(380)
Issued capital and reserves attributable to owners of the parent			
Share capital	23	239	126
Share premium	24	3,214	-
Share-based payment reserve	24	30	-
Merger reserve	24	396	-
Retained earnings/(deficit)		24	(500)
Total equity/(deficit) attributable to equity holders		3,903	(380)

The financial statements on pages 39 to 67 were approved and authorised for issue by the Board of Directors on 22 March 2017.



Stephen Hemsley / Executive Chairman
22 March 2017

Company statement of financial position

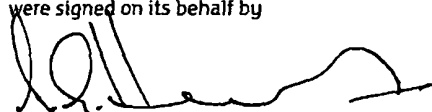
At 31 December 2016

Company number 10281033

	Note	2016 £'000
Assets		
Non-current assets		
Fixed asset investments	21	972
Total non-current assets		972
Current assets		
Trade and other receivables	15	2,823
Cash and cash equivalents	16	750
Total current assets		3,573
Total assets		4,545
Liabilities		
Current liabilities		
Trade and other payables	17	1
Loans and borrowings	18	167
Total current liabilities		168
Non-current liabilities		
Loans and borrowings	18	250
Total liabilities		418
Net assets		4,127
Issued capital and reserves attributable to owners of the parent		
Share capital	23	239
Share premium	24	3,214
Share based payment reserve	24	30
Merger reserve	24	276
Retained earnings		368
Total equity attributable to equity holders		4,127

No statement of comprehensive income is presented by the company as permitted by section 408 of the Companies Act. The profit dealt with in the financial statements of the parent Company from 15 July 2016, its incorporation date, is £368,000.

The financial statements on pages 39 to 67 were approved and authorised for issue by the Board of Directors on 22 March 2017 and were signed on its behalf by



Stephen Hemsley / Executive Chairman
22 March 2017

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 £'000	2015 £'000
Cash flows from operating activities		
Profit for the year	524	988
<i>Adjustments for:</i>		
Depreciation of property, plant and equipment	66	63
Amortisation of intangible fixed assets	10	
Share-based payment expense	30	
Finance income	(2)	(1)
Finance expense	9	8
Profit on sale of property, plant and equipment	-	(8)
Income tax expense	260	226
	897	1,176
(Increase)/decrease in trade and other receivables	(31)	97
Increase in inventories	(15)	(61)
Increase in trade and other payables	261	44
Cash generated from operations	1,112	1,246
Income taxes paid	(203)	(206)
Net cash generated from operating activities	909	1,040
Cash flows from investing activities		
Purchases of property, plant and equipment	(10)	(16)
Proceeds from sale of property, plant and equipment	-	11
Interest received	2	1
Acquisition of subsidiary, net of cash acquired	(333)	(83)
Net cash used in investing activities	(341)	(87)
Cash flows from financing activities		
Other loans – repaid	(1,847)	(1,470)
Other loans – received	500	
Interest paid – other loan	(6)	
Interest paid – finance leases	(3)	(8)
Share capital issued at IPO	3,500	
Share capital issued on incorporation	62	
Share issue expenses and other costs of IPO	(233)	
Capital element of finance lease repaid	(38)	(31)
Net cash generated from/(used in) financing activities	1,935	(1,509)
Net increase/(decrease) in cash and cash equivalents	2,503	(556)
Cash and cash equivalents at beginning of year	496	1,052
Cash and cash equivalents at end of year	2,999	496

The notes on pages 45 to 67 form part of these financial statements.

Company statement of cash flows

For the period from 15 July to 31 December 2016

	2016 £'000
Cash flows from operating activities	
Profit for the year	368
<i>Adjustments for:</i>	
Finance expenses	6
Income tax expense	(17)
Share-based payment expense	16
Cash generated from operations	373
Increase in trade and other receivables	(2,805)
Net cash used in operating activities	(2,432)
Cash flows from investing activities	
Acquisition of subsidiary, including costs	(558)
Net cash generated by investing activities	(558)
Cash flows from financing activities	
Other loans – repaid	(83)
Other loans – received	500
Share capital issued at IPO	3,500
Share capital issued on incorporation	62
Interest paid – other loan	(6)
Share issue expenses and other costs of IPO	(233)
Net cash flows generated by financing activities	3,740
Net increase in cash and cash equivalents	750
Cash and cash equivalents at end of year	750

The notes on pages 45 to 67 form part of these financial statements.

