ChipsAway International Limited

Annual Report and Financial Statements

Year Ended

31 December 2019

Company Number 02962763

ChipsAway International Limited

Report and financial statements
for the year ended 31 December 2019

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Directors

T J Harris
A J Mallows
J C S Dent
P Molloy

Registered office

Ashwood Court, Springwood Close, Tytherington Business Park, Macclesfield, England, SK10 2XF

Company number

02962763

Solicitors

Gateleys, One Eleven Edmund Street, Birmingham, B3 2HJ

Bankers

HSBC Bank plc, 8 Canada Square, London, E14 5HQ

Independent auditor

BDO LLP, 3 Hardman Street, Manchester, M3 3AT

ChipsAway International Limited

Strategic report
for the year ended 31 December 2019

The Directors present their strategic report together with the audited financial statements for the year ended 31 December 2019.

Principal activities, review of business and future developments
Established in 1994, ChipsAway is the UK's leading and longest-established mobile car paintwork repair specialist focusing on SMART ("Small to Medium Area Repair Technology") repairs. ChipsAway has 205 franchisees in the UK. It also has a presence in ten countries outside the UK through master franchise arrangements. The Company's principal activity is the development of a franchised network of specialist automotive paint, body and wheel repair services.

ChipsAway franchisees primarily serve private consumers, and operate from branded vehicles which are mobile workshops, or Car Care Centres. Our SMART repair process uses mostly water-based formulations.

ChipsAway performed well in 2019. 35 new franchisees were recruited and fewer franchisees left the network. This allowed us to grow the network from 201 to 205. The Car Care Centre was established incorporating the latest advanced driver-assist systems also had a good profitable first year of operation. ChipsAway continues to be our largest B2C brand generating gross profit of £3.54m.The results for the year to 31 December 2019 were in line with expectations, with turnover being up by 12% to £5.3m, and EBITDA of £2.1m being up 2% from 2018.

ChipsAway remains firmly committed to its environmental policy, is an equal opportunities employer, subscribes to the ethos of the national minimum wage and operates a family friendly policy.

The Company is owned by Franchise Brands plc, and is operated as part of its Business to Consumer ("B2C") divison. In Q1 2020, EBITDA of the B2C division (ChipsAway, Ovenclean and Barking Mad) was 5% ahead of Q1 of the previous year. ChipsAway experienced very strong franchise recruitment. However, weakening consumer demand from early March, as people began staying at home and self-isolating, impacted fee income across the division.

In response to virtually no activity for the B2C franchisees during the height of the lockdown, franchise fees were significantly reduced or eliminated by the Company to help ensure franchisees' survival. Support Centre payroll costs have been reduced by 78% from Q1 2020 levels by furloughing the majority of the staff and agreeing pay-cuts for the few that remain, with the aim of matching overhead costs to the reduced revenue. The objective for this division was to operate at a cash break-even level during the lockdown.

Since the lifting of the restrictions we have begun to see a return to trade within our B2C networks. ChipsAway resumed trading during the course of June and saw high levels of both consumer and recruitment leads.

Key performance Indicators

The key financial performance indicators of the Company are turnover, EBITDA and profit before tax. Other key performance indicators include customer enquiries.

Principal risks and financial instruments

Financial risks

Given the exceptional nature of the current situation, and despite the assistance being provided through the various Government schemes, the Directors believe it is prudent to anticipate a number of customers to become insolvent as the crisis continues (although the current actual credit loss is low, as it has been historically). A detailed internal analysis of debtors has been completed on a risk-weighted basis according to the business sectors they are operating in and their financial position.

Although, due to COVID-19, there is currently a heightened risk that the debtors held within the year end balance sheet that have not yet paid may cause the Company to have a Credit Loss, this Credit Loss does not reflect the circumstances which existed at the balance sheet date. Therefore, no further provision has been taken within these accounts as an adjusting post-balance sheet event.

Principal risks and financial instruments (continued)

The Company trades only in Sterling so is not exposed to foreign exchange rate fluctuations.

Due to the nature of the funding of the parent Company, the business is not exposed to interest rate fluctuations.

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 with the result that the Company's exposure to bad debts is not significant.

