



## **AIM ADMISSION DOCUMENT**

Acquisition of Metro Rod Limited,  
share placing and  
admission of enlarged share capital to trading on AIM

*Nominated Adviser & Joint Broker*



*Joint Broker*



**THIS ADMISSION DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document, or the action you should take, you are recommended immediately to seek your own financial advice from an independent financial adviser, such as a stockbroker, solicitor, accountant or other adviser who specialises in advising on the acquisition of shares and securities and is authorised under the Financial Services and Markets Act 2000 ("FSMA") (or, if you are a person outside the UK, a person otherwise similarly qualified in your jurisdiction).**

If you have sold or otherwise transferred all of your Existing Ordinary Shares prior to the date of this document, please immediately send this document, together with the accompanying Form of Proxy, to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. If you have sold or transferred part of your registered holding of Existing Ordinary Shares, you should retain this document and the accompanying Form of Proxy and immediately consult with the stockbroker, bank or other agent through whom the sale or transfer was effected. The distribution of this document and/or accompanying Form of Proxy into a jurisdiction other than the United Kingdom may be restricted by law or regulation and therefore such documents should not be distributed, forwarded to or transmitted in or into the United States of America, Canada, Australia, the Republic of South Africa or Japan or into any other jurisdiction where to do so would breach any applicable law or regulation.

This document is an admission document drawn up in accordance with the AIM Rules for Companies and has been prepared in connection with the proposed application for re-admission of the issued and to be issued share capital of the Company to trading on AIM, a market of London Stock Exchange plc. This document does not constitute a prospectus within the meaning of section 85 of FSMA, and has not been drawn up in accordance with the Prospectus Rules published by the Financial Conduct Authority ("FCA") and a copy has not been, and will not be, approved or filed with the FCA. This document does not constitute, and the Company is not making, an offer of transferable securities to the public within the meaning of section 102B of FSMA or otherwise.

The Company and each of the Directors, whose names appear on page 4 of this document, individually and collectively accept full responsibility for the information contained in this document, including for its compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**The Existing Ordinary Shares are admitted to trading on AIM. Application will be made for the Enlarged Share Capital to be re-admitted to trading on AIM. AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the FCA (the "Official List"). A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to London Stock Exchange plc in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. London Stock Exchange plc has not itself examined or approved the contents of this document. The AIM Rules for Companies are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. The Ordinary Shares are not traded on any recognised investment exchange and no such applications have been made. It is expected that Admission (as defined on page 6 of this document) will become effective and dealings on AIM will commence in the Ordinary Shares at 8.00 a.m. on 11 April 2017.**

Prospective investors should read the whole of this document. An investment in the Company is speculative and involves a high degree of risk. The attention of prospective investors is drawn in particular to Part IV of this document which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Company's business, financial position and prospects should be viewed in light of these risk factors.

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# Franchise Brands plc

*(Incorporated and registered in England and Wales with registered number 10281033)*

## Proposed acquisition of Metro Rod Limited

**Proposed placing of up to 29,850,747 new Ordinary Shares at 67p per share**

## **Admission of the Enlarged Share Capital to trading on AIM and Notice of General Meeting**

***Nominated Adviser & Joint Broker***



***Joint Broker***



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**A notice convening a General Meeting of the Company to be held at the offices of Gateley Plc, One Paternoster Square, London EC4M 7DX at 10.00 a.m. on 10 April 2017 is set out at the end of this document.** The enclosed Form of Proxy for use at the General Meeting should be completed and returned to the Company's registrars, SLC Registrars, 42-50 Hersham Road, Walton on Thames, Surrey KT12 1RZ as soon as possible and to be valid must arrive not less than 48 hours before the time appointed for the

meeting (excluding, in the calculation of such time period, any part of a day that is not a working day). Completion and return of a Form of Proxy will not preclude Shareholders from attending and voting in person at the General Meeting should they so wish.

Allenby Capital Limited, which is authorised and regulated in the UK by the FCA, is acting as nominated adviser and joint broker to the Company. Allenby Capital Limited will not be responsible to any person other than the Company for providing the protections afforded to its customers or for advising any other person on the contents of any part of this document. The responsibilities of Allenby Capital Limited as the Company's nominated adviser and joint broker under the AIM Rules for Companies and AIM Rules for Nominated Advisers are owed solely to London Stock Exchange plc and are not owed to the Company or any Director or Shareholder or to any other person. In respect of any decision to acquire Ordinary Shares in reliance on any part of this document or otherwise, Allenby Capital Limited is not making any representation or warranty, express or implied, as to the contents of this document.

Dowgate Capital Stockbrokers Limited, which is authorised and regulated in the UK by the FCA, is acting as joint broker to the Company. Dowgate Capital Stockbrokers Limited will not be responsible to any person other than the Company and the Directors for providing the protections afforded to its customers or for advising any other person on the contents of any part of this document. In respect of any decision to acquire Ordinary Shares in reliance on any part of this document or otherwise, Dowgate Capital Stockbrokers Limited is not making any representation or warranty, express or implied, as to the contents of this document.

This document contains forward-looking statements, including, without limitation, statements containing the words "believes", "expects", "estimates", "intends", "may", "plan", "will" and similar expressions (including the negative of those expressions). Forward-looking statements involve unknown risks, uncertainties and other factors which may cause the actual results, financial condition, performance or achievements of the Company, or industry results, to be materially different from any future results, performance or achievements expressed or implied by those forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in Part IV of this document, entitled "Risk Factors". Given these uncertainties, prospective investors are cautioned not to place any undue reliance on those forward-looking statements. The forward-looking statements contained in this document are made on the date of this document, and, except as otherwise required by law or the AIM Rules for Companies, the Company, the Directors, Allenby Capital Limited and Dowgate Capital Stockbrokers Limited are not under any obligation to update those forward-looking statements in this document to reflect actual future events or developments.

No legal, business, tax or other advice is provided in this document. Prospective investors should consult their professional advisers as needed on the potential consequences of subscribing for, purchasing, holding or selling Ordinary Shares under the laws of their country and/or state of citizenship, domicile or residence. This document does not constitute an offer to sell, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, this document is not for distribution in or into the United States of America, Canada, Australia, the Republic of South Africa or Japan. The distribution of this document in other jurisdictions may be restricted by law. The Ordinary Shares have not been and will not be registered under the applicable securities laws of the United States of America, Canada, Australia, the Republic of South Africa or Japan and, subject to certain exceptions, may not be offered, sold, re-sold, renounced, taken up or delivered, directly or indirectly, in, into or from the United States of America, Canada, Australia, the Republic of South Africa or Japan or to any national of the United States of America, Canada, Australia, the Republic of South Africa or Japan. This document should not be distributed, published, reproduced or otherwise made available in whole or in part, or disclosed by recipients to any other person, in, and in particular, should not be distributed to persons with addresses in, the United States of America, Canada, Australia, the Republic of South Africa or Japan. No action has been taken by the Company, Allenby Capital Limited or Dowgate Capital Stockbrokers Limited that would permit an offer of Ordinary Shares or possession or distribution of this document where action for that purpose is required. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws or other laws of any such jurisdictions.

In making any investment decision in respect of Admission and/or the Placing, no information or representation should be relied upon in relation to Admission or in relation to the Ordinary Shares other than as contained in this document. No person has been authorised to give any information or make any representation other than that contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised.

**It should be remembered that the price of securities and the income from them can go down as well as up and this document contains references to past performance of the Enlarged Group. Past performance is not a reliable indicator of future results.**

There is information given in this document which relates to tax treatment. Tax treatment depends on the individual circumstances of each investor and is subject to change in the future.

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## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	<u>Stephen</u> Glen Hemsley Timothy (" <u>Tim</u> ") John Harris <u>Julia</u> Rosalind Choudhury <u>Robin</u> Nigel Auld <u>Nigel</u> William Wray <u>David</u> John Poutney Robin (" <u>Rob</u> ") Christian Bellhouse	<i>Executive Chairman</i> <i>Chief Executive Officer</i> <i>Corporate Development Director</i> <i>Marketing Director</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i> <i>Non-Executive Director</i>
	all of:	
	5 Edwin Avenue Hoo Farm Industrial Estate Kidderminster Worcestershire DY11 7RA	
<b>Company Secretary</b>	Mark Andrew Peters	
<b>Registered Office and Principal Place of Business</b>	5 Edwin Avenue Hoo Farm Industrial Estate Kidderminster Worcestershire DY11 7RA	
<b>Nominated Adviser &amp; Joint Broker</b>	Allenby Capital Limited 3 St. Helen's Place London EC3A 6AB	
<b>Joint Broker</b>	Dowgate Capital Stockbrokers Limited Talisman House Jubilee Walk Three Bridges Crawley West Sussex RH10 1LQ	
<b>Reporting Accountant and Auditor to the Company</b>	BDO LLP Two Snowhill Birmingham B4 6GA	
<b>Reporting Accountant and Auditor to Metro Rod</b>	PricewaterhouseCoopers LLP 101 Barbirolli Square Lower Mosley Street Manchester M2 3PW	
<b>Legal Advisers to the Company</b>	Gateley Plc One Eleven Edmund Street Birmingham B3 2HJ	

**Legal Advisers to the  
Nominated Adviser  
and Joint Brokers**

Nabarro LLP  
125 London Wall  
London  
EC2Y 5AL

**Financial Public Relations  
Advisers to the Company**

MHP  
6 Agar Street  
London  
WC2N 4HN

**Registrars**

SLC Registrars  
42-50 Hershams Road  
Walton-on-Thames  
Surrey  
KT12 1RZ

## DEFINITIONS

Except where the context otherwise requires, the following definitions shall apply throughout this document:

“Acquisition”	the proposed acquisition by the Company of the entire issued share capital of Metro Rod pursuant to the terms of the Acquisition Agreement;
“Acquisition Agreement”	the conditional agreement dated 22 March 2017 made between (i) the Company and (ii) the Vendor relating to the Acquisition, details of which are set out in paragraph 8.1.2 of Part VII of this document;
“Act” or the “Companies Act”	the Companies Act 2006 of the United Kingdom, as amended;
“acting in concert”	shall bear the meaning ascribed thereto in the City Code;
“Admission”	the admission of the Enlarged Share Capital to trading on AIM becoming effective in accordance with Rule 6 of the AIM Rules;
“AIM”	the market of that name operated by the London Stock Exchange;
“AIM Rules”	the AIM Rules for Companies published by the London Stock Exchange, as amended from time to time;
“AIM Rules for Nominated Advisers”	the AIM Rules for Nominated Advisers published by the London Stock Exchange, as amended from time to time;
“Allenby Capital”	Allenby Capital Limited;
“Alloy Rescue”	Alloy Rescue Limited, a subsidiary of the Company, a company incorporated on 30 November 2012 in England and Wales, with the company number 08314731;
“Articles”	the articles of association of the Company as adopted from time to time;
“Barking Mad”	Barking Mad Limited, a subsidiary of the Company, incorporated on 27 April 2001 in England and Wales, with the company number 04207457;
“Board”	the board of directors of the Company from time to time;
“certificated” or “in certificated form”	a share or other security not recorded on the relevant register of the relevant company as being in uncertificated form in CREST;
“ChipsAway”	ChipsAway International Ltd, a subsidiary of the Company, incorporated on 26 August 1994 in England and Wales, with the company number 02962763;
“City Code”	the City Code on Takeovers and Mergers (as published by the Panel);
“Company” or “Franchise Brands”	Franchise Brands plc, a company incorporated on 15 July 2016 in England and Wales with the company number 10281033;
“Consideration”	the consideration payable to the Vendor in respect of the Acquisition, further details of which are set out in paragraph 8.1.2 of Part VII of this document;
“Controlling Shareholders”	Stephen Hemsley and Nigel Wray;
“Corporate Governance Code”	the UK Corporate Governance Code published by the Financial Reporting Council, as the same may be varied or amended;

“CREST”	the computerised settlement system (as defined in the CREST Regulations) operated by Euroclear which facilitates the transfer of title to shares;
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755) as amended from time to time, and any applicable rules made under those regulations;
“Directors”	the directors of the Company, whose names are set out on page 4 of this document;
“Disclosure Guidance and Transparency Rules”	the Disclosure Guidance and Transparency Rules sourcebook made by the FCA pursuant to Part VI of the Listing Rules made by the FCA under FSMA;
“Dowgate Capital”	Dowgate Capital Stockbrokers Limited;
“Edwin Investments”	Edwin Investments Limited, a subsidiary of the Company, a company incorporated on 28 July 2003 in England and Wales, with the company number 04847717;
“Enlarged Group”	the Group as enlarged by the Acquisition;
“Enlarged Share Capital”	the issued share capital of the Company as upon Admission comprising the Existing Ordinary Shares and the Placing Shares (assuming the Placing is subscribed for in full);
“Enserve Group”	Enserve Group Limited, a company incorporated on 17 September 1996 in England and Wales, with the company number 03250709;
“Euroclear”	Euroclear UK & Ireland Limited, the operator of CREST;
“Existing Ordinary Shares”	the 47,881,286 Ordinary Shares in issue at the date of this document;
“Facilities Agreement”	the conditional facilities agreement dated 22 March 2017 made between (1) the Company, (2) HSBC and (3) the Subsidiaries, relating to a £12 million term loan and £5 million revolving credit facility, details of which are set out in paragraph 9 of Part I and paragraph 8.1.5 of Part VII of this document;
“FB Holdings”	FB Holdings Limited, a subsidiary of the Company, a company incorporated on 9 September 2008 in England and Wales with company number 06693122 (which was formerly called Franchise Brands Worldwide Limited) and its subsidiaries;
“FCA”	the United Kingdom Financial Conduct Authority, the statutory regulator under FSMA responsible for the regulation of the United Kingdom financial services industry;
“Form of Proxy”	the form of proxy accompanying this document for use by Shareholders at the General Meeting;
“FSMA”	the UK Financial Services and Markets Act 2000, as amended, including any regulations made pursuant thereto;
“GBP” or “£” or “pence” or “p”	pounds sterling and pence, the lawful currency from time to time of the United Kingdom;
“General Meeting” or “GM”	the general meeting of the Company to be held at the offices of Gateley Plc, One Paternoster Square, London EC4M 7DX on 10 April 2017 at 10.00 a.m. and any adjournments thereof to be held for the purpose of considering and, if thought fit, passing the Resolutions;



“Group”	the Company and the Subsidiaries;
“HMRC”	Her Majesty’s Revenue and Customs;
“HSBC”	HSBC Bank plc;
“IFRS”	international financial reporting standards;
“IPO”	the initial public offering of the Company’s shares and the initial admission of such Ordinary Shares to trading on AIM on 5 August 2016;
“ISIN”	international security identification number;
“Kemac”	a business division of Metro Rod involving specialist support services for water companies;
“Loan Note Instrument”	the loan note instrument issued by the Company as set out in paragraph 13 of Part VII of this document;
“Loan Notes”	the loan notes issued pursuant to the Loan Note Instrument;
“Lock-in Deeds”	the agreements between the Company, Allenby Capital and each of the Directors, Lee Dancy, Colin Rees, Colin Davis, Peter Molloy, James Hemsley, Victoria Hemsley, Alice Poutney and Madeleine Poutney, further details of which are contained in paragraph 11.3 of Part VII of this document;
“Locked-in and Orderly Market Parties”	together, the Directors, Lee Dancy, Colin Rees, Colin Davis, Peter Molloy, James Hemsley, Victoria Hemsley, Alice Poutney and Madeleine Poutney;
“London Stock Exchange”	London Stock Exchange plc;
“Market Abuse Regulation”	the EU Market Abuse Regulation (No. 596/2014);
“Metro Rod”	Metro Rod Limited, a company incorporated on 15 June 2001 in England and Wales with the company number 04235803;
“MyHome”	MyHome Marketing Limited, a subsidiary of the Company, incorporated on 6 January 2010 in England and Wales with the company number 07117588;
“Nominated Adviser and Broker Agreement”	the agreement dated 1 August 2016 between (1) the Company, (2) Allenby Capital and (3) the Directors, further details of which are set out in paragraph 8.1.15 of Part VII of this document;
“Notice of General Meeting” or “Notice of GM”	the notice convening the GM set out on pages 109 to 112 of this document;
“Operating Profit before exceptional items”	profit in any given period after charging all expenses including interest, depreciation and amortisation, but before any exceptional items and corporation tax;
“Official List”	the Official List of the FCA;
“Orderly Market Deed”	the agreement between (1) Mark Peters, (2) the Company and (3) Allenby Capital, further details of which are contained in paragraph 11.4 of Part VII of this document;
“Ordinary Shares”	ordinary shares of £0.005 each in the capital of the Company;
“Oven Clean”	Oven Clean Domestic Limited, a subsidiary of the Company, incorporated on 27 October 2003 in England and Wales with the company number 04944186;

“Oven Clean (Ontario)”	Oven Clean (Ontario) Limited, a subsidiary of the Company, incorporated on 30 May 2012 in England and Wales with the company number 08088685;
“Panel”	the UK Panel on Takeovers and Mergers;
“Placees”	proposed subscribers for Placing Shares at the Placing Price in the Placing;
“Placing”	the proposed conditional placing of the Placing Shares at the Placing Price with Placees pursuant to the Placing Agreement;
“Placing Agreement”	the conditional agreement dated 22 March 2017 between (1) the Company, (2) Allenby Capital and (3) Dowgate Capital relating to the Placing, further details of which are set out in paragraph 11 of Part VII of this document;
“Placing Price”	67 pence per Placing Share;
“Placing Shares”	the up to 29,850,747 new Ordinary Shares to be issued by the Company and subscribed for by Placees pursuant to the Placing, conditional on Admission;
“Prospectus Rules”	the Prospectus Rules made by the FCA pursuant to Part VI of FSMA;
“QCA Guidelines”	the Corporate Governance Code for Small and Mid-Size Quoted Companies, as published by the Quoted Companies Alliance;
“RCF”	the £5 million revolving credit facility under the Facilities Agreement;
“Registrar”	SLC Registrars;
“Relationship Agreement”	the relationship agreement dated 1 August 2016 made between (1) the Company, (2) Allenby Capital, (3) Stephen Hemsley and (4) Nigel Wray, further details of which are set out in paragraph 13 of Part I and paragraph 8.1.15 of Part VII of this document;
“Resolutions”	the resolutions to be proposed at the General Meeting, details of which are set out in the Notice of GM;
“RIS”	Regulatory Information Service;
“Rule 9 Offer”	a general offer to all holders of any class of equity share capital or other class of transferable securities carrying voting rights of a company to acquire the balance of their interests in the company as required to be made in accordance with Rule 9 of the City Code;
“Shareholders”	holders of Ordinary Shares in the Company from time to time;
“Subsidiaries”	the subsidiaries of the Company from time to time;
“Term Loan”	the £12 million term loan under the Facilities Agreement;
“uncertificated” or “in uncertificated form”	a share or other security recorded on the relevant register of the relevant company concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“VAT”	value added tax; and
“Vendor”	the Vendor of Metro Rod, being Enserve Group.

## TECHNICAL GLOSSARY

“24/7/365”	a service which is provided 24 hours per day, 7 days per week and every day of the year;
“B2B”	business to business;
“B2C”	business to consumer;
“BFA”	British Franchise Association;
“CAF”	central advertising fund;
“CarCare Centres”	fixed site workshops with additional equipment which enable throughput of vehicles and also allow larger paint and dent repairs to be carried out than Franchisees can undertake on a mobile basis. CarCare Centres currently operated by Franchisees range in size from 1,200 square feet to just under 11,000 square feet;
“CCTV”	closed circuit television;
“Commercial Accounts”	commercial accounts won directly by the Franchisee within their franchise area;
“Franchise Agreements”	the agreements entered into by the relevant member of the Enlarged Group and Franchisees pursuant to which the Franchisees are to operate their franchise;
“Franchisee”	a person who operates a franchise under the terms of a Franchise Agreement from time to time;
“Key Accounts”	customer accounts where Metro Rod has entered into a contract in relation to the supply of services either because of the high contract value or where services are to be provided by more than one Franchisee;
“ISO”	International Standard Organisation;
“MSF”	management service fee;
“NAF”	national advertising fund;
“QAA”	quality assured award;
“SMART”	small to medium area repair technology; and
“system sales”	total aggregate sales of Franchisees and (if applicable) Company or Metro Rod owned operations of services to third party customers.

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	22 March 2017
Latest time and date for receipt of Forms of Proxy	10.00 a.m. on 6 April 2017
Time and date of General Meeting	10.00 a.m. on 10 April 2017
Last day of trading of the Existing Ordinary Shares on AIM	10 April 2017
Acquisition Agreement unconditional, Admission effective and commencement of dealings in the Enlarged Share Capital on AIM	8.00 a.m. on 11 April 2017
CREST accounts to be credited (where applicable)	11 April 2017
Despatch of definitive share certificates	by 25 April 2017

*All future times and/or dates referred to in this document are subject to change at the discretion of the Company, Allenby Capital and Dowgate Capital and if any of the above times or dates should change, the revised times and/or dates will be notified by an announcement on RIS. All times are UK times unless otherwise specified.*

*Events listed in the above timetable following the General Meeting are conditional on the passing at the General Meeting of the Resolutions.*

## ADMISSION AND PLACING STATISTICS

Number of Existing Ordinary Shares	47,881,286
Maximum number of Placing Shares	29,850,747
Enlarged Share Capital on Admission	77,732,033
Placing Shares as a percentage of the Enlarged Share Capital	38.4 per cent.
Placing Price	67 pence
Market capitalisation of the Company at the Placing Price on Admission	£52.1 million
Gross proceeds of the Placing	£20 million
Estimated net proceeds of the Placing	£18.2 million
AIM symbol	FRAN
ISIN	GB00BD6P7Y24

The above statistics assume the passing at the General Meeting of the Resolutions and Admission and that the Placing is subscribed for in full.

## PART I

### LETTER FROM THE CHAIRMAN OF FRANCHISE BRANDS

# Franchise Brands plc

(Incorporated and registered in England and Wales under the Companies Act 2006 with Registered Number 10281033)

#### Directors:

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

#### Registered Office:

5 Edwin Avenue  
Hoo Farm Industrial Estate  
Kidderminster  
Worcestershire  
DY11 7RA

22 March 2017

Dear Shareholders,

**Proposed acquisition of Metro Rod Limited**  
**Proposed placing of up to 29,850,747 new Ordinary Shares at 67 pence per share**  
**Admission of the Enlarged Share Capital to trading on AIM**  
**Notice of General Meeting**

## 1. INTRODUCTION

The Board is pleased to inform Shareholders that terms have been agreed for the proposed Acquisition of the entire issued share capital of Metro Rod, a leading provider of drain clearance and maintenance services, which are delivered on a largely reactive basis by regional Franchisees. The total consideration for the Acquisition is £28 million (subject to adjustment based on the financial position of Metro Rod at completion of the Acquisition), 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 the Placing Shares to raise up to 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 is a reverse takeover under the AIM Rules and therefore requires the Company to issue this new admission document and obtain Shareholder approval for the Acquisition. Accordingly, the Acquisition is conditional, *inter alia*, on the approval by Shareholders of the Resolutions to be proposed at the General Meeting, which is being convened for 10.00 a.m. on 10 April 2017, notice of which is set out at the end of this document.

The Group's strategy, as outlined at the time of its IPO, was to pursue the selective acquisition of franchise businesses that could benefit from the Company's central services, such as marketing, and also the experience of the Board and management team in developing franchise businesses. The Group completed its first acquisition since the IPO, of Barking Mad, in October 2016. The acquisition of Barking Mad broadened Franchise Brands' portfolio of B2C service businesses with a market leading brand which the Directors believe has an attractive model for Franchisees, a strong management team and a similar customer base to the Group's existing brands.

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 Enlarged Group which have the capability to be leveraged across its range of brands and furthermore, will potentially allow the Enlarged Group to optimise some activities that were previously sub-scale.

Metro Rod is a well established and profitable business with an experienced management team who have continued to grow the business through several changes of ownership. However, the Directors believe that under the guidance of the Board, and as part of a group focused entirely on the development and growth of franchise businesses, the development of Metro Rod may be accelerated. Further information on Metro Rod can be found in paragraph 2 below and in Part II of this document.

In conjunction with the Acquisition, the Company is proposing to raise up to approximately £20 million, before expenses, through the issue of the Placing Shares at the Placing Price. The Placing Shares will represent approximately 38.4 per cent. of the Enlarged Share Capital on Admission. The Placing and the Acquisition are conditional upon, *inter alia*, the Resolutions being passed at the General Meeting and Admission. On Admission, the Company will have a market capitalisation of approximately £52.1 million based on the Placing Price. Further details about the Placing are set out in paragraph 10 of this Part I.

The Directors intend to subscribe, in aggregate, for 16,671,459 Ordinary Shares in the Placing at a cost of approximately £11.2 million. This represents approximately 56 per cent. of the gross proceeds to be raised and the Directors believe this demonstrates their strong degree of confidence in the Enlarged Group. Further details on the Directors' proposed participation in the Placing are set out in paragraph 10 of this Part I.

If the Resolutions are passed at the General Meeting and the other conditions set out in the Acquisition Agreement and the Placing Agreement are met, it is expected that the Enlarged Share Capital will be admitted to trading on AIM with effect from 8.00 a.m. on 11 April 2017.

The Directors consider the Acquisition to be an excellent opportunity for the Group and in the best interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend unanimously that Shareholders vote in favour of the Resolutions to be proposed at the General Meeting as they have irrevocably undertaken to do so in respect of their beneficial holdings of Ordinary Shares.

Shareholders should note that the Resolutions are inter-conditional and consequently if any of the Resolutions are not passed, the Acquisition, the Placing and Admission will not occur and the Existing Ordinary Shares will continue to be admitted to trading on AIM.

**The purpose of this document, which comprises an Admission Document prepared under the AIM Rules, is to provide you with information on the Acquisition, the Placing and Admission. You should read the whole of this document and your attention is drawn in particular to the risk factors set out in Part IV of this document.**

## **2. INFORMATION ON METRO ROD**

Metro Rod is a leading provider of drain clearance and maintenance services delivered on a largely reactive basis. The services are predominantly provided by 40 Franchisees with geographical coverage across the majority of the UK.

Metro Rod was founded in 1983 and has subsequently grown, the Directors believe, to become one of only five companies in the drainage sector operating on a national basis. Metro Rod serves national business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality and insurance, as well as local businesses and other customers in the private and public sectors. Domestic customers form only a small part of Metro Rod's business.

A focus of Metro Rod is to provide a 24/7/365 emergency response service to customers through its operating model of Key Accounts and Commercial Accounts. The service is provided by regional Franchisees, who on average have been with Metro Rod for 11 years, with extensive support from a large head office team of around 140 people.

In February 2016, Metro Rod extended the range of services it provides to include plumbing through the launch of Metro Plumb. Metro Plumb provides cold water plumbing services to primarily business customers.

Metro Rod also operates a division, Kemac, which provides plumbing and plumbing related services to water companies and other customers. Since February 2016, Kemac has operated six Metro Plumb franchise territory areas.

Metro Rod is profitable and cash generative. Operating profit before exceptional items increased approximately 52 per cent. from £2.1 million in the financial year ended 30 April 2014 to £3.2 million in the financial year ended 30 April 2016.

The financial information set out below has been extracted without material adjustment from the consolidated historical financial information on Metro Rod for each of the three years ended 30 April 2014, 2015 and 2016 and the six months ended 30 October 2016, as set out in Part VI of this document:

	<i>Year ended 30 April 2014 £'000</i>	<i>Year ended 30 April 2015 £'000</i>	<i>Year ended 30 April 2016 £'000</i>	<i>Unaudited six months ended 30 October 2016 £'000</i>
<b>Revenue</b>	17,125	19,572	21,416	12,016
Cost of Sales	(11,890)	(13,871)	(15,039)	(8,546)
<b>Gross Profit</b>	5,235	5,701	6,377	3,470
<b>Operating Profit before exceptional items</b>	2,079	2,419	3,168	1,460
<b>Earnings Before Interest, Tax, Depreciation, Amortisation and exceptional items</b>	2,481	2,908	3,303	1,502
<b>Profit Before Tax</b>	2,079	2,368	2,402	1,441

This information refers to past performance. Past performance is not a reliable indication of future results.

Further information on Metro Rod can be found in Part II, Part VI and Part VII of this document.

### 3. REASONS FOR THE ACQUISITION

The Board believes the Acquisition is positive for the Group for the following reasons.

- **Significantly earnings-enhancing:** The Directors believe Metro Rod is being purchased by the Group at an attractive price of approximately 8.8 times Operating Profit before exceptional items for the year ended 30 April 2016, and that the Acquisition will therefore be significantly earnings enhancing for the Group. Metro Rod also benefits from a strong cashflow, which, when combined with the existing Group's robust cashflow and strong balance sheet, provides an opportunity to utilise debt to finance the Enlarged Group and further enhance earnings per share.
- **Potential for growth in earnings:** The Directors believe Metro Rod's earnings will grow as a result of the continued development of the core business, development of the recently launched Metro Plumb business and, longer term, the additional extension of the "Metro" brand into other B2B sectors.
- **Defensive sector:** Metro Rod's business model has historically demonstrated resilience through changes in the economic cycle. The Directors believe this is partly due to emergency nature of the demand for its services.
- **Experienced management:** Metro Rod has an experienced and long standing management team who have continued to grow the business through several changes of ownership. Under the guidance of the experienced Board, and as part of a group focused entirely on the development and growth of franchise businesses, the Directors believe that this team will thrive.
- **Quality of income:** Metro Rod generates substantially all its income from fees related to system sales and does not rely on income from Franchisee recruitment or resales. The Directors believe this will improve the Enlarged Group's overall quality of income and improve the return to the Enlarged Group from growing Franchisee turnover.



- **Opportunities to leverage shared services:** The Directors believe Franchise Brands and Metro Rod have complementary strengths in the provision of shared services. For example, Franchise Brands has significant expertise in marketing, which the Directors believe will accelerate the development of Metro Rod's existing business and the newly launched Metro Plumb business. In contrast, Metro Rod has a substantial call centre capability, whereas Franchise Brands currently outsources this function. The Directors believe that combining the finance teams will also provide the potential for an enhanced finance function for the Enlarged Group.
- **Benefits of operational scale:** The addition of Metro Rod to the Group will substantially increase the size and scale of the Group's operations. This will potentially allow certain functions that were previously sub-scale to be optimised and certain outsourced functions to be brought in-house over time.
- **Increased range of future potential acquisition opportunities:** Metro Rod is predominantly a B2B business whereas the Group's existing brands are B2C businesses. The Directors believe that the B2B expertise and operational capabilities within Metro Rod, combined with the scale of the Enlarged Group, will also allow the Board to evaluate an increased range of future potential acquisition opportunities in the B2B, as well as B2C, sectors.

#### 4. PRINCIPAL TERMS AND FINANCIAL EFFECTS OF THE ACQUISITION

Under the terms of the Acquisition Agreement, the Company has conditionally agreed to acquire Metro Rod for a cash consideration of £28 million, payable in full at completion of the Acquisition (which takes place on Admission) subject to certain adjustments based on the financial position of Metro Rod at completion of the Acquisition.

The Acquisition Agreement contains customary warranties and indemnities from the Vendor in favour of the Company subject to certain limitations, in particular as to the maximum amounts which may be claimed. The Company has taken out warranty and indemnity insurance to provide additional protection in respect of any claims that may arise under such warranties and indemnities.