Consolidated and Company statement of changes in equity

Group	Share capital £'000	Share premium £'000	Share-based payment reserve £'000	Merger reserve £'000	Retained earnings/(deficit) £'000	Total equity £'000
1 January 2015	120	—	—	—	(1,388)	(1,268)
Profit and total comprehensive income for the year	—	—	—	—	888	888
31 December 2015 and 1 January 2016	120	—	—	—	(500)	(380)
Profit and total comprehensive income for the year	—	—	—	—	524	524
Contributions by and distributions to owners	—	—	—	—	524	524
Exercise of Share Options in FB Holdings Limited	1	—	—	—	—	1
Issue of shares on Incorporation	61	—	—	—	—	61
Issue of shares on acquisition of Barking Mad Limited	4	—	—	396	—	400
Costs of issue of new equity	—	(233)	—	—	—	(233)
Issue of shares at IPO	53	3,447	—	—	—	3,500
Share-based payment expense	—	—	30	—	—	30
Total contributions by and distributions to owners	119	3,214	30	396	—	3,759
31 December 2016	239	3,214	30	396	24	3,903

Company (from Incorporation on 15 July 2016)	Share capital £'000	Share premium £'000	Share based payment reserve £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
15 July 2016	—	—	—	—	—	—
Profit and total comprehensive income for the period	—	—	—	—	368	368
Contributions by and distributions to owners	—	—	—	—	368	368
Share capital issued in exchange for shares in FB Holdings Limited	120	—	—	(120)	—	—
Share capital issued on incorporation	62	—	—	—	—	62
Share capital issued on acquisition of Barking Mad Limited	4	—	—	396	—	400
Cost of issue of new equity	—	(233)	—	—	—	(233)
Share issue of shares at IPO	53	3,447	—	—	—	3,500
Share based payment expense	—	—	30	—	—	30
Total contributions by and distributions to owners	239	3,214	30	276	—	3,759
31 December 2016	239	3,214	30	276	368	4,127

2015 comparatives are based on the capital structure of the previous holding company, FB Holdings Limited (note 23).

The notes on pages 45 to 67 form part of these financial statements.

Notes forming part of the financial statements For the year ended 31 December 2016

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, Company number 10281033.

The Company was incorporated on 15 July 2016 with the name FB Holdings plc and on that day changed its name to Franchise Brands plc. Also on 15 July 2016, the Company acquired the entire issued share capital of FB Holdings Limited (which changed its name from Franchise Brands Limited on the same day) the previous holding company of the Group.

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

On 5 August 2016, the Ordinary shares of Franchise Brands plc were admitted to trading on the Alternative Investment Market ("AIM") of the London Stock Exchange.

Basis of preparation

The introduction of the new holding company has been accounted for under merger accounting principles. Therefore, the consolidated financial statements of Franchise Brands plc are presented as if Franchise Brands plc has always been the holding company for the Group.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2016 and applied in accordance with the Companies Act 2006. The Group has elected not to restate its business combinations made prior to 1 January 2013.

The Group's financial statements are presented in sterling and all values are rounded to the nearest thousand pounds (£000's) 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, IFRS 9 and IFRS 16 may have an impact on these financial statements.

IFRS 15 revenues from Contract with Customers

This standard is mandatory for periods beginning after 1 January 2018. IFRS 15 is intended to clarify the principles of revenue recognition and establish a single framework for revenue recognition across all industries.

Under the new standard, revenue is recognised when a customer obtains control of a good or service. It also establishes principles of reporting information around the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

Adopting this standard may result of changes to the timing of recognition of sales but the impacts are still being assessed.

Notes forming part of the financial statements continued

For the year ended 31 December 2016

1 Accounting policies continued

IFRS 9 Financial Instruments

This standard is mandatory for periods beginning on or after 1 January 2018. IFRS 9 Financial Instruments will ultimately replace IAS 39 Financial Instruments. Recognition and Measurement in its entirety. IFRS 9 uses a single approach to determine whether a financial asset is measured as amortised cost or fair value, replacing the many different rules in IAS 39.

The approach in IFRS 9 is based on how the entity manages its financial instruments and the contractual cash flow characteristics of the financial assets. The potential impact of this standard is still to be assessed by the Group and may give rise to changes in the recording of its financial assets and liabilities.

IFRS 16 Leases

This standard is effective for accounting periods beginning on or after 1 January 2019 and sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. It replaces IAS 17 Leases and IFRIC 4 "Determining whether an arrangement contains a lease".

The most significant changes are in the relation to lessee accounting. Under the new standard, the concept of assessing a lease contract as either operating or financing is replaced by a single lessee accounting model.

Under this new model, substantially all lease contracts will result in a lessee acquiring a right-to-use asset and obtaining financing. The lessee will be required to recognise a corresponding asset and liability. The asset will be depreciated over the term of the lease and the interest on the financing liability will be charged over the same period.

Adopting this new standard may result in changes to the Group's statements of financial position, with right-to-use assets and financing liabilities being recognized for the first time.

The Group's income statement will also be impacted with the rent expense relating to operating leases being replaced by a depreciation charge arising from the right-to-use assets and interest charges arising from lease financing. The full impacts are yet to be quantified. 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.

Segmental reporting

Management has determined that the Group has one operating segment. This is based on the operating reports reviewed by the Chief Executive Officer that are used to assess both performance and strategic decisions. Management has identified that the Chief Executive Officer is the chief operating decision maker in accordance with the requirements of IFRS 8 "Operating segments".

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.