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

The Company also offers deferred payment terms in relation to some of the franchisee fees payable. The Company 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 with the debt reduces to an acceptable level.

Business risks

Encouragingly, consumer enquiries for the Franchise Network Service were broadly in line with 2018. Franchise sales were broadly in line with expectations and encouragingly, a number of existing franchise partners are purchasing additional territories or postcodes for expansion.

Going Concern

The Company has generated profits both in during the years covered by these financial statements, and in previous years, and has sufficient current financial assets to meet its current liabilities as they fall due.

Since the year end the trading of ChipsAway has been impacted by the lockdown which was imposed by the Government as a result of the COVID-19 crisis. In response to this crisis ChipsAway reduced costs to reflect the reduction in the level of revenues. This included the use of the Government's Job Retention Scheme ("furlough") scheme, which was an excellent tool during the height of lock-down to ensure that we could continue to employ our people in the face of a sharp fall in revenues. In addition pay-cuts were agreed with the remaining employees, and other operational cost savings were achieved.

This meant that ChipsAway continued to either generate profits or break-even on a month-by-month basis during the height of the lock-down, and continued to be able to pay all its liabilities as they fell due.

Since the lock-down has begun to be eased ChipsAway has seen a nascent recovery in its revenues and has consequently begun to return staff from furlough.

The Company, and the overall Group, have re-forecast its anticipated financial performance over the balance of 2020, and throughout the whole of 2021. These financial forecasts include detailed income statement and cash flow budgets. These forecasts have been subject to review by the Board of Directors.

The Company is 100% owned by Franchise Brands plc. On 20 April 2020 Franchise Brands completed a fundraise by which 15,555,556 new ordinary shares were issued at the price of 90p raising £13.6m (net of expenses). This fundraise has significantly strengthened our balance sheet at a time of heightened uncertainty, giving the Group the liquidity to capitalise on earnings-enhancing growth opportunities as they arise. The Group has used the placing funds to pay down its borrowings on the Group's Revolving Credit Facility ("RCF"). The Group has not, currently, used the funds to pay down our Term Loan (which currently stands at £6.1m) to continue to maximise the Group's accessible funding lines. At the 30 June 2020 the Group had cash of £11.8m, and undrawn bank facilities of £11.0m (comprised of £5m RCF and £6m overdraft), giving the Group £22.8m of cash and available facilities.

Business risks *(continued)*

Overall the Group has de-leveraged, moving to an adjusted net cash position of £4.2m (31 December 2019: adjusted net debt of £9.2m), and a statutory net cash position (including our capitalised operating leases) of £2.6m (31 December 2019: net debt of £11.1m).

Franchise Brands plc has signed a Letter of Support, indicating that it is willing to continue to support this Company for at least 12 months from the signing of the accounts.

Given the fact that the Company continues to be profitable, continues to have net assets and has access to cash and funding from its parent, Franchise Brands plc, the directors have made appropriate enquiries and consider that the Company 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.

This report was approved by the board on 18/09/20 and signed on its behalf.

J C S Dent
Director

The Directors present their report together with the audited financial statements for the year ended 31 December 2019.

Results and dividends

The profit for the year, after taxation, amounted to £1.2 million (2018 - £1.1 million).

Dividends of £Nil (2018 - £4.2 million) were paid during the year. The Directors do not recommend the payment of a final dividend.

Future developments

A review of the business and future developments is set out within the strategic report.

Directors

The Directors who served during the year and up to the date of approval of these financial statements were:

T J Harris
A J Mallows
J C S Dent
P Molloy (appointed 2 December 2019)

Post balance sheet events

There have been no adjusting post balance sheet events. For details of the Company's trading since the year end, including the effects of COVID-19 please see the Strategic Report.

Going concern

Given the fact that the Company continues to be profitable, continues to have net assets and has access to cash and funding from its parent, Franchise Brands plc, the directors have made appropriate enquiries and consider that the Company 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.

Employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of their business units and of the Company as a whole. Communication with all employees continues through the in-house newspaper and newsletters, briefing Groups and the distribution of the annual report.

Third party indemnity provision

A qualifying third party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors and the company secretary in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, Directors' and officers' liability insurance policy was maintained throughout the year and up to the date of signing the financial statements.

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor are unaware; and
- the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor are aware of that information.