Further details of the Acquisition Agreement are set out in paragraph 8.1.2 of Part VII of this document.

##### Financial effects of the Acquisition

In the year ended 30 April 2016, Metro Rod recorded an Operating Profit before exceptional items of approximately £3.2 million. The Consideration therefore represents a multiple of approximately 8.8 times Operating Profit before exceptional items, which the Directors consider attractive for a business where they believe they can add significantly to sales and profit growth.

In addition to the Consideration, the Company will incur total costs for the Acquisition, Placing and Admission of approximately £1.8 million, resulting in a total funding requirement of £29.8 million. The Acquisition, Placing and Admission will be funded by the Placing and the Term Loan. Further details are set out below in paragraph 9 of this Part I.

It is anticipated that the net assets of Metro Rod at completion of the Acquisition will be approximately £8 million, giving rise to a maximum goodwill of £20 million. Consideration will be given to the valuation of trademarks and other intangible assets in calculating the final goodwill amount. Transaction costs will be written off or charged against the share premium account arising on the issue of new shares. In accordance with IFRS accounting standards, the life of trademarks and intangible assets will be assessed and will be subject to either amortisation or periodic impairment reviews.

The Company also intends to repay the outstanding balance of the Loan Notes, which stood at £0.4 million at 31 December 2016, prior to Admission. Repayment of the Loan Notes will be funded from the Group's existing cash resources. Repayment of the Loan Notes will allow HSBC to be the only lender to the Enlarged Group (with the exception of a small hire purchase debt of approximately £0.1 million).

Shareholders' funds at 31 December 2016 for the Company stood at £3.9 million. The addition of £20 million of new equity capital (less all transaction costs) will increase this to £22.1 million. The Term Loan will be the only borrowings of the Enlarged Group at completion of the Acquisition (with the exception of a small hire purchase debt of approximately £0.1 million). The Company's cash balances at 31 December 2016 were

£2.6 million (after adjusting for the repayment of the Loan Notes). Net capital gearing at completion of the Acquisition will therefore be approximately 46 per cent.

Operating Profit before exceptional items of the Group in the year to 31 December 2016 was £1.2 million and was £3.2 million for Metro Rod in the year ended 30 April 2016, giving a total pro forma Operating Profit before exceptional items in the last full financial year for the Enlarged Group of £4.4 million. At completion of the Acquisition, the ratio of net debt to Operating Profit before exceptional items will therefore be 1.6 times.

## 5. INFORMATION ON FRANCHISE BRANDS

Franchise Brands is a group of international multi-brand franchisors with a combined network of over 400 Franchisees in 12 countries, but predominantly in the UK.

The Group's principal brands are ChipsAway, Ovensclean and Barking Mad, all of which deliver services to individuals of a similar socio-economic group through the Group's Franchisees. The Group does not currently own or operate any franchises.

The business of the Group was founded in September 2008 by Stephen Hemsley (Executive Chairman) and Nigel Wray (Non-Executive Director), the Group's Controlling Shareholders, who have substantial experience in franchising.

Since 2008, the Group has developed central support services predominantly in the areas of marketing, franchise recruitment and franchise support.

The Group's strategy is to increase its portfolio of franchise brands through acquisition as well as grow its existing businesses. In October 2016, the Group announced the completion of its first acquisition since IPO, Barking Mad.

In addition to the co-founders, other members of the Board also have considerable franchising experience as well as experience of operating and growing profitable businesses. The Board also has substantial experience of analysing, investigating, completing and integrating acquisitions.

The Group is profitable and cash generative. The financial information set out below has been extracted without material adjustment from the consolidated historical financial information on the Group for the year ended 31 December 2016 and FB Holdings for each of the two years ended 31 December 2014 and 2015 as referenced in Part V of this document:

	<i>Year ended 31 December 2014 £'000</i>	<i>Year ended 31 December 2015 £'000</i>	<i>Year ended 31 December 2016 £'000</i>
<b>Revenue</b>	4,351	4,379	4,870
Cost of Sales	(1,510)	(1,487)	(1,572)
<b>Gross Profit</b>	2,842	2,892	3,298
<b>Operating Profit</b>	924	1,122	791
<b>EBITDA*</b>	1,020	1,176	1,352
<b>Profit for the period and comprehensive income attributable to equity holders of the parent company excluding exceptional items</b>	713	888	979

\*EBITDA represents profit before finance income, finance costs, income tax expense and depreciation, amortisation, profit on disposal of tangible assets and share based payment expense as further adjusted to add back exceptional items.

This information refers to past performance. Past performance is not a reliable indication of future results.

Further information on Franchise Brands can be found in Part III and Part V of this document.

## **6. STRATEGY OF THE ENLARGED GROUP**

The strategy of the Enlarged Group is to develop franchise businesses that provide primarily services to individuals and businesses. The execution of the strategy will be achieved through organic growth and acquisition.

### ***Metro Rod***

The Enlarged Group intends to develop the Metro Rod business in a number of areas, including:

- providing additional sales and marketing support to Franchisees in the development of Commercial Accounts;
- further developing Key Accounts in sectors where Metro Rod's penetration could be increased on a relative basis;
- developing Metro Plumb through investment in additional sales and marketing; and
- longer term, extending the "Metro" brand into other B2B service sectors.

### ***Barking Mad***

The Directors believe there is substantial scope to grow Barking Mad's system sales by supporting Franchisees' growth through leveraging the Group's established central support services, in particular marketing. The Directors also believe there is an 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 segments of the market.

### ***ChipsAway and Ovensclean***

The Enlarged Group intends to continue to actively expand the ChipsAway and Ovensclean franchise systems through recruiting new Franchisees as well as improving Franchisee retention rates. The Directors believe this will improve the quality of earnings by increasing the contribution from recurring MSF income. The Enlarged 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.

### ***MyHome***

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. The Directors concluded that a full re-launch of the domestic cleaning business would not be in Shareholders' long term interest given the damage previously done to the brand and a number of other parties using all or part of the MyHome name. These costs will therefore not recur in future years. The Group's research did, however, highlight other opportunities in the domestic services sector, particularly for small repairs and maintenance. To test this opportunity, the Group has a single franchisee operating under the brand "The Handyman Van" using similar branding to MyHome. This test will be cost neutral for the Group.

### ***Acquisitions***

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

- 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 of their investment or convert their investment into a more marketable form.

The Directors believe the acquisition of Metro Rod is a transformational step in the Group's buy and build strategy, and brings with it a number of exciting potential opportunities. The Directors believe the

development of these opportunities, which are anticipated to include the need for investment in marketing and information technology, as well as require significant senior management time, should remain the near term focus of the Enlarged Group.

## **7. CURRENT TRADING AND PROSPECTS**

### ***Franchise Brands***

The Group's audited annual results for the financial year ended 31 December 2016 are incorporated by reference in Part V of this document.

Since 1 January 2017, the Group has continued to trade in line with management expectations and the Board expects this to continue through the rest of 2017.

The Directors believe that the Enlarged Group's prospects will be enhanced by the Acquisition as well as the Group's recent acquisition of Barking Mad. The Directors believe that the integration of Barking Mad into the Group is progressing well and that it is beginning to benefit from the Group's support services particularly in the areas of marketing and IT.

A further update on the Enlarged Group's results for the six-month period ending 30 June 2017 will be provided in the Enlarged Group's next interim accounts, which will be published not later than 30 September 2017.

The total number of ChipsAway and Ovenclean Franchisees in the UK has increased by over 15 over the last year and with the acquisition of Barking Mad, the total number of UK Franchisees as at the date of this document stands at 395.

### ***Metro Rod***

Since 1 November 2016, Metro Rod has continued to trade in line with the previous year despite very dry weather, particularly in December 2016, which has had a negative effect on reactive drainage services.

The Directors believe that under the guidance of the Board, and as part of a group focused entirely on the development and growth of franchise businesses, the development of Metro Rod can be accelerated.

The total number of Franchisees within Metro Rod has remained stable since 30 April 2016, at around 40.

## **8. DIRECTORS, SENIOR MANAGERS AND EMPLOYEES**

### **a) Directors**

The Board currently consists of seven Directors who, between them, have substantial experience of franchising. Stephen Hemsley and Nigel Wray have a longstanding and successful track record in investing in and growing franchise businesses dating back to 1999. The Directors also have considerable experience of operating and growing profitable businesses and of investigating acquisition targets.

In light of the acquisition of Barking Mad following the IPO, the proposed acquisition of Metro Rod and the planned growth for the Enlarged Group, the Directors intend to monitor the Board composition over the coming year to ensure it remains suitable for the needs of the Enlarged Group. Each of the Enlarged Group's businesses has its own senior management team and finance function that report (or are expected to report) into the Board.

### **Stephen Hemsley (aged 59) – Executive Chairman**

Stephen co-founded the business of Franchise Brands in 2008. As Chairman since the date of incorporation, 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 of Domino's Pizza. Having originally joined the then private company Domino's Pizza as Finance Director in 1998, he led Domino's Pizza to an IPO on AIM in 1999, and subsequently as CEO, steered 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 £25 million to around £1.6 billion and membership

of the FTSE 250 Index and from around 100 stores to over 1,000 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.

#### **Tim Harris (aged 53) – 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.

#### **Julia Choudhury (née Ball) (aged 50) – 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 Managers' 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.

#### **Robin Auld (aged 44) – Marketing Director**

Robin joined Franchise Brands as Group Marketing Director in 2010 and established marketing campaigns for the brands, generating increases in demand and raising brand awareness. Robin has a successful track record of 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.

#### **Nigel Wray (aged 69) – Non-Executive Director**

Nigel co-founded the business of 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 Limited and many other companies. He is also the chairman and co-owner of Saracens Rugby Club. He is a significant investor in a 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 Domino's Pizza, Carlton Communications plc and Singer & Friedlander plc 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.

#### **David Poutney (aged 64) – Non-Executive Director**

David has extensive finance and investment experience. 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. David was recently appointed Executive Chairman of Dowgate Capital and a Non-Executive Director of Be Heard Group plc. He was appointed as a Director of the Company on 15 July 2016.

### **Rob Bellhouse (aged 52) – Non-Executive Director**

Rob is an experienced Company Secretary with strong commercial experience gained over a period of 30 years of working with primarily quoted companies. He is currently Company Secretary for Alliance Pharma plc where he is responsible for all legal, board, governance, compliance and risk management activities. He was previously interim Company Secretary at Domino's Pizza. Between 2003 and 2015 Rob was Company Secretary of Lonmin plc. 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 UK listed companies and other corporates. He was appointed as a Director of the Company on 15 July 2016.

### **b) Senior Management**

The Group's senior management team currently includes the following individuals:

### **Paul Below (aged 57) – Interim Group Chief Financial Officer**

Paul joined the Group as Interim Group Chief Financial Officer on 23 December 2016 and will be replaced by a permanent appointment during the course of 2017. Paul has over 35 years of finance experience, primarily gained through interim roles. Since 1998 he has acted as interim chief financial officer or interim finance director for a wide range of companies. Between 2010 and 2011 he was interim chief financial officer for Fulcrum Utility Services plc. Paul also has substantial experience in performing interim roles for private equity-backed businesses. Paul is a Fellow of the Institute of Chartered Accountants for England and Wales.

### **Andrew Mallows (aged 47) – Finance Director, ChipsAway, Ovenclean and Barking Mad**

Andrew has spent his finance career in the consumer sector and has particular experience in franchising. Andrew was previously a director of the Company. After helping the Company prepare for and complete the IPO, he resigned on 14 October 2016 to return to his agricultural interests. On 31 March 2017, he will re-join the Group on a part time basis as Finance Director for ChipsAway, Ovenclean and Barking Mad. Andrew was Finance Director of Domino's Pizza during the period 2001 to 2004, having taken over that role from Stephen Hemsley when he was promoted to CEO.

### **Lee Dancy (aged 52) – Managing Director, Barking Mad**

Lee is an experienced franchise professional with over 25 years of commercial experience, primarily in sales and marketing. In 2000, Lee founded Barking Mad and successfully franchised the business in 2002. In the Directors' opinion, Barking Mad was a pioneer of professional dog sitting in the franchising industry. As Managing Director, Lee led the business through a period of considerable expansion, which has included growing the franchise system to the current 76 franchised territories. Lee continues to manage Barking Mad in her role as Managing Director following the acquisition of the business by Franchise Brands. Prior to establishing Barking Mad, Lee was an independent marketing consultant. Lee is also a non-executive director of Pyjama Drama Limited, a franchise business in the children's sector.

Following completion of the Acquisition, the Enlarged Group's senior management team will also include the following individuals:

### **Colin Davis (aged 52) – Managing Director, Metro Rod**

Colin has widespread commercial experience gained over a period of nearly 30 years of working with primarily large quoted companies. Colin was appointed Managing Director of Metro Rod in 2013, in addition to his role as Chief Operating Officer of the Utility Services Group within the Enserve Group. He originally joined the predecessor company to the Enserve Group in 2011 as Group Procurement Director and was promoted shortly afterwards to Commercial Director. Between 2003 and 2004, Colin was Director of Group Purchasing at The Caudwell Group. Between 2004 and 2008, Colin was Director of Supply Chain at E.ON where he was responsible for the procurement spend across the E.ON business unit. Between 2008 to 2011, Colin was Director of Supply Chain and Commercial at United Utilities where he was responsible for commercial management across the group.

### **Peter Molloy (aged 56) – Sales and Marketing Director, Metro Rod**

Peter is a seasoned sales professional with over 35 years of management and commercial experience. Peter joined Metro Rod in 2003 and was promoted to the position of Commercial Director in 2005. In this role, he is responsible for Key Account sales and support and also for marketing. Prior to joining Metro Rod, Peter was Managing Director of Solaglas Replacement Glazing, part of the Saint-Gobain Group, with national responsibility for the network branches, field engineers, call centre and sales and marketing. Peter has played a lead role in securing a number of large Key Accounts for Metro Rod in the water utility sector as well as multiple contracts across a range of sectors including healthcare, facilities management, insurance and social housing.

### **c) Employees**

The Group currently has 33 employees of whom 25 are based in Kidderminster and eight are based in Kirkby Lonsdale.

Following completion of the Acquisition, the Enlarged Group will have 176 employees of whom 25 will be based in Kidderminster, eight in Kirkby Lonsdale, 116 in Macclesfield and 27 in Hoddesdon.

The Directors believe that this team is sufficiently experienced and resourced to support the implementation of the Enlarged Group's strategy.

## **9. BANKING AND LOAN ARRANGEMENTS**

The Company has entered into the Facilities Agreement with HSBC under which HSBC is to make available to the Company the Term Loan and the RCF to support the Acquisition and provide working capital finance to the Enlarged Group. The facilities are repayable within five years of Admission. The facilities are secured by cross guarantees and debentures executed by the Company and each of its Subsidiaries. The Facilities Agreement contains certain warranties and information, financial and general undertakings, from the Company and its Subsidiaries in favour of HSBC. HSBC has certain rights to terminate the Facilities Agreement and demand immediate repayment of all moneys and liabilities upon an occurrence of certain events of default as set out in the Facilities Agreement.

Further details of the Facilities Agreement are set out in paragraph 8.1.5 of Part VII of this document.

## **10. THE PLACING**

The Company is proposing to raise up to approximately £20 million (approximately £18.2 million net of expenses) by the conditional placing of up to 29,850,747 Placing Shares pursuant to the Placing at the Placing Price. The net proceeds of the Placing will be used to satisfy part of the Consideration payable pursuant to the Acquisition.

The Placing Shares will represent approximately 38.4 per cent. of the Enlarged Share Capital on Admission and rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive dividends and other distributions declared, made or paid in respect of the Ordinary Shares. For the avoidance of doubt, the Placing Shares will not be eligible to receive the dividend announced in the Group's annual report and accounts for the year to 31 December 2016 as referenced in Part V of this document.

Allenby Capital and Dowgate Capital have each conditionally agreed, pursuant to the Placing Agreement and as agent for the Company, to use their reasonable endeavours to procure institutional and other subscribers for the Placing Shares at the Placing Price. The Placing has not been underwritten and is conditional, *inter alia*, upon the passing of the Resolutions, Admission and the Placing Agreement not being terminated by 8.00 a.m. on 11 April 2017 (and in any event no later than 8.30 a.m. on 28 April 2017). The Placing Agreement contains certain warranties and indemnities from the Company in favour of Allenby Capital and Dowgate Capital in relation, *inter alia*, to the accuracy of the information contained in this document and certain matters relating to the Group and Metro Rod. Allenby Capital and Dowgate Capital each have certain rights to terminate the Placing Agreement prior to Admission, including for a material breach of warranty or the occurrence of certain *force majeure* events. Further details of the Placing Agreement are set out in paragraph 11 of Part VII of this document.

The Placing is being made on a non pre-emptive basis as the time delay and costs associated with a pre-emptive offer are considered by the Directors to be excessive for the Company's requirements.

### Directors' participation in the Placing

All the Directors intend to participate in the Placing on identical terms to the Placees. Such Directors intend to subscribe, in aggregate, for 16,671,459 Placing Shares at the Placing Price for an aggregate subscription amount of approximately £11.2 million.

Details of the Directors' proposed participation in the Placing are as follows:

Director	Current holding		Number of Placing Shares	At Admission <sup>(1)</sup>	
	Number of Ordinary Shares held	Percentage of Ordinary Shares in issue		Number of Ordinary Shares held	Percentage of Ordinary Shares in issue
Stephen Hemsley	13,000,431	27.15	7,462,686	20,463,117	26.33
Nigel Wray	14,080,434	29.41	7,462,686	21,543,120	27.71
David Poutney	606,060	1.27	1,417,910	2,023,970	2.60
Julia Choudhury	1,010,229	2.11	194,029	1,204,258	1.55
Tim Harris	999,762	2.09	59,522	1,059,284	1.36
Robin Auld	908,882	1.90	37,313	946,195	1.22
Rob Bellhouse	45,455	0.09	37,313	82,768	0.11
<b>Total</b>	<b>30,651,253</b>	<b>64.02</b>	<b>16,671,459</b>	<b>47,322,712</b>	<b>60.88</b>

1. Assumes that the Placing is subscribed for in full.

The Directors are treated as related parties of the Company under the AIM Rules. The Directors' proposed participation in the Placing is therefore treated as a related party transaction pursuant to rule 13 of the AIM Rules. The Company's nominated adviser, Allenby Capital, considers that the terms of the Directors' proposed participation in the Placing are fair and reasonable insofar as Shareholders are concerned.

## 11. ADMISSION, SETTLEMENT AND DEALING

Pursuant to rule 14 of the AIM Rules, an application will be made for the Company's Existing Ordinary Shares to be re-admitted to trading and the Placing Shares to be admitted to trading on AIM. It is expected that the last day of trading on AIM of the Existing Ordinary Shares will be on 10 April 2017 and that Admission will become effective and dealings in the Enlarged Share Capital will commence on 11 April 2017.

Existing share certificates will remain valid after Admission. The Company's Ordinary Shares are eligible for CREST settlement and settlement of transactions in the Ordinary Shares may take place within the CREST system if a Shareholder so wishes. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates are able to do so. CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument in accordance with the CREST Regulations. For more information concerning CREST, Shareholders should contact their stockbroker or Euroclear at 33 Canon Street, London EC4M 5SB or by telephone on +44 (0)207 849 0000.

The Ordinary Shares have the ISIN code GB00BD6P7Y24. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been or is being made for the Ordinary Shares to be admitted to any other exchange.

## 12. SHARE LOCK-IN AND ORDERLY MARKET ARRANGEMENTS

At Admission, the Locked-in and Orderly Market Parties (which includes the Directors) will hold, or be interested in, directly and indirectly, an aggregate of 49,660,643 Ordinary Shares, representing approximately 63.89 per cent. of the Enlarged Share Capital.

The Locked-in and Orderly Market Parties have undertaken not to dispose of any interest in the Ordinary Shares which they may have on Admission (or subsequently acquire) for the period of one year following



Admission, save for in certain limited circumstances. In addition, they have each further agreed that for an additional 12-month period following the first anniversary of Admission they shall only dispose of any interest in Ordinary Shares through Allenby Capital, Dowgate Capital or such other broker of the Company from time to time and in accordance with certain orderly market principles.

In addition, Mark Peters has undertaken, for a period of 12 months following Admission, to only dispose of any interest in Ordinary Shares through Allenby Capital, Dowgate Capital or such other broker of the Company from time to time and in accordance with certain orderly market principles.

Details of these lock-in and orderly market arrangements are set out in paragraphs 11.3 and 11.4 of Part VII of this document.

In addition, 4,058,552 Ordinary Shares, representing approximately 5.22 per cent. of the Enlarged Share Capital, remain subject to lock-in agreements entered into at the IPO, whereby the relevant parties undertook not to dispose of any interest in the Ordinary Shares which they had at IPO (or subsequently acquired in the 12-month period following the first anniversary of the IPO) for the period of one year following the IPO, save in certain limited circumstances. In addition, they each further agreed that for an additional 12-month period following the first anniversary of the IPO they would only dispose of any interest in Ordinary Shares through Allenby Capital, Dowgate Capital or such other broker of the Company from time to time and in accordance with certain orderly market principles.

### **13. RELATIONSHIP AGREEMENT**

The Company and Allenby Capital entered into the Relationship Agreement with the Controlling Shareholders on 1 August 2016, which includes, amongst other things, provisions intended to ensure that the Company will, following Admission, be able to operate independently of the Controlling Shareholders for as long as they and their related parties (as such term is defined in the AIM Rules) together hold not less than 25 per cent. of the voting rights attaching to the Ordinary Shares. Amongst other things, the Relationship Agreement provides that the Controlling Shareholders, as far as they are each able to as a Shareholder, shall:

- procure that the Group is managed for the benefit of the Shareholders as a whole and independently of the Controlling Shareholders;
- procure that all arrangements between any member of the Group and the Controlling Shareholders be on an arm's length basis and on normal commercial terms;
- not take any action that could reasonably be expected to have the effect of preventing the Company from complying with its obligations under the AIM Rules;
- not propose or procure the proposal of a resolution intended to circumvent the proper application of the AIM Rules;
- procure that the remuneration committee and audit committee will be comprised of entirely independent directors and chaired by an independent director; and
- procure that the Company will be managed, so far as is practicable, in accordance with the QCA Guidelines to the extent practicable for the size, stage of development and operations of the Group at the relevant time.

### **14. DIVIDEND POLICY**

The Directors 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. The first dividend is due to be declared for the year ended 31 December 2016 in the Company's annual results for the period since IPO to 31 December 2016.

The Directors will consider the following general principles when recommending dividends for approval by the Shareholders or when declaring any interim dividends:

- the levels of cash, marketable financial assets and level of indebtedness;
- the required and expected cashflows, interest expenses, profit, return on equity and retained earnings;

- the expected results from operations and the anticipated future level of operations; and
- the projected levels of capital expenditure and other investment plans.

The objective of the Enlarged Group's dividend policy is to provide sustainable dividends to Shareholders, consistent with the Company's earnings growth, to attract long-term investors and to enable Shareholders to enjoy returns on their investment in tandem with the Enlarged Group's growth. The payment and amount of any dividends or distributions to Shareholders will be at the discretion of the Board and will depend, among other things, on the factors stated above. There is no assurance as to whether any dividend distributions will occur as intended, the amount of any dividend payments or timing of such payments.

All Ordinary Shares, including the Placing Shares, carry equal dividend rights. As a holding company, the ability of the Company to pay dividends will principally depend upon dividends or interest paid to it by its subsidiaries.

## **15. CORPORATE GOVERNANCE**

The Corporate Governance Code applies only to companies on the premium segment of the Official List and not to companies whose shares are admitted to trading on AIM. However, the Directors recognise the importance of sound corporate governance and intend that the Enlarged Group will comply with the provisions of the QCA Guidelines, insofar as they are appropriate given the Enlarged Group's size and nature. As the Enlarged Group grows, the Directors intend that it should develop policies and procedures which further reflect the Corporate Governance Code, so far as it is practicable taking into account the size and nature of the Enlarged Group.

The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions. The Group holds Board meetings at least six times each financial year and at other times as and when required.

The Group has established properly constituted audit, remuneration and AIM compliance committees of the Board with formally delegated duties and responsibilities, a summary of which is set out below.

### *Audit committee*

The audit committee has primary responsibility for monitoring the quality of internal controls and ensuring that the financial performance of the Group is properly measured and reported on. It receives and reviews 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 audit committee meets not less than twice in each financial year and has unrestricted access to the Group's external auditors. The members of the audit committee are David Poutney, who acts as chairman of the committee, and Rob Bellhouse.

### *Remuneration committee*

The remuneration committee reviews the performance of the executive directors and makes recommendations to the Board on matters relating to their remuneration and terms of employment. The committee also makes recommendations to the Board on proposals for the granting of share awards and other equity incentives pursuant to any share award scheme or equity incentive scheme in operation from time to time. The remuneration committee meets at least twice a year. The members of the remuneration committee are Rob Bellhouse, who acts as chairman of the committee, and David Poutney.

### *AIM compliance committee*

The role of the AIM 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. The AIM compliance committee makes recommendations to the Board and proactively liaises with the Company's nominated adviser on compliance with the AIM Rules. The AIM compliance committee also monitors the Company's procedures to approve any share dealings by directors or employees in accordance with the Company's share dealing code. The members of the AIM compliance committee are Rob Bellhouse, who acts as chairman of the committee, David Poutney and Julia Choudhury.

## **16. SHARE DEALING CODE**

The Company has adopted a share dealing code for dealings in securities of the Company by directors and certain employees which is appropriate for a company whose shares are traded on AIM. This constitutes the Company's share dealing policy for the purpose of compliance with UK legislation including the Market Abuse Regulation and the relevant part of the AIM Rules.

It should be noted that the insider dealing legislation set out in the UK Criminal Justice Act 1993, as well as provisions relating to market abuse, will apply to the Company and dealings in Ordinary Shares.

## **17. SHARE OPTION SCHEME**

The Company has established a long term incentive plan in the form of a share option scheme (the "LTIP") which allows for the grant of enterprise management incentive or EMI share options. Details of the LTIP are set out in paragraph 10 of Part VII of this document.

Options over a total of 1,106,061 Ordinary Shares which have been granted to certain Directors and employees pursuant to the LTIP are currently in issue and a further 493,500 options are proposed to be issued, subject to Admission. Further details of options granted and proposed to be granted are as set out in paragraph 10.16 of Part VII of this document.

## **18. THE CITY CODE AND CONTROLLING SHAREHOLDERS**

The City Code applies to a company whose shares are admitted to trading on AIM if that company's registered office is in the United Kingdom, the Channel Islands or the Isle of Man. The Company is incorporated in the United Kingdom, the Existing Ordinary Shares are currently admitted to trading on AIM and application will be made for the Enlarged Share Capital to be re-admitted to trading on AIM. Accordingly, the City Code applies, and will continue to apply, to the Company.

The City Code governs, *inter alia*, transactions which may result in a change of control of a public company to which the City Code applies. Under Rule 9 of the City Code any person who acquires, whether by a series of transactions over a period of time or not, an interest (as defined in the City Code) in shares which (taken together with shares in which that person is already interested or in which persons acting in concert with him are interested) carry 30 per cent. or more of the voting rights of a company which is subject to the City Code, that person is normally required to make a general offer to all the remaining shareholders to acquire their shares.

Similarly, Rule 9 of the City Code also provides that when any person, together with persons acting in concert with him, is interested in shares which, in aggregate, carry more than 30 per cent. of the voting rights of such company but not more than 50 per cent. of such voting rights, a general offer will normally be required if any further interest in shares is acquired which increases the percentage of shares carrying voting rights in which he, together with persons acting in concert with him, are interested.

Rule 9 of the City Code further provides, among other things, that where any person who, together with persons acting in concert with him, holds over 50 per cent. of the voting rights of a company, acquires any further shares carrying voting rights, then they will not generally be required to make a general offer to the other shareholders to acquire the balance of their shares, though Rule 9 of the City Code would remain applicable to individual members of a concert party who would not be able to increase their percentage interests in the voting rights of such company through or between Rule 9 thresholds without complying with the requirements of Rule 9 or first obtaining a waiver from the Panel.

In accordance with the City Code, it is presumed that the Controlling Shareholders, Tim Harris, Julia Choudhury, Robin Auld, Mark Peters and the Shareholders prior to the IPO and their respective families, investment trusts and associates, are acting in concert for the purposes of the City Code (the "Concert Party"). On Admission, the Concert Party will be interested in at least 64.38 per cent. of the Enlarged Share Capital. As the Concert Party will control in excess of 50 per cent. of the Enlarged Share Capital on Admission, for so long as this remains the case, the Concert Party would be entitled to increase its aggregate interest in the voting rights of the Company without incurring the obligation under Rule 9 of the City Code to make a general offer. However, individual members of the Concert Party will not be able to increase their

individual percentage of shares carrying voting rights in which they are interested to 30 per cent. or more of the voting rights of the Company without triggering Rule 9 of the City Code.

Details of the individual interests of the Controlling Shareholders are set out in paragraph 4 of Part VII of this document.

## 19. TAXATION

Information regarding United Kingdom taxation is set out in paragraph 9 of Part VII of this document. These details are, however, intended only as a general guide to the current tax position under UK taxation law. Shareholders who are in doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their own independent financial adviser immediately.

## 20. GENERAL MEETING

A notice convening a general meeting of the Company, to be held at the offices of Gateley Plc, One Paternoster Square, London EC4M 7DX on 10 April 2017 at 10.00 a.m., is set out at the end of this document. At the General Meeting, the following resolutions will be proposed:

- (a) to approve the Acquisition;
- (b) to authorise the Directors to: (i) allot Ordinary Shares in connection with the Placing and (ii) allot Ordinary Shares up to a maximum nominal value of £129,553, representing approximately 33 per cent. of the Enlarged Share Capital; and
- (c) to authorise the Directors to allot Ordinary Shares for cash otherwise than on a *pro rata* basis to Shareholders: (i) in connection with the Placing; and (ii) up to a maximum nominal value of £58,299, representing approximately 15 per cent. of the Enlarged Share Capital.

The resolutions in (a) and (b) will be proposed as ordinary resolutions and the resolution in (c) will be proposed as a special resolution. To be passed, the resolutions in (a) and (b) require a majority of the votes cast at the General Meeting, in person or by proxy, and the resolution referred to in (c) requires a majority of not less than 75 per cent. of the votes cast at the General Meeting, in person or by proxy. The Resolutions are inter-conditional and so, if one of them is not passed at the General Meeting, none of them will be deemed to have been passed.

## 21. FURTHER INFORMATION

Your attention is drawn to Parts II to VII of this document, which provide additional information on the Enlarged Group, and, in particular, to the Risk Factors set out in Part IV.

## 22. RECOMMENDATION AND ACTION TO BE TAKEN BY SHAREHOLDERS

**The Directors consider that the Resolutions to be proposed at the General Meeting are in the best interests of the Company and its Shareholders as a whole and unanimously recommend that Shareholders vote in favour of the Resolutions, as they, and certain other shareholders, have irrevocably undertaken to do in respect of their own beneficial holdings of 33,679,265 Ordinary Shares in aggregate, representing approximately 70.34 per cent. of the Company's issued share capital.**

A Form of Proxy is enclosed for use by Shareholders at the GM. Whether or not Shareholders intend to be present at the GM, they are requested to complete, sign and return the Form of Proxy to the Company's registrar, SLC Registrars, 42-50 Hersham Road, Walton on Thames, Surrey, KT12 1RZ as soon as possible but in any event so as to arrive not less than 48 hours before the time appointed for the General Meeting (excluding, in the calculation of such time period, any part of a day that is not a working day). The completion and return of a Form of Proxy will not preclude a Shareholder from attending the GM and voting in person should they subsequently wish to do so.