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

Basis of consolidation

The consolidated financial statements incorporate the results and net assets of the Company and its subsidiary undertakings. As noted on the Basis of Preparation above, the introduction of a new holding company has been accounted for under merger accounting principles.

Other 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.

Business combinations

Other than for the introduction of the new holding company, the Group applies the acquisition method to account for business combinations. The consideration for 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.

Goodwill

Goodwill arising on the acquisition of a subsidiary undertaking is the difference between the fair value of the consideration paid and the fair value of the identifiable assets, liabilities and contingent liabilities acquired.

Impairment of non-financial assets

Impairment tests on goodwill and the franchise network asset are carried out at each financial year-end. For other non-financial assets, the Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the assets or cash generating unit's recoverable amount. 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.

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:

Product sales

Revenue from sales of products is recognised on delivery to customers.

Sales of franchise territories

Sales of franchise territories represent the changes for packages which include training, other start-up support and equipment package. 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).

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.

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 Groups financial performance.

Research and development

Development costs are charged to the statement of comprehensive income in the year of expenditure, unless individual projects satisfy all of the following criteria:

- The project is clearly defined and related expenditure is separately identifiable
- The project is technically feasible and commercially viable
- Current and future costs are expected to be exceeded by future sales and adequate resources exist for the project to be completed.

In such circumstances the costs are carried forward and amortised over a period not exceeding five years commencing in the year the asset is ready for use.

Notes forming part of the financial statements continued
For the year ended 31 December 2016

1 Accounting policies continued

Trademarks and licences

Where separately identifiable trademarks and licences are acquired, they are recognised at fair value.

Acquired trademarks and licences are amortised on a straight-line basis over their useful life but no longer than ten years. The carrying values of trademarks and licences are subject to impairment review by the directors if there have been indications of impairment. Any amortisation or impairment provisions are charged to the statement of comprehensive income in the period concerned.

Franchise Network Asset

The Company has defined a Franchise Network Asset (FNA) as the ability to manage, sell and operate a franchise. The FNA's acquired in a business combination are identified and recognised separately from goodwill and are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

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 per cent straight-line
Short term leasehold improvements	33 per cent straight-line
Motor vehicles	25 per cent straight-line
Long term fixtures and fittings	10 per cent straight-line
Short term fixtures and fittings	33 per cent straight-line
Computer equipment	33 per cent 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.

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.

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.

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.

Valuation of investments

Investments in subsidiaries are measured at cost, plus attributable expenses, less accumulated impairment, except for shares issued pursuant to a group reorganisation which are recorded at the Group's share of the equity of the original parent immediately prior to the re-organisation.

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.

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.

Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Foreign currency

Foreign currency transactions are translated at the rates ruling when they occurred. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Any differences are taken to the statement of comprehensive income.

Notes forming part of the financial statements continued

For the year ended 31 December 2016

1 Accounting policies continued

Pension costs

Contributions to the Group's defined contribution pension scheme are charged to the statement of comprehensive income in the year in which they become payable.

Trade receivables

Trade receivables are carried at amortised cost using the effective interest rate method, less provision for impairment.

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivables will not be collected the gross carrying value of the asset is written off against the associated provision.

Trade payables

Short term trade payables are measured at their transaction price.

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.

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.

National and central advertising funds

Franchisees within the Group pay a fee into central funds designed to build sales. The funds are managed for the benefit of franchisees in the system with the objective of driving revenues. The funds are 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 funds 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.

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 other intangible assets have been allocated. The value in use calculations, which are run on an annual basis for goodwill, or when there is an indicator of impairment for tangible and intangible fixed assets, determine whether there is any impairment to the carrying value of assets arising from business combinations. More details of these estimates can be found in note 11.

Indefinite life asset

Management has determined that the FNA acquired with Barking Mad is 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 sector Barking Mad operates in is sufficiently large and contains sufficient opportunity to support these assumptions. As with all indefinite life and intangible assets the FNA will be reviewed at the end of each reporting period to determine whether there is any indication that it has suffered an impairment loss.

Revenue recognition

The Group offers deferred payment terms in relation to some of the franchisee fees payable. The Group assess 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.

3 Financial instruments – risk management

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

The Group's financial risk management objectives consist of identifying and monitoring those risks, which have an adverse impact on the value of the Group's financial assets and liabilities or on the reported profitability and on the cash flows of the Group. The Group's financial liabilities are the other loans, finance leases and trade and other payables. The Group has various financial assets such as trade receivables and cash, which arise directly from its operations. The Group has not entered into and derivative transactions such as interest rate swaps. It is the Group's policy that no trading in derivatives shall be undertaken.

The Group's main treasury risks relate to the availability of funds to meet its future requirements. The treasury policy of the Group is determined and monitored by the Board. The Group monitors its cash resources through short, medium and long term cash forecasting.