Auditor

BDO LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditor will be proposed at the next annual general meeting.

Information included in the strategic report

Financial instruments and risk management is not shown in the Directors' report because it is shown in the Strategic report instead under S414C.

This report was approved by the board on 18/04/20 and signed on its behalf.

J C S Dent
Director

Directors' responsibilities statement
for the year ended 31 December 2019

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

TO MEMBERS OF CHIPSAWAY INTERNATIONAL LIMITED

Opinion

We have audited the financial statements of ChipsAway International Limited ("the Company") for the year ended 31 December 2019 which comprise Statement of comprehensive income, Statement of financial position, the Statement of changes in equity and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We 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 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.

Other information

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

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

We have nothing to report in this regard.

Use of our report

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

BDO LLP

Gary Harding (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

Manchester

United Kingdom

Date 18 September 2020

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

ChipsAway International Limited

Statement of comprehensive income
for the year ended 31 December 2019

	Note	2019 £'000	2018 Restated £'000
Turnover	3	**5,258**	4,700
Cost of sales		**(1,720)**	(1,216)
Gross profit		**3,538**	3,484
Administrative expenses		**(2,034)**	(2,050)
Operating profit	5	**1,504**	1,434
Interest payable and similar charges	7	**(14)**	(15)
Profit before tax		**1,490**	1,419
Tax on profit	8	**(276)**	(274)
Profit and total comprehensive income for the year		**1,214**	1,145

The notes on pages 14 to 27 form part of these financial statements.

ChipsAway International Limited

Statement of financial position
as at 31 December 2019

Company number: 02962763	Note	2019	2018 Restated
		£'000	£'000
Fixed assets			
Tangible assets	10	**131**	70
Right-of-use assets	11	**409**	366
Current assets			
Stocks	12	**216**	185
Debtors:			
- amounts falling due within one year	13	**2,519**	1,660
- amounts falling due after more than one year	13	**39**	55
Cash at bank and in hand		**315**	265
		3,089	2,165
Creditors: amounts falling due within one year	14	**(1,698)**	(1,762)
Net current assets		**1,391**	403
Total assets less current liabilities		**1,931**	839
Creditors: amounts falling due after more than one year	15	**(305)**	(427)
Provisions for liabilities			
Deferred tax	17	-	-
Net assets		**1,626**	412
Capital and reserves			
Called up share capital	18	-	-
Profit and loss account		**1,626**	412
Shareholders' funds		**1,626**	412

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 18/09/20

J C S Dent
Director

The notes on pages 14 to 27 form part of these financial statements.

ChipsAway International Limited

Statement of changes in equity
for the year ended 31 December 2019

	Share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2019	-	412	412
Comprehensive income for the year			
Profit for the year	-	1,214	1,214
Total comprehensive income for the year	-	1,214	1,214
Contributions by and distributions to owners			
Dividends: Equity capital	-	-	-
Total transactions with owners	-	-	-
At 31 December 2019	-	1,626	1,626

Statement of changes in equity
for the year ended 31 December 2018

	Share capital £'000	Profit and loss account £'000	Total equity £'000
At 1 January 2018	-	3,490	3,490
Comprehensive income for the year			
Profit for the year	-	1,145	1,145
Total comprehensive income for the year	-	1,145	1,145
Contributions by and distributions to owners			
Dividends: Equity capital	-	(4,224)	(4,224)
Total transactions with owners	-	(4,224)	(4,224)
At 31 December 2018	-	412	412

1 Accounting policies

ChipsAway International Limited is a private company incorporated in England and Wales under the Companies Act. The address of the registered office is given on the contents page and the nature of the Company's operations and its principal activity is set out in the strategic report.

Going Concern
Given the fact that the Company continues to be profitable, continues to have net assets and has access to cash and funding from its parent, Franchise Brands plc, the directors have made appropriate enquiries and consider that the Company 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. For further details please see the Strategic Report on page 2.

Basis of preparation of financial statements
These financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101).The financial statements are presented in Sterling as that is the primary economic environment in which the Company operates. Amounts have been rounded to the nearest £'000.