Yours faithfully,

**Stephen Hemsley**  
Executive Chairman

## **PART II**

### **INFORMATION ON METRO ROD**

#### **1. BACKGROUND AND HISTORY**

Metro Rod is a leading provider of drain clearance and maintenance services delivered on a largely reactive basis. The services are predominantly provided by a total of 40 Franchisees with geographical coverage across the majority of the UK.

Metro Rod serves national business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality and insurance, as well as local businesses and other customers in the private and public sectors. Domestic customers form only a small part of Metro Rod's business.

A focus of Metro Rod is to provide a 24/7/365 emergency response service to customers through its operating model of Key Accounts and Commercial Accounts. The service is provided by regional Franchisees, who on average have been with Metro Rod for 11 years, with extensive support from a large head office team of approximately 140 people.

Metro Rod was founded in 1983 and has subsequently grown to become, the Directors believe, one of only five companies in its sector operating on a national basis. Since 2001, Metro Rod has been part of a group of companies which in 2011 was renamed the Enserve Group. The Enserve Group is a private group of businesses providing infrastructure support services to the utilities sector. The Enserve Group has been under private equity ownership since 2010, most recently by funds managed or advised by Rubicon Partners LLP and Grovepoint Capital LLP.

Metro Plumb was launched by Metro Rod in February 2016 and provides cold water plumbing services, primarily to Key Account customers. All Metro Rod Franchisees were given the opportunity to purchase Metro Plumb franchises covering their respective territories and 30 of the existing 40 Metro Rod Franchisees have done so. The Directors believe that Metro Plumb represents a natural brand extension of the types of emergency response services Metro Rod is able to provide whilst seeking to leverage its existing infrastructure.

Kemac was established in 1993 and is a company owned operation (and not franchised). It built its reputation on providing services to the water utilities market and more recently, by providing plumbing services. Kemac provides plumbing related services to Thames Water and services to other water companies. Kemac also operates six Metro Plumb territories, predominantly in and near the Greater London area.

#### **2. SERVICES**

##### **Metro Rod**

Metro Rod's specialist drain clearance and maintenance services include high pressure water jetting, CCTV surveys, drain or sewer lining, excavation, electro mechanical cleaning and fat and grease management. Approximately 80 per cent. of the services are provided on a reactive, rather than planned, basis.

High pressure water jetting can be used in drains, sewers and stack pipes to remove soft silt or hard solid-set substances such as scale or cement. CCTV surveys are an efficient and cost effective way to allow the engineers to investigate drains and sewers remotely. Once the survey has been completed, customers are provided with a film recording of the images and a written report which includes recommended remedial actions where required.

Metro Rod also provides other specialist drainage related services, such as gutter vacuum cleaning and tanker services:

- gutter vacuum cleaning services are provided through a cleaning service, Metro Vac. This can be operated from the ground, reaching gutters up to 10 metres high, therefore reducing the need for scaffolding, ladders and high access equipment. Gutter vacuum cleaning services can help clear debris in gutters such as leaves, and clearing this debris can help prevent potential drain blockages; and

- tanker services which can assist with flood relief by providing a rapid removal of water and other debris, the emptying of road gullies and de-silting through vacuuming and flushing, the removal of debris and cleaning of large sewers through jetting operations and the provision of jetting operations where the water supply is remote.

### **Metro Plumb**

Metro Plumb was launched by Metro Rod in February 2016. Metro Plumb provides cold water plumbing services, examples of which include the repair of leaking pipes, toilets and taps, as well as replacing radiators. The service excludes any element of repairing or replacing central heating systems. All Metro Rod Franchisees were given the opportunity to purchase Metro Plumb franchises covering their respective territories and 30 of the existing 40 Metro Rod Franchisees have done so.

In Greater London, Reading and Guildford, plumbing services are currently provided by Kemac. Southampton, Bournemouth, Edinburgh and Glasgow are vacant franchise areas with plumbing services currently provided on a sub-contracted basis.

Metro Plumb represents a natural brand extension of the types of emergency response services Metro Rod is able to provide whilst leveraging its existing infrastructure.

### **Kemac**

Kemac was established in 1993. The business built its reputation on providing services to the water utilities market, notably to Thames Water.

Kemac provides plumbing related services to Thames Water, including general emergency plumbing services. In addition, Kemac provides services to other water companies in respect of legionella system refurbishments and water meter installation.

In early 2016, the business underwent a change of strategy as a result of the launch of Metro Plumb. Since February 2016 Kemac has operated six Metro Plumb franchise territory areas in London, Reading and Guildford on behalf of Metro Rod.

Kemac is a company owned operation and is not franchised. It became a trading division of Metro Rod in May 2016 having been owned previously by another Enserve Group business unit.

## **3. CUSTOMERS AND SALES**

Metro Rod serves national business customers across multiple sectors including facilities management, retail, water utilities, social housing, hospitality and insurance, as well as local businesses and other customers in the private and public sectors. Customers include many large national and well-known companies. Domestic customers form only a small part of Metro Rod's business.

In the last three financial years, Metro Rod Franchisees have carried out over 100,000 jobs per annum. In the financial year ended 30 April 2016, more than 130,000 jobs were completed. Average gross revenue per job in the financial year ended 30 April 2016 was approximately £230 (excluding VAT). Total system sales were approximately £32 million in the financial year ended 30 April 2016 (unaudited).

Statutory revenues for Metro Rod in the financial year ended 30 April 2016 were £21.4 million, and proforma revenues, which include the contribution of Kemac, and other adjustments, were £23.0 million. Of the proforma £23.0 million, £18.4 million related to revenue from Key Accounts, £2.6 million from Commercial Accounts and £1.8 million from Kemac. Key Account sales relate to national customer accounts won and maintained by the Metro Rod central sales team. Commercial Accounts relate to work secured directly by the Franchisee primarily from commercial customers within their franchise area as a result of their local marketing initiatives.

## **Key Accounts**

Metro Rod has over 360 Key Account customers. In the financial year ended 30 April 2016, facilities management customers accounted for approximately 51 per cent. of total Key Account customer revenues and retail customers accounted for approximately 12 per cent. Metro Rod has a high customer retention rate. In the last three financial years, the retention rate for Key Account customers was over 93 per cent.

Key Account customers include many large national and well-known companies in the facilities management, hospitality, healthcare and construction sectors. In the financial year ended 30 April 2016, Metro Rod's top 10 Key Account customers accounted for 35 per cent. of total revenue. As a result, the Directors believe there is limited dependence on any one individual Key Account customer. The largest customer accounts for approximately 9 per cent. of total revenues and has been a customer for 12 years.

Key Account contracts are generally organised through a framework or preferred supplier agreement, which have a typical duration of one to three years. While the agreements do not generally include volume guarantees, they document call-out rates, which tend to be fixed through the duration of the agreements. The call-out rates vary by customer. Key Account prices are set nationally and are mandatory on all Franchisees.

To use Metro Rod's services, Key Account customers report an issue to the 24/7/365 central call centre, which allocates a job to the relevant Franchisee. The customer is invoiced by Metro Rod's head office which also collects payment, retaining an approximate margin of 22 per cent. While the MSF is set as 22.5 per cent., the margin is 22 per cent. as Metro Rod allows Franchisees to exclude certain allowable expenses in calculating the MSF. The remaining approximately 78 per cent. is paid to the Franchisee, which is treated as a direct cost to Metro Rod in its accounts. The full invoice value is recorded as revenue by Metro Rod.

## **Commercial Accounts**

Franchisees service approximately 2,000 Commercial Account customers. Commercial Account sales are an important focus of Franchisee business plans. However, Franchisees must service Key Accounts ahead of Commercial Accounts.

There is no typical Commercial Account although they include small and medium sized enterprises in the franchise territory, local public sector institutions such as county councils, hospitals and educational establishments and non-profit organisations such as housing associations and charities. Key characteristics of a quality commercial customer are: a repeat element to their business; a high footfall on their premises; premises that are sensitive to disruption from drainage problems; or customers that have a budget allocated through public funding.

Metro Rod's head office is responsible for raising the sales invoice in respect of Commercial Accounts on behalf of the Franchisee and collecting payment. Following payment by the customer, approximately 22 per cent. is retained by Metro Rod, i.e., the MSF of 22.5 per cent. minus the allowance for deductible items, and the remainder is passed on to the Franchisee providing the service. Only the MSF is taken to statutory income by Metro Rod and therefore Commercial Accounts effectively generate a 100 per cent. gross profit margin.

## **4. THE FRANCHISE NETWORK**

Metro Rod has a mature and stable franchise network. Since May 2013, it has had between 40 to 43 franchisees. The decrease to 40 Franchisees at present, primarily reflects the consolidation of a number of franchise territories.

The franchise is a management franchise in that the Franchisee manages individuals who provide the service. There are over 300 engineers in the Metro Rod network. On average, Franchisees have eight engineers and operate seven vans. The average length of tenure of a Franchisee is approximately 11 years (the longest tenure is currently 23 years).

Metro Rod typically resells two to three franchises every year when Franchisees retire and/or are replaced and these area sales represent a small additional source of revenue for Metro Rod.

Average gross revenue per Franchisee has grown steadily in recent years to reach nearly £740,000 in the financial year ended 30 April 2016. No reliance is placed on a single Franchisee with the largest accounting for 5 per cent. of total Key Account and Commercial Account revenues.

Since February 2016, Kemac has operated the Metro Plumb franchise territory areas in London, Reading and Guildford on behalf of Metro Rod.

Southampton, Bournemouth, Edinburgh and Glasgow are vacant plumbing franchise areas with services currently provided on a sub-contracted basis.

## **5. THE FRANCHISE MODEL**

The Directors believe that the Metro Rod franchise model, which includes Metro Plumb, is a collaborative and mutually dependent one whereby the Franchisees fulfil work which is mostly procured by the franchisor.

Franchisees are awarded the right to operate the brand in geographically-defined territories on an exclusive basis. Territories are identified by postcodes.

Metro Rod, as the brand owner, licenses the brand and intellectual property to the Franchisee. The franchise agreement provides that each Franchisee pays an initial franchise fee or renewal fee to Metro Rod and an on-going MSF for the use of the brand, the retention of the territory, and the provision of the initial and ongoing services and support.

Metro Rod's franchise business model involves the provision of a range of central support services to its Franchisees. An important service is business management support, in particular the provision of Key Account sales which account for approximately 60 per cent. of the Franchisee's revenues. Further details on this head office support can be found in paragraph 6 immediately below.

Each Franchisee enters into a Franchise Agreement which grants them the right to trade under the relevant brand for a five year term. Subject to the Franchisee having substantially observed and performed the terms of the Franchise Agreement (and certain other conditions), the Franchisee is eligible to be awarded a renewal of the agreement for a further five year term. Metro Rod is not obliged to offer more than two renewal franchises. The franchisor can only decline to renew or terminate on grounds set out in the Franchise Agreement which include, amongst other things, non-performance and reputational damage.

Franchisees are responsible for the purchase of their own equipment and the hiring of specialist equipment for more complex work. The standard MSF is 22.5 per cent. of gross revenue minus an allowance for deductible items. The current franchise agreements provide for a marketing contribution of 1 per cent. of gross revenue. However, Metro Rod does not currently collect this from the Franchisees.

Metro Rod's accounts department are responsible for all invoicing on behalf of Franchisees for Key Accounts and Commercial Accounts. Franchisees are paid for servicing Key Accounts regardless of whether Metro Rod has received payment, and Metro Rod bears the credit risk for these accounts. Franchisees bear the credit risk for Commercial Accounts and are paid, on average, after 45 days. Payment terms for Key Accounts are typically 60 days, however the Franchisees are paid, on average, after 45 days. This explains the working capital requirement for Metro Rod which is unusual in a franchise business.

## **6. CENTRAL SERVICES**

Metro Rod provides a range of central support services to the Metro Rod and Metro Plumb Franchisees. These central support services are summarised as follows:

### **Key Accounts, Sales and Marketing**

#### *Key Account Team*

This team is comprised of five sales managers and support staff and their role is to secure contracts from large national clients. The Key Account sales team is organised by market sector. The principal sectors covered by the team are facilities, retail, water and social housing.

The team sells to new prospects within each market sector and also provides account management support.



### *Sales Administration*

An upsell and cross-sell team of approximately 20 agents is responsible for maintaining communication with clients, dealing with enquiries and obtaining client authorisation for additional works.

### *Marketing Team*

This team of typically two people support sales through producing marketing materials, supporting Franchisees with local marketing initiatives, identifying local and national PR opportunities and managing Metro Rod's web presence and online marketing activities.

## **Franchisee Support and Training**

### *Business Franchise Support*

This team of 10 provides a number of services to the Franchisees as follows:

- the technical support team of five staff is organised on a geographical basis and provides written technical manuals, training, technical audits and on-site assistance for problem solving for both drainage and plumbing activities;
- the two Business Development Managers, who cover the North and South of the UK respectively, work with the Franchisees to establish business plans for the year ahead and then support the Franchisees with the objective of delivering those plans through providing assistance with areas such as capacity planning, recruitment, sales support and training; and
- the Compliance team of three people is responsible for monitoring and recording Franchisee performance against the regular Franchisee reports and measuring sales, service and safety performance. In addition, this team takes responsibility for Metro Rod's continuous improvement and mobilisation processes.

### *Franchisee Training*

All Franchisees and their employees receive comprehensive training with the objective of providing them with the skills and expertise required to provide Metro Rod's range of services.

All Franchisees undergo an induction course at Metro Rod's head office which includes practical training as well as an introduction to company policies, systems and processes, the head office departments and the range of support and assistance that is available. Metro Rod technical trainers provide Franchisees and their engineers with up to two weeks' initial field support when they start trading and field support is provided by the same team on an on-going basis. This includes specialist training in the services offered, as well as health and safety, technical issues and customer care and service. Additional specialist technical training for engineers is outsourced to external providers.

As Franchisees develop their skills to the point where they can provide the full range of Metro Rod services, additional specialist training is provided. This typically takes place between 6-12 months after they start trading.

Franchisees are also provided with health and safety training and are made aware of their legal responsibilities as they relate to them as individuals and also as an employer.

## **Health and Safety**

Health and safety is very important to the business and Metro Rod has in place developed systems and processes to monitor its Franchisees given the nature of the equipment used and the locations in which the services are carried out. The objective of these systems and processes is the creation of a safe environment as well as Franchisee compliance.

Franchisees are audited for compliance through a number of inspections. These include:

- inspections on a monthly basis which include safety culture, learning and development, employment involvement and teamwork, supervision and coaching, performance management and a corrective action report;

- inspections which include vehicle, engineer and equipment checks; and
- site safety, health and environmental inspections at the sites of Franchisee clients on a monthly basis, including a corrective action report.

This programme is intended to emphasise the need to create common practices across the entire franchise network.

Metro Rod produces a monthly safety, health, environment and quality report which covers accident statistics, inspection performance and corrective actions.

### **Call Centre**

An important support service provided by Metro Rod is the 24/7/365 call centre, which is staffed by approximately 50 agents. The call centre is responsible for logging calls and assigning work as well as keeping clients informed on progress until the job has been completed. A number of Key Account customers have their own dedicated team within the call centre. The call centre receives approximately 15,000 calls per month, and has a call answering response target of 20 seconds.

### **Finance and IT**

Metro Rod supports Franchisees with respect to IT and maintains a company-wide works management system, Athena, that went live in February 2016. Athena replaced the previous system which had reached the end of its life. The system was developed by the Enserve Group IT team. Functionality includes call logging, job creation, despatch to engineer or franchise office, job completion, job valuation and invoicing.

A team of approximately 20 staff provide invoicing and credit control to both Key Accounts and Commercial Accounts together with management accounting services. The accounts team process over approximately 100,000 invoices per annum.

## **7. THE MARKET FOR METRO ROD'S SERVICES**

### **Drainage**

The drain clearance and maintenance market is well established. According to a report by the Department for Environment, Food and Rural Affairs, in 2012 the UK had over 624,200 kilometres of sewers and these collected approximately 11 billion litres of waste water on a daily basis. According to Water UK, there are approximately 366,000 sewer blockages a year in the UK.

Drainage system blockages can be caused by a number of factors, including a build-up of silt, sewage, general debris, fat, oil or grease or blockages caused by materials or objects which are unsuitable for flushing.

Structural problems with drains can be caused by subsidence, tree root intrusion, pipe corrosion or breakage. In addition, when there is heavy or prolonged rainfall, flooding may occur and drains may be subjected to large amounts of water, which can lead to blockages. These problems can become exacerbated if drains have not been properly cleaned out or maintained. The UK's dated drainage system is also a contributing factor.

The Key Accounts that Metro Rod services operate in large and well established markets. They include facilities management companies, retailers, water companies, social housing providers and hospitality and construction companies. Approximately 80 per cent. of Metro Rod's services are provided on a reactive basis and therefore the Directors believe that consistency of availability of the service and speed of completion is key. The latter is key when drainage is critical to the business or sensitive to disruption, for example businesses which have customer footfall. The Directors also believe that price is a consideration for customers in these sectors.

The Directors believe that Metro Rod is one of only five companies in its field operating on a national basis. The other four companies are Dyno Rod, Lanes for Drains, Ansa Drainage Solutions and Drain Doctor. Summary information on each key competitor is provided below.

- *Dyno Rod*: Dyno Rod is part of the Dyno group of businesses, which was founded in 1963 and acquired by Centrica plc in 2004. Dyno is a 24/7/365 emergency response provider of drainage, plumbing and heating services. It established itself in the drainage market before moving into plumbing and heating and serves both individual and commercial customers. Dyno has approximately 45 franchisees nationwide. Within Centrica plc, Dyno is part of British Gas and Scottish Gas.
- *Lanes for Drains*: Lanes for Drains provides a full range of drainage clearance and maintenance services available 24/7/365 for domestic and commercial clients. According to the business, it is the largest independent drainage specialist in the UK, and operates from a network of regional depots nationwide. Lanes for Drains is part of the Lanes Group plc, a wastewater solutions provider which operates across a range of sectors including drainage emergencies, drainage maintenance, rehabilitation and renewal, consultancy and waste management services.
- *Ansa Drainage Solutions*: Ansa Drainage Solutions offers a 24/7/365 drain clearing and maintenance services for households and commercial clients, as well as a full range of clean water distribution service for customers in the infrastructure sector. In addition, Ansa Drainage Solutions is a leading provider of outsourced drainage solutions to the UK insurance and claims management industries. It is part of the Independent Group (UK) Ltd, which provides a range of services within the domestic, commercial and insurance markets.
- *Drain Doctor*: Drain Doctor is a full service plumbing and drainage maintenance company. It provides a 24/7/365 drainage clearance and repair service to domestic and commercial customers and preventative maintenance plans for commercial customers. It also provides cold water plumbing services to domestic and commercial customers. Drain Doctor has been established in the UK since 1994 and has approximately 45 franchisees nationwide. The master franchise licence for Drain Doctor in the UK is ultimately owned by Dwyer Group, a US holding company of 11 service-based franchise organisations worldwide.

## Plumbing

Plumbing is a large and mature market and encompasses a wide range of services including central heating services, general plumbing, industrial plumbing and renewable energy services. According to IBIS World, in the UK:

- the plumbing, heating and air conditioning installation industry typically accounts for approximately 15 per cent. of specialised construction trade activities;
- the total value of the general plumbing market, measured by revenue, is estimated to be £15.6 billion in 2016-2017;
- the largest segment of the market is central heating services (43.5 per cent.), an area which Metro Plumb does not yet service; and
- the size of the general plumbing market, which covers the services Metro Plumb provides, is estimated to be £3.6 billion in 2016-2017.

In reality however, not all of this market would be available to Metro Plumb as it is not Metro Rod's intention to enter certain sectors such as the bathroom installation market.

According to IBIS World, the plumbing market in the UK is highly fragmented with over 30,000 enterprises. Large national providers who are active in this market place include Drain Doctor and Dyno Plumbing (part of the Dyno range of services), which have been referred to above, as well as HomeServe. These large-scale providers compete with Metro Plumb.

HomeServe provides a multi-service emergency repair offering to domestic customers as part of an insurance-based membership model. This service offering includes drainage and plumbing as well as other services such as electrical-related, gas and central heating and home security emergencies and repairs. Services are performed by a combination of employees, franchisees and sub-contractors.

Mitton Group and Pimlico Plumbers are examples of companies which the Directors consider compete with Metro Rod on a regional basis:

- Mitton Group, a building service specialist, provides a range of professional service solutions including preventive planned maintenance and emergency call-out facilities. Plumbing is one of the services

provided together with commercial heating, ventilation and air conditioning installations. Mitton Group is a privately owned company based in West Yorkshire.

- According to Pimlico Plumbers, it is London's largest independent plumbing and service company, providing a wide range of services including plumbing, drains services, electrics, appliances, carpentry, building and roofing. Plumbing services are available on a 24/7/365 basis.

The majority of firms in the market are small, local operators.

## **8. ACCREDITATIONS AND MEMBERSHIPS**

Metro Rod has the following accreditations and memberships, particularly in the area of health and safety.

- Metro Rod is accredited within the Contractors Health and Safety Assessment scheme having demonstrated compliance with, and sound management of, current basic health and safety legislation.
- Metro Rod is a member of Constructionline, part of Capita plc, having met pre-qualification requirements appropriate to public and private procurement.
- Metro Rod has achieved SafeContractor accreditation with Alcumus in respect of health and safety.
- Metro Rod has achieved a category B2 standard for Safety, Health, Environmental and Quality practices and procedures from Achilles Information Limited.
- Metro Rod's drainage and plumbing services have been assessed and approved to ISO 14001, ISO 9001 and BS OHSAS 18001. These accreditations are Enserve Group accreditations and it is Metro Rod's intention to reapply for these accreditations following completion of the Acquisition.
- Metro Rod is a full member of the BFA.

All engineers have to meet minimum standards of accreditation in high pressure jet washing and working in confined spaces by certified providers approved by Metro Rod. Engineers must also hold a valid Construction Skills Certification Scheme card, a valid Disclosure and Barring Service certificate which must be renewed and updated every three years, and a valid Streetworks Qualification Register certificate for Unit 2 activities.

## **9. INTELLECTUAL PROPERTY**

Metro Rod understands the value of intellectual property and has taken steps to protect its rights. Metro Rod is the registered proprietor of 18 trademarks including the names Metrorod and Metro Vac.

## **PART III**

### **INFORMATION ON FRANCHISE BRANDS**

#### **1. INTRODUCTION AND BACKGROUND**

Franchise Brands is a group of international multi-brand franchisors with a combined network of over 400 Franchisees in 12 countries, but predominantly in the UK.

The Group's current principal brands are ChipsAway, Ovensclean and Barking Mad, all of which deliver services to individuals of a similar socio-economic group through the Group's Franchisees. The Group does not currently have any corporately owned franchises.

The business of the Group was founded in September 2008 by Stephen Hemsley (Executive Chairman) and Nigel Wray (Non-Executive Director), the Group's Controlling Shareholders, who have substantial experience in franchising. Their vision for the Group was to create a group of franchise businesses that could benefit from sharing the same central support services, thus allowing the management of these businesses to focus on expanding their networks, and supporting their Franchisees to grow their businesses.

On 31 October 2016, the Group announced the completion of its acquisition of Barking Mad, which the Directors consider to be a pioneer and leading franchise provider of professionally-organised dog sitting services in the UK. This was the first acquisition by the Group since the IPO and broadened Franchise Brands' portfolio of B2C service businesses with a market leading brand which the Directors believe has an attractive model for Franchisees, a strong management team and a similar customer base to the Group's other franchise brands.

The Directors believe that the market for the Group's services is substantial and has potential to grow and that the Group's principal franchise brands benefit in their respective sectors through their market leading position and quality of the services provided.

The Group has an experienced management team and Board with substantial experience of franchising and of operating and growing profitable businesses. The Board also has substantial experience of analysing, investigating, completing and integrating acquisitions.

#### **2. THE FRANCHISE MODEL**

The Group, as the franchisor, licenses the brand and intellectual property to the Franchisee who trades under the relevant individual franchise brand. Franchisees are awarded the right to operate in geographically-defined territories, on a non-exclusive basis in the case of ChipsAway and Ovensclean, and on an exclusive basis in the case of Barking Mad. The Group uses third party software to divide the UK into franchise territories for each of its brands, which are determined by reference to population size and demographics.

The standard Franchise Agreement provides that each Franchisee pays an initial franchise fee to the Group plus an on-going licence fee or MSF for the use of the brand, the retention of the territory and continued franchise and technical support as well as marketing. Franchisees of some brands are contracted to purchase certain products from the Group in order to perform the service provided to customers.

Each Franchisee enters into a Franchise Agreement which grants the Franchisee the right to trade under the relevant brand for a five-year term. Subject to the Franchisee having substantially observed and performed the terms of the Franchise Agreement (and certain other conditions), the Franchisee can choose to renew the agreement for a further term. The franchisor can only decline to renew or terminate on grounds set out in the Franchise Agreement which include, amongst other things, non-performance and reputational damage.

The Group supports each Franchisee with comprehensive initial training, support at launch including business mentoring, follow up training where relevant, as well as ongoing support and business development for the term of the franchise. The Group also seeks to ensure the Franchisees adhere to the relevant brand standards in the Franchise Agreement. This is achieved through the active monitoring of complaints that

may be received as well as negative customer reviews, the Group's internal monitoring processes, quarterly mystery shopping carried out for ChipsAway and Ovensclean and additional Franchisee training as needed.

All the Group's brands are members of the BFA.

### **3. THE GROUP'S CURRENT BRANDS**

#### **ChipsAway**

Initially developed in the US, ChipsAway was launched in the UK in 1994. It provides services now commonly referred to in the automotive repair industry as "SMART" repairs. SMART stands for Small to Medium Area Repair Technology and relates to smaller scale repairs such as bumper scuffs, paintwork scratches, minor dents and kerbed alloy wheels. Often these repairs can be carried out without re-painting the entire panel or wheel and can therefore be carried out on a mobile basis.

ChipsAway is a large franchised SMART repairer in the UK and has 221 Franchisees operating throughout the UK. The Group has a presence with ChipsAway in 10 countries outside the UK through master franchise or licence arrangements. The Group evaluates the opportunity to expand the international network through the awarding of master franchise arrangements on a reactive basis, although the Group may be more proactive in the future.

ChipsAway Franchisees are able to attend a customer's home or workplace, completing repairs from liveried vehicles, which are equipped as mobile workshops. Pricing is competitive when compared to that of a typical body shop.

The ChipsAway business model is highly scalable. In the UK, the Group currently has 25 Franchisees that have purchased more than one territory and 30 Franchisees who operate CarCare Centres or multi-van operations. CarCare Centres are fixed site workshops with additional equipment which enable greater throughput of vehicles and also allow larger paint and dent repairs to be carried out than Franchisees can undertake on a mobile basis.

The Directors believe that total UK system sales for ChipsAway are approximately £16 million.

ChipsAway is the brand leader in its sector in the UK with prompted brand awareness nearly 10 times higher than that of its nearest competitors. It also has regular national TV advertising campaigns which have run since 2009. TV advertising has been made possible through the NAF and the experience of the Group's marketing team. Further details on the Group's marketing activities are set out in paragraph 4 of this Part III.

The standard ChipsAway Franchise Agreement provides that each Franchisee pays an initial franchise fee to ChipsAway, currently £29,995. In addition to the initial franchise fee, the Franchise Agreement provides for a number of ongoing monthly fees, the combined effect of which results in Franchisees making a monthly payment to the Group equivalent to 10 per cent. of their turnover plus their additional NAF contribution.

#### **Ovensclean**

Ovensclean was launched in 1994, and its network currently stands at 101 Franchisees operating across the UK. The Directors believe that total system sales for Ovensclean are approximately £5 million per annum.

Ovensclean Franchisees are able to clean all domestic oven brands and models, including electric ovens, gas ovens, ranges, microwaves, hobs and extractor fans, and also barbecues. All removable components such as racks and other removable parts are cleaned using specialist equipment in the equipped Ovensclean liveried vans.

Ovensclean is a "milk round" business where the aim is to establish a stable base of individual customers who have, on average, two cleans per annum which can be diarised ahead of time. The typical price of a standard double oven clean is £65. Additional revenue can be achieved by Franchisees through up-selling cleans for hobs, microwaves, extractor fans, barbecues, etc, as well as providing one-off services for additional customers such as "end of tenancy" oven cleans.

The CAF was established in 2012 and increased in scope and size in 2015 to incorporate TV advertising for the first time. Further details on the Group's marketing activities are set out in paragraph 4 of this Part III.

The standard Ovensclean Franchise Agreement provides that each Franchisee pays an initial franchise fee to Ovensclean, currently £14,995, and an ongoing monthly licence fee of £175 in the first year, followed by £300 thereafter plus a monthly CAF fee of £80.

The Group established an international presence in Canada in 2012 through a master franchise agreement for Greater Toronto and Ottawa. While the Directors believe there is further potential to expand Ovensclean's international presence through the awarding of master franchise arrangements, the current priority is to expand the UK network further.

### **Barking Mad**

In the Directors' opinion, Barking Mad is a pioneer and leading franchise provider of professionally-organised dog sitting services in the UK. Barking Mad's Franchisees market to individual customers and then recruit "host" families who look after customers' dogs in their own houses when they are away. As at the date of this document, it has 77 franchised territories across the UK, operated by 73 Franchisees. System sales are approximately £3 million.

Barking Mad was founded in 2000 by Lee Dancy, Managing Director, and incorporated in 2001. The origins of the business stemmed from Lee's own need to organise professional dog sitting for her family dog and her realisation that there were few alternatives other than dog boarding kennels. Barking Mad was franchised in 2002 and has grown since then to its current size. Lee remains in her role as Managing Director of Barking Mad following the acquisition of Barking Mad by Franchise Brands in October 2016.

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. An important element of the business model is that hosts and customers do not meet.

The Franchisee business model is based on the recruitment of three hosts for every seven customers each month. As such, the recruitment of host families is an important factor in determining the success of the Franchisee business model. Host families include people for whom it is not practical to have a dog on a full-time basis. Barking Mad considers ideal hosts to be active retired people with no grandchildren, no other pets and a high degree of availability. The Franchisee business model provides for host families to receive a modest sum to cover potential out of pocket expenses that may be associated with being a host, but otherwise there is no remuneration for a host.

Approximately 30,000 customer registrations have been taken for the service over the past two years. Barking Mad is ranked number 1 on consumer review website Trust Pilot out of approximately 180 companies in the Pets category with an average score of 9.9 out of 10. The Directors believe that this high level of trust in the brand, coupled with the professional service that is provided, helps Franchisees to achieve repeat revenue.

The initial setting-up fee, which includes items that the Franchisee purchases from Barking Mad, is £15,110. Barking Mad also receives revenues from the resale of franchises. Franchisees pay a MSF of 10 per cent. each month based on the prior month's turnover as well as making a contribution to the national marketing fund. Franchisees currently pay at a flat rate of £115 per month.

The Board believes that there is scope for Barking Mad to grow system sales by supporting Franchisees' growth with the Group's established central services, particularly marketing and to increase the number of franchised territories.