The main risks arising from the Group's financial instruments are credit risk, price risk and liquidity risk. The Board reviews the policies for managing each of these risks which are summarised below:

Group	2016 £'000	2015 £'000
Financial assets		
Cash and cash equivalents	2,999	496
Trade and other receivables	170	183
Total financial assets	3,169	679
Company	2016 £'000	2015 £'000
Financial assets		
Cash and cash equivalents	750	–
Trade and other receivables	2,823	–
Total financial assets	3,573	–

Notes forming part of the financial statements continued

For the year ended 31 December 2016

3 Financial Instruments – risk management continued

Group	2016 £'000	2015 £'000
Financial liabilities		
Trade and other payables	918	636
Loans and borrowings	519	1,905
Total financial liabilities	1,437	2,543
Company	2016 £'000	2015 £'000
Financial liabilities		
Trade and other payables	1	–
Loans and borrowings	417	–
Total financial liabilities	418	–

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.

On 1 August, new loans of £250,000 each were granted by Solent Capital Partners Limited and Glengrace Limited, companies controlled by Stephen Hemsley and Nigel Wray respectively. The loans bear interest at a rate of 2.5 per cent above the base lending rate from time to time of National Westminster Bank plc and are repayable in twelve quarterly instalments in arrears which commenced on 30 September 2016 and may be repaid in full by the company at any time. All loans made previously by the then shareholders of the Group were repaid prior to admission. The total shareholders' loans repaid in 2016 was £1,764,000 (2015: £1,470,000).

Credit risk

Customers who trade on credit terms are predominantly its franchisees and it is considered that the franchisee recruitment selection process is sufficiently robust to ensure an appropriate credit verification procedure. In addition, trade receivable balances are monitored on an ongoing basis.

It is the Group's policy that cash deposits are only made with banks that have been approved by the Board and have a high credit rating to ensure the Group is not exposed to unnecessary risk.

Cash is held with the following institutions:

Group	Rating	2016 £'000	2015 £'000
NatWest Bank	A	2,844	496
HSBC	A	155	–
Total		2,999	496
Company	Rating	2016 £'000	2015 £'000
NatWest Bank	A	750	–
HSBC	A	–	–
Total		750	–

The Directors consider that the concentration of credit risk with these institutions is managed through regular monitoring of the levels of deposits held and only making deposits with independently rated parties with a minimum "A" rating.



Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation from its operations with collection targets set throughout the Group. All major investment decisions are considered by the Board as part of the project appraisal and approval process.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities:

Group	2016 £'000	2015 £'000
Less than 1 year		
Trade and other payables	918	638
Loans and borrowings	196	1,799
Total financial liabilities due in less than one year	1,114	2,437
Company	2016 £'000	2015 £'000
Less than 1 year		
Trade and other payables	1	—
Loans and borrowings	167	—
Total financial liabilities due in less than one year	168	—
Group	2016 £'000	2015 £'000
Greater than 1 year but less than 5 years		
Loans and borrowings	323	106
Total financial liabilities due in more than one year but less than five years	323	106
Company	2016 £'000	2015 £'000
Greater than 1 year but less than 5 years		
Loans and borrowings	250	—
Total financial liabilities due in more than one year but less than five years	250	—

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders through an appropriate balance of debt and equity funding, whilst maintaining a strong credit rating and sufficient headroom. During its development, the Group has utilised shareholder loans of £3,240,000. The balance of £1,764,000 of these original shareholder loans outstanding at 1 January 2016 was repaid out of cash flow generated from profits prior to the IPO. These were partially replaced by new loans totalling £500,000 as noted above.

To meet these objectives, the Group reviews the budgets and forecasts on a regular basis to ensure there is sufficient capital to meet the needs of the Group through to profitability and positive cash flow.

During the year, the Group increased its equity through contributions by owners totaling £3,759,000 as set out in the consolidated statement of changes in equity. At 31 December 2016, the Group's capital structure comprised equity of £3,903,000 (2015: deficit £380,000) and net cash of £2,582,000 (2015: net borrowings of £1,268,000).

Notes forming part of the financial statements continued

For the year ended 31 December 2016

4 Revenue

	2016 £'000	2015 £'000
Sale of services	3,861	3,508
Sale of goods	1,009	871
	4,870	4,379

The 2015 comparatives have been adjusted to correct a misallocation of £710,000 between the sale of goods and sale of services.

An analysis of revenue by geographical market is given below:

	2016 £'000	2015 £'000
United Kingdom	4,821	4,332
Europe	19	19
Rest of the World	30	28
	4,870	4,379

5 Operating profit

	2016 £'000	2015 £'000
Operating profit is stated after charging:		
Depreciation	66	63
Amortisation	10	–
Share-based payment expense	30	–
IPO costs	397	–
Costs of acquisition of subsidiary	58	–
Operating lease rentals	124	91
Auditors' remuneration:		
Fees for audit of the Company and the Group	15	10
Fees for the audit of subsidiaries	33	23
Other taxation services	15	10

In addition to the amount disclosed above, auditor's remuneration of £75,000 in respect of corporate finance activities and £22,000 in respect of other assurance services has been included within share issue costs and has been allocated between the share premium and IPO costs.