The following principal accounting policies have been consistently applied, unless where otherwise stated:

Disclosure exemptions adopted
In preparing these financial statements the company has taken advantage of certain disclosure exemptions conferred by FRS 101 and has not provided:

- Additional comparative information as per IAS 1 *Presentation of Financial Statements* paragraph 38 in respect of a reconciliation of the number of shares outstanding at the start and end of the prior period;
- A Statement of Cash Flows;
- A statement of compliance with IFRS (a statement of compliance with FRS 101 is provided instead);
- Additional comparative information for narrative disclosures and information, beyond IFRS requirements;
- Disclosures in relation to the objectives, policies and process for managing capital;
- Disclosure of the effect of future accounting standards not yet adopted;
- The remuneration of key management personnel; and
- Related party transactions with two or more wholly owned members of the group.

In addition, and in accordance with FRS 101, further disclosure exemptions have been applied because equivalent disclosures are included in the consolidated financial statements of Franchise Brands Plc. These financial statements do not include certain disclosures in respect of:

- Share based payments – details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined as per paragraphs 45(b) and 46 to 52 of IFRS 2 Share-Based Payment;
- Financial Instrument disclosures as required by IFRS 7 Financial Instruments: Disclosures; and
- Fair value measurements – details of the valuation techniques and inputs used for fair value measurement of assets and liabilities as per paragraphs 91 to 99 of IFRS 13 Fair Value Measurement.

The financial statements of Franchise Brands plc can be obtained from Companies House.

1 Accounting policies *(continued)*

First time application of FRS 101

In the current year the company has adopted FRS 101. In previous years, the financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Information as to the effect of applying FRS 101 for the first time is included in notes to the financial statements.

This change in the basis of preparation has not materially altered the recognition of measurement requirements previously applied in accordance with UK GAAP. The change in basis of preparation has enabled the company to take advantage of all the available disclosure exemptions permitted by FRS 101 in the financial statements, the most significant of which are summarised above.

There has only been one adjustment due to the transition of the Company from FRS 102 to FRS 101 which is in relation to the treatment of leases.

Lease agreements will now give rise to the recognition of a non-current asset representing the right of use the leased item, and a loan obligation for future lease payables. Lease costs are recognised in the form of depreciation of the right to use asset and interest on the lease liability, which has impacted the phasing of operating profit and profit before tax, compared to previous cost profiles and presentation in the income statement, and has also impacted the classification of associated cash flows. This has resulted in the below adjustments to the previously reported and current financial statements:

	Year Ended 31 December 2018			**Year Ended 31 December 2019**		
	Previous FRS 102	**Effect of Transition**	**FRS 101**	**Previous FRS 102**	**Effect of Transition**	**FRS 101**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Revenue	4,700	-	4,700	5,258	-	5,258
Cost of Sales	(1,216)		(1,216)	(1,720)	-	(1,720)
Other Admin Expenses	(2,048)	106	(1,943)	(2,021)	127	(1,894)
Depreciation	(9)	(98)	(107)	(24)	(116)	(140)
Finance Expense	(4)	(11)	(15)	(1)	(13)	(14)
Tax Expense	(274)	-	(274)	(276)	-	(276)
	1,148	(3)	1,145	**1,216**	**(2)**	**1,214**

	At 1 January 2018			**At 31 December 2018**		
	Previous FRS 102	**Effect of Transition**	**FRS 101**	**Previous FRS 102**	**Effect of Transition**	**FRS 101**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Intangible assets	-	-	-			-
Property, plant and equipment	67	-	67	70		70
Right-of-use asset	-	354	354	-	366	366
Inventories	181	-	181	185		185
Trade and other receivables	5,025	-	5,025	1,713		1,712
Cash	326	-	326	265		265
Trade and other payables	(2,081)	-	(2,081)	(1,808)		(1,808)
Obligations under right-of-use assets	-	(368)	(368)	-	(381)	(381)
Deferred tax	(14)	-	(14)	3		3
Total net assets	**3,504**	**(14)**	**3,490**	**428**	**(15)**	**412**

1 Accounting policies *(continued)*

	At 1 January 2018			At 31 December 2018		
	Previous FRS 102 £'000	Effect of Transition £'000	FRS 101 £'000	Previous FRS 102 £'000	Effect of Transition £'000	FRS 101 £'000
Called up share capital	-	-	-	-	-	-
Profit and loss account	3,504	(14)	3,490	428	(15)	412
Total Equity	3,504	(14)	3,490	428	(15)	412