### **MyHome**

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. The Directors concluded that a full re-launch of the domestic cleaning business would not be in Shareholders' long term interest given the damage previously done to the brand and a number of other parties using all or part of the MyHome name. These costs will therefore not recur in future years. The Group's research did however, highlight other

opportunities in the domestic services sector, particularly for small repairs and maintenance. To test this opportunity, the Group has a single franchisee operating under the brand “The Handyman Van” using similar branding to MyHome. This test will be cost neutral for the Group.

#### **4. CENTRAL SUPPORT SERVICES**

The vision of the Group’s founders when it was established was to create a group of complementary franchise businesses that could benefit from sharing the same central support services, thus allowing the business owners to focus on expanding their networks, and supporting their Franchisees to grow their businesses. The Group’s central support services include marketing, franchise recruitment and franchise training and support.

##### **(i) Marketing**

The marketing department is overseen by Robin Auld. The principal responsibilities of the marketing department are brand marketing and franchise recruitment marketing. Brand marketing helps deliver potential customers to the Group’s individual brands and franchise recruitment marketing helps recruit new Franchisees.

##### **Brand marketing**

Each of the Group’s Franchisees trades under the relevant brand and is required to use liveried vehicles and Group or Group-approved marketing materials. National marketing and advertising campaigns are undertaken by the Group’s central marketing team which are funded by a contribution from all Franchisees as set out in the relevant Franchise Agreement. Locally, Franchisees market their services at their own cost through local media, newspapers and magazines, leafleting, websites, social media and local networking, which supplements the Group’s marketing activity.

##### **Franchise recruitment marketing**

###### *ChipsAway and Ovenclean*

The marketing team is responsible for providing ChipsAway and Ovenclean with a sufficient quality and quantity of leads for prospective Franchisees that can be qualified through each stage of the recruitment process. Marketing sources for prospective new Franchisees include newspapers, pay-per-click advertising, as well as the website and email campaigns. The impact and the effectiveness of the marketing expenditure is reviewed and measured constantly and adjustments are made as and where required.

###### *Barking Mad*

Barking Mad currently receives a large proportion of its franchise recruitment leads through social media campaigns, in particular through Facebook. It also receives leads from individuals either directly or indirectly involved with the brand, such as Barking Mad customers or hosts.

##### **(ii) Franchise recruitment**

The Group has a well-established franchise recruitment capability and regularly recruits over 50 new Franchisees per annum. Once a lead has been generated and an information pack has been made available, a qualification process takes place over the telephone to enable the Group to focus on the highest quality leads. Prospective Franchisees are then invited to a meeting or open day where they can meet the team and evaluate the franchise opportunity. The open day also gives the Group’s management team the opportunity to assess whether the prospective Franchisee would be a good fit for the relevant brand.

The Group expects a certain amount of churn within its franchise networks, in particular ChipsAway and Ovenclean, as the majority of Franchisees are mobile operators. Typically, mobile operators are the individuals who are performing the service itself and after a period of time may decide not to renew their Franchise Agreement because they seek new variety in their day to day work. Additionally, Franchisees leave the Group due to financial performance, ill health, a change in personal circumstances or non-compliance with brand standards.



### **(iii) Franchisee training and support**

The Group provides comprehensive support to all new Franchisees pre- and post-launch of a new Franchisee.

#### **ChipsAway and Ovensclean**

ChipsAway Franchisees are provided with comprehensive initial training and on-going support and development to help them build successful and profitable businesses. ChipsAway Franchisees complete four weeks of initial training at the Group's Institute of Motor Industry QAA-accredited training facility based in Kidderminster. The training incorporates a comprehensive two day sales and marketing programme provided by third-party trainers. An advanced paint and dent training course is provided after the first three months of trading during which further assessment and accreditation takes place.

Ovensclean Franchisees benefit from a comprehensive two-week training programme in the field with established Ovensclean trainers. The Ovensclean trainers are experienced Franchisees appointed by the Group to provide new starters with intensive in-field training on all aspects of the oven cleaning process, operational set up, local marketing activities, lead handling, customer conversion, customer follow up and practical territory management. This practical in-field experience is supplemented by a Head Office programme which includes a tailored sales and marketing course and a health and safety induction.

The six-person central team provides support to all ChipsAway and Ovensclean Franchisees on all aspects of their business. This includes technical, sales and marketing and general support to help the Franchisees meet their targets. The support is tailored to the requirements of each Franchisee. Franchisees can also access the Group's intranet sites, which are a repository of information on technical matters, marketing and health and safety. The Group also communicates regularly with Franchisees via regular email communications and Franchisees can communicate with, and learn from, each other via the "chat rooms" that the Group provides on their behalf.

#### **Barking Mad**

Franchisees undergo a three and a half day training programme at Barking Mad's head office prior to launch. Post-launch, Barking Mad provide a comprehensive programme of support and development for Franchisees. This commences with weekly, bi-weekly and monthly calls post-launch, monthly webinars and workshops. Regular business development reviews are held during which Franchisees have to present their business plans for the coming year. The outcome of the business development review is the production of an operating plan based on Franchisee Key Performance Indicators which are then monitored by the head office team.

Barking Mad also operates a customer contact centre on behalf of all of its Franchisees which takes calls from customers and potential customers, explains the service, facilitates bookings and deals with general enquiries.

## **5. THE MARKET FOR THE GROUP'S SERVICES**

### **ChipsAway**

The market for SMART repairs is substantial. There are approximately 37 million cars in the UK and market research carried out by YouGov in 2015 showed that approximately 61 per cent. of cars have minor damage which is the type of damage that could be repaired by ChipsAway Franchisees. According to market research commissioned by the RAC in 2016, two-thirds of people have experienced damage to their vehicles whilst the car is stationary in a car park.

The SMART market is highly fragmented. There are a number of franchised competitors operating in the SMART repair sector including Revive, Car Medic and Flying Colours. Other competitors include non-franchised brands who offer services on a mobile basis, such as Auto Restore, as well as body shops who carry out SMART repairs.

## **Ovenclean**

The UK market for domestic services has experienced strong growth over the past few years. There were 27 million households in the UK in 2015. According to a 2016 survey by esure, one in three households now employ someone to help with domestic chores – including cleaning, gardening, handymen and window cleaning – and spend an average of £127 per month which equates to over £26 billion per annum.

A number of franchised competitors offer oven cleaning services including OvenU, Ovenwizards, Ovengleaners and Cookerburra. Non-franchised competitors also operate in the retail market offering specialist oven cleaning services and/or oven cleaning services as part of a wider cleaning offering.

## **Barking Mad**

According to the Pet Food Manufacturers Association, there were 8.5 million dogs in the UK in 2016. According to Euromonitor, growth in the pet care market has been fuelled by what has been characterised as the “humanisation” of pets, a growing trend in which consumers perceive their pets as equal members of the family, which encourages them to spend heavily on their health and welfare.

Research conducted in 2015 by Blue Chip Holidays has revealed that one in five pet owners refuse to take a holiday because they are too worried about leaving behind a family pet. The majority of these individuals (63 per cent.) admitted that the pet they would be concerned of leaving behind would be a dog.

There are a number of franchised offerings in the dog sitting market, and the Directors believe that Barking Mad was a pioneer and is a leading franchisee provider. Pet Pals has over 50 Franchisees, however, its service offering to customers is much wider than that of Barking Mad. Smaller, more recently established franchised offerings include Wagging Tails, established in 2007 which has fewer than 20 franchisees and Scamps and Champs, established in 2009, which has fewer than 10 franchisees.

## **6. INTELLECTUAL PROPERTY**

The Group places significant value on its intellectual property and has taken steps to protect its rights. The Group is the registered proprietor of 45 trademarks including the names ChipsAway, Ovenclean and Barking Mad. The Group is the registered proprietor of the domain names [www.chipsaway.co.uk](http://www.chipsaway.co.uk), [www.ovenclean.com](http://www.ovenclean.com), [www.myhome.com](http://www.myhome.com) and [www.franchisebrands.co.uk](http://www.franchisebrands.co.uk) as well as a number of additional domain names.

## PART IV

### RISK FACTORS

**The attention of prospective investors is drawn to the fact that an investment in Ordinary Shares may not be suitable for all such investors and will involve a variety of risks which, if they occur, may have a materially adverse effect on the Group's business or financial condition, results or future operations. In such case, the market price of the Ordinary Shares could decline and an investor might lose all or part of his or her investment.**

**In addition to the information set out in this document, the following risk factors should be considered carefully in evaluating whether to make an investment in the Company. The following factors do not purport to be an exhaustive list or explanation of all the risk factors involved in investing in the Company and they are not set out in any particular order of priority.**

**Additionally, there may be further risks of which the Directors are not aware or believe to be immaterial which may, in the future, adversely affect the Group's business and the market price of the Ordinary Shares. In particular, the Company's performance might be affected by changes in market and economic conditions and in legal, regulatory and tax requirements.**

**Before making a final investment decision, prospective investors should consider carefully whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them. Any prospective investor who is in any doubt as to any action he should take, should consult with an independent financial adviser authorised under the FSMA, if the investor is in the United Kingdom or, if not, another appropriately authorised independent financial adviser, who specialises in advising on the acquisition of shares and other securities.**

#### **RISK FACTORS RELATING TO THE ACQUISITION**

##### **Failure to complete the Acquisition**

The Acquisition is conditional upon, among other things:

- (i) the approval of Shareholders, which is to be sought at the General Meeting;
- (ii) the Placing Agreement becoming unconditional in all respects, save for any condition relating to completion of the Acquisition and Admission;
- (iii) the Facilities Agreement becoming unconditional in all respects, save for any condition relating to completion of the Acquisition and Admission; and
- (iv) Admission occurring.

There can be no guarantee that all of these conditions will be satisfied and therefore no guarantee that the Acquisition will complete.

If the Acquisition does not complete, the Company would nonetheless incur expenses, including advisory fees, in connection with the Acquisition.

##### **Shareholders may experience dilution in their ownership of the Company**

The Company will part fund the Acquisition by way of the Placing which is expected to raise up to £20 million before expenses. Shareholders who do not participate in the Placing will experience a dilution of up to 38.4 per cent. to their interests in the Company.

##### **The remedies under the Acquisition Agreement are limited**

Under the terms of the Acquisition Agreement, the Company has agreed to acquire Metro Rod from the Vendor for a consideration of £28 million in cash (subject to adjustments based on the financial position of Metro Rod at completion of the Acquisition).

The Vendor has provided warranties in respect of title to the issued share capital of Metro Rod, as well as business warranties in relation to Metro Rod which are customary for a transaction of this nature. The Vendor's liability is capped at £143,505. The Company has procured a warranty and indemnity insurance policy which will meet claims arising pursuant to the warranties and tax covenant in the Acquisition Agreement in excess of £143,505, up to a maximum aggregate amount of £10 million.

Whilst due diligence has been conducted on Metro Rod and the Company has received the above warranties from the Vendor and has certain protections under the above warranty and indemnity insurance policy, there can be no guarantee that such arrangements will provide adequate compensation for the Company for any loss or liability arising from any undisclosed liabilities, issues or defects that may arise in relation to Metro Rod. Nor is there any guarantee that any loss or liability incurred is capable of being recovered in full under the terms of the warranty and indemnity insurance policy. This could have a material adverse effect on the financial position and/or operations of the Enlarged Group.

**The integration costs related to the Acquisition may exceed the Board's expectations.**

Franchise Brands expects to incur a number of costs in relation to the Acquisition, including integration and post completion costs in order to successfully combine the operations of Franchise Brands and Metro Rod. The actual costs of the integration process may exceed those estimated and there may be further additional and unforeseen expenses incurred in connection with the Acquisition. In addition, Franchise Brands will incur legal, accounting, transaction fees and other costs relating to the Acquisition, some of which are payable regardless of whether or not the Acquisition completes. Although the Directors believe that the integration and Acquisition costs will be more than offset by the realisation of the synergies resulting from the Acquisition, this net benefit may not be achieved in the short-term or at all, particularly if the Acquisition is delayed or does not complete. These factors could adversely affect the Enlarged Group's operations and/or financial condition.

**RISK FACTORS RELATING TO THE BUSINESS AND OPERATIONS OF THE ENLARGED GROUP**

**Macroeconomic risk**

Any economic downturn either globally or locally in any area in which the Enlarged Group operates may have an adverse effect on the demand for the Enlarged Group's products and services. A more prolonged economic downturn may lead to an overall decline in the volume of the Enlarged Group's sales, restricting the Enlarged Group's ability to realise a profit. The markets in which the Enlarged Group offers its products and services are directly affected by many national and international factors that are beyond the Enlarged Group's control.

**Reliance on key personnel**

Loss of key management or other key personnel, particularly to competitors, could have adverse consequences for the Enlarged Group. Whilst the Enlarged Group has entered into service agreements and/or letters of appointment with each of its Directors and certain senior employees, the retention of their services cannot be guaranteed. Furthermore, as the Enlarged Group expands it will need to recruit and integrate additional personnel in a competitive market for suitably qualified candidates. The Enlarged Group may not be successful in identifying and engaging suitably qualified people or integrating them into the Enlarged Group, which may impact the performance of its business.

**Ability to recruit and retain skilled franchisees**

The ability of the Enlarged Group to attract and retain new franchisees with the appropriate attitude, expertise and skills, in available and suitable locations, cannot be guaranteed. The Enlarged Group may experience difficulties in finding and retaining appropriate franchisees and the failure to do so may have a detrimental effect upon trading performance, growth of the Enlarged Group's business and the reputation of its brands.

The Group experiences a certain amount of churn within its franchise networks, in particular ChipsAway and Ovensclean. In 2016, 29 ChipsAway Franchisees and 20 Ovensclean Franchisees left the Group whilst another 34 and 28 were recruited respectively. However, Metro Rod experiences a much lower churn rate, with the number of franchisees remaining relatively constant in the last few years. Reasons for Franchisees leaving can include: a return to employment; ill-health; a change in personal circumstances; financial

underperformance; non-compliance with brand standards; and termination by the Enlarged Group. If the Enlarged Group experiences a high level of Franchisees leaving the network over a sustained period of time, this may result in lower revenues for the Enlarged Group if the respective territories cannot be allocated to new Franchisees and/or the new Franchisees do not perform to the same level as the previous Franchisees.

### **Performance of Franchisees**

Multiple Franchisees could default on their obligations under their respective Franchise Agreement or underperform in the market, which could result in lower revenues for the Enlarged Group and potential damage to its reputation and financial condition. The Enlarged Group follows stringent recruitment, sale and resale processes and inductions but may fail to identify inappropriate Franchisees until they are trading under the Enlarged Group's name.

### **Reputation**

The Enlarged Group's reputation, in terms of the service it and its Franchisees provide, the way in which it and its Franchisees conduct their business and the financial results which they achieve, are central to the Enlarged Group's success. Failure to meet expectations of the Enlarged Group's customers, employees, Franchisees, Shareholders or other business partners may have a material adverse effect on the Enlarged Group's reputation and affect its prospects. Similarly, adverse publicity in the event of any alleged or actual failings by Franchisees is capable of causing damage to the Enlarged Group's respective brands, thereby potentially reducing the ability to sustain and/or grow revenues and which may have a detrimental effect upon the Enlarged Group's future trading performance and financial condition.

### **Insurance**

The Enlarged Group's insurance policies may be inadequate to cover the cost of claims made against the it. Whilst the Enlarged Group will, from Admission, maintain commercial insurance at a level it believes is appropriate against certain risks commonly insured in its industries, there is no guarantee that it will be able to obtain the desired levels of cover on acceptable terms in the future. Furthermore, the nature of these risks is such that liabilities could exceed policy limits or that certain risks could be excluded from the Enlarged Group's insurance coverage. There are also risks against which the Enlarged Group cannot insure or against which it may elect not to insure. The potential costs that could be associated with any liabilities not covered by insurance or in excess of insurance coverage may cause substantial delays and require significant capital outlays, adversely affecting the Enlarged Group's earnings and competitive position in the future and, potentially, its financial position. The Enlarged Group's operations could suffer losses which may not be fully compensated by insurance. In addition, certain types of risks may be, or may become, either uninsurable or not economically insurable, or may not be currently or in the future covered by the Enlarged Group's insurance policies. Any of the foregoing could have a material adverse effect on the Group's operating results, business prospects and financial condition.

### **Material litigation, claims or arbitration or legal uncertainties**

The Enlarged Group is not engaged in any material litigation, claim and arbitration, either as claimant or defendant, that has or could have a material effect on its financial position, and the Directors do not know of any proceedings pending or threatened or of any facts likely to give rise to any proceedings which might materially and adversely affect the Enlarged Group's position or business. However, there can be no assurance that there will be no such proceedings in the future that could affect the reputation, business or performance of the Enlarged Group.

### **Products**

The chemical compounds used to carry out ChipsAway repairs and Ovenclean work are compliant with current health and safety regulations. However, there is no certainty that they will continue to be so, should regulations change, and reformulation of products and/or compliance with new regulations could take time, reduce product and service effectiveness and result in increased costs for the Enlarged Group and/or Franchisees and therefore impact business viability and/or financial performance.

### **Health and safety and environment**

Health and safety is a key risk to Metro Rod's business. Consequently, Metro Rod has in place developed systems and processes in relation to its own activities, and to assess the suitability of franchisees and to monitor Franchisees' compliance. The objective of these systems and processes is the creation of a safe environment as well as Franchisee compliance. Franchisees are also provided with health and safety training and are audited for compliance through a number of inspections. While the Franchisees are required under the terms of the Franchise Agreements to comply with all current laws and regulations, in particular those concerning health and safety standards and environmental law, there remains a risk of non-compliance by Franchisees. Any infringement of health and safety law and environmental law and any failure to comply with good practice including appropriate risk assessments, whether directly by Metro Rod employees or by Franchisees, could result in liabilities including criminal sanctions, fines and penalties and civil liability claims attaching directly to Metro Rod, any or all of which could materially adversely impact the Enlarged Group. To the extent that fines are incurred by Metro Rod, Metro Rod's ability to pass such liabilities onto Franchisees may be restricted as a matter of law and public policy.

### **Decrease in target customer market spending**

The demand for the Enlarged Group's products and services is dependent on spending patterns in its various target markets which, in turn, are dependent on many factors, including, among other things, the state of the economy, changes in income levels, government policy and policy developments, changes in demographic profiles and consumers' aspirations. There is, therefore, no guarantee that future spending in the Enlarged Group's target markets will be better than or remain at present levels. A decrease in such spending, as a result of the above or any other unmentioned factors, may decrease demand for the Enlarged Group's products and services and have a negative impact on its business, financial performance and prospects.

### **Repayments by Franchisees**

The Enlarged Group provides alternative trading arrangements to a number of new ChipsAway Franchisees who require assistance with payments of the upfront franchise fee. Under the Enlarged Group's licence fee premium scheme, Franchisees can pay a reduced initial fee followed by monthly payments over the term of the Franchise Agreement. Care is taken when providing these alternative trading arrangements, including a consideration of the appropriateness of the individual, their past history and other relevant factors. The Directors cannot guarantee that all monthly payments will be made by the Franchisees under these arrangements. However, the full licence fee is recognised in the Enlarged Group's accounts, held as an asset on the balance sheet, and a provision is taken against the uncertainty of recoverability.

### **Competition and market development**

The markets in which the Enlarged Group operates are highly competitive and rapidly evolving and the Enlarged Group may experience increased competition or technological or regulatory changes in its markets which may have a negative impact on the Enlarged Group's business, prospects and financial performance. The Kemac business has also faced increased competition in the tall buildings market from other providers.

### **Customers may perform services internally**

Some of Metro Rod's customers use Metro Rod's services as a supplement to services they have previously performed themselves. There is a risk that these customers may increase the proportion of this work that they complete in-house, whilst other Metro Rod customers may adopt similar policies, thus having a negative impact on the Enlarged Group's business, prospects and financial performance.

### **Use of sub-contractors**

Metro Rod uses various sub-contractors to provide services to Metro Rod in cases where there are insufficient internal resources or franchisee cover to complete works for Key Accounts customers. Work is charged on an agreed schedule of rates, however the Enlarged Group has less control over the work and/or conduct of a sub-contractor than over a Franchisee, leading to a potentially increased reputational risk and consequential impact on its customer relationships and/or its business and financial performance.

Furthermore, if a sub-contractor is unavailable at the time required by the Enlarged Group, then this could further impact the Enlarged Group's reputation, business, prospects and financial performance.

### **Reliance on adverse weather**

When there are higher levels of rainfall, Metro Rod typically sees higher levels of work, leading to increased revenues. Therefore, there is a risk that if rainfall levels are lower than previous years, Metro Rod's revenues and financial performance could be adversely effected.

### **Customer contracts and dependence on key customers**

The Enlarged Group has significant contracts and long-term relationships with a number of key customers, some of which may be terminated without cause or on written notice during or at expiry of their term. Although the Company knows of no reason why such contracts should be terminated or will not be renewed on the same or more favourable terms, the Directors cannot guarantee that the relevant parties' commercial position or market conditions will not alter their position. Should any of these contracts be terminated or not be renewed, it could have a material adverse effect on the financial position and future prospects of the Enlarged Group.

The Enlarged Group does not have exclusive long term supply contracts with its customers and due to the nature of its services, primarily provides services under framework agreements on a reactive basis and typically put no obligation on customers to utilise the services of the Company, although it should be noted that the Enlarged Group has had relationships with some of its customers for many years. Any deterioration of the Enlarged Group's relationship with its key customers, or the loss of orders (or a reduction in the gross or net margin in respect of the orders) from key customers, could have a material adverse effect on the Enlarged Group's business, financial condition, results of operations and future prospects.

The Enlarged Group's contracts with key customers typically contain performance conditions on the Enlarged Group, change of control provisions and indemnities from the Enlarged Group.

### **Sector exposure**

Approximately 50 per cent. of Metro Rod's revenue derived is from customers in the facilities management industry and therefore is dependent to some extent on the business and financial condition of those customers. The Enlarged Group's business, results, operations and financial condition could be affected and disrupted in the event of financial difficulties or a downturn in the facilities management sector as a result of prevailing economic conditions, bad publicity or otherwise.

### **Facilities Agreement**

The Facilities Agreement is conditional on Stephen Hemsley and Nigel Wray, both Directors, holding, in aggregate, Ordinary Shares representing over 30 per cent. of the Company's issued share capital from time to time. Stephen Hemsley and Nigel Wray are subject to the Lock-in Deeds and have confirmed to the Company that they will not seek to take any action with their Ordinary Shares that will cause a breach of the terms of the Facilities Agreement and nor will the Company.

### **Expansion**

The Enlarged Group intends to expand its service offerings and enter into new markets. Fast business growth could put significant strain on the Enlarged Group's managerial, operational and financial resources. The Enlarged 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 to expand, train, motivate and manage its workforce. The Directors cannot give assurance that the Enlarged Group's finances, personnel, systems, procedures and controls will be adequate to support its future growth. Failure to manage its expansion effectively may lead to increased costs, a decline in sales and reduced profitability, which in turn may affect its business, financial condition, results of operations and prospects.

Future expansion could expose the Enlarged Group to additional economic, political, legislative and other risks and there can be no assurance that the Enlarged Group will be able to effectively mitigate these risks

or successfully penetrate these new markets, particularly without expending significant management time and financial resources without positive results in return.

### **Difficulties in expanding into new regions and markets**

Whilst it is not the Enlarged Group's current intention to expand its operations and network internationally, the success of the Enlarged Group's expansion plan is subject to, among other things, the following factors:

- the existence and availability of suitable regions and locations for expansion of its network;
- its ability to identify suitable local partners, which may be required in order to launch in a new region or jurisdiction;
- its ability to locate and then negotiate favourable co-operation terms with local distributors and suppliers; and
- its ability to hire, train and retain skilled personnel in the new region or jurisdiction.

Accordingly, the Enlarged Group cannot give assurance that it will be able to achieve its expansion goals or effectively integrate any operations in new regions or jurisdictions. If the Enlarged Group encounters difficulties in expanding into new regions or jurisdictions, its growth prospects may be limited and financial results negatively impacted.

### **Future acquisitions**

An important part of the Enlarged Group's longer-term business strategy involves expansion through the acquisition of franchise businesses. There is a risk related to the Enlarged Group's ability to accurately identify suitable targets and successfully execute transactions for such a strategy. As consideration for such acquisitions, the Company may seek to issue Ordinary Shares. There can be no guarantee that sellers of target companies, businesses or assets will be prepared to accept shares traded on AIM as consideration, and this may limit the Enlarged Group's ability to grow its activities and pursue its strategy. The difficulties involved in integrating any companies, businesses or assets acquired by the Enlarged Group may divert financial and management resources from the Enlarged Group's core business, which could adversely affect the Enlarged Group's business, financial condition, operating results and prospects.

### **Ability to generate revenues and profits**

At this stage, there is no certainty that the Enlarged Group will expand its share of its current markets to the extent that it intends to. Failure to do so and slower demand for the Enlarged Group's services may result in revenues growing more slowly than anticipated. In addition, there is no certainty that existing Franchisees will continue to trade or will renew their Franchise Agreements on expiry, or that the franchise fees payable to the Enlarged Group are sustainable in the long term with new competitive pressures, all of which may lead to a decline in the number of Franchisees in the Enlarged Group's network and therefore a decline in the Enlarged Group's revenue and profits.

### **Past performance**

The past performance of the Enlarged Group is not a guide to future performance of the Enlarged Group and no representation is made or warranty given regarding future performance of the Enlarged Group.

### **Financial resources**

In the opinion of the Directors, having made due and careful enquiry, taking into account the existing facilities available to the Enlarged Group and the net proceeds of the Placing and the bank facilities available, the working capital available to Company and the Enlarged Group will be sufficient for its present requirements, that is for at least the next 12 months from the date of Admission. The Enlarged Group's future capital requirements will, however, depend on many factors, including economic and market conditions and the Enlarged Group's ability to integrate the business of Metro Rod, expand its network, grow sales, control costs and execute its expansion programme and any material acquisitions. In the future, the Enlarged Group may require additional funds, particularly to take advantage of acquisition opportunities, and may attempt to raise additional funds through equity or debt financings or from other sources. Any additional equity



financing may be dilutive to holders of Ordinary Shares and any debt financing, if available, may require restrictions to be placed on the Enlarged Group's future financing and operating activities. The Enlarged Group may be unable to obtain additional financing on acceptable terms or at all if, for example, market and economic conditions, the financial condition or operating performance of the Enlarged Group or investor sentiment (whether towards the Enlarged Group in particular or towards the market sector in which the Enlarged Group operates) are unfavourable. The Enlarged Group's inability to raise additional funding may hinder its ability to grow in the future or to maintain its existing levels of operation.

### **Data protection risk**

Whilst the Enlarged Group has in place systems and procedures to seek to comply with the Data Protection Act 1998, failure by it or its Franchisees to comply with data protection legislation may leave the Enlarged Group open to criminal and civil sanctions.

### **Future uncertainty**

This document contains certain forward-looking statements that are subject to certain risks and uncertainties, in particular statements regarding the Enlarged Group's plans, goals and prospects. These statements and the assumptions that underlie them are based on the current expectations of the Directors and are subject to a number of factors, many of which are beyond their control. As a result, there can be no assurance that actual performance of the Enlarged Group will not differ materially from matters described in this document.

### **Changes in regulation/legislation**

Existing legislation and regulations that impact the business may change and/or new legislation and regulation may come into effect. Changes in the regulatory and legislative framework in which the Enlarged Group operates could have an adverse effect on the Enlarged Group's franchise model and business. In particular, the Enlarged Group could be impacted by changes in health and safety obligations, franchising legislation, case law and BFA recommendations, as well as employment law, but many other legislation and regulation areas are relevant.

### **Suppliers**

The Enlarged Group relies on certain suppliers, without whom the Enlarged Group's revenue generation, efficiency of operations and cash flow may not be optimised. The Enlarged Group cannot guarantee that service and products delivered from third parties will remain of a high quality in the future and be provided without interruption. In the event of a major disruption to the timely supply of third party products and services, alternative suppliers may only be available at higher prices or at the cost of some delay in supplying Franchisees, which could negatively affect the Enlarged Group's operations, financial results and performance.

### **Third party changes to products, technology and services**

The Enlarged Group is dependent on many products, technologies and services provided by third parties in order for customers to use its products and services, as well as to deliver, measure, render and report advertising. Any changes made by these third parties to functionality, features or settings of these products, technologies and services could adversely affect the Enlarged Group's business and prospects.

### **Intellectual property rights**

The Enlarged Group relies on a combination of trademarks, service marks and domain name registrations, common law or statutory copyright protection and contractual restrictions to establish and protect its intellectual property. Any third party may challenge the Enlarged Group's intellectual property. The Enlarged Group may incur substantial costs in defending any claims relating to its intellectual property rights. There can be no guarantee that third parties have not and/or will not manage to independently develop brands and websites similar to those offered by the Enlarged Group without infringing the Enlarged Group's intellectual property rights, which could adversely affect the Group's reputation, business, financial condition or prospects.

## **Disruption or failure of networks and information systems, the internet or other technology**

The Enlarged Group's business is dependent on the availability of network and information systems, the internet and other technologies, in particular the Athena work management system. Shutdowns or service disruptions caused by events such as criminal activity, sabotage or espionage, computer viruses, hacking and other cyber-security attacks, router disruption, automated attacks such as denial of service attacks, power outages, natural disasters, accidents, terrorism, equipment failure or other events within or outside the Enlarged Group's control could adversely affect the Enlarged Group and its Franchisees and customers. Furthermore, such attacks cannot always be immediately detected, which means that the Enlarged Group may not be in a position to promptly address the attacks or to implement adequate preventative measures. Such events could result in large expenditures necessary to recover data, or repair or replace such networks or information systems or to protect them from similar events in the future. Significant incidents could result in a disruption of parts of the Enlarged Group's business, consumer dissatisfaction, damage to the Enlarged Group's brands, legal costs or liability, and a loss of customers or revenues and affect the Enlarged Group's financial performance and prospects.

## **Taxation**

The attention of potential investors is drawn to paragraph 9 of Part VII of this document headed "United Kingdom Taxation". The tax rules, including stamp duty provisions and their interpretation relating to an investment in the Enlarged Group may change during the life of the Enlarged Group.

The levels of, and reliefs from, taxation may change. The tax reliefs referred to in this document are those currently available and their value depends upon the individual circumstances of investors. Any change in the Enlarged Group's tax status or the tax applicable to holding Ordinary Shares, or in taxation legislation or its interpretation, could affect the value of investments held by the Enlarged Group, affect the Group's ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this document concerning the taxation of the Enlarged Group and its investors are based upon current tax law and practice which is subject to change.

## **RISKS RELATING TO THE ORDINARY SHARES**

### **Investment in AIM securities and liquidity of the Company's Shares**

An investment in companies whose shares are traded on AIM is perceived to involve a higher degree of risk and to be less liquid than an investment in companies whose shares are listed on the Official List. AIM is a market designed primarily for emerging or smaller companies. The rules of this market are less demanding than the Official List. The future success of AIM and liquidity in the market for Ordinary Shares cannot be guaranteed. In particular, the market for Ordinary Shares may become or may be relatively illiquid and therefore, such Ordinary Shares may be or may become difficult to sell.