During the year, the Company incurred significant costs associated with both its admission to the Alternative Investment Market (AIM) and its acquisition of Barking Mad Limited which are not part of the usual course of business of Franchise Brands plc. Costs charged in arriving at profit from operations amounted to £397,000 and £58,000 respectively.

6 Staff costs

	2016 £'000	2015 £'000
Wages and salaries	731	655
Social security costs	76	61
Pension costs	8	10
Share-based payment expense	30	-
	845	726
The average monthly number of persons (including directors) employed by the Group was		
Administration	11	14
Sales	2	1
Training	2	3
Warehouse	2	1
Operations	1	1
Directors	7	5
	25	25

Directors' remuneration

	2016 £'000	2015 £'000
Directors emoluments	321	246
Amounts receivable under long-term incentive scheme	16	-
Company contributions to money purchase pension schemes	7	-
	344	246

Information regarding the highest paid director is as follows

	2016 £'000	2015 £'000
Highest paid Director (see Remuneration report for further details)	125	130

The Board of Directors are considered to be the key management personnel. Their cost to the Group is £372,000 (2015: £265,000). The Company had no employee (other than the Directors') and no staff costs. Directors' emoluments include £90,000 (2015: £100,000) paid to companies controlled by Directors (see note 26).

7 Share-based payments

The share-based payment expense recognised in respect of employee services received during the year ended 31 December 2016 was £30,000 (2015: £nil). This all arises on equity-settled share-based payment transactions.

Current share-based payment scheme

As at 31 December 2016, the following share options were outstanding:

		2016 Number of shares
Outstanding employee share options at 0.5 pence		1,628,788
Date of grant	Period of options	2016
2016	August 2016 – August 2026	2,015,151
	Lapsed during the period	386,363
		1,628,788

Notes forming part of the financial statements continued

For the year ended 31 December 2016

7 Share-based payments continued

The Company established a long-term incentive plan in the form of a share option scheme on 1st August 2016 under which 2,015,151 shares were granted.

Awards are granted and approved at the discretion of the Remuneration Committee. The awards will vest on or after the third anniversary of their Issue, being 1st August 2019, based on compound growth in the underlying earnings per share of the Group for the three-year period starting on 1st January 2016. If the compound annual growth rate is below 8 per cent, then none of these options will vest. Between 8 and 15 per cent growth then a proportion of these options will vest on a straight-line basis. E.g. if the compound annual growth rate is 11.5 per cent then 60 per cent of the options would vest.

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 2016.

Black-Scholes Option Pricing Model

Closing stock price at 5 August 2016	£0.35
Exercise Price	£0.33
Risk-Free Interest Rate	0.46%
Expected Life of Option (years)	6.5
Volatility	37.8%
Dividend Yield	0%
Option Value (pence)	13.68

The share-based payment expense for the year is £30,000 (2015: £nil).

Previous share-based payment scheme

Date of Grant	Period of options	2016 Number of shares	2015 Number of shares
2011	June 2011-June 2021	1,225,000	1,225,000
2013	June 2013-June 2023	75,000	75,000
EMI share options at 1 pence in share capital of former holding company, outstanding at 31 December 2015		1,300,000	1,300,000
Exercised on 15 July 2016		(171,344)	-
Lapsed on 15 July 2016		(1,128,656)	-
Balance at 31 December 2016		-	1,300,000

At 31 December 2015, there were employee share options outstanding in relation to 1,300,000 Ordinary shares of 1p each in the share capital of the Group's former holding company. On 15 July 2016, a proportion of these options became exercisable, in accordance with the terms of the scheme; and the balance of the share options under this scheme lapsed. Options equivalent to 171,344 Ordinary shares of 1 pence each in the former holding company were converted to 342,688 Ordinary shares of 0.5 pence in Franchise Brands plc.

No share-based payment charge was recognised in 2015 in relation to this share options scheme, as at 31 December 2015 satisfying the conditions relating to the ability to exercise the share options was not considered probable. This was re-assessed at IPO, with the conclusion being no material share-based payment arises.

8 Finance income

	2016 £'000	2015 £'000
Bank interest	2	1

Finance expense

	2016 £'000	2015 £'000
Interest element of hire purchase agreements	3	8
Loan interest	6	2
	9	8

9 Income tax

	2016 £'000	2015 £'000
Current tax expense		
Current tax on profits for the period	251	224
Adjustment for prior period	9	—
Deferred tax expense		
Origination and reversal	—	3
Total tax expense	260	227
Accounting profit multiplied by the UK statutory rate of corporation tax	157	223
Expense not deductible for tax purposes	94	4
Adjustment for prior period	9	—
	260	227
Effective tax rate	33.2%	20.3%

The current rate of UK corporation tax is 20 per cent. A reduction in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and to 17 per cent (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 the year ended 31 December 2016

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.

Adjusted Earnings per share

During the year, the Group incurred significant exceptional costs associated with the floatation of the company and the acquisition costs of Barking Mad. If these costs, of £397,000 and £58,000 respectively, which were not deductible for corporation tax, were added back and the resultant profit taxed at 20.5 per cent being the Group's underlying tax rate, the profit attributable would be £979,000.