Revenue

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

- ***Management service fees ("MSF"):*** MSF is 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. These are charged on a monthly basis and the values recognised are based on the performance obligations in the relevant contracts with our franchisees. Barking Mad charge a variable percentage based on the invoiced revenue of the franchisees.
- ***Sales of franchise territories:*** Sales of franchise territories represent the charges for packages which include training, other start-up support and equipment. No element of these charges relate to subsequent services. Revenue from franchise fees is recognised when a franchisee completes the relevant training, as this is when we have delivered our performance obligation under the franchise contract. 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.
- ***Product sales:*** Revenue from sales of products is recognised on delivery to customers, as this is when control is deemed to have transferred.
- ***National Advertising Funds:*** National Advertising Funds are collected from franchisees under their agreements and then spent on their behalf on advertising which benefits the underlying franchise networks. The management of the funds does not result in any profit or loss for the Group as all funds received are expended on behalf of the networks. The Directors have concluded that the Group will recognise the costs expended by the funds in the year, and will recognise an equal amount as revenue, with any difference from the amount of cash received from our franchisees as accrued or deferred revenue within the balance sheet. This is because it is the Group which controls the expenditure of the funds, rather than the franchisees. Overall, there is no effect on profit.

Computer software development

The Company expenses costs incurred in the preliminary project stage until the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the expenditure attributable to the product during its development can be reliably measured.

Thereafter development costs are capitalised as intangible assets.

1 Accounting policies *(continued)*

Costs that are capitalised as part of the software product include directly attributable software development employee costs, directly attributable external consultancy costs and an appropriate portion of relevant overheads. Other development expenditures that do not meet these criteria are recognised as expenses as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent year.

Capitalised development costs are carried at the lower of unamortised cost and recoverable amount until the product is available for use by the entity, at which time capitalisation ceases and costs are amortised on a straight-line basis over three to five years, being the directors' estimate of the useful economic life. Amortisation is charged within the administrative expenses.

Property, plant and equipment
Property, plant and equipment 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 costs directly attributable to making the asset capable of operating as intended.

The Company adds to the carrying amount of an item of fixed assets the cost of replacing part of such an item when that cost is incurred, if the replacement part is expected to provide incremental future benefits to the Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to profit or loss during the period in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold property improvements	-	over period of lease
Motor vehicles	-	25% straight line
Fixtures and fittings	-	10%-33% straight line
Office equipment	-	33% straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the statement of comprehensive income.

1 Accounting policies *(continued)*

Stocks
Stock is stated 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.

Financial liabilities
Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Financial assets
All of the Company financial assets are classified and held at amortised cost. These assets arise principally from the provision of goods and services to customers, but also incorporate other types of financial assets where the objective is to hold these assets in order to collect contractual cash flows and the contractual cash flows are solely payments of principal and interest. They are initially recognised at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest rate method, less provision for impairment.

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

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

National advertising fund
In addition to franchise fees, franchisees pay contributions which are collected by the Company for specific use within the national advertising fund. The Company operates the funds on behalf of the franchisees with the objective of driving revenues for the franchisees. The Directors have concluded that the Company will recognise the costs expended by the funds in the year within the costs of the business, and will recognise an equal amount as revenue, with any difference from the amount of cash received from our franchisees as accrued or deferred revenue within the balance sheet.

In the current period the inclusion of the fund expenditure as income has increased revenue by £543,076 (2018 - £536,574) and has increased administration expenses by the same amount of £543,706 (2018 - £536,574).

1 Accounting policies *(continued)*

Current and deferred taxation

Tax is recognised in the statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively. The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date. Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

2 Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the Directors have had to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historic experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities and are not readily apparent from other sources. Actual results may differ from these estimates. The judgements, estimates and assumptions which have a significant risk of causing a material misstatement to the carrying amount of assets and liabilities are:

Franchise fees

The Company offers deferred payment terms in relation to some of the franchisee fees payable. The Company 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. As at 31 December 2019 £143,818 (2018 - £100,828) had been recognised as a debtor, and £141,052 (2018 - £99,933) was not recognised.