The market for the Ordinary Shares following Admission may be highly volatile and subject to wide fluctuations in response to a variety of factors that could lead to losses for Shareholders. These potential factors include, among others: any additions or departures of key personnel, litigation and press, newspaper and/or other media reports.

Prospective investors should be aware that the value of the Ordinary Shares may go down as well as up, that the market price of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may, therefore, realise less than or lose all of their investment.

### **Market in the Ordinary Shares**

The share price of publicly quoted companies can be highly volatile and shareholdings illiquid. The market price of the Ordinary Shares may be subject to wide fluctuations in response to many factors, some specific to the Company and its operations and others to the AIM market in general including, but not limited to, variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions or legislative changes in the Company's sector. In addition, stock markets have from time to time experience extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares. The trading of the Ordinary Shares on AIM should not be taken as

implying that there will be a liquid market for the Ordinary Shares and there is no guarantee that an active market will develop or be sustained after Admission. It may be more difficult for an investor to realise his investment in the Company than in a company whose shares are quoted on the Official List.

### **Dilution of Shareholders' interests as a result of additional equity fundraising**

The Company may need to raise additional funds in the future to finance, among other things, working capital, expansion of the business, new developments relating to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a *pro rata* basis to existing Shareholders, the percentage ownership of the existing Shareholders may be reduced. Shareholders may also experience subsequent dilution and/or such securities may have preferred rights, options and pre-emption rights senior to the Ordinary Shares.

### **Dividends**

There can be no assurance as to the level of any future dividends. The declaration, payment and amount of any future dividends of the Company are subject in the case of a final dividend to the approval of the Shareholders and, in the case of an interim dividend to the decision of the Directors, and will depend upon, among other things, the Company's earnings, financial position, cash requirements, availability of profits, as well as provisions for relevant laws or generally accepted accounting principles from time to time.

## **RISKS RELATING TO THE LAWS AND REGULATIONS**

### **Impact of Law and Governmental Regulation**

Government authorities at all levels are actively involved in the promulgation and enforcement of regulations relating to taxation, land use and zoning and planning restrictions, environmental protection and safety and other matters. The Enlarged Group must comply with current and future UK regulations relating to planning, land use and development standards (including building regulations). The institution and enforcement of such regulations could have the effect of increasing the expense and lowering the income or rate of return from, as well as adversely affecting the value of, the Enlarged Group's assets.

**The investment detailed in this document may not be suitable for all of its recipients and involves a high degree of risk. Before making an investment decision, prospective investors are advised to consult a professional adviser authorised under the FSMA if they are in the United Kingdom or, if not, to consult another appropriately authorised and independent financial adviser who specialises in advising on investments of the kind described in this document. Prospective investors should consider carefully whether an investment in the Company is suitable for them in the light of their personal circumstances and the financial resources available to them.**

## **PART V**

### **HISTORICAL FINANCIAL INFORMATION ON FRANCHISE BRANDS**

In accordance with rule 28 of the AIM Rules, this document does not contain historical financial information on the Group which would be required by Section 20 of Annex 1 of the Prospectus Rules.

The Group's audited annual report and accounts for the financial year ended 31 December 2016 are available on the Company's website (on the Key Documents page of the Investors section). Consolidated audited financial information of FB Holdings, the previous holding company of the Group, for the financial years ended 31 December 2015 and 31 December 2014 are contained in the Company's Admission Document dated 1 August 2016 which can be viewed on the Company's website at [www.franchisebrands.co.uk](http://www.franchisebrands.co.uk) (on the Key Documents page of the Investors section). BDO LLP of Two Snowhill, Birmingham B4 6GA, were the auditors of such financial information.

Shareholders or other recipients of this document may request a copy of the above information from the Company Secretary of the Company.

## PART VI

### SECTION A: ACCOUNTANT'S REPORT ON METRO ROD'S HISTORICAL FINANCIAL INFORMATION



The Directors  
Franchise Brands plc  
Hoo Farm Industrial Estate  
Kidderminster  
DY11 7RA

Allenby Capital Limited (the “**Nominated Adviser**”)  
3 St. Helen's Place  
London  
EC3A 6AB

22 March 2017

Dear Sirs

#### **Metro Rod Limited**

We report on the financial information of Metro Rod Limited set out in section B of Part VI below (the “**Financial Information Table**”). The Financial Information Table has been prepared for inclusion in the admission document dated 22 March 2017 (the “**Admission Document**”) of Franchise Brands plc on the basis of the accounting policies set out in note 1 to the Financial Information Table. This report is required by Schedule Two of the AIM rules for Companies published by the London Stock Exchange plc (the “**AIM Rules**”) and is given for the purpose of complying with that Schedule and for no other purpose. We have not audited or reviewed the financial information as at, and for, the six months ended 31 October 2016, or for the six months ended 31 October 2015, and accordingly do not express an opinion thereon.

#### **Responsibilities**

The Directors of Franchise Brands plc are responsible for preparing the Financial Information Table in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion as to whether the Financial Information Table gives a true and fair view, for the purposes of the Admission Document and to report our opinion to you.

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PricewaterhouseCoopers LLP is a limited liability partnership registered in England with registered number OC303525. The registered office of PricewaterhouseCoopers LLP is 1 Embankment Place, London WC2N 6RH. PricewaterhouseCoopers LLP is authorised and regulated by the Financial Conduct Authority for designated investment business.

Save for any responsibility which we may have to those persons to whom this report is expressly addressed and for any responsibility arising under paragraph (a) of Schedule Two of the AIM Rules to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two to the AIM Rules, consenting to its inclusion in the Admission Document.

### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the circumstances of Metro Rod Limited, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

### **Opinion**

In our opinion, the Financial Information Table gives, for the purposes of the Admission Document dated 22 March 2017, a true and fair view of the state of affairs of Metro Rod Limited as at the dates stated and of its profits, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### **Declaration**

For the purposes of paragraph (a) of Schedule Two of the AIM Rules we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules.

Yours faithfully

PricewaterhouseCoopers LLP  
*Chartered Accountants*

## SECTION B:

### HISTORICAL FINANCIAL INFORMATION ON METRO ROD

#### Section B – HISTORICAL FINANCIAL INFORMATION

In this Section B of Part VI, the “Company” means Metro Rod Limited.

#### Statement of Comprehensive Income

		<i>Year ended</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2015</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
<b>Revenue</b>	4	17,125	19,572	21,416	10,526	12,016
Cost of sales		<u>(11,890)</u>	<u>(13,871)</u>	<u>(15,039)</u>	<u>(7,448)</u>	<u>(8,546)</u>
<b>Gross Profit</b>		5,235	5,701	6,377	3,078	3,470
Administration expenses		(3,156)	(3,333)	(3,975)	(1,623)	(2,029)
Operating profit before exceptional items	5	2,079	2,419	3,168	1,460	1,460
Exceptional items	5	<u>–</u>	<u>(51)</u>	<u>(766)</u>	<u>(5)</u>	<u>(19)</u>
Operating profit after exceptional items		2,079	2,368	2,402	1,455	1,441
Tax (expense)/credit	7	<u>(20)</u>	<u>312</u>	<u>302</u>	<u>79</u>	<u>7</u>
<b>Profit for the period and comprehensive income attributable to equity holders of the parent company</b>		<u>2,059</u>	<u>2,680</u>	<u>2,704</u>	<u>1,534</u>	<u>1,448</u>
<b>Earnings per share (basic &amp; diluted) for Profit attributable to the owners of the parent during the period</b>	8	<u>1,029</u>	<u>1,340</u>	<u>1,352</u>	<u>767</u>	<u>724</u>

## Statement of Financial Position

		<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>Note</i>	<i>1 May</i>	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>31 October</i>
		<i>2013</i>	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Non-current assets</b>						
Intangible assets	10	1,744	2,156	862	298	419
Property, plant and equipment	11	916	881	108	62	55
Trade and other receivables	14	145	185	263	346	424
Deferred tax asset	17	–	–	228	522	529
<b>Total non-current assets</b>		<u>2,805</u>	<u>3,222</u>	<u>1,461</u>	<u>1,228</u>	<u>1,427</u>
<b>Current assets</b>						
Inventories	12	175	400	20	24	172
Trade and other receivables	14	12,226	14,252	13,559	14,831	14,836
Cash and bank balances	13	5,609	7,410	10,539	12,545	14,287
<b>Total current assets</b>		<u>18,010</u>	<u>22,062</u>	<u>24,118</u>	<u>27,400</u>	<u>29,295</u>
<b>Total assets</b>		<u>20,815</u>	<u>25,284</u>	<u>25,579</u>	<u>28,628</u>	<u>30,722</u>
<b>Current liabilities</b>						
Trade and other payables	15	(10,222)	(9,178)	(7,597)	(6,874)	(7,519)
Loans and borrowings	16	(1,910)	(5,344)	(4,628)	(5,696)	(5,697)
<b>Total current liabilities</b>		<u>(12,132)</u>	<u>(14,522)</u>	<u>(12,225)</u>	<u>(12,570)</u>	<u>(13,216)</u>
<b>Non-current liabilities</b>						
Deferred tax liability	17	(68)	(88)	–	–	–
<b>Total non-current liabilities</b>		<u>(68)</u>	<u>(88)</u>	<u>–</u>	<u>–</u>	<u>–</u>
<b>Net assets</b>		<u>8,615</u>	<u>10,674</u>	<u>13,354</u>	<u>16,058</u>	<u>17,506</u>
<b>Equity attributable to equity holders of the Company</b>						
Share capital	18	–	–	–	–	–
Retained earnings		8,615	10,674	13,354	16,058	17,506
<b>Total equity</b>		<u>8,615</u>	<u>10,674</u>	<u>13,354</u>	<u>16,058</u>	<u>17,506</u>



## Statement of Changes in Equity

	<i>Share Capital £'000</i>	<i>Retained Earnings £'000</i>	<i>Total £'000</i>
<b>At 1 May 2013</b>	–	8,615	8,615
Total comprehensive income for the year	–	2,059	2,059
<b>Balance as at 30 April 2014</b>	–	10,674	10,674
Total comprehensive income for the year	–	2,680	2,680
<b>Balance as at 30 April 2015</b>	–	13,354	13,354
Total comprehensive income for the year	–	2,704	2,704
<b>Balance as at 30 April 2016</b>	–	16,058	16,058
Unaudited total comprehensive income for the period	–	1,448	1,448
<b>Balance as at 31 October 2016</b>	–	17,506	17,506

## Statement of Cash Flows

		Year ended 30 April 2014 £'000	Year ended 30 April 2015 £'000	Year ended 30 April 2016 £'000	Unaudited 6 months ended 31 October 2015 £'000	Unaudited 6 months ended 31 October 2016 £'000
<b>Operating activities</b>						
Operating profit after exceptional costs		2,079	2,368	2,402	1,455	1,441
<i>Adjustments in respect of non-cash items:</i>						
Depreciation	11	239	199	63	27	20
Amortisation	10	163	290	72	42	22
Impairment of Intangible assets	5	–	–	639	–	–
(Increase)/decrease in Inventories	12	(225)	380	(4)	1	(10)
(Increase)/decrease in Trade and other receivables	14	(2,066)	2,429	(1,355)	(42)	(36)
(Decrease)/increase in Trade and other payables	15	(1,044)	(1,581)	(723)	(1,306)	460
<b>Cash (used)/generated from operations</b>		(854)	4,085	1,094	177	1,897
Income taxes (paid)/received		–	(4)	8	1	–
<b>Net cash (outflow)/inflow from operating activities</b>		(854)	4,081	1,102	178	1,897
Purchases of Property, plant and equipment	11	(204)	(127)	(17)	(13)	(13)
Purchase of intangible assets	10	(575)	(109)	(147)	(144)	(143)
<b>Net cash used in investing activities</b>		(779)	(236)	(164)	(157)	(156)
<b>Net (decrease)/increase in cash and cash equivalent</b>		(1,633)	3,845	938	21	1,741
<b>Cash and Cash equivalents at beginning of year/period</b>		3,699	2,066	5,911	5,911	6,849
<b>Cash and Cash equivalents at end of year/period</b>	13	2,066	5,911	6,849	5,932	8,590

## Notes to the Historical Financial Information

### 1. Accounting policies

#### General Information

Metro Rod Limited (“the Company”) is a company limited by shares, incorporated under English Law and domiciled in the UK. The Company is a wholly owned subsidiary of EnServe Group Limited, forming part of its Utility Services Division. EnServe Group Limited is a wholly owned subsidiary of Cilantro Midco Limited, which together with other wholly owned subsidiaries of Cilantro Midco Limited form the subsidiary undertakings of the Group. The principal activity of the Company is that of drain care and environmental services.

On 15 January 2016 the entire issued share capital of the ultimate parent company, Cilantro Jersey Limited, was acquired by Schultz Bidco Limited, a limited company incorporated in England and Wales.

#### Going concern

On 30 April 2016 the Company had net assets of £16.1 million (31 October 2016: net assets £17.5 million).

The Directors consider that as at the date of approving the historical financial information, there is a reasonable expectation that the Company has adequate resources to remain in operations for the foreseeable future. For these reasons, the Directors have concluded that it is appropriate to prepare the historical financial information on a going concern basis.

#### Basis of preparation

This historical financial information presents the financial track record of the Company for the three years ended 30 April 2016 and includes the unaudited historical financial information for the six month periods ended 31 October 2015 and 31 October 2016, and is prepared for inclusion in the Admission Document of Franchise Brands Plc. This historical financial information has been prepared under the historical cost convention in accordance with the AIM Rules for Companies, in accordance with European adopted International Financial Reporting Standards (“IFRS”) and interpretations issued by the IFRS Interpretations Committee, the accounting policies which will be applied in the preparation of the accounts of Franchise Brands Plc following its acquisition of the Company and re-admission of the Enlarged Group to the Alternative Investment Market (“AIM”) operated by the London Stock Exchange, and with those parts of the Companies Act 2006 as applicable to companies reporting under IFRS. The Financial information is presented in sterling, which is also the Company’s functional currency.

The historical financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Company’s statutory financial statements for the periods ended 30 April 2014 and 30 April 2015 were prepared in accordance with UK GAAP and the Company’s statutory financial statements for the period ended 30 April 2016 was prepared in accordance with FRS 102. The financial statements for these periods have been delivered to the Registrar of Companies. The auditors’ reports on these financial statements were unqualified, did not draw attention to any matters by way of emphasis, and did not contain a statement under 498(2) or 498(3) of the Companies Act 2006.

The Company’s deemed transition date to IFRS is 1 May 2013. The principles and requirements for first time adoption of IFRS are set out in IFRS 1. IFRS 1 ‘First-time Adoption of International Financial Reporting Standards’ offers a number of exemptions from full retrospective application of applicable standards on transition to IFRS. Following a review of these exemptions it has been concluded that the Company has taken advantage of the exemption not to adopt retrospective application of IFRS 3 ‘Business Combinations’ to historic acquisitions prior to the date of transition to IFRS.

At the time of publication of this historical financial information, the following standards and interpretations, which have not been applied in this historical financial information, were in issue but not yet effective:

<i>Accounting standards and interpretations</i>	<i>Effective from</i>
IFRS 16 Leases	1/1/2019
IFRS 9 Financial Instruments: Classification and Measurement	1/1/2018
IFRS 15 Revenue from Contracts with Customers	1/1/2018

IAS 1 Disclosure Initiative	1/1/2017
IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	1/1/2017
IAS 7 Disclosure Initiative	1/1/2017

None of the above are expected to have a significant effect on the future financial statements of the Company, except the following set out below:

IFRS 16 'Leases' specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The Company is assessing the impact of IFRS 16.

IFRS15 'Revenues from contracts with customers' deals with revenue recognition and is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard replaces IAS18 'Revenue' and IAS 11 'Construction contracts' and related interpretations, and is effective from annual periods beginning on or after 1 January 2018 and earlier application is permitted subject to EU endorsement. The Company is assessing the impact of IFRS 15.

The principal accounting policies adopted in the preparation of the historical financial information are set out below. The policies have been consistently applied to all the years/periods presented, unless otherwise stated.

The historical financial information has been prepared under the historic cost convention.

### **Statement of Compliance**

The historical financial information has been prepared in accordance with International Financial Reporting Standards as adopted by European Union.

### **Revenue**

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable for goods supplied or services rendered, net of discounts and rebates allowed by the Company and value added taxes. The Company has customer rebate arrangements with certain customers, which are primarily volume based. Accruals are recognised under the terms of these agreements, which are reported within trade and other payables.

The Company recognises revenue when (a) the significant risks and rewards of ownership have been transferred to the buyer; (b) the Company retains no continuing involvement or control over the goods; (c) the amount of revenue can be measured reliably; (d) it is probable that future economic benefits will flow to the entity and (e) when the specific criteria relating to the each of Company's sales channels have been met, as described below.

#### *Sale of services*

The Company earns fees from work won and delivered by the franchisee network. Revenues are recognised when the service is rendered.

Depending upon the customer contractual arrangement, the Company either acts as the principal or as an agent of the franchisee. When the Company acts as the principal, revenue is recorded and recognised on a gross basis, however when the Company acts as an agent for the franchisee, the Company recognises the net commission as revenue.

#### *Upfront service fees*

Upfront service fees are charged for the initial administrative and training services provided to new franchisees. These initial fees are recognised at the inception of the contract when the services are provided.

### **Transactions with fellow subsidiary companies**

During the year ended 30 April 2014 and for the first seven months of the year ended 30 April 2015, H2O Water Services Limited, a fellow subsidiary within the Cilantro Midco Group, held a contract with Thames Water Private Sewers. This contract was delivered by Metro Rod as an agent of H2O Water Services Limited. As a result of this arrangement Metro Rod incurred costs on H2O Water Services Limited's behalf including staff costs (see note 6), purchases of property, plant and equipment and inventory (see notes 10 and 12 respectively) and computer software development (see note 11). In addition, as at 30 April 2014 there were also balances included within trade and other payables (see note 15) in relation to the arrangement.

All costs associated with this contract were recharged to H2O Water Services Limited at nil margin, including the ongoing costs of delivering the contract and the costs incurred on exit of the contract. As Metro Rod were acting as an agent in this arrangement all costs and related recharges are recognised net in the Statement of Comprehensive Income, and therefore this arrangement had nil impact on the results of the Company in either the year ended 30 April 2014 or the year ended 30 April 2015.

### **Business combinations under common control**

On 1 May 2016, the trade and assets of Kemac Services, being the clean water plumbing division of a fellow subsidiary company, H2O Water Services Limited, were acquired by the Company. The acquisition involved the transfer of trade and assets of the division to the Company.

The acquisition has been accounted for using predecessor accounting values, and therefore the assets and liabilities acquired have been measured at their carrying amounts as recognised within H2O Water Services Limited.

Total net assets acquired, of £565,000, has resulted in an inter-company payable of the same amount. Refer to note 9 for further details. This transaction is unaudited.

### **Employee costs**

The Company provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined contribution pension plans.

#### *(i) Short term benefits*

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the year/period in which the service is received.

#### *(ii) Defined contribution pension plans*

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the Statement of Financial Position. The assets of the plan are held separately from the Company in independently administered funds.

### **Exceptional items**

Items that are material, non-recurring or whose significance is sufficient to warrant separate disclosure and identification within the historical financial information, are treated as exceptional costs. Items that may give rise to classification as exceptional costs include, but are not limited to, significant restructuring closures and reorganisation programmes, individually material contract provisions and asset impairments. Such items are disclosed separately within the historical financial information.

### **Income taxes**

Current tax is the amount of income tax payable in respect of the taxable profit for the year/period or prior years/periods. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the year/period end.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the historical financial information. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in historical financial information.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the year/period end and that are expected to apply to the reversal of the timing difference.

During the years ending 30 April 2014, 30 April 2015 and 30 April 2016 group relief was received in respect of losses from fellow subsidiaries within the Cilantro Midco Group. Group relief was received at nil cost to the Company and hence the amounts received are accounted for as a deduction in arriving at the tax charge for the relevant year.

## **Intangible fixed assets**

### *Purchased goodwill*

Purchased goodwill represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets (including intangible fixed assets), liabilities and contingent liabilities at the date of acquisition. Purchased goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

Purchased goodwill which is recognised as an asset is reviewed for impairment at least annually. Any impairment is recognised immediately in the Statement of Comprehensive Income and is not subsequently reversed. For the purpose of impairment testing, purchased goodwill is tested for impairment annually or more frequently when there is an indication that the cash generating unit may be impaired.

### *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.

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 an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Capitalised development costs are carried at the lower of unamortised cost and recoverable amount until the product is released to customers, at which time capitalisation ceases and costs are amortised on a straight-line basis over eight to ten years, being the directors' estimate of the useful economic life.

### *Impairment of non-financial assets*

Assets that have indefinite useful life – for example purchased goodwill are not subject to amortisation and are tested annually for impairment or whenever indicators of impairment exist. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value based on the risks specific to the asset(s). Non-financial assets other than goodwill that have suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

### **Inventories**

Inventories are stated cost. Cost is determined on a first in, first out basis.

### **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 Company 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 Company. The carrying amount of the replaced part is derecognised. Repairs and maintenance are charged to the Statement of Comprehensive Income in the year/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 land and buildings	2% straight line
Fixtures, fittings and vehicles	17 to 50% straight line
Plant and equipment	10 to 20% straight line

The assets' residual values, useful lives and methods of depreciation are reviewed and adjusted, if appropriate on an annual basis.

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash, cash in hand and deposits held at call with banks. Bank overdrafts are shown within loans and borrowings in current liabilities on the Statement of Financial Position. For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### **Leases**

The costs of operating leases are recognised on a straight line basis in the Statement of Comprehensive Income over the lease term.

### **Foreign Currency**

#### *Functional and presentation currency*

This historical financial information records the results and financial position of the Company in sterling, which is both the functional currency and presentation currency of the Company.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each year/period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and nonmonetary items measured at fair value are measured using the exchange rate when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

### **Segmental reporting**

Management has determined that based on the operating reports reviewed by the chief operating decision maker, who assess performance, make strategic decisions and allocate resources, that Metro Rod Limited has one operating segment. Management has identified that the Directors of the Cilantro Midco Group as the chief operating decision maker in accordance with the requirements of IFRS 8 'Operating segments'. All segment revenue, profit before taxation, assets and liabilities are attributable to the principal activity of Metro Rod Limited.

### **Financial assets and liabilities**

The Company classifies its financial assets and liabilities in the following categories: Cash and cash equivalents and bank overdrafts, trade receivables, prepayments and accrued income and trade payables.

#### *Cash and cash equivalents*

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand. Bank overdrafts are shown within loans and borrowings in current liabilities in the Statement of Financial Position.

#### *Trade Receivables*

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provisions for impairment.

#### *Prepayments and accrued income*

Included within prepayment and accrued income are monies advanced by the Company to franchisees as part of a capital incentive programme. The monies advanced under this programme are expensed over a period of seven years. The monies which are to be expensed in the next financial year are classified as current assets and all other monies are classified as non-current assets.

#### *Trade Payables*

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.



## **2. Critical accounting estimates and judgements**

The preparation of historical financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies.

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year/period are as follows:

### *Revenue*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received or receivable for goods and services provided in the normal course of business, net of discounts; value added tax and other sales related taxes. Revenue is recognised in the Statement of Comprehensive Income at the point that a service is provided or products are supplied and title has passed.

A critical judgement is taken by the Company when it determines whether it is acting as the principal, or as an agent of the franchisee. When the Company acts as the principal, revenue is recognised on a gross basis; however when the Company acts as an agent of the franchisee, the Company only recognises the net commission as revenue hence this has a significant impact on the presentation of the Statement of Comprehensive Income. In reaching the judgement in regards to whether the Company acts as agent or principal for each arrangement the Directors consider IAS 18 to determine whether the company or the franchisee retain the risks and rewards of rendering the service.

Additionally a critical judgement was taken in determining whether the Company was acting as agent or principal in its arrangement with H2O Water Services Limited relating to its contract with Thames Water Private Sewers. It was determined that in this arrangement Metro Rod were acting as agent given the risks and rewards relating the delivery of the contract principally resided with H2O Water Services Limited. All costs and recharges in respect of this contract are therefore presented net within the Statement of Comprehensive Income.

## **3. Financial instruments – Risk Management**

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

The Company's financial risk management objectives consist of identifying and monitoring those risks, which have an adverse impact on the value of the Company's financial assets and liabilities or on the reported profitability or cash flows of the Company.

The Company has not entered into any derivative transactions such as interest rate swaps. It is the Company's policy that no trading in derivatives shall be undertaken.

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

The main risks arising from the Company's financial instruments are credit risk, foreign currency risk and liquidity risk.

	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>31 October</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Financial assets</b>				
Cash and cash equivalents	7,410	10,539	12,545	14,287
Trade and other receivables	14,437	13,822	15,177	15,260
Total	<u>21,847</u>	<u>24,361</u>	<u>27,722</u>	<u>29,547</u>

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>31 October</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<b>Financial liabilities</b>				
Trade and other payables	9,178	7,597	6,874	7,519
Loans and borrowings	5,344	4,628	5,696	5,697
Total	<u>14,522</u>	<u>12,225</u>	<u>12,570</u>	<u>13,216</u>

### Credit risk

Customers who trade on credit terms are predominantly the Company's franchisees and it is considered that the franchisee recruitment and selection process is sufficiently robust to ensure an appropriate credit verification procedure. The Company operates effective credit control procedures in order to minimise exposure to overdue debts.

### Foreign currency risk

The Company has limited exposure to foreign currency risk on the basis that during the current and previous financial year/period, less than 1 per cent. of revenue was attributable to franchisees operating in the Republic of Ireland. The Company does not use forward foreign currency contracts as the Company does not have significant direct exposures to foreign currencies.

### Liquidity risk

The Company aims to mitigate liquidity risk by managing cash generation by its operations with collection targets set throughout the Company. All major investment decisions are considered by the Directors as part of the project appraisal and approval process. In this the Company aims to maintain a good credit rating to facilitate fundraising. The following table sets out the contractual maturities:

	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>31 October</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Less than one year				
Trade and other payables	9,178	7,597	6,874	7,519
Loans and borrowings	5,344	4,628	5,696	5,697
Financial liabilities due less than one year	<u>14,522</u>	<u>12,225</u>	<u>12,570</u>	<u>13,216</u>

There are no financial liabilities greater than one year.

## Borrowing facilities

For the period 1 May 2013 to 15 January 2016, the Cilantro Midco Group entered certain of its fellow subsidiary companies, including Metro Rod Limited, into an unlimited cross party bank guarantee. No financial loss resulted from this arrangement.

Following the change in ownership on 15 January 2016, the Cilantro Midco Group's borrowing facilities were registered and recognised within the new owner's investment holding company, Schultz Parent Limited. The Cilantro Midco Group entered certain of its fellow subsidiary companies, including Metro Rod Limited, into an unlimited cross party bank guarantee. No financial losses are expected to result from this arrangement.

## Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or take other steps to increase share capital and reduce or increase debt facilities. The capital structure of the Company is managed and monitored by the Directors of the Cilantro Midco Group. At a Cilantro Midco Group level, the capital structure is managed with reference to gearing ratios, cash flow and interest cover ratios.

## 4. Revenue

An analysis of revenue is provided below.

	<i>Year ended</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2015</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
Sale of services	17,106	19,404	20,974	10,371	12,013
Upfront services	19	168	442	155	3
	<u>17,125</u>	<u>19,572</u>	<u>21,416</u>	<u>10,526</u>	<u>12,016</u>

An analysis of revenue by geographical market is given below:

	<i>Year ended</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2015</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
United Kingdom	17,116	19,563	21,409	10,524	12,009
Europe	9	9	7	2	7
	<u>17,125</u>	<u>19,572</u>	<u>21,416</u>	<u>10,526</u>	<u>12,016</u>

## 5. Profit from operations

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>6 months</i>	<i>6 months</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>ended</i>	<i>ended</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>31 October</i>	<i>31 October</i>
				<i>2015</i>	<i>2016</i>
				<i>£'000</i>	<i>£'000</i>
Staff costs (including Directors' emoluments note 6)	7,185	5,185	2,387	1,261	1,765
Operating leases charge	670	153	130	52	69
Depreciation (note 11)	239	199	63	27	20
Amortisation (note 10)	163	290	72	42	22
Exceptional items:	–	51	766	5	19
Auditors' remuneration:					
Statutory audit	15	15	15	8	–
Non audit services	–	–	–	–	–
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Exceptional costs included the following items:

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>6 months</i>	<i>6 months</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>ended</i>	<i>ended</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>31 October</i>	<i>31 October</i>
				<i>2015</i>	<i>2016</i>
				<i>£'000</i>	<i>£'000</i>
Impairment of intangible fixed assets	–	–	639	–	–
Losses incurred due to franchisee closure	–	–	116	–	–
Redundancy	–	51	11	5	19
Total	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Exceptional costs (based on their nature, irrespective of their value) in the year ended 30 April 2016 were £766,000 (2015: £51,000; 2014 £Nil, October 2016 (unaudited): £19,000)). This includes a bad debt write off in respect of a franchisee entering administration totalling £116,000 (2015: £Nil, 2014: £Nil, October 2016 (unaudited): £Nil)), the write off of the carrying value of a Work Management System which was replaced on 1 February 2016 totalling £639,000 (2015: £Nil, 2014: £Nil, October 2016 (unaudited): £Nil) and redundancy costs £11,000 (2015: £51,000, 2014: Nil, October 2016 (unaudited): £19,000).

## 6. Staff costs

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>6 months</i>	<i>6 months</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>ended</i>	<i>ended</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>31 October</i>	<i>31 October</i>
				<i>2015</i>	<i>2016</i>
				<i>£'000</i>	<i>£'000</i>
Wages and salaries	6,479	4,755	2,155	1,138	1,599
Social security costs	659	391	194	103	135
Pension costs	47	39	38	20	31
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Included in note 10 intangible assets is £93k (April 2015: £56k, April 2014: £41k and October 2016 (unaudited): £103k) of internal staff costs which are excluded from the above analysis.

Of the above staff costs, £Nil for April 2016 (April 2015: £2,952k, April 2014: £5,258k and October 2016 (unaudited): £Nil) was recharged to H2O Water Services Limited, a member of the EnServe Group, for all work completed in relation to a contract with Thames Water Private Sewers which was terminated with the agreement of the customer in November 2014, see note 22.

The average monthly number of employees (including executive Directors) during the period was as follows:

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>6 months</i>	<i>6 months</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>ended</i>	<i>ended</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>31 October</i>	<i>31 October</i>
				<i>2015</i>	<i>2016</i>
				<i>£'000</i>	<i>£'000</i>
Administration	169	128	89	91	106
Sales	7	7	7	7	7
Management	48	36	11	11	20
	<u>224</u>	<u>171</u>	<u>107</u>	<u>109</u>	<u>133</u>

### Directors' remuneration

None of the statutory Directors of Metro Rod Limited received emoluments from the Company or for their services to the Company during any of the above periods/years.

For the years ended 30 April 2014, 2015 and 2016, the emoluments of A J Chadwick and C Davis are disclosed in the financial statements of H2O Water Services Limited and D L Cruddace and D C Humphreys in the financial statements of Cilantro Midco Limited. For the year ended 30 April 2016, the emoluments of J Richardson, I Fisher, A Fischer and A Fletcher are also disclosed in the financial statements of Cilantro Midco Limited.

No benefits are accruing to any Directors (including all periods covered within this report) under defined contribution pension scheme arrangements.