Comparative earnings per share are calculated on the share capital of Franchise Brands plc of 36,324,729 as if it had been the parent company throughout 2015 and the share for share exchange for 12,171,344 shares of 1 pence each of the former holding company had taken place previously as at 1 January 2015.

Earnings per share

	2016 £'000	2015 £'000
Profit attributable to owners of the parent	524	888
Exceptional Items	455	–
Adjusted profit attributable to owners of the parent	979	888
	Number	Number
Basic weighted average number of shares	40,837,885	36,324,429
Dilutive effective of share options	147,654	–
Diluted weighted average number of shares	40,985,539	36,324,429
	Pence	Pence
Basic earnings per share	1.28	2.44
Diluted earnings per share	1.28	2.44
Adjusted Earnings per share	2.40	2.44
Adjusted diluted earnings per share	2.39	2.44

11 Intangible assets

Group	Goodwill £'000	Franchise network asset £'000	Development costs £'000	Trade marks £'000	Total £'000
Cost					
At 1 January 2015	1,171	—	127	1,654	2,952
Additions	14	—	—	75	89
At 31 December 2015	1,185	—	127	1,729	3,041
At 1 January 2016	1,185	—	127	1,729	3,041
Additions on business combination	129	763	—	—	892
At 31 December 2016	1,314	763	127	1,729	3,933
Amortisation					
At 1 January 2015	—	—	127	1,654	1,781
Charge for the year	—	—	—	—	—
At 31 December 2015	—	—	127	1,654	1,781
At 1 January 2016	—	—	127	1,654	1,781
Charge for the year	—	—	—	10	10
At 31 December 2016	—	—	127	1,664	1,791
Net book value					
At 31 December 2015	1,185	—	—	75	1,260
At 31 December 2016	1,314	763	—	65	2,142

The Company has no intangible assets.

During the year Barking Mad Limited was acquired for a consideration of £900,000. The figure £763,000 represents the fair value of the franchise network asset on acquisition and the figure of £129,000 represents the fair value of the goodwill on acquisition. Full details of this transaction are contained within Note 22.

Goodwill relates to three cash generating units (CGUs) ChipsAway (carrying value £1,171,000), MyHome Marketing (carrying value £13,500) and Barking Mad (carrying value £129,000). Franchise network asset relates to Barking Mad (carrying value £763,000) The recoverable amount of each CGU is based on value in use calculations.

Management has tested goodwill and the franchise network asset for impairment.

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 CGU. 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 which have been approved by the Board of Directors.

The Group has also commissioned an independent valuation of the domain name to assess potential impairment of the carrying values of MyHome. This report supports the assessment of no impairment being required.

The recoverable amount for Barking Mad is sensitive to movements in the discount rate and the growth assumptions within the forecast. No increase in revenue has been assumed for years three to five within the value in use calculation. The forecast revenue for Barking Mad is based on future expectations of the market conditions and the increase attributable to its inclusion within the Group, significantly the sharing of resource and experience in growing franchise organisations.

Notes forming part of the financial statements continued

For the year ended 31 December 2016

11 Intangible assets continued

The recoverable amount for ChipsAway is sensitive to movements in the discount rate and growth assumptions within the forecast. Prudently no increase in revenue has been assumed for years three to five within the value in use calculation

The pre-tax rate used to discount the forecast cash flows for Barking Mad and ChipsAway is 15.6 per cent. The impairment reviews management has undertaken indicated that sensitising the cash flow downwards by 10 per cent or applying a 20 per cent discount rate would not indicate a need for impairment.

Based on the calculations prepared the recoverable amount for all CGUs exceed their carrying amount.

12 Property, plant and equipment

Group	Leasehold improvements £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 January 2015	119	91	81	195	487
Additions	—	—	2	72	74
Disposals	—	—	—	(21)	(21)
At 31 December 2015	119	91	83	247	540
At 1 January 2016	119	91	83	247	540
Additions on acquisition	—	35	57	4	96
Additions	—	—	6	4	10
At 31 December 2016	119	126	146	255	646
Depreciation					
At 1 January 2015	87	70	73	103	333
Charge for the year	7	4	7	45	63
Disposals	—	—	—	(18)	(18)
At 31 December 2015	94	74	80	130	378
At 1 January 2016	94	74	80	130	378
Additions on acquisition	—	22	56	3	81
Charge for the year	7	2	5	52	66
At 31 December 2016	101	98	141	185	525
Net book value					
At 31 December 2015	25	17	3	117	162
At 31 December 2016	18	28	5	70	121

The Group acquired no assets under hire purchase agreements in the year. The net book value of assets held under hire purchase agreements under Group Property, Plant and Equipment include an amount of £35,821 (2015 – £67,759). The related depreciation charge on these assets for the year was £27,410 (2015 – £35,134).

The Company has no fixed assets at 31 December 2016.