National advertising fund accounting

Franchisees pay a fee into a central fund designed to build sales. The fund is managed for the benefit of franchisees in the system with the objective of driving revenues. The fund is used to pay for national and localised marketing strategies and promotional plans. The fund is planned to operate at break even with any short-term surplus or deficit carried in the Group's statement of financial position.

As all fund income is designated for specific purposes and does not result in a profit or loss for the Company, 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 Company statement of comprehensive income as the Directors consider this to be an agency arrangement.

During the year, the fund expended a total of £543,706 (2018 - £536,574), which resulted in a under spend for the year of £12,394 (2018 - £15,648), which has been recognised in other debtors.

3 Turnover

Turnover is wholly attributable to the principal activity of the Company and is all UK based.

	2019 £'000	2018 £'000
Management Service Fees	2,452	2,370
Sale of Franchise Territories	1,207	936
National advertising funds	544	537
Other Income	1,055	857
Total	**5,258**	4,700

4 Employees

Staff costs consist of:	2019 £'000	2018 £'000
Wages and salaries	**807**	560
Social security costs	**80**	54
Pension costs	**14**	7
	901	621

The average monthly number of employees, including the Directors, during the year was as follows:	Number	Number
Administration	**15**	15
Sales	**1**	2
Warehouse	**2**	2
Training and development	**3**	2
Operations	**3**	-
	24	21

5 Operating profit

	2019 £'000	2018 £'000
The operating profit is stated after charging:		
Depreciation of tangible fixed assets	43	46
Depreciation of right-of-use assets	108	98

Auditor's remuneration is borne by the Company's ultimate parent undertaking.

6 Directors' remuneration

Directors' emoluments are borne by the Company's parent undertaking.

7 Interest payable and similar charges

	2019 £'000	2018 £'000
Interest on leases	14	15

8 Taxation

	2019	2018
	£'000	£'000
Corporation tax		
Current tax on profits for the year	276	174
Adjustments in respect of previous periods	(4)	-
Group Relief	-	118
Total current tax	272	291
Deferred tax		
Origination and reversal of timing differences	4	(17)
Total deferred tax	4	(17)
Taxation on profit on ordinary activities	276	274

Factors affecting tax charge for the year

The tax assessed for the year is different to the standard rate of corporation tax in the UK of 19% (2018 – 19%). The differences are explained below:

	2019	2018
	£'000	£'000
Profit on ordinary activities before tax	1,490	1,419
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of % (2018 – 19%)	283	270
Effects of:		
Expenses not deductible for tax purposes	38	9
Adjustments in respect of previous periods	(4)	-
Accelerated capital allowances	(32)	(5)
Deferred tax on share options	(9)	-
Total tax charge for the year	276	274

Factors that may affect future tax charges

The 2016 budget confirmed that the UK corporation tax rate will reduce to 19% to apply from 1 April 2018 and to 17% from 1 April 2020. This will reduce the Company's future tax charge accordingly.

9 Dividends

	2019 £'000	2018 £'000
Ordinary shares		
Dividend paid of £nil (2018 - £105,593) per share	-	4,224

10 Property, Plant & Equipment

	Leasehold Improvements £'000	Fixtures & fittings £'000	Plant & equipment £'000	Motor vehicles £'000	Computer equipment £'000	Total £'000
Cost						
At 01/01/18	105	63	87	136	0	**391**
Additions	-	-	7	26	16	**49**
At 31/12/18	105	63	94	162	16	**440**
Additions	-	-	95	3	6	**104**
Disposals	-	-	-	-	-	-
At 31/12/19	**105**	**63**	**189**	**165**	**22**	**544**
Depreciation						
At 01/01/18	(94)	(62)	(84)	(84)	-	**(324)**
Charge for year	(7)	-	(5)	(33)	(1)	**(46)**
At 31/12/18	(101)	(62)	(89)	(117)	(1)	**(370)**
Charge for year	(4)	-	(13)	(22)	(4)	**(43)**
At 31/12/19	**(105)**	(62)	**(102)**	**(139)**	**(5)**	**(413)**
Net book value						
At 31/12/19	-	**1**	**87**	**26**	**17**	**131**
At 31/12/18	4	1	5	45	15	70