### 7. Income tax

	<i>Year ended</i>	<i>Year ended</i>	<i>Year ended</i>	<i>Unaudited</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>6 months</i>	<i>6 months</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>ended</i>	<i>ended</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>31 October</i>	<i>31 October</i>
				<i>2015</i>	<i>2016</i>
				<i>£'000</i>	<i>£'000</i>
<b>Current tax expense</b>					
Current tax on profits for the year/period	–	4	(8)	4	–
<b>Deferred tax expense</b>					
Origination and recognition for the year/period (note 17)	20	(316)	(81)	21	(7)
Adjustment for prior year/period	–	–	(213)	(104)	–
<b>Total tax expense/(credit)</b>	<u>20</u>	<u>(312)</u>	<u>(302)</u>	<u>(79)</u>	<u>(7)</u>

The tax on the Company's profit before tax differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the Company as follows:

<b>Operating profit after exceptional items</b>	2,079	2,368	2,402	1,455	1,441
Accounting profit multiplied by the UK statutory rate of Corporation tax	474	495	480	297	288
Expense not deductible for tax purposes	62	61	(2)	–	–
Adjustment for prior year/ period (note 17)	–	–	(213)	(104)	–
Effect of change of rate	–	–	54	54	–
Transfer Pricing Adjustments	–	–	(58)	(26)	(29)
Losses received from other group entities	(516)	(868)	(563)	(300)	(266)
<b>Tax expense/(credit)</b>	<b>20</b>	<b>(312)</b>	<b>(302)</b>	<b>(79)</b>	<b>(7)</b>
Effective tax rate	22.80%	20.90%	20.00%	20.41%	20.00%

The prior year period tax adjustment which arose in the year ending 30 April 2016 relates to capital allowances which management estimated would be utilised in the year ending 30 April 2015. These amounts were subsequently disclaimed in the final tax return when the amount of group relief available to Metro Rod was finalised. As these capital allowances remain available to the Company the related deferred tax asset has been recognised in the year ending 30 April 2016 resulting in a credit to the deferred tax charge of £213,000. As this represents a change in accounting estimate the amount has been recognised prospectively.

#### Factors affecting current and future tax charges

A change in the UK corporation tax rate was announced in the Chancellor's budget on 16 March 2016. The change announced is to reduce the main rate to 17 per cent. from 1 April 2020. Changes to reduce the UK corporation tax rate to 19 per cent. from 1 April 2017 and to 17 per cent. from 1 April 2020 had already been substantially enacted in 26 October 2015.

#### 8. Earnings per share

The basic earnings per share is 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/period.

	<i>Year ended</i> <i>30 April</i> <i>2014</i>	<i>Year ended</i> <i>30 April</i> <i>2015</i>	<i>Year ended</i> <i>30 April</i> <i>2016</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2015</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2016</i>
Profit used in calculation (£'000)	2,059	2,680	2,704	1,534	1,448
Number of shares	2	2	2	2	2
Basic & diluted earnings per share (£'000)	1,029	1,340	1,352	767	724

There are no share options.

**9. Transfer of trade and net assets of the Kemac Services, a trading division previously held within H2O Water Services Limited**

On 1 May 2016 the trade and net assets of Kemac Services, a trading division previously held within H2O Water Services Limited, a fellow subsidiary company, were transferred to the Company at their net book value. The consideration is in the form of an intercompany balance owed to H2O Water Services Limited.

The table below sets out the assets and liabilities acquired and the consideration paid.

	<i>Unaudited</i> £'000
Inventory	138
Debtors	612
Creditors	(185)
<b>Net assets received</b>	<u>565</u>
Proceeds – Intercompany balance	<u>(565)</u>
<b>Result on transfer</b>	<u><u>–</u></u>

The sole activity of Kemac Services is that of clean water plumbing. Since the acquisition, in the unaudited period to 31 October 2016, Kemac Services has generated revenues totalling £715k and an operating profit of £288k.

## 10. Intangible assets

	<i>Purchased Goodwill £'000</i>	<i>Computer software development £'000</i>	<i>Total £'000</i>
<b>Cost</b>			
At 1 May 2013	330	1,980	2,310
Additions	–	575	575
At 30 April 2014	330	2,555	2,885
At 1 May 2014	330	2,555	2,885
Impairments	–	(1,470)	(1,470)
Additions	–	109	109
At 30 April 2015	330	1,194	1,524
At 1 May 2015	330	1,194	1,524
Impairments	–	(1,194)	(1,194)
Additions	–	147	147
At 30 April 2016	330	147	477
At 1 May 2016	330	147	477
Additions (unaudited)	–	143	143
At 31 October 2016 (unaudited)	330	290	620
<b>Amortisation</b>			
At 1 May 2013	177	389	566
Charge for the year	–	163	163
At 30 April 2014	177	552	729
At 1 May 2014	177	552	729
Impairment	–	(357)	(357)
Charge for the year	–	290	290
At 30 April 2015	177	485	662
At 1 May 2015	177	485	662
Impairment	–	(555)	(555)
Charge for the year	–	72	72
At 30 April 2016	177	2	179
At 1 May 2016	177	2	179
Charge for the period (unaudited)	–	22	22
At 31 October 2016 (unaudited)	177	24	201
<b>Net Book Value</b>			
<b>At 1 May 2013</b>	153	1,591	1,744
<b>At 30 April 2014</b>	153	2,003	2,156
<b>At 30 April 2015</b>	153	709	862
<b>At 30 April 2016</b>	153	145	298
<b>At 31 October 2016 (unaudited)</b>	153	266	419

During the year ended 30 April 2016, the Company wrote off £639,000 being the carrying value of a Work Management System which was replaced on 1 February 2016 (see note 5).



During the year ended 30 April 2015, the Thames Water Private Sewers contract was exited. This contract was held by H2O Water Service Limited, a fellow subsidiary. All computer software development associated with this contract was impaired and resulted in a charge of £1,113,000. No net charge was incurred by the Company as all costs associated with the Thames Water Private Sewers were recharged to H2O Water Service Limited (see note 22).

Amortisation and impairment charges in respect of intangible fixed assets are charged to administration expenses. During the year ended 30 April 2016, a £639,000 impairment charge was recognised as an exceptional item (see note 5).

The goodwill balance relates to the 2001 acquisition of the Metro Rod trade and assets from Thames Water Services Limited, and is attributed to the sole cash-generating unit ('CGU').

Goodwill is monitored for internal management purposes at the Company's sole CGU level. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board.

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. The recoverable amount of the CGU has been determined based on a value-in-use calculation. The calculations use pre-tax cash flow projections, and a discount rate and long term growth rate appropriate for the market in which the CGU operates. In the periods under review, management's value in use calculations have indicated no requirement to impair.

The estimates of the recoverable amounts associated with the CGU affords significant head room over the carrying value, consequently only significant adverse changes in these key assumptions would cause the Company to recognise an impairment loss.

## 11. Property, plant and equipment

	<i>Leasehold land and buildings £'000</i>	<i>Fixtures, fittings and vehicles £'000</i>	<i>Plant and equipment £'000</i>	<i>Total £'000</i>
<b>Cost</b>				
At 1 May 2013	18	616	1,054	1,688
Additions	–	69	135	204
At 30 April 2014	18	685	1,189	1,892
At 1 May 2014	18	685	1,189	1,892
Additions	–	73	54	127
Disposals	–	(630)	(490)	(1,120)
At 30 April 2015	18	128	753	899
At 1 May 2015	18	128	753	899
Additions	–	6	11	17
At 30 April 2016	18	134	764	916
At 1 May 2016	18	134	764	916
Additions (unaudited)	–	4	9	13
At 31 October 2016 (unaudited)	18	138	773	929
<b>Depreciation</b>				
At 1 May 2013	15	143	614	772
Charge for the year	–	108	131	239
At 30 April 2014	15	251	745	1,011
At 1 May 2014	15	251	745	1,011
Charge for the year	–	93	106	199
Disposals	–	(227)	(192)	(419)
At 30 April 2015	15	117	659	791
At 1 May 2015	15	117	659	791
Charge for the year	–	2	61	63
At 30 April 2016	15	119	720	854
At 1 May 2016	15	119	720	854
Charge for the period (unaudited)	–	8	12	20
At 31 October 2016 (unaudited)	15	127	732	874
<b>Net Book Value</b>				
<b>At 1 May 2013</b>	3	473	440	916
<b>At 30 April 2014</b>	3	434	444	881
<b>At 30 April 2015</b>	3	11	94	108
<b>At 30 April 2016</b>	3	15	44	62
<b>At 31 October 2016 (unaudited)</b>	3	11	41	55

The Company has no finance leases (30 April 2016: £Nil, 30 April 2015: £Nil and 30 April 2014: £Nil, October 2016 (unaudited): £Nil).

During the year ended 30 April 2015, the Thames Water Private Sewers contract was exited. This contract was held by H2O Water Service Limited, a fellow subsidiary. All property, plant and equipment associated with this contract were disposed of at net book value (£701,000) to H2O Water Service Limited (see note 22).

Depreciation charges in respect of property, plant and equipment are charged to administration expenses.

## 12. Inventories

	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>31 October</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Consumables	400	20	24	172

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

There were no inventory provisions as at 30 April 2016 (30 April 2015; £Nil, 30 April 2014; £Nil, 31 October 2016 (unaudited); £Nil).

## 13. Cash and cash equivalents

	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>31 October</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Cash at bank and in hand	7,410	10,539	12,545	14,287
Bank overdraft (note 16)	(5,344)	(4,628)	(5,696)	(5,697)
	<u>2,066</u>	<u>5,911</u>	<u>6,849</u>	<u>8,590</u>

#### 14. Trade and other receivables

	<i>As at</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>As at</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>As at</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>As at</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
<b>Current</b>				
Trade receivables	4,921	5,451	6,309	6,700
Provision for impairment of receivables	(24)	(25)	(20)	(10)
Net trade receivables	4,897	5,426	6,289	6,690
Amounts owed by group undertakings	6,703	6,151	6,126	6,148
Other receivables	321	595	252	149
Prepayments and accrued income	2,331	1,387	2,164	1,849
Total current trade and other receivables	<u>14,252</u>	<u>13,559</u>	<u>14,831</u>	<u>14,836</u>
<b>Bad debt provision</b>				
Brought forward	(44)	(24)	(25)	(20)
Provided for during the year	(17)	(1)	–	–
Utilised	37	–	5	10
Carried forward	<u>(24)</u>	<u>(25)</u>	<u>(20)</u>	<u>(10)</u>
<b>Ageing of trade receivables as follows:</b>				
Current	4,296	4,779	5,848	6,176
Between one and three months overdue	488	575	276	185
More than three months overdue	137	97	185	339
Total	<u>4,921</u>	<u>5,451</u>	<u>6,309</u>	<u>6,700</u>

Amounts owed by group undertakings are unsecured, payable on demand and non-interest bearing. The Directors consider that the carrying amount of trade and other receivables is equal to their fair value due to their short term nature. There is limited concentration of credit risk with respect to trade receivables due to the diverse and unrelated nature of the Company's customers. Accordingly, the Directors believe that no further credit provision is required in excess of the provision for impairment of receivables.

The creation and release of the provision for impaired receivables has been included in 'administrative costs' in the Statement of Comprehensive Income. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

	<i>As at</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>As at</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>As at</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>As at</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
<b>Non-current</b>				
Prepayments and accrued income	185	263	346	424
Total trade and other receivables	<u>185</u>	<u>263</u>	<u>346</u>	<u>424</u>

The non-current prepayment and accrued income relates to a franchise capital incentive programme.

## 15. Trade and other payables

	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>As at</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>31 October</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>2016</i>
				<i>£'000</i>
<b>Current</b>				
Trade payables	5,874	3,121	2,548	2,795
Amounts owed to group undertaking	1,007	1,399	1,388	1,566
Accruals	2,105	2,585	2,566	2,701
Social security and other taxes	192	492	372	457
Total trade and other payables	<u>9,178</u>	<u>7,597</u>	<u>6,874</u>	<u>7,519</u>

Carrying values approximate to fair value due to their short term nature. Amounts owed to group undertakings are unsecured, payable on demand and non-interest bearing.

## 16. Loans and Borrowings

	<i>As at</i>	<i>As at</i>	<i>As at</i>	<i>Unaudited</i>
	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>As at</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>31 October</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>2016</i>
				<i>£'000</i>
Bank overdraft	<u>5,344</u>	<u>4,628</u>	<u>5,696</u>	<u>5,697</u>
Total loans and borrowings	<u>5,344</u>	<u>4,628</u>	<u>5,696</u>	<u>5,697</u>

For the period 1 May 2013 to 15 January 2016, the Cilantro Midco Group entered certain of its fellow subsidiary companies, including Metro Rod Limited, into an unlimited cross party bank guarantee. No financial loss resulted from this arrangement.

Following the change in ownership on 15 January 2016, the Cilantro Midco Group's borrowing facilities were registered and recognised within the new owner's investment holding company, Schultz Parent Limited. The Cilantro Midco Group entered certain of its fellow subsidiary companies, including Metro Rod Limited, into an unlimited cross party bank guarantee. No financial losses are expected to result from this arrangement.

## 17. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 18 per cent. (2016), 20 per cent. (2015) and 20 per cent. (2014). The movement on the deferred tax account is as shown below:

	<i>As at 30 April 2014 £'000</i>	<i>As at 30 April 2015 £'000</i>	<i>As at 30 April 2016 £'000</i>	<i>Unaudited 6 months ended 31 October 2015 £'000</i>	<i>Unaudited 6 months ended 31 October 2016 £'000</i>
<b>Accelerated Capital Allowances</b>					
Opening balance	(68)	(88)	228	228	522
Adjustment in respect of prior periods/years	–	–	213	100	–
Recognised in Statement of Comprehensive Income	(20)	316	81	(21)	7
Closing (liability)/asset	<u>(88)</u>	<u>228</u>	<u>522</u>	<u>307</u>	<u>529</u>

Accelerated capital allowances are expected to reverse in future years and are recognised as deferred tax assets as they are expected to be utilised against future taxable profits.

## 18. Share Capital

	<i>As at 30 April 2014 £'000</i>	<i>As at 30 April 2015 £'000</i>	<i>As at 30 April 2016 £'000</i>	<i>Unaudited As at 31 October 2016 £'000</i>
Ordinary shares of £1 each	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

## 19. Reserves

Retained earnings are the cumulative net profits in the Statement of Comprehensive Income. Movements on these reserves are set out in the Statement of Changes in Equity.

No dividends have been paid or proposed in any of the years to 30 April 2014, 30 April 2015 or 30 April 2016, or in the 6 month period to 31 October 2016 (unaudited).

## 20. Operating Leases

The Company leases its office premises and has contract hire agreements on plant and machinery. The total value of minimum lease payments due until the end of the leases is payable as follows:

	<i>Year ended 30 April 2014 £'000</i>	<i>Year ended 30 April 2015 £'000</i>	<i>Year ended 30 April 2016 £'000</i>	<i>Unaudited 6 months ended 31 October 2016 £'000</i>
Less than one year	612	134	130	147
Between one year and five years	935	191	86	12
	<u>1,547</u>	<u>325</u>	<u>216</u>	<u>159</u>

The Company maintains a leased property. The property lease is for a ten-year period ending on 10 October 2022, subject to a break clause after a five-year period.

## 21. Capital commitments

As at 30 April 2016 the Company had capital commitments (approved and committed) totalling £Nil (30 April 2016: £Nil; 30 April 2015: £Nil and 30 April 2014: £Nil; 31 October 2016 (unaudited): £Nil).

## 22. Related party transactions

The following are related party costs charged from entities controlled by its immediate parent undertaking, EnServe Group Limited.

	<i>Year ended</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2015</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
EnServe Group Limited	202	154	–	–	–
The IT&T Department Limited	75	193	–	–	–

EnServe Group Limited has provided management services to the Company, whilst The IT&T Department Limited has provided IT services to the Company.

As outlined in note 9, the trade and net assets of Kemac Services, a trading division previously held within H2O Water Services Limited, a fellow subsidiary company, were transferred to the Company at their net book value. The consideration is in the form of an intercompany balance owed to H2O Water Services Limited. In addition, tax losses from fellow subsidiary companies have been utilised by the Company, as disclosed in note 7.

### *Thames Water Private Sewers contract*

In addition to the costs noted above, during the year ended 30 April 2014 and for the first seven months of the accounting period ended 30 April 2015, H2O Water Services Limited held a contract with Thames Water Private Sewers, the work for which was delivered via the Metro Rod franchisee network. All costs associated with this contract were recharged to H2O Water Services Limited and had no impact on the Company's Statement of Comprehensive Income in either the year ended 30 April 2014 or 30 April 2015.

	<i>Year ended</i> <i>30 April</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>30 April</i> <i>2016</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2015</i> <i>£'000</i>	<i>Unaudited</i> <i>6 months</i> <i>ended</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
<b>Costs recharged to H2O Water Services Limited in respect of the Thames Water Private Sewers contract</b>					
Staff costs	5,258	2,952	–	–	–
Other costs	21,489	14,187	–	–	–

The following net balances were due at each financial and period end:

	<i>30 April</i>	<i>30 April</i>	<i>30 April</i>	<i>Unaudited</i> <i>31 October</i>
	<i>2014</i>	<i>2015</i>	<i>2016</i>	<i>2016</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
EnServe Group Limited	464	434	428	428
Other group undertakings	5,232	4,318	4,310	4,154
Net amounts owed by group undertakings	<u>5,696</u>	<u>4,752</u>	<u>4,738</u>	<u>4,582</u>

#### *Key management personnel*

Key management personnel comprise the directors of the Company. The compensation paid or payable to key management is disclosed within note 6.

### **23. Immediate and ultimate parent undertaking**

Prior to the 15 January 2016 and throughout the periods covered within this report, the Company's ultimate parent undertaking were Fourth Cinven Fund (No.1) LP, Fourth Cinven Fund (No.2) LP, Fourth Cinven Fund (No.3 – VCOC) LP, Fourth Cinven Fund (No.4) LP, Fourth Cinven Fund (UBTI) LP, Fourth Cinven Fund Co-Investment Partnership, Fourth Cinven (MACIF) Partnership and Fourth Cinven Fund FCPR (together the 'Cinven Funds'), being funds managed or controlled by Cinven Limited, a company incorporated under the laws of England and Wales.

On 15 January 2016 the entire issued share capital of intermediate holding company, Cilantro Jersey Limited, was acquired by Schultz Bidco Limited a limited company incorporated in England and Wales.

Post-acquisition the Company's ultimate parent undertaking is Grovepoint Capital LLP, a limited liability partnership incorporated under the laws of England and Wales.

The immediate parent undertaking of the Company is EnServe Group Limited which is a wholly owned subsidiary of Cilantro Midco Limited, which is the only undertaking to consolidate Enserve Group Limited and all its subsidiaries' financial statements.

The consolidated financial statements of Cilantro Midco Limited are available from the Company Secretary at Ashwood Court, Springwood Way, Tytherington Business Park, Macclesfield, Cheshire, SK10 2XF, United Kingdom. The consolidated financial statements of Grovepoint Capital LLP are available from the Company Secretary at Grovepoint Capital LLP, 8-12 York Gate, London, NW1 4QG.

### **24. Explanation of transition to IFRS**

This is the first time that the Company has presented its financial information under IFRS. The last financial information under FRS 102 was for the year to 30 April 2016, and the date of transition to IFRS was 1 May 2013.

Set out below is the FRS 102 to IFRS Statement of Comprehensive Income reconciliation for the Company for the year ended 30 April 2016.



**FRS 102 to IFRS reconciliation of the Consolidated Statement of Comprehensive Income for the year ended 30 April 2016**

	2016 FRS 102 £'000	IFRS 3 Adj £'000	2016 IFRS £'000
<b>Revenue</b>	21,416	–	21,416
Cost of Sales	(15,039)	–	(15,039)
<b>Gross Profit</b>	6,377	–	6,377
Administration expenses	(3,226)	17	(3,209)
Operating profit before exceptional items	3,151	17	3,168
Exceptional items	(766)	–	(766)
Operating profit after exceptional items	2,385	17	2,402
Tax (expense)/credit	302	–	302
<b>Profit for the year and comprehensive income attributable to equity holders of the parent company</b>	<u>2,687</u>	<u>17</u>	<u>2,704</u>

The above adjustment relates to the amortisation charge of purchased goodwill which has been reflected within the accounts for the year ended 30 April 2016 prepared under FRS 102. In accordance with IFRS, the amortisation of purchased goodwill is not permitted.

Effect of IFRS adoption on total equity as at 30 April 2016:

	As at 30 April 2016 £'000
<b>Total equity under FRS 102</b>	16,041
Amortisation charge of purchased goodwill	17
<b>Total adjustment to equity</b>	<u>17</u>
<b>Total equity under IFRS</b>	<u>16,058</u>

No other transition accounting adjustments have been identified and therefore there is no change to the results or total equity in the financial years ended 30 April 2014 and 30 April 2015 as previously reported and IFRS.

**25. Subsequent events**

On 22 March 2017 Franchise Brands plc entered into an agreement to acquire the Company for an expected total cash consideration of £28 million (subject to adjustment based on the financial position of the Company at completion of the Acquisition). The sale is conditional, *inter alia*, on approval by Franchise Brands plc shareholders at a General Meeting to be convened and held on 10 April 2017.

**PART VII**  
**ADDITIONAL INFORMATION**

**THE ENLARGED GROUP**

- 1.1 The Company was incorporated and registered in England and Wales on 15 July 2016 under the Act as a public company limited by shares with registration number 10281033 with the name FB Holdings plc. On 15 July 2016 the Company acquired the entire issued share capital of Franchise Brands Limited (now FB Holdings Limited), the previous holding company of the Group. On 15 July 2016 the Company changed its name to Franchise Brands plc.
- 1.2 The principal legislation under which the Company operates is the Act and the regulations made thereunder.
- 1.3 The Company's registered office and principal place of business is at 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire DY 11 7RA. The telephone number at the Company's principal place of business is +44 (0) 800 012 6462.
- 1.4 The principal activity of the Company is that of a holding company of a group of companies engaged in franchising and related activities.

- 1.5 The Company has the following subsidiary undertakings:

<i>Company</i>	<i>Activity</i>	<i>Place of Incorporation</i>	<i>Percentage Holding (%)</i>
FB Holdings Limited	Intermediate Holding Company	England and Wales	100
ChipsAway International Ltd	Franchising	England and Wales	100
Oven Clean Domestic Limited	Franchising	England and Wales	100
Barking Mad Limited	Franchising	England and Wales	100
Alloy Rescue Limited	Franchising	England and Wales	100
Oven Clean (Ontario) Limited	Franchising	England and Wales	100
Edwin Investments Limited	Investment company	England and Wales	100
MyHome Marketing Limited	Licensors of cleaning services	England and Wales	100
Oven Clean Limited	Dormant	England and Wales	100
DentsAway Limited	Dormant	England and Wales	100

- 1.6 Following completion of the Acquisition, the Company shall also be the holding company of:

<i>Company</i>	<i>Activity</i>	<i>Place of Incorporation</i>	<i>Percentage Holding (%)</i>
Metro Rod Limited	Draincare and environmental services	England and Wales	100

- 1.7 The Directors are listed in paragraph 4 of this Part VII. The secretary of the Company is Mark Andrew Peters. The business address of each of the Directors and the secretary is 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire DY11 7RA.

## 2. SHARE CAPITAL

- 2.1 Set out below are details of the issued and credited as fully paid share capital of the Company (i) as at the date of this document and (ii) as it will be immediately on Admission, following the Placing (assuming the Placing is subscribed for in full):

<i>Before Admission</i>			<i>On Admission</i>		
<i>Class of Share</i>	<i>Number</i>	<i>Nominal Value</i>	<i>Class of Share</i>	<i>Number</i>	<i>Nominal Value</i>
Ordinary Shares	47,881,286	£239,406.43	Ordinary Shares	77,732,033	£388,660.17

- 2.2 On incorporation, the share capital of the Company was £60,856.72 being 12,171,344 ordinary shares of £0.005 each, all of which were issued fully paid to the subscribers to the Company's memorandum of association.
- 2.3 On 15 July 2016, pursuant to the share exchange agreement referred to in paragraph 8.1.14 of this Part VII below, the Company allotted and issued a further 24,342,688 ordinary shares of £0.005 each as consideration for the acquisition of the issued share capital of Franchise Brands Limited.
- 2.4 On 5 August 2016, the Company allotted and issued a further 10,606,061 ordinary shares of £0.005 each at a price of £0.33 per share pursuant to a fundraising in connection with the first admission of the Company's Ordinary Shares to trading on AIM.
- 2.5 On 31 October 2016, pursuant to the share purchase agreement referred to in paragraph 8.1.6 of this Part VII below, the Company allotted and issued a further 761,193 ordinary shares of £0.005 each as consideration for the acquisition of the issued share capital of Barking Mad Limited.
- 2.6 By or pursuant to resolutions of the Company proposed to be passed at the General Meeting pursuant to which the Placing Shares will be issued, it will be proposed that:
- 2.6.1 the Directors be generally and unconditionally authorised pursuant to section 551 of the Act to exercise all and any powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into shares of the Company up to a maximum nominal amount of £129,553 being the sum of the Placing Shares and approximately 50 per cent. of the issued share capital of the Company upon Admission. The authority shall expire (unless previously renewed, varied or revoked by the Company in general meeting) at the earlier of the conclusion of the annual general meeting of the Company next following the passing of the resolution and 15 months from the date of the resolution. The Company may, at any time prior to the expiry of the authority, make an offer or agreement which would or might require relevant securities to be allotted after expiry of the authority and the Directors may allot relevant securities in pursuance of such an offer or agreement as if the authority had not expired; and
- 2.6.2 the Directors be given power pursuant to section 570 of the Act (with such power expiring at the same time as the authority referred to in paragraph 2.6.1 above (the "**Section 551 Authority**")) to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the Section 551 Authority as if section 561 of the Act did not apply to any such allotment save that the power be limited to:
- (a) the allotment of equity securities pursuant to a rights issue or similar offer to Shareholders of the Company where the interests of all Shareholders of the Company are proportionate or as nearly as practical to the numbers of Ordinary Shares held by them; and
- (b) the allotment (otherwise than pursuant to paragraph 2.6.2(a) above) for cash of equity securities up to an aggregate nominal amount of £58,299, being the sum of the Placing Shares and approximately 15 per cent. of the issued share capital of the Company upon Admission.
- 2.7 The Placing (if subscribed for in full) will result in the issue of a total of 29,850,747 new Ordinary Shares on Admission.
- 2.8 On completion of the Placing and the Acquisition, the issued share capital of the Company will be increased by 62.3 per cent. resulting in an immediate dilution of approximately 38.4 per cent.

- 2.9 Save as set out in paragraph 10 of this Part VII, no share or loan capital of the Enlarged Group is under option or agreed conditionally or unconditionally to be put under option.
- 2.10 The Ordinary Shares will, on Admission, rank *pari passu* in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

### **3. ARTICLES OF ASSOCIATION**

The Articles, which were adopted by the Company upon incorporation on 15 July 2016, contain provisions, *inter alia*, in respect of the Ordinary Shares, general meetings of the Company and the directors to the following effect:

#### **3.1 Objects**

The articles of association of the Company contain no restrictions on the activities of the Company.

#### **3.2 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.

#### **3.3 Major shareholders**

Nothing in the Articles confers on major shareholders in the Company any voting rights which are different to those conferred on the holders of Ordinary Shares as described in paragraph 3.2 above.

Pursuant to Rule 5.1 of the Disclosure Guidance and Transparency Rules, holders of three per cent. or more of the nominal value of the Company's share capital are required to notify their holdings in writing to the Company. To the extent that persons who already hold at least three per cent. or more of the nominal value of the Company's share capital increase or decrease their holding, Rule 5.1 of the Disclosure Guidance and Transparency Rules requires that this is also notified to the Company by the shareholder.

#### **3.4 General meetings**

An annual general meeting shall be held in every year, within six months of the previous accounting period end.

Subject to a member's right to requisition a general meeting pursuant to section 303 of the Act, general meetings of the Company are convened at the discretion of the board, and with the exception of the annual general meeting, all such general meetings of the Company shall be general meetings.

An annual general meeting at which it is proposed to pass a special resolution or (except as provided by statute) a resolution of which special notice has been given to the Company, shall be called by at least 21 clear days' notice in writing. All general meetings shall be called by at least 14 clear days' notice to the Company regardless of the type of resolution being passed (under section 307(1) of the Act). A notice must be served on a member in accordance with the provisions of the Act, that is, in hard copy form, or where the member has consented or is deemed to have consented under the Act, in electronic form or via a website. If the notice contains an electronic address for the Company, a member may send any document or information relating to the relevant general meeting to that electronic address. Notice shall be given to all members and the directors and the auditors.

A notice sent to a member by electronic communication shall be deemed to be served on the day it was sent. A notice sent by post to an address in the United Kingdom shall be deemed served one day after (or two days after if sent by second class mail) the date of posting.

### 3.5 **Alteration of share capital**

The Company may, from time to time, by ordinary resolution increase its share capital, by the creation of new shares, such increase to be of such aggregate amount and to be divided into shares of such respective amounts as the resolution may prescribe. Subject to such privileges, priorities or conditions as are or may be attached thereto, all new shares shall be subject to the same provisions in all respects as if they had been part of the original capital. The Company may by ordinary resolution consolidate and divide its shares, or any of them, into shares of a larger amount. The Company may by ordinary resolution divide all or any of its share capital into shares of a larger amount, sub-divide all or any of its shares into shares of a smaller amount and cancel any shares not taken or agreed to be taken by any person.

The Company may, by ordinary resolution, cancel any shares which at the date of the passing of the resolution have not been taken (or are subject to agreement to take) and diminish the amount of its share capital by the nominal amount of the shares so cancelled. The Company may, from time to time, by special resolution reduce its share capital, any capital redemption reserve and any share premium account in any manner authorised, and with and subject to any incident prescribed or allowed by the Act and the rights attached to existing shares. In accordance with the provisions of Act, the Company may purchase its own shares (including redeemable shares).

### 3.6 **Variation of rights**

Subject to the Act and every other statute for the time being in force concerning companies and affecting the Company (the “**Statutes**”), if at any time the capital of the Company is divided into different classes of shares, all or any of the rights and privileges attached to any class of share may be varied or abrogated either:

3.6.1 in such a manner (if any) as may be provided by the rights attaching to such class; or

3.6.2 in the absence of any such provision, with the consent in writing of the holders of at least 75 per cent. of the nominal amount of the shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. At any such separate meeting at least two members present in person or by proxy holding or representing at least one third of the issued shares of the class in question shall be a quorum.

The creation or issue of shares ranking *pari passu* with or subsequent to the shares of any class shall not (unless otherwise expressly provided by the Articles or the rights attached to such last-mentioned shares as a class) be deemed to be a variation of the rights of such shares. A reduction of the capital paid up on any shares of any class will not be deemed to constitute a variation or abrogation of the rights attached to those shares. A purchase or redemption by the Company of any of its own shares in accordance with the provisions of the Statutes and of the Articles shall not be deemed to be a variation of the rights attaching to any shares.

### 3.7 **Redemption**

The Company may, by special resolution and subject to the Statutes, create shares which are liable to be redeemed. As at the date of this document, there are no shares in issue which are capable of being redeemed by the Company.