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

Group	2016 £'000	2015 £'000
Total trade and other receivables, due in more than one year	112	115

14 Inventories

Group	2016 £'000	2015 £'000
Finished goods and goods for resale	193	170

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 any period end. No material amounts have been written off in either year ended 31 December 2016 or 31 December 2015.

15 Trade and other receivables

Group	2016 £'000	2015 £'000
Trade receivables	358	359
Provision in the year	(204)	(177)
Other receivables	16	1
Total financial assets other than cash and cash equivalents	170	183
Prepayments	137	66
Total current trade and other receivables	307	249
	2016 £'000	2015 £'000
Bad debt provision		
Brought forward	(177)	(147)
Provision for the year	(57)	(45)
Utilised	30	15
Carried forward	(204)	(177)
	2016 £'000	2015 £'000
The ageing of the trade receivables is as follows:		
Due	138	166
Past due	16	16
Past due and impaired	204	177
Total	358	359

Notes forming part of the financial statements continued
For the year ended 31 December 2016

15 Trade and other receivables continued

Company	2016 £'000
Amounts owed by group undertakings	2,803
Other debtors	20
Total current trade and other receivables	2,823

16 Cash and cash equivalent

Group	2016 £'000	2015 £'000
Cash at bank and in hand	2,999	496

Company	2016 £'000	2015 £'000
Cash at bank and in hand	750	—

17 Trade and other payables

Group	2016 £'000	2015 £'000
Current		
Trade payables	296	295
Accruals	268	227
Other creditors	354	116
Social security and other taxes	160	147
Total trade and other payables	1,078	785
Company		
Trade payables	1	—

Carrying values approximate to fair value.

18 Loans and borrowings

Group and Company	2016 £'000	2015 £'000
Current		
Other loans	167	1,764
Non-Current		
Other loans	250	—
	417	1,764

On 1 August 2016, the Company issued a Loan Note Instrument, under which loans were made to it by the following companies:

Company	Amount £'000
Solent Capital Partners Limited (a company controlled by Stephen Hemsley)	£250
Glengrace Limited (a company controlled by Nigel Wray)	£250

The loan notes are repayable in twelve equal quarterly instalments in arrears which commenced on 30 September 2016 and may be repaid in full at any time by the Company. The loans bear interest at the rate of 2.5 per cent, above the base lending rate from time to time of National Westminster Bank plc. The Company has undertaken to the noteholders that it will not create or grant any new security to any other party, whilst any such loan notes are outstanding.

19 Obligations for finance leases:

Group	2016 £'000	2015 £'000
Current	29	35
Non-current (between 1 and 5 years)	73	106
Total obligation for finance leases	102	141

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 rates of 17 per cent (2015: 20 per cent, 2014: 21 per cent).

The movement in the deferred tax liability is as shown below:

	2016 £'000	2015 £'000
Opening balance	31	14
Arising on acquisition of MyHome Marketing Limited	-	14
Recognised in profit and loss	-	3
Arising on acquisition of Barking Mad Limited	132	-
Closing balance	163	31

The provision for deferred taxation is made up as follows

	2016 £'000	2015 £'000
Fair value of intangibles on acquisition	132	14
Accelerated capital allowances	31	17
Total	163	31

21 Subsidiaries

Company	2016 Group undertakings £'000
Cost	
Barking Mad Limited (including acquisition costs)	958
Share-based payment	14
At 31 December 2016	972

In accordance with the provisions of IAS 27 the cost of investment satisfied by Ordinary shares issued relating to the acquisition of FB Holdings Limited have been recorded at £nil, with the associated element in respect of the shares issued upon recognition within other reserves.

Notes forming part of the financial statements continued

For the year ended 31 December 2016

21 Subsidiaries continued

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

Name	Principal activity	2016 %	2015 %
FB Holdings Limited	Intermediate Holding Company	100	100
ChipsAway International Limited	Operation and Management of Franchise Business	100	100
Edwin Investments Limited	Operation and Management of Franchise Business	100	100
Ovenclean Domestic Limited	Operation and Management of Franchise Business	100	100
MyHome Marketing Limited	Operation and Management of Franchise Business	100	100
Ovenclean (Ontario) Limited	Operation and Management of Franchise Business		
Barking Mad Limited	Operation and Management of a Franchise Business	100	-
Alloy Rescue Limited	Operation and Management of Franchise Business	100	100
DentsAway Limited	Dormant	100	100
Ovenclean Limited	Dormant	100	100

The Company acquired Barking Mad Limited on the 31 October 2016 (note 22)

The Company acquired the remaining 50 per cent of MyHome Marketing Limited on the 4 September 2015 (note 22).

The principal country and place of business of all the above companies is England and Wales.

The registered office and principal place of business for the parent company and all subsidiaries is 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire, DY11 7RA.