11 Right-of-use assets

Cost	Leasehold property £'000	Motor vehicles £'000	Plant & equipment £'000	Total £'000
At 01/01/18	316	358	-	674
Additions	-	77	32	109
At 31/12/18	316	435	32	783
Additions	-	151	-	151
At 31/12/19	316	586	32	934
Accumulated depreciation				
At 01/01/2018	(105)	(215)	-	(320)
Charge for the year	(32)	(59)	(6)	(97)
At 31/12/18	(137)	(274)	(6)	(417)
Charge for the year	(32)	(70)	(6)	(108)
At 31/12/19	(169)	(344)	(12)	(525)
Carrying amount				
At 31/12/19	**147**	**242**	**20**	**409**
At 31/12/18	179	161	26	366

12 Stocks

	2019 £'000	2018 £'000
Stocks	**216**	185

There is no material difference between the replacement cost of stocks and the amounts stated above.

Stock recognised in cost of sales during the year as an expense was £664,000 (2018 - £633,266). An impairment loss of £1,000 (2018 – £547) was recognised in cost of sales against stock during the year due to slow-moving and obsolete stock. The provision made against gross stock was £9,000 (2018 - £10,205).

13 Debtors

	2019 £'000	2018 £'000
Due within one year:		
Trade debtors	**459**	464
Amounts owed by Group undertakings	**1,781**	956
Prepayments and accrued income	**72**	100
Other debtors	**205**	137
Deferred tax	**2**	3
	2,519	1,660
Due after more than one year:		
Trade debtors	**39**	55

The impairment loss recognised within the statement of comprehensive income for the year in respect of bad and doubtful trade and other debtors was £63,000 (2018 - £35,066).

Other debtors include amounts owed by the Company in respect of the national advertising fund of £ 12,000 (2018 – creditor of £15,648).

14 Creditors: amounts falling due within one year

	2019 £'000	2018 £'000
Trade creditors	**282**	376
Amounts owed to Group undertakings	**330**	308
Group relief	**-**	123
Corporation tax	**276**	157
Taxation and social security	**192**	299
Obligation for right of use asset	**123**	20
Other creditors	**376**	402
Accruals and deferred income	**119**	77
	1,698	1,762

15 Creditors: amounts falling due after more than one year

	2019 £'000	2018 £'000
Obligations for right-of-use assets	**305**	427
	305	427

16 Financial instruments

	2019 £'000	2018 £'000
Financial assets		
Financial assets measured at amortised cost	**2,799**	1,877
Financial liabilities		
Financial liabilities measured at amortised cost	**(1,146)**	(1,352)

Financial assets measured at amortised cost comprise cash at bank and in hand, trade debtors, amounts owed by Group undertakings and other debtors. Financial liabilities measured at amortised cost comprise trade creditors, amounts owed to Group undertakings, obligations under finance leases, other creditors and accruals.

17 Deferred taxation

	2019 £'000
At 1 January	3
Credited to profit and loss account	1
At 31 December	2

The asset for deferred taxation is made up as follows:	2019 £'000	2018 £'000
Origination and reversal of timing differences	2	3

18 Share capital

	2019 £'000	2018 £'000
Allotted, called up and fully paid		
40 Ordinary shares of £0.10 each	-	-

19 Pension commitments

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension charge amounted to £14,000 (2018 - £6,735).

20 Post balance sheet events

As stated in note1, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for as long as the Covid-19 pandemic period lasts and the foreseeable future. It will therefore continue to adopt the going concern basis in preparing the financial statements.

The directors have reviewed the assets and liabilities as at the balance sheet date and post balance sheet date and concluded no material impact on them as a result of the pandemic.

21 Immediate and ultimate parent undertaking

The Company's immediate Parent Company is Franchise Brands plc, Ashwood Court, Springwood Way, Tytherington Business Park, Macclesfield, Cheshire, SK10 2XF, company incorporated in the United Kingdom.

The largest and smallest Group in which the results of the Company are consolidated is that headed by Franchise Brands plc, incorporated in the United Kingdom. The consolidated accounts of this Company are available to the public and may be obtained from Companies House, Crown Way, Cardiff, CF14 3UZ. No other Group accounts include the results of the Company.