### 3.8 **Conversion**

The Company may from time to time, by ordinary resolution and subject to the Statutes, convert all or any of its fully-paid shares into stock of the same class and denomination and may from time to time in like manner reconvert such stock into fully paid up shares of the same class and denomination.

### 3.9 **Distribution of assets on a winding up**

In the event of liquidation of the Company the holders of shares are entitled *pari passu* to any surplus dividends. A liquidator may, with the sanction of a special resolution, divide the assets among the members in specie.

### 3.10 **Transfer of shares**

The Ordinary Shares are in registered form and may be in certificated or uncertificated form. Ordinary Shares in uncertificated form may be transferred otherwise than by written instrument in accordance

with the Statutes and relevant subordinate legislation and the Company shall register any such transfer in accordance with the Statutes.

Transfers of shares in certificated form may be effected by instrument in writing in any usual or common form or in any other form approved by the directors. Any instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the shares until the name of the transferee is entered in the Company's register of members.

The directors may, in their absolute discretion (but subject to any rules or regulations of the London Stock Exchange or any rules published by the FCA applicable to the Company from time to time) and without assigning any reason therefore, refuse to register the transfer of a share which is in respect of a share which is not fully paid, or which is in favour of more than four transferees, or which is in respect of more than one class of shares, or which has not been presented for registration duly stamped accompanied by the share certificate(s) for the shares to which the transfer relates and/or such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer.

### 3.11 **Dividends and other distributions**

Subject to the provisions of the Statutes, the Company may by ordinary resolution declare dividends to be paid to the members according to their respective rights and interests in the profits of the Company, but not exceeding the amount recommended by the directors.

No dividends or moneys payable by the Company in respect of a share shall bear interest as against the Company unless otherwise provided by the rights attached to the share.

The directors may (subject to the Statutes) pay interim dividends if it appears to them that they are justified by the profits of the Company available for distribution.

Except as otherwise provided by the Articles or the rights attached to any shares issued by the Company, the holders of shares are entitled *pari passu* amongst themselves to share in the whole of the profits of the Company paid out as dividends and the whole of any surplus in the event of liquidation of the Company.

A liquidator may, with the sanction of an ordinary resolution, divide the assets among the members in specie. The directors shall give effect to any such resolution provided that no such distribution shall be made unless recommended by the directors.

The directors may, with the sanction of an ordinary resolution, offer the shareholders or any class of them (other than those not entitled to the relevant dividend or dividends) the right to elect to receive new Ordinary Shares, credited as fully paid, instead of cash in respect of the whole or part of any dividend or dividends which are the subject of the ordinary resolution.

All unclaimed dividends, interest or other sums payable on or in respect of a share, may be invested or otherwise made use of by the directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. Any dividend which is unclaimed for a period of 12 years from the date on which the dividend became due for payment shall be forfeited and cease to remain owing by the Company.

### 3.12 **Borrowing powers**

Subject to the provisions of the Act and as provided in the Articles, the directors may exercise all the powers of the Company to borrow or raise money, to mortgage or charge all or any part of its undertaking, property and assets (both present and future) and uncalled capital and to issue bonds, debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or its parent undertaking (if any) or any subsidiary undertaking of the Company or of any third party, in each case on such terms as they may in their absolute discretion think proper.

The directors shall restrict the borrowings of the Company and the borrowings of any of its subsidiary undertakings and exercise all voting and other rights or powers of control exercisable by the Company

in relation to its subsidiary undertakings so as to secure (as regards subsidiary undertakings so far as by such exercise they can secure) that the aggregate principal amount for the time being outstanding (after adjustments provided for in the Articles) at any one time owing by the Group (being the Company and all its subsidiary undertakings from time to time) in respect of monies borrowed, exclusive of moneys borrowed by the Company or any of its subsidiary undertakings from any other of such companies, as determined in accordance with the Articles, shall not at any time without the previous sanction of an ordinary resolution of the Company exceed the greater of £25,000,000 or an amount equal to three times the aggregate of:

- 3.12.1 the amount paid up on the Company's issued share capital; and
- 3.12.2 the total amount standing to the credit of the consolidated reserves of the Group whether distributable or undistributable and including (without limitation) share premium account, capital redemption reserve and profit and loss account as shown in a consolidation of the latest audited balance sheets of the group but adjusted as may be necessary to take account of such deductions as are specified in the Articles.

### 3.13 **Constitution of board of directors**

The minimum number of directors shall not be less than two and unless and until otherwise determined by the Company in general meeting shall not be subject to any maximum. No shareholder qualification is required of any director.

### 3.14 **Retirement of directors by rotation**

At every annual general meeting, any director appointed by the directors since the last annual general meeting and any director who was not appointed or reappointed at one of the previous two annual general meetings shall retire and offer themselves for reappointment by the members.

### 3.15 **Remuneration of directors**

The fees to be paid to the directors shall be determined by the Remuneration Committee of the Company from time to time. Such fees shall be divided among such directors in such proportion or manner as may be determined by the directors and, in default of determination, equally. A fee payable to a director pursuant to the Articles is distinct from any salary, remuneration or other amount payable to him pursuant to other provisions of the Articles and accrues from day to day.

Each director may also be paid all reasonable travelling, hotel and other expenses properly incurred by him in respect of or about the performance of his duties as director including any expenses incurred in connection with his attendance at meetings of the directors or committees of the directors of the Company or otherwise in the discharge of his duties as a director.

Any director who holds any executive office or who serves on any committee or who devotes special attention to the business of the Company or who otherwise performs services which, in the opinion of the directors, are outside the scope of the ordinary duties of a director, may be paid such extra remuneration by way of salary, lump sum, participation in profits or otherwise as the directors determine.

### 3.16 **Permitted interests of directors**

Subject to the provisions of the Statutes, a director is not disqualified from his office by entering into any contract, arrangement, transaction or proposal with the Company in any manner, nor is any contract, arrangement, transaction or proposal in which he is interested or in which he has entered into by or on behalf of the Company in which any director or person connected with him is in any way interested, whether directly or indirectly, liable to be avoided, and any director who enters into any such contract, arrangement, transaction or proposal or is so interested is not liable to account to the Company for any profit realised by any such contract, arrangement, transaction or proposal by reason of the director holding that office or of the fiduciary relationship thereby established but the nature and extent of his interest shall be disclosed by him in accordance with the provisions of the Statutes.

A director may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his office of director and may act by himself or through his firm in a professional capacity for the Company (other than as auditor) on such terms as to tenure of office, remuneration

or otherwise as the directors may determine. A director may also hold office as a director or other officer or be otherwise interested in any other company of which the Company is a member or in which the Company is otherwise interested and shall not be liable to account to the Company for any remuneration or other benefits received by him from that company.

### 3.17 **Restrictions on voting by directors**

Save as provided below, a director shall not vote on or in respect of any contract, arrangement, transaction or any other proposal in which he (together with any person connected with him) has a material interest otherwise than by virtue of his interest in shares or debentures or other securities of or otherwise in or through the Company. A director shall not be counted in the quorum at a meeting in relation to any resolution on which he is debarred from voting.

A director shall not vote or be counted in the quorum on any resolution concerning his own appointment as the holder of any office or place of profit with the Company or any company in which the Company is interested (including, without limitation, fixing or varying the terms of his appointment or the termination or extension thereof).

A director shall (in the absence of some other material interest than is indicated below) be entitled to vote and be counted in the quorum in respect of any resolution concerning any of the following matters:

- 3.17.1 the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- 3.17.2 the giving of any security, guarantee or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he has assumed responsibility in whole or in part either alone or jointly with others, under a guarantee or indemnity or by the giving of security;
- 3.17.3 any proposal, contract, arrangement or transaction concerning a placing of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which placing he is or is to be interested as a holder of securities or as a participant in the undertaking or sub-underwriting thereof;
- 3.17.4 any contract, arrangement, transaction or other proposal concerning any other company in which he is interested, directly or indirectly and where as an officer or member or otherwise howsoever provided that he (together with any person connected (within the meaning of section 252 of the Act) with him) is not the holder of or interested in shares representing one per cent. or more of any class of the equity share capital or voting rights;
- 3.17.5 any contract, arrangement, transaction or other proposal concerning the adoption, modification or operation of a pension, superannuation or similar fund or scheme, a retirement, death or disability benefits fund or scheme or an employees' share scheme which has been approved by or is subject to and conditional upon approval by HMRC for taxation purposes or does not accord to any director as such any privilege or benefit not generally awarded to the employees to whom such arrangement relates; and
- 3.17.6 any proposal concerning the grant, purchase and/or maintenance of insurance against any liability of any directors.

### 3.18 **Squeeze-out rules, sell-out rules and takeover bids**

#### 3.18.1 *Squeeze-out*

Under the Act, if an offeror makes a takeover offer for the Company and successfully acquired (or unconditionally contracted to acquire) 90 per cent. in value of the shares to which the offer relates and not less than 90 per cent. of the voting rights carried by those shares, it could then compulsorily acquire the remaining shares. It would do so by sending a notice to outstanding shareholders, within three months of the last day of which the offer can be accepted, telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily



acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

### 3.18.2 *Sell-out*

The Act also gives minority shareholders a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If a takeover offer related to all the shares in the Company and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. in value of all voting shares in the Company, which carry not less than 90 per cent. of the voting rights, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares.

The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

3.18.3 There have been no public takeover bids by third parties in respect of the Company's equity in the current financial year or the previous financial year.

## 4. DIRECTORS' INTERESTS

4.1 The following persons are directors of the Company:

Stephen Hemsley (*Executive Chairman*)  
 Tim Harris (*Chief Executive Officer*)  
 Julia Choudhury (*Corporate Development Director*)  
 Robin Auld (*Marketing Director*)  
 Nigel Wray (*Non-Executive Director*)  
 David Poutney (*Non-Executive Director*)  
 Rob Bellhouse (*Non-Executive Director*)

4.2 As at the date of this document and immediately following Admission, the interests of the Directors in the issued share capital of the Company (including related financial products as defined in the AIM Rules), including the interests of each Director's family (which shall bear the meaning given to it as set out in the AIM Rules) (all of which are beneficial), the existence of which is known or which could, with reasonable diligence, be ascertained by a Director are, and on Admission, are proposed to be, as follows:

<i>Director</i>	<i>At the date of this document</i>		<i>Upon Admission</i> <sup>(6)</sup>		
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Share Capital</i>	<i>Number of Placing Shares</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Stephen Hemsley <sup>(1)</sup>	13,000,431	27.15	7,462,686	20,463,117	26.33
Tim Harris	999,762	2.09	59,522	1,059,284	1.36
Julia Choudhury <sup>(2)</sup>	1,010,229	2.11	194,029	1,204,258	1.55
Robin Auld <sup>(3)</sup>	908,882	1.90	37,313	946,195	1.22
Nigel Wray <sup>(4)</sup>	14,080,434	29.41	7,462,686	21,543,120	27.71
David Poutney <sup>(5)</sup>	606,060	1.27	1,417,910	2,023,970	2.60
Rob Bellhouse	45,455	0.09	37,313	82,768	0.11

1. Included in the holding of Stephen Hemsley at the date of this document, and upon Admission, 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.

2. Included in the holding of Julia Choudhury at the date of this document 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 Julia Choudhury upon Admission are 381,819 Ordinary Shares held jointly with Robin Choudhury, 411,985

Ordinary Shares held by her Self Invested Personal Pension and 37,313 Ordinary Shares held by Winsham Capital Partners Ltd, a Company controlled by Julia Choudhury and Robin Choudhury.

3. Included in the holding of Robin Auld at the date of this document are 75,758 Ordinary Shares held by his Self Invested Personal Pension. Included in the holding of Robin Auld upon Admission are 113,071 Ordinary Shares held by his Self Invested Personal Pension.
  4. Included in the holding of Nigel Wray at the date of this document are 14,026,380 Ordinary Shares held by Damor Investments Limited acting as nominee for RBC Trustees (CI) Limited as trustee of Mr Wray's family trust. Included in the holding of Nigel Wray upon Admission are 21,489,066 Ordinary Shares held by Damor Investments Limited acting as nominee for RBC Trustees (CI) Limited as trustee of Mr Wray's family trust.
  5. Held as at the date of this document and upon Admission, as to 50 per cent. via David Poutney's Self Invested Personal Pension and 50 per cent. via his wife's Self Invested Personal Pension.
  6. Assuming that the Placing is subscribed for in full.
- 4.3 Save as disclosed above, and with regards to options in paragraph 10.16 of this Part VII, none of the Directors nor any member of his immediate family or any person connected with him holds or is beneficially or non-beneficially interested directly or indirectly, in any shares or options to subscribe for, or securities convertible into, shares of the Company.
- 4.4 In respect of the Directors, there are no conflicts of interest between any duties they have to the Company and their private interests and/or other duties they may have.
- 4.5 There are no arrangements or understandings with major Shareholders, customers, suppliers or others, pursuant to which any Directors were selected as member(s) of the Board.
- 4.6 There are no outstanding loans granted by any member of the Enlarged Group to the Directors or any guarantees provided by any member of the Enlarged Group for the benefit of the Directors.
- 4.7 No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or which is or was significant to the business of the Enlarged Group and which was effected by any member of the Enlarged Group during the current or immediately preceding financial year, or which was effected during an earlier financial year and remains in any respect outstanding or unperformed.

## **5. DIRECTORS' TERMS OF APPOINTMENT**

- 5.1 The Company has entered into the agreements and letters of appointment described at paragraphs 5.1.1 to 5.1.7 below:
- 5.1.1 a service agreement dated 1 August 2016 (as varied on 15 March 2017) between (1) the Company and (2) Stephen Hemsley whereby Stephen Hemsley was appointed as Executive Chairman of the Company with effect from 5 August 2016. The service agreement may be terminated by either party serving at least six months' written notice on the other. The agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual salary payable to Stephen Hemsley will be £100,000 per annum to be reviewed annually (without any obligation to increase the same) with effect from 1 May 2017. The service agreement contains restrictive covenants for a period of 12 months following termination of employment;
  - 5.1.2 a service agreement dated 1 August 2016 (as varied on 15 March 2017) between (1) the Company and (2) Tim Harris whereby Tim Harris was appointed as Chief Executive Officer of the Company with effect from 5 August 2016. The service agreement may be terminated by either party serving at least nine months' written notice on the other. The service agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the service agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual salary payable to Tim Harris will be £120,000 per annum to be reviewed annually (without any obligation to increase the same) with effect from 1 May 2017. In addition the agreement provides for Tim Harris to receive certain benefits, including healthcare, death in service, a monthly car allowance and a 12 per cent. pension contribution. The service agreement contains restrictive covenants for a period of 12 months following termination of his employment;

- 5.1.3 a letter of appointment dated 1 August 2016 (as varied on 15 March 2017) between (1) the Company and (2) Nigel Wray whereby Nigel Wray was appointed as Non-Executive Director of the Company with effect from 5 August 2016. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by either party serving at least three months' written notice on the other. The agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual fee payable to Nigel Wray will be £20,000 per annum to be reviewed annually (without any obligation to increase the same) with effect from 1 May 2017. There is no right to any further benefits;
- 5.1.4 a service agreement dated 1 August 2016 (as varied on 15 March 2017) between (1) the Company and (2) Julia Choudhury whereby Julia Choudhury was appointed as Corporate Development Director of the Company with effect from 5 August 2016. Julia Choudhury's employment is based on an average of 25 hours' work per week. The service agreement may be terminated by either party serving at least six months' written notice to the other. The service agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the service agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual salary payable to Julia Choudhury will be £85,000 per annum to be reviewed annually without any obligation to increase the same, with effect from 1 May 2017. The service agreement contains restrictive covenants for a period of 12 months following termination of her employment;
- 5.1.5 a service agreement dated 1 August 2016 (as varied on 14 March 2017) between (1) the Company and (2) Robin Auld whereby Robin Auld was appointed as Marketing Director of the Company with effect from 5 August 2016. Robin Auld's employment is based on an average of 25 hours' work per week. The service agreement may be terminated by either party serving at least six months' written notice to the other. The service agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the service agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual salary payable to Robin Auld will be £85,000 per annum to be reviewed annually without any obligation to increase the same, with effect from 1 May 2017. The service agreement contains restrictive covenants for a period of 12 months following termination of his employment;
- 5.1.6 a letter of appointment dated 1 August 2016 (as varied on 13 March 2017) between (1) the Company and (2) David Poutney whereby David Poutney was appointed as Non-Executive Director of the Company with effect from 5 August 2016. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by either party serving at least three months' written notice on the other. The agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual fee payable to David Poutney will be £25,000 per annum to be reviewed annually (without any obligation to increase the same) with effect from 1 May 2017. There is no right to any further benefits; and
- 5.1.7 a letter of appointment dated 1 August 2016 (as varied on 15 March 2017) between (1) the Company and (2) Rob Bellhouse whereby Rob Bellhouse was appointed as Non-Executive Director of the Company with effect from 5 August 2016. The agreement is for an initial fixed term of 12 months and thereafter may be terminated by either party serving at least three months' written notice on the other. The agreement contains provisions for early termination in the event, *inter alia*, of a breach of a material term of the agreement by the director and, where such breach is capable of remedy, the director fails to remedy the breach within 30 days of notice provided by the Board or where the director ceases to be a director of the Company for any reason. The basic annual fee payable to Rob Bellhouse will be £25,000

per annum to be reviewed annually (without any obligation to increase the same) with effect from 1 May 2017. There is no right to any further benefits.

- 5.2 In the financial year to 31 December 2016, Julia Choudhury was paid, in addition to her salary, consultancy fees of £35,000 for additional work carried out for the Group, paid to Winsham Capital Partners Limited, an entity controlled by Julia Choudhury. Further, since 31 December 2016 Julia Choudhury has received £25,000 of consultancy fees and is due to receive additional consultancy fees of £25,000 upon Admission, for her services in connection with the Acquisition and Admission.
- 5.3 In the financial year to 31 December 2016, Robin Auld was paid, in addition to his salary, consultancy fees of £25,000, for additional work carried out for the Group, paid to Auld Associates Limited, an entity controlled by Robin Auld.
- 5.4 Save as set out in paragraphs 5.1 and 5.2 of this Part VII there are no service contracts or consultancy agreements between any of the Directors and the Company or any of its subsidiaries and no such contract has been entered into or amended or replaced within the six months preceding the date of this document and no such contracts are proposed.
- 5.5 The Directors receive no Ordinary Shares or options over Ordinary Shares in lieu of remuneration or as any form of compensation.
- 5.6 Other than as disclosed in this paragraph 5, no member of the Group is party to any service contract with any of the Group's directors which provides for benefits on the termination of any such contract.
- 5.7 No Director has any accrued pension or retirement benefits.
- 5.8 There is no arrangement under which any Director has waived or agreed to waive future emoluments.
- 5.9 In the year ended 31 December 2016, the total aggregate remuneration paid, and benefits-in-kind granted, to the Directors was £328,000. The amounts payable to the Directors by the Group under the arrangements in force at the date of this document in respect of the year ended 31 December 2017 are estimated to be £460,000 (excluding any discretionary payments which may be made under these arrangements).

## 6. ADDITIONAL INFORMATION ON THE DIRECTORS

- 6.1 Other than directorships of companies within the Group, the Directors have held the following directorships or been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current</i>	<i>Past</i>
Stephen Hemsley	Domino's Pizza Group Plc Domino's Pizza UK & Ireland Limited DPG Holdings Limited Full House Restaurants Holdings Limited Full House Restaurants Limited Mariquita LLP Palladio Property Ltd Rowborough Shooting Club Limited Solent Capital Partners Ltd Waverton Property LLP Wey Bridging Limited (in liquidation)	American Pizza Company Limited (The) (dissolved) Cranham Properties Limited (dissolved) Domino's Leasing Limited Dominoid Limited DP Capital Limited DP Group Developments Limited DP Milton Keynes Limited DP Newcastle Limited DP Realty Limited Live Bait Limited (dissolved) Mungo Park Limited
Tim Harris	Globecomm Marine UK Limited	None

<i>Director</i>	<i>Current</i>	<i>Past</i>
Nigel Wray	18 Cavendish Square Limited	Domino's Pizza Group Plc
	Annabel Karmel Group Holdings Limited	Ebiox Limited
	Apogee Group Limited	Environ Group (Investments) Plc
	BM Holdco Limited	Global Sports Foundation (now called Beyond Sport Foundation)
	Brendon Street Investments Limited	Lean Forward Limited (in administration)
	Brendon Street Securities Limited	Networkers International Limited
	Chapel Down Group Plc (formerly English Wines Group Plc)	Networkers International (UK) Limited
	Eurobeck Limited	Platbay Limited (dissolved)
	Euroblue Investments Limited	Play Holdings Limited
	Foundation For Leadership Through Sport Company	RT Marketing Limited
	Saracens Cophall LLP	Seymour Pierce Holdings Limited (in administration)
	Glengrace Limited	Sonoma Limited
	Hera Investments Limited	Torridon (Gibraltar) Limited
	Hy-Pro Group Limited	
	Hy-Pro International Limited	
	Juno Investments Limited	
	Lesray Holdings Limited	
	Lesray LLP	
	Moneypitch Company Limited	
	PIHL Equity Administration Limited	
	PIHL Equity Assessments Limited	
	PIHL Equity Holdings Limited	
	PIHL Equity LLP	
	PIHL Property Administration Limited	
	PIHL Property Holdings Limited	
	PIHL Property LLP	
	Premier Team Holdings Limited	
	Premier Team Promotions Limited	
	Prestbury 1 Limited	
	Partnership	
	Prestbury Investment Holdings Limited	
	Prestbury Investments LLP	
	Prestbury (Scotland) Limited	
	Partnership	
	Prestbury Two LLP	
	Saracens Limited	
	Saracens Property Investments LLP	
	Syncbeam Limited	
	Torridon Capital Limited	
	Wey Bridging Limited (in liquidation)	
	Portico Holdco Limited (in dissolution)	

<i>Director</i>	<i>Current</i>	<i>Past</i>
Julia Choudhury	Paladin Partners Limited Winsham Capital Partners Ltd	None
Robin Auld	Auld Associates Limited	Wood Green Animal Shelters Deliverance Limited
David Poutney	3B Capital Limited Be Heard Group plc Dowgate Capital Stockbrokers Limited	Numis Corporation plc Numis Securities Limited
Rob Bellhouse	Governance Professionals Limited	ACGE Investments Limited AfiOre Botswana (PTY) Limited AfiOre Exploration (Namibia) (PTY) Limited AfiOre International (Barbados) Limited AfiOre Kenya Limited AfriOre Limited AfiOre Precious Metals Holdings Inc. Canada Inc 4321677 (previously Lonmin Investments Canada Inc) Canada Inc 6529241 (previously Lonmin Investments Canada Inc) DAHT Limited D A Hall Trading Limited Domino's Leasing Limited Domino's Pizza (Isle of Man) Limited Domino's Pizza West Country Limited Domino's Pizza UK & Ireland Limited DP Capital Limited DPG Holdings Limited DP Group Developments Limited DP Newcastle Limited DP Realty Limited Gabon Mining Corporation Greataward Limited Kwagga Gold (Barbados) Limited London Australian & General Property Company Limited London City & Westcliff Properties Limited Lonmin Bahamas Hotels Limited

<i>Director</i>	<i>Current</i>	<i>Past</i>
Rob Bellhouse ( <i>continued</i> )		Lonmin Finance Limited Lonmin Mining Company Limited Lonmin Mining Supplies Limited Lonmin Mozambique Oil Holdings Limited Lonmin (Northern Ireland) Limited Lonmin Textiles Limited Lonwest Properties Limited LSA (U.K.) Limited Metals Technology Inc. MLS Limited MNG Investments Limited Plat-Tech PTY Limited Scottish and Universal Investments Limited Societe Gabonaise de Developpement Minier Southern Platinum (Cayman Islands) Corp The African Investment Trust, Limited TOBS Limited Topmast Estates Limited Western Metal Sales Limited

6.2 Save as disclosed in paragraph 6.3 below, none of the Directors has:

- 6.2.1 any unspent convictions in relation to indictable offences;
- 6.2.2 been subject to any bankruptcies or individual voluntary arrangements;
- 6.2.3 been a director of a company which has been placed in receivership, compulsory liquidation creditors' voluntary liquidation, administration, been subject to a company voluntary arrangement or any composition or arrangement with its creditors generally or any class of its creditors, whilst he was a director of that company or within the 12 months after he had ceased to be a director of that company;
- 6.2.4 been a partner in any partnership which has been placed in compulsory liquidation, administration or been the subject of a partnership voluntary arrangement, whilst he was a partner in that partnership or within the 12 months after he ceased to be a partner in that partnership;
- 6.2.5 been the owner of any asset which has been placed in receivership or a partner in any partnership which has been placed in receivership whilst he was a partner in that partnership or within the 12 months preceding such events;
- 6.2.6 been publicly criticised by any statutory or regulatory authorities (including designated professional bodies); or
- 6.2.7 been disqualified by a court from acting as a director of any company or from acting in the management or conduct of the affairs of a company.

6.3 Stephen Hemsley and Nigel Wray were directors of Wey Bridging Limited (registered number 05764687), a company which provided loans to property developers and investors. It entered into administration on 25 November 2010 and passed into a creditors' voluntary liquidation on 2 November 2011. As a result of legal proceedings brought by Mr Hemsley and others against certain directors of Wey Bridging Limited and their associates, a High Court judgment was made in July 2013

of fraudulent activities by the defendants. There are ongoing civil and criminal investigations against the defendants and others.

Mr Hemsley was a director of Clean Team (Windows) Limited (registered number 05014305) when the company was put into a voluntary creditors' liquidation on 5 May 2009. According to a statement of affairs dated 5 May 2009, the company as at that date estimated a deficiency to creditors of approximately £178,712. The estimated total deficiency as regards members was approximately £178,718.

Mr Hemsley was a director of MyHome Systems Ltd (registered number 04459072) when the company was put into administration on 16 January 2009. According to a statement of affairs dated 21 May 2009, the company as at the date of administration estimated a deficiency to creditors of approximately £3,254,433. The estimated total deficiency as regards members was approximately £3,254,434.

Mr Hemsley was a director of Webb Computer Services Limited (registered number 02779833), Webb Corporation Limited (registered number 02961335) and Webb International Limited (registered number 02964352) when an administrative receiver was appointed to the companies in August 1997.

Mr Wray was a director of Lean Forward Limited (registered number 05892768) until 27 August 2015. The company went into administration on 30 June 2016.

Mr Wray was a director of Seymour Pierce Holdings Limited (registered number 04719360) until 31 May 2012. The company went into administration on 8 February 2013.

Mr Wray was a director of Environ Group (Investments) Plc (registered number 05341974) (formerly Southern Bear plc until 9 September 2010) until 7 February 2012. The company was placed into administration on the following day. According to a statement of affairs dated 8 March 2012, the company as at the date of administration estimated a deficiency to creditors of approximately £5,779,416. The estimated total deficiency as regards members was approximately £11,348,963.

Mr Wray was a director of British Seafood Distribution Group Holdings Limited (registered number 06451732) when the company went into administration on 1 March 2010. According to a statement of affairs dated 19 April 2010, the company as at the date of administration estimated a deficiency as regards members of approximately £6,142,841.

Mr Wray was a director of Oakdene Homes plc (registered number 03608522) until 23 January 2009. The company was placed into administration on the same date. According to a statement of affairs dated 28 August 2009, the company as at the date of administration estimated a deficiency to creditors of approximately £49,791,282. The estimated total deficiency as regards members was approximately £50,293,139.

Mr Wray was a director of Degwell Properties Limited until dissolution of the company on 25 June 1981. Prior to its dissolution, the company had been the subject of a receivership.

Mr Wray was a director of Landfall Securities (Andover) Limited until dissolution of the company on 1 May 1981. Prior to its dissolution, the company had been the subject of a receivership.

- 6.4 Save as disclosed in this document, no Director has or has had any interest in any transaction which is or was significant in relation to the business of the Enlarged Group and which was effected during the current or immediately preceding financial period or which was effected during an earlier financial period and remains outstanding or unperformed.
- 6.5 None of the Directors nor any member of a Director's family is interested in any related financial product (as defined in the AIM Rules) whose value in whole or in part is determined directly or indirectly by reference to the price of the Ordinary Shares, including a contract for differences or a fixed odds bet.



## 7. MAJOR SHAREHOLDERS

- 7.1 Insofar as is known to the Company and in addition to the holdings of the Directors disclosed in paragraph 4 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), on Admission, to hold directly or indirectly three 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	6.27	3,000,000	3.86

- 7.2 None of the Company's major holders of Ordinary Shares listed above has voting rights different from the other holders of Ordinary Shares.
- 7.3 Save as disclosed in paragraph 4 above and in this paragraph 7, and insofar as is known to the Company, the Directors are not aware of any person or persons who either alone or, if connected, jointly following Admission, will (directly or indirectly) exercise or could exercise control over the Company.
- 7.4 Save as far as is known to the Directors, no arrangements are in place, the operation of which may at a later date result in a change of control of the Company.