22 Business combination

Acquisition of Barking Mad Limited

On 31 October 2016, the Group acquired 100 per cent of the voting equity instruments of Barking Mad Limited, a company whose principal activity is that of a management and operation of a franchise business. This acquisition was made as the first part of the expansion plan for Franchise Brands plc in expanding its group of franchise businesses. The Group anticipated the close relationship between the franchised businesses will be mutually beneficial including shared resources in 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
Franchise network asset	-	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 fair value	137	634	771
Consideration paid in cash			900
Goodwill			129

The fair values include the recognition of an FNA 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 FNA was determined to have an indefinite life.

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

Fair value of consideration paid

	£'000
Cash	500
Shares 761,193 at 52.55 pence per share	400
Total consideration	900

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

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.

Since the acquisition date, Barking Mad has contributed £74,000 to Group revenues and a loss of £12,000 to Group income. If the acquisition had occurred on 1 January 2016, Group Revenue would have increased by £568,000 and Group income for the period would have increased by £151,000

The net cash sum expended on the acquisition is as follows:

	£'000
Cash paid as consideration on acquisition	500
Less cash acquired on acquisition	(167)
Net cash movement	333

Acquisition of MyHome Marketing Limited

On the 4 September 2015 the Group acquired the remaining 50 per cent of MyHome Marketing Limited.

Assets & liabilities acquired at the date of acquisition	£
Trademarks	75
Trade and other receivables	42
Trade and other payables	(34)
Deferred taxation	(14)
Cash in Bank	13
	82
Consideration paid in cash	96
Goodwill on acquisition	14

Notes forming part of the financial statements continued

For the year ended 31 December 2016

23 Share capital

Movements in share capital

	Date	Shares	Nominal Value £'000
On Incorporation	15 July 2016	12,171,344	61
Shares issued in exchange for the entire issued share capital of FB Holdings Limited	15 July 2016	24,342,688	121
On admission to AIM	05 August 2016	10,606,061	53
On acquisition of Barking Mad Limited	31 October 2016	761,193	4
Total	31 December 2016	47,881,286	239

At 31 December 2015, Group Share capital was £120,000 comprising 12,000,000 Ordinary shares of 1 pence each in FB Holdings Limited, the former holding company.

24 Reserves

Share capital

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

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 Limited in relation to its acquisition by the Company on 31 October 2016.

Retained earnings

All other net gains and losses and transactions not recognised elsewhere.

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:

	2016 £'000	2015 £'000
less than one year	74	103
more than one year but no later than five years	240	102
more than five years	173	–
	487	205

The Group maintains a leased property. The terms of the property lease are over a 10-year term which commenced on 27 October 2016, with a one-year break clause. During 2015 there was no such obligation.

The Company has no operating leases.

26 Related party transactions

The following are payments to entities controlled by directors of the company and, where appropriate, are included within directors' remuneration in note 6.

		2016 £'000	2015 £'000
Mark Peters (Miserden Ltd)	Company Secretary Fee	10	10
Julia Choudhury (Winsham Capital Partners Limited)	Directors Fee	5	10
Julia Choudhury (Winsham Capital Partners Limited)	Consultancy Service	35	30
Robin Auld (Auld Associates Limited)	Directors Fee	5	10
Robin Auld (Auld Associates Limited)	Consultancy Service	25	30
Nigel Wray (Brendon Street Investments Limited)	Directors Fee	10	10
Related party transactions		90	100

On Admission, Tim Harris, Robin Auld and Julia Choudhury were each awarded options over 303,030 shares under the Company's long term incentive plan.

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 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.

The terms of the loan notes under which the loans were made are set out in Note 18. All loans previously made by certain existing shareholders to the Group have been repaid.

27 Post balance sheet event

Terms have been agreed, subject to shareholder approval, for the proposed acquisition of the entire issued share capital of Metro Rod Limited, a leading provider of drain clearance and maintenance services, which are delivered on a largely reactive basis by regional franchisees. The total consideration is £28 million (subject to adjustment on the financial position of Metro Rod Limited on completion), which together with estimated costs of approximately £1.8 million, will be satisfied in cash at completion of the acquisition. It is proposed that the consideration, associated costs and additional working capital will be funded by the issue of placing shares to raise approximately £20 million and new bank facilities of up to £17 million. Given the scale of the acquisition when compared to the existing Group, the transaction will constitute a reverse takeover under the AIM rules.

Company information

Country of incorporation of parent company
United Kingdom

Legal form
Public limited company

Directors

Stephen Glen Hemsley	Executive Chairman
Timothy ("Tim") John Harris	Chief Executive Officer
Robin Nigel Auld	Marketing Director
Julia Rosalind Choudhury	Corporate Development Director
Nigel William Wray	Non-Executive Director
David John Poutney	Non-Executive Director
Robin ("Rob") Christian Bellhouse	Non-Executive Director

all of:

5 Edwin Avenue
Hoo Farm Industrial Estate
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Worcestershire
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Company Secretary
Mark Andrew Peters

Registered Office and Principal Place of Business
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Hoo Farm Industrial Estate
Kidderminster
Worcestershire
DY11 7RA

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3 St. Helen's Place
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Joint Broker
Dowgate Capital Stockbrokers Limited
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