## 8. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Enlarged Group within the two years immediately preceding the date of this document and are, or may be, material:

### 8.1 Franchise Brands Group

- 8.1.1 the Placing Agreement, further details of which are contained in paragraph 11 of this Part VII;
- 8.1.2 the Acquisition Agreement, whereby the Company agreed to purchase, conditional *inter alia* upon Admission and the Placing Agreement and Facilities Agreement becoming unconditional in all respects, the entire issued share capital of Metro Rod in consideration for the payment to the Vendor of £28,000,000 subject to adjustment to reflect the working capital position of Metro Rod on completion. Warranties and indemnities, in respect of certain aspects of Metro Rod's business, have been given by the Vendor together with non-compete undertakings. The liability of the Vendor under these warranties and indemnities is, save for fraud, capped at an amount equal to £143,505. The warranties and indemnities are subject to customary financial thresholds, time limitations and other limitations and exclusions. The Company has obtained warranty and indemnity insurance in respect of such warranties and indemnities with a maximum sum insured of £10 million. The Vendor has also agreed to provide non-compete covenants to protect the goodwill of Metro Rod;
- 8.1.3 a transitional services agreement dated 22 March 2017 made between (1) the Vendor, (2) the Company and (3) Metro Rod whereby the Vendor has agreed to provide certain information technology and other services and access to certain systems to the Company and Metro Rod for a period of five months from the date of completion of the Acquisition Agreement;
- 8.1.4 the Facilities Agreement pursuant to which HSBC has agreed to make available to the Company a term loan of £12 million and a revolving credit facility of £5 million. The Term Loan is repayable over a period of five years commencing six months after the date of drawdown and repayment of the RCF is based on the dates on which amounts of the RCF are drawn. The Facilities Agreement is conditional on Stephen Hemsley and Nigel Wray holding, in aggregate, Ordinary Shares representing over 30 per cent. of the Company's issued share capital. The Term Loan and the RCF are subject to an initial interest rate of

2.6 per cent. The Company agrees to pay a commitment fee and arrangement fee to HSBC and to give certain financial covenants, which include covenants relating to interest cover, leverage and debt service coverage, and other customary covenants. The Term Loan and the RCF are repayable on a change of control (as defined in the Facilities Agreement) of the Company;

- 8.1.5 a guarantee dated 22 March 2017 made between (1) the Company and the Subsidiaries and (2) HSBC pursuant to which the obligations of each other to HSBC pursuant to the Facilities Agreement are guaranteed;
- 8.1.6 a debenture dated 22 March 2017 made between (1) the Company and each of the Subsidiaries and (2) HSBC pursuant to which the obligations of the Company and each of the Subsidiaries to HSBC pursuant to the Facilities Agreement are secured over all of the assets and undertaking of such companies;
- 8.1.7 the Lock-in Deeds, further details of which are contained in paragraph 11.3 of this Part VII;
- 8.1.8 the Orderly Market Deed, further details of which are contained in paragraph 11.4 of this Part VII;
- 8.1.9 an agreement for services dated 23 December 2016 made between (1) the Company and (2) Below and Below Limited (the “**Consultancy**”) whereby the Consultancy agreed to provide the services of Paul Below to the Company. The agreement for services may be terminated by either party serving at least four weeks’ written notice on the other. The Company shall pay the Consultancy a fee of £1,075 plus VAT per day worked. The Company shall also reimburse the Consultancy for any out of pocket expenses properly incurred;
- 8.1.10 a sale and purchase agreement dated 31 October 2016 made between (1) Richard Dancy and Lee Dancy (the “Sellers”) and (2) the Company whereby the Company agreed to purchase the entire issued share capital of Barking Mad Limited in consideration for the payment to the Sellers of £500,000 subject to adjustment to reflect the cash position of Barking Mad Limited on completion and the allotment and issue to the Sellers of 761,193 Ordinary Shares. Warranties and indemnities, in respect of certain aspects of Barking Mad Limited’s business, have been given by the Sellers together with non-compete undertakings;
- 8.1.11 a placing agreement dated 1 August 2016 made between (1) the Company, (2) Stephen Hemsley and others, (3) Allenby Capital and (4) Dowgate Capital whereby Allenby Capital and Dowgate Capital agreed as agents for the Company, to use their respective reasonable endeavours to procure subscribers for placing shares at a price of £0.33 per share. The Company agreed to pay Allenby Capital a corporate finance fee of £130,000; Dowgate Capital a fee of £25,000; and Allenby Capital and Dowgate Capital an aggregate commission of up to four per cent. of the aggregate value of the placing shares at a price of £0.33 per share. In addition, the directors at that time undertook not to, and to procure that any persons connected with them would not, effect or agree to effect any sale or other disposal of Ordinary Shares or rights to or in respect of Ordinary Shares for a period of 12 months from 5 August 2016, without the prior written consent of the Company and Allenby Capital (save in certain limited circumstances) and, for a further 12 months thereafter, to deal in their Ordinary Shares only through Allenby Capital or Dowgate Capital or such other broker of the Company, with regard to maintaining an orderly market in the Ordinary Shares. The Company and the Directors gave certain warranties and indemnities to Allenby Capital and Dowgate Capital as to the accuracy of information contained in the admission document relating to the first admission of the Ordinary Shares to trading on AIM and other matters in relation to the Company’s group at that time and its business at that time;
- 8.1.12 lock-in deeds dated 1 August 2016 made between (1) each of Netcap Limited, Sarah Hemsley, James Hemsley and Victoria Hemsley, (2) the Company and (3) Allenby Capital whereby each of Netcap Limited, Sarah Hemsley, James Hemsley and Victoria Hemsley has undertaken not to, and to procure that any persons connected with them will not, effect or agree to effect any sale or other disposal of Ordinary Shares or rights to or in respect of Ordinary Shares for a period of 12 months from 5 August 2016, without the prior written consent of the Company and Allenby Capital (save in certain limited circumstances) and,

for a further 12 months thereafter to deal in its Ordinary Shares only through Allenby Capital, Dowgate Capital or such other broker of the Company, with regard to maintaining an orderly market in the Ordinary Shares;

- 8.1.13 an orderly market deed dated 1 August 2016 made between (1) Mark Peters, (2) the Company and (3) Allenby Capital whereby Mark Peters has undertaken, for a period of 12 months following 5 August 2016, to effect, and to procure that any persons connected with him affects, any sale of Ordinary Shares only through Allenby Capital, Dowgate Capital or such other broker of the Company, with regard to maintaining an orderly market in the Ordinary Shares;
- 8.1.14 the Nominated Adviser and Broker Agreement dated 1 August 2016 made between (1) the Company, (2) Allenby Capital and (3) the directors of the Company at that time, whereby Allenby Capital has agreed to act as nominated adviser and joint broker to the Company for a minimum period of 12 months from 5 August 2016. The agreement is subject to termination on three months' notice by either party at any time after the initial 12 month period;
- 8.1.15 an agreement dated 1 August 2016 made between (1) the Company and (2) Dowgate Capital, whereby, Dowgate Capital has agreed to act as joint broker to the Company for a minimum period of 12 months from 5 August 2016. The Company will pay Dowgate Capital's out of pocket expenses. The agreement is subject to termination on three months' notice by either party at any time after the initial 12 month period;
- 8.1.16 the Loan Note Instrument, further details of which are contained in paragraph 13 of this Part VII;
- 8.1.17 a share exchange agreement dated 15 July 2016 made between (1) Stephen Hemsley and others (being the shareholders in Franchise Brands Limited at that date) and (2) the Company whereby the Company acquired the entire issued share capital of Franchise Brands Limited in exchange for ordinary shares in the capital of the Company in the same proportions as the sellers' shares in Franchise Brands Limited; and
- 8.1.18 the Relationship Agreement dated 1 August 2016 made between (1) the Company, (2) Allenby Capital, (3) Stephen Hemsley and (4) Nigel Wray pursuant to which each of Nigel Wray and Stephen Hemsley undertook to the Company that, for so long as they, individually or together, are entitled to exercise 25 per cent. or more of the rights to vote at general meetings of the Company or control the appointment of directors who are able to exercise a majority of votes at board meetings of the Company they will, *inter alia*, conduct all business with the Group on arm's length terms and on a normal commercial basis and not take any action which precludes or inhibits the Group from carrying on its business independently from them. Further details of the Relationship Agreement are contained in paragraph 13 of Part I of this document.

## 8.2 **Metro Rod**

- 8.2.1 a software assignment and licence agreement dated 22 March 2017 made between (1) the IT&T Department Limited ("IT&T"), (2) Metro Rod, (3) The Freedom Group of Companies Limited, (4) Meter U Limited and (5) Evolve Analytics Limited whereby IT&T has agreed to grant a licence to Metro Rod to use certain software developed by IT&T and to assign to Metro Rod certain intellectual property rights in customisations to the software that are used exclusively by Metro Rod.

## 9. **UNITED KINGDOM TAXATION**

- 9.1 The following paragraphs are intended as a general guide only and are based on current United Kingdom legislation and HMRC published practice as at the date of this document. Such law and practice (including, without limitation, rates of tax) is in principle subject to change at any time, possibly with retrospective effect). Except where the position of non-United Kingdom resident Shareholders is expressly referred to, these comments deal only with the position of Shareholders who are resident and, in the case of individuals, domiciled in the United Kingdom for tax purposes, who are the

beneficial owners of their Ordinary Shares and who hold their Ordinary Shares as an investment. They do not deal with the position of certain classes of Shareholders such as dealers in securities, broker-dealers, insurance companies, collective investment schemes, financial institutions, tax exempt organisations and holders that hold (either directly or indirectly) 10 per cent. or more of the shares in the Company. The following paragraphs are not exhaustive and are intended as a general guide only.

- 9.2 Any person who is in any doubt as to his or her own tax position, or is subject to taxation in a jurisdiction other than the United Kingdom, is strongly recommended to consult their professional tax adviser. Non-UK resident and non-UK domiciled Shareholders should consult their own tax advisers.
- 9.3 The position of Shareholders who are officers or employees of the Company is not considered in this section. Such Shareholders may be subject to an alternative tax regime and should therefore seek tax advice specific to their individual circumstances. The position of UK resident but non-domiciled individuals claiming the remittance basis of taxation is not considered in this section.

#### 9.4 **Taxation of Chargeable Gains**

- 9.4.1 For the purpose of UK tax on chargeable gains, the purchase of Ordinary Shares on a placing will be regarded as an acquisition of a new holding in the share capital of the Company. To the extent that a Shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so acquired will, for the purpose of tax on chargeable gains, be treated as acquired on the date of the purchase becoming unconditional.
- 9.4.2 The amount paid for the Ordinary Shares will constitute the base cost of a Shareholder's holding.
- 9.4.3 A disposal of all or any of the Ordinary Shares may, depending on the circumstances of the relevant Shareholder give rise to a liability to UK taxation on chargeable gains. Shareholders will normally be subject to UK taxation of chargeable gains, unless such holders are not UK tax resident.

##### *Individuals*

- 9.4.4 Where an individual Shareholder disposes of Ordinary Shares at a gain, capital gains tax will be levied to the extent that the gain exceeds the annual exemption (£11,100 for 2016/17) and after taking account of any exemptions and reliefs available to the individual.
- 9.4.5 For individuals, the starting rate for capital gains tax is 10 per cent. This rate applies where the individual's income and gains are less than the upper limit of the income tax basic rate band after taking into account the individual's personal allowance. The basic rate band for 2016/17 is £32,000. The amount of the personal allowance for 2016/17 is £11,000. To the extent that any chargeable gains, or part of any chargeable gain, aggregated with income arising in a tax year exceed the upper limit of the income tax basic rate band, capital gains tax will be charged at 20 per cent.
- 9.4.6 For trustees and personal representatives of deceased persons, capital gains tax on gains in excess of the current annual exempt amount (for 2016/17, £11,100 for personal representative of deceased persons and trustees for disabled persons and £5,550 for other trustees) will be charged at a flat rate of 20 per cent.
- 9.4.7 Where a Shareholder disposes of the Ordinary Shares at a loss, the loss may be available to offset against other current year gains or carried forward to offset against future gains.

##### *Companies*

- 9.4.8 Where a Shareholder is within the charge to corporation tax, a disposal of Ordinary Shares may give rise to corporation tax on a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Corporation tax is charged on chargeable gains at the rate applicable to that company which is currently 20 per cent. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax but may not create or increase any allowable loss.

## 9.5 Taxation of Dividends

9.5.1 No tax is required to be withheld from dividend payments made by the Company.

### *Individuals*

9.5.2 An individual Shareholder receiving a dividend from the Company whose total income from dividends in the relevant financial year does not exceed £5,000 will not pay any income tax on such dividend.

9.5.3 An individual Shareholder receiving a dividend from the Company whose total income from dividends in the relevant tax year does exceed £5,000 will be taxed as follows:

- (a) the individual Shareholders will not pay income tax on the first £5,000 of dividend income in any tax year;
- (b) to the extent that the individual's Total Income (as defined below) exceeds the personal allowance but does not exceed the basic rate tax band for that tax year, the individual will be liable to income tax on the Excess Dividend (as defined below) at the rate of 7.5 per cent.;
- (c) to the extent that the individual's Total Income (as defined below) exceeds the basic rate band but does not exceed the higher rate tax band for that tax year, the individual will be liable to income tax on the Excess Dividend (as defined below) at the rate of 32.5 per cent.;
- (d) to the extent that the individual's Total Income (as defined below) falls within the additional rate band for that tax year, the individual will be liable to income tax on the Excess Dividend (as defined below) at the rate of 38.1 per cent.;
- (e) **"Total Income"** means the total of the individual's dividend income and other taxable income for a tax year; and
- (f) **"Excess Dividend"** means the total of that individual's dividend income in that tax year less £5,000.

9.5.4 For the year 2016/17, the basic rate band is the first £32,000 of income in excess of any personal allowance, the higher rate band is income between £32,001 and £150,000 in excess of any available personal allowance and the additional rate band applies to income in excess of £150,000.

9.5.5 Where an individual's taxable income exceeds £100,000, their personal allowance is abated by £1 for every £2 of income such that individuals with income in excess of £122,000 will have no personal allowance.

9.5.6 Trustees of interest in possession trusts and representatives of deceased persons receiving dividends from shares are also liable to account for income tax at a rate of 7.5 per cent., unless the dividends are mandated directly to beneficiaries, in which case only the beneficiaries need to account for the income. In either case, the beneficiaries will be taxable at the rates detailed in paragraph 9.5.4. Trustees and personal representatives do not qualify for the £5,000 dividend allowance available to individuals.

### *Companies*

9.5.7 Shareholders within the charge to UK corporation tax which are "small companies" (for the purposes of UK taxation of dividends) will not generally expect to be subject to tax on dividends from the Company.

9.5.8 Other Shareholders within the charge to UK corporation tax will not be subject to tax on dividends (including dividends from the Company) so long as the dividends fall within an exempt class and certain conditions are met. In general, dividends paid on shares that are "ordinary share capital" for UK tax purposes and are not redeemable, and dividends paid to a person holding less than 10 per cent. of the issued share capital of the payer (or any class of that share capital) are examples of dividends that fall within an exempt class.

## 9.6 **Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)**

- 9.6.1 No stamp duty or SDRT will be levied on the issue of Ordinary Shares in registered form.
- 9.6.2 The transfer of shares quoted on the small companies markets, such as AIM and the NEX Exchange are not subject to SDRT or stamp duty. Accordingly, so long as the Ordinary Shares are admitted to trading on AIM, no stamp duty or SDRT will be payable on their transfer.

## 9.7 **Inheritance Tax**

- 9.7.1 Individual and trustee Shareholders domiciled or deemed to be domiciled in any part of the UK may be liable on occasions to inheritance tax (“**IHT**”) on the value of any Ordinary Shares held by them. IHT may also apply to individual Shareholders who are not domiciled in the UK although relief under a double tax convention may apply to those in this position.
- 9.7.2 Under current law, the chief occasions on which IHT is charged are on the death of the Shareholder, on any gifts made during the seven years prior to the death of the Shareholder and on certain lifetime transfers, including transfers to trusts or appointments out of trusts to beneficiaries, save in very limited and exceptional circumstances.
- 9.7.3 However, a relief from IHT known as business property relief (“**BPR**”) may apply to Ordinary Shares once these have been held for two years. This relief applies notwithstanding that the Company’s Ordinary Shares will be admitted to trading on AIM (although it does not apply to companies whose shares are listed on the Official List). BPR operates by reducing the value of shares by 100 per cent. for IHT purposes.

## 10. **EMPLOYEE SHARE INCENTIVE ARRANGEMENTS**

### 10.1 **Introduction**

- 10.1.1 The Company established a long term incentive plan in the form of a share option scheme (the “**LTIP**”) on 1 August 2016, which allows for the grant of enterprise management incentive share options, which qualify for favourable tax treatment under the provisions of Schedule 5 to Income Tax (Earnings and Pensions) Act 2003 (“**ITEPA**”) (“**EMI Options**”) and awards of non-qualifying options (together “**Awards**”).
- 10.1.2 Awards will not be transferable. Only the person to whom an Award is granted or his or her personal representatives may acquire Ordinary Shares pursuant to an Award. Benefits provided under the LTIP are not pensionable.

### 10.2 **Administration**

The Remuneration Committee has overall responsibility for the operation and administration of the LTIP.

### 10.3 **Eligibility**

- 10.3.1 In order to be granted an Award, an individual must be an employee or executive director of the Company or any of its subsidiaries (together, the “Group” or the “**Group Companies**”).
- 10.3.2 The Remuneration Committee has discretion to select the persons to whom Awards are to be granted under the LTIP.

### 10.4 **Grant of Awards**

- 10.4.1 Awards were granted on 1 August 2016 on the terms set out within this section.
- 10.4.2 No Awards will be granted under the LTIP after the tenth anniversary of the date of adoption.

### 10.5 **Form of Awards**

Awards granted under the LTIP can take the form of market value share options and/or performance share awards. Market value share options are share options granted with a strike price set at no less

than the market value of the shares on the date of grant. Performance share awards are share options with a strike price set at the nominal value of the shares. EMI Options can either be market value share options or performance share awards.

#### 10.6 **Size of EMI Options grants/plan limits**

- 10.6.1 The Company will grant EMI Options for as long as the Company satisfies the qualifying conditions set out in the EMI Code (as defined in Section 527(3) of ITEPA).
- 10.6.2 Under the EMI Code, an employee may hold EMI Options over Ordinary Shares with a value (as at the date of grant) of up to £250,000. Where this threshold is exceeded, the employee may not receive EMI Options for three years. He may, however, receive non-qualifying Awards, subject to the limit in paragraph 10.7 below.
- 10.6.3 Unless the Remuneration Committee otherwise determines, the aggregate number of Ordinary Shares over which Awards may be granted under the LTIP on any date shall be limited so that the total number of Ordinary Shares issued and issuable pursuant to Awards granted under the LTIP and any other share scheme operated by the Company in any rolling 10 year period will be restricted to 15 per cent. of the Company's issued Ordinary Share capital from time to time calculated at the relevant time.
- 10.6.4 Treasury shares count towards this limit, as do Ordinary Shares issued to the trustee of an employees' trust. However, Ordinary Shares issued to the trustee of an employees' trust are not counted a second time if those shares are subsequently placed under option or used to satisfy Awards. No account will be taken of Ordinary Shares which an employees' trust purchases in the market or of Awards which have lapsed, been surrendered or otherwise become incapable of exercise or vesting.

#### 10.7 **Individual Limits**

The value of Ordinary Shares over which an employee or executive director may be granted Awards under the LTIP in any financial year of the Company shall not exceed the higher of 200 per cent. of his basic rate of salary at the date of grant and £250,000.

#### 10.8 **Performance Targets**

- 10.8.1 The Remuneration Committee may impose objective targets which will determine the extent to which Awards will vest. The performance targets will be set out in the option agreement.
- 10.8.2 Targets for Awards granted to executive directors and senior employees on 1 August 2016 are based on earnings per share growth in line with the Company's forecast prior to 5 August 2016, as set out in paragraph 10.16 below.
- 10.8.3 In the event that a performance condition is imposed, it must be fulfilled prior to the exercise of the Award. An Award will lapse, without opportunity for retesting, to the extent that a performance condition is not met. However, the Remuneration Committee has discretion to amend, substitute or waive performance conditions if it considers that this is appropriate.

#### 10.9 **Vesting of Awards**

- 10.9.1 Awards will vest on the third anniversary of the date of grant to the extent that the performance targets have been met. Vested Awards are generally exercisable between the third and tenth anniversaries of the date of grant.
- 10.9.2 Awards may vest earlier:
- (a) if the participant ceases to be in employment due to the reasons described in paragraph 10.10 below, Awards may be exercised taking into account the extent that the performance targets (adjusted to take account of the shorter period from grant) have been met and scaled down to reflect the proportion of the performance period that has elapsed; or
  - (b) if the Company is acquired by a third party, Awards may then be exercised to the extent determined by the Remuneration Committee, taking into account the extent

that the performance targets have been met and the proportion of the performance period that has elapsed. Alternatively Awards may be exchanged for options over shares in an acquiring company, if the Company is acquired and the third party agrees.

#### **10.10 Leavers**

10.10.1 If a participant ceases to hold office or employment with the Group where the reason for cessation is due to redundancy, retirement, a transfer under TUPE (the Transfer of Undertakings (Protection of Employment) Regulations 2006), other transfers of a business/part of a business, the employing company ceasing to be a Group Company or any other reason that the Remuneration Committee acting fairly and reasonably so determines, an Award shall become or remain exercisable for a period of 90 days from the date which the participant ceases to hold office or employment with any Group Company taking into account the extent to which any performance condition has been met and the period that has elapsed between the date of grant and the date of cessation of employment.

10.10.2 If the participant ceases to be an employee due to death, his or her personal representatives shall be permitted to exercise his or her Awards within 12 months of the participant's death to the extent to which any performance condition has been met.

#### **10.11 Shareholding obligation**

A participant must hold his shares for one year after exercising an Award under the LTIP, except that he may sell sufficient shares to cover the cost of exercising his award and any income tax or national insurance contributions due.

#### **10.12 Rights attaching to shares**

Ordinary Shares issued in connection with the exercise of Awards will rank equally with Ordinary Shares of the same class then in issue (save as regards any rights attaching to Ordinary Shares by reference to a record date prior to the date on which the allottee is entered on the register of member). Application will be made for admission to trading on AIM of new Ordinary Shares issued.

#### **10.13 Variation of share capital**

If there is any alteration of the issued share capital of the Company, the number of Ordinary Shares subject to an Award and the exercise price of a market value option will be subject to adjustments. The Board may adjust Awards in such manner as it determines to be appropriate.

#### **10.14 Alteration of the LTIP**

The Board or Remuneration Committee has discretion from time to time to amend the LTIP. However, alterations or additions that adversely affect the subsisting rights of an existing participant may only be made with the consent in writing of the relevant participant or consent of 75 per cent. of the participants.

#### **10.15 Malus and Clawback**

The Remuneration Committee may apply clawback where at any time before or within a year of vesting it determines that the final results of the Company were misstated, an error was made in any calculation or in assessing performance, which resulted in the number of Ordinary Shares in respect of which the Award was granted or vested being more than it should have been. The Remuneration Committee may also apply clawback at any time if it is discovered that the participant committed an act or omission prior to vesting that justified, or would have justified, summary dismissal from office or employment.



## 10.16 Awards

- 10.16.1 On 1 August 2016, the Company awarded the options set out below under the LTIP, all exercisable at a price of £0.33 per share.

<i>Recipient</i>	<i>Number of options</i>	<i>Value at issue price</i>
Tim Harris	303,030	£99,999.90
Julia Choudhury	303,030	£99,999.90
Robin Auld	303,030	£99,999.90
Total other employees	719,698	£237,500.34

Subject to the rules of the LTIP, these awards will all vest on or after the third anniversary of their issue, being 1 August 2019, based on compound annual growth in the underlying earnings per share of the Enlarged Group for the three-year period starting on 1 January 2016 (“**CAG**”). If CAG achieved in the period is below 8 per cent. then none of the options will vest. If CAG is achieved of between 8 per cent. and 15 per cent. in the period, then between 20 per cent. and 100 per cent. of the options will vest, on a straight line basis – e.g. if CAG of 11.5 per cent. was achieved, 60 per cent. of the options would vest.

- 10.16.2 It is proposed that the Company awards, subject to Admission, the options set out below under the LTIP, all exercisable at a price of 67p per share.

<i>Recipient</i>	<i>Number of options</i>	<i>Value at Placing Price</i>
Colin Davis	300,000	£201,000.00
Peter Malloy	150,000	£100,500.00
Total other employees	43,500	£29,145.00

Subject to the rules of the LTIP, these awards will all vest on or after the third anniversary of their issue, based on compound annual growth in the underlying earnings per share of the Enlarged Group for the three-year period starting on 1 January 2017 (“**CAG**”). If CAG achieved in the period is below 8 per cent. then none of the options will vest. If CAG is achieved of between 8 per cent. and 15 per cent. in the period, then between 20 per cent. and 100 per cent. of the options will vest, on a straight line basis – e.g. if CAG of 11.5 per cent. was achieved, 60 per cent. of the options would vest.

## 11. ARRANGEMENTS RELATING TO THE PLACING

- 11.1 Pursuant to the Placing Agreement:

- 11.1.1 Allenby Capital and Dowgate Capital have agreed as agents for the Company, to use their respective reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price but they are under no obligation to subscribe for any Placing Shares for which they are unable to procure subscribers;
- 11.1.2 the Company and the Directors have given certain warranties and indemnities to Allenby Capital and Dowgate Capital as to the accuracy of information contained in this document and other matters in relation to the Group and Metro Rod; and
- 11.1.3 the Company has agreed to pay (i) Allenby Capital a fee of £200,000; and (ii) Dowgate Capital a fee of £135,000.

- 11.2 The Placing Agreement is:

- 11.2.1 conditional, *inter alia*, upon:
- (a) the Acquisition Agreement having become unconditional in all respects, save for Admission and the payment of the consideration to the Vendor;
  - (b) the Facilities Agreement having become unconditional in all respects, save for Admission;

- (c) the Resolutions having been duly passed without amendment (save as agreed by Allenby Capital and the Company);
- (d) certain documents specified in the Placing Agreement being delivered to Allenby Capital and Dowgate Capital;
- (e) none of the warranties given by the Company being untrue, inaccurate or misleading; and
- (f) Admission taking place not later than 8.00 a.m. on 11 April 2017 or such later date as Allenby Capital and Dowgate Capital may agree, being not later than 8.30 a.m. on 28 April 2017; and

11.2.2 terminable by Allenby Capital and Dowgate Capital before Admission in certain circumstances, including a material breach of any of the warranties given by the Company, the failure to comply with obligations by the Company or circumstances having arisen which would require a supplemental admission document to be issued.

11.3 Pursuant to the Lock-in Deeds, each of the Locked-in and Orderly Market Parties have each undertaken not to, and to procure that any persons connected with them will not, effect or agree to effect any sale or other disposal of Ordinary Shares or rights to or in respect of Ordinary Shares for a period of 12 months from the date of Admission, without the prior written consent of the Company and Allenby Capital (save in certain limited circumstances) and, for a further 12 months thereafter, to deal in their Ordinary Shares only through Allenby Capital, Dowgate Capital or such other broker of the Company, with regard to maintaining an orderly market in the Ordinary Shares.

11.4 Pursuant to the Orderly Market Deed, Mark Peters has undertaken, for a period of 12 months following Admission, to effect, and to procure that any persons connected with him affects, any sale of Ordinary Shares only through Allenby Capital, Dowgate Capital or such other broker of the Company, with regard to maintaining an orderly market in the Ordinary Shares.

## 12. EMPLOYEES

12.1 As at 31 December 2016, the Group had 32 employees and as at the date of this document the Group has 33 employees.

12.2 As at 31 October 2016, Metro Rod had 140 employees and as at the date of this document Metro Rod has 143 employees.

12.3 As at the date of this document the Enlarged Group's employees are employed in the following locations:

<i>Location</i>	<i>Number of employees</i>
Kidderminster	25
Macclesfield	116
Kirkby Lonsdale	8
Hoddesdon	27

## 13. RELATED PARTY TRANSACTIONS

### 13.1 Loan Note Instrument

13.1.1 On 1 August 2016, the Company issued a Loan Note Instrument under which it issued Loan Notes in respect of loans made to it by the following companies:

<i>Company</i>	<i>Amount</i>
Solent Capital Partners Limited (a company controlled by Stephen Hemsley)	£250,000
Glengrace Limited (a company controlled by Nigel Wray)	£250,000

13.1.2 The Loan Notes are repayable in 12 equal quarterly instalments in arrears, commencing on 30 September 2016 and may be repaid in full at any time by the Company. The Loan Notes are not in any circumstances convertible into Ordinary Shares or any other securities of any kind.

13.1.3 The Loan Notes 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 first interest payment date to be 30 September 2016. The Loan Notes are unsecured. The Company has undertaken to the noteholders that it will not create or grant any new security to any other party, whilst any of such Loan Notes are outstanding, save for any security in place at the date of this document.

13.1.4 The Company intends to repay the Loan Notes (together with all accrued but unpaid interest) prior to Admission out of its existing resources.

13.2 Save as set out in paragraph 13.1 above there are no related party transactions that the Company or any member of the Enlarged Group has entered into during the period covered by the financial information set out in Parts V, VI and VII of this document and up to the date of this document.

#### **14. WORKING CAPITAL**

The Directors are of the opinion that, having made due and careful enquiry, taking into account the net proceeds of the Placing and the bank facilities available, the working capital available to the Company and the Enlarged Group will be sufficient for its present requirements, that is for at least 12 months from the date of Admission.

#### **15. INVESTMENTS**

Save as disclosed in this document, the Enlarged Group has made no significant investments in the two years prior to the date of this document and there are no significant investments in progress.

#### **16. PROPERTY, PLANT AND EQUIPMENT**

16.1 The principal establishments of the Enlarged Group are as follows:

16.1.1 5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire DY11 7RA;

16.1.2 Unit 18/19 John Samuel Building, Hoo Farm Industrial Estate, Kidderminster, Worcestershire DY11 7RA;

16.1.3 Ashwood Court, Tytherington Business Park, Macclesfield, Cheshire SK10 2XF; and

16.1.4 a portacabin at Rye Meads Seven Treatment Works, Rye Road, Hoddesdon.

16.2 The Directors are not aware of any environmental issues that may affect the Enlarged Group's utilisation of its properties.

#### **17. LITIGATION**

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) which may have or have had in the 12 months preceding the date of this document a significant effect on the Enlarged Group's financial position or profitability.

#### **18. SIGNIFICANT CHANGE**

18.1 There has been no significant change in the financial or trading position of the Group since 31 December 2016, being the date on which the Group's latest audited accounts were prepared.

18.2 There has been no significant change in the financial or trading position of Metro Rod since 31 October 2016, being the date to which the unaudited interim financial information set out in Part VI of this document was prepared.

## 19. GENERAL

- 19.1 It is estimated that the total fees, commissions and expenses payable by the Company in connection with the Acquisition, the Placing and Admission will amount to approximately £1.8 million (including VAT).
- 19.2 Allenby Capital has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 19.3 Dowgate Capital has given and not withdrawn its written consent to the inclusion in this document of its name and the references thereto in the form and context in which they appear.
- 19.4 PricewaterhouseCoopers LLP has given and not withdrawn its written consent to the inclusion of its report in Section A of Part VI of this document in the form and context in which it is included.
- 19.5 The information in this document which has sourced from third parties has been accurately reproduced and so far as the Company is aware and is able to ascertain from information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 19.6 Save as set out in this document, there are no patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to the Enlarged Group's business or profitability.
- 19.7 There have been no interruptions in the business of the Enlarged Group, which may have or have had in the 12 months preceding the publication of this document a significant effect on the financial position of the Enlarged Group or which are likely to have a material effect on the prospects of the Enlarged Group for the next 12 months.
- 19.8 The Directors are not aware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Enlarged Group's prospects in the current financial year.
- 19.9 The Placing Price represents a premium of 66.5 pence over the nominal value of 0.5 pence per Ordinary Share. The premium arising on the Placing amounts to £19,850,746.75 in aggregate.
- 19.10 The Ordinary Shares are in registered form and may be held in certificated or uncertificated form. No temporary documents of title will be issued. The ISIN of the Ordinary Shares is GBOOBD6P7Y24.
- 19.11 Save as disclosed in this document, there have been no payments by the Enlarged Group to promoters in the two years prior to the date of this document and no fees have been paid in the 12 months preceding the date of this document (other than to trade suppliers) in the sum of £10,000 or more in cash or in kind.
- 19.12 Save as disclosed in this document, no person (excluding professional advisers otherwise disclosed in this document and trade suppliers) has:
- 19.12.1 received, directly or indirectly from the Enlarged Group within the 12 months preceding the date of the application for Admission; or
  - 19.12.2 entered into contractual arrangements (not otherwise disclosed in this document) to receive, directly or indirectly, from the Enlarged Group, on or after Admission, any of the following:
    - (a) fees totalling £10,000 or more;
    - (b) securities in the Company where these have a value of £10,000 or more calculated by reference to the Placing Price; or
    - (c) any other benefit with the value of £10,000 or more at the date of Admission.
- 19.13 Save as disclosed in this document, there are no investments in progress which are significant to the Enlarged Group.

19.14 The financial information contained in Part VI of this document does not constitute statutory accounts within the meaning of section 434 of the Act. The auditors of Metro Rod for the period covered by the financial information set out in Part VI of this document were PricewaterhouseCoopers. PricewaterhouseCoopers LLP is a member firm of the Institute of Chartered Accountants in England and Wales.

19.15 This document does not constitute an offer to sell, or the solicitation of an offer to acquire, Ordinary Shares in any jurisdiction where such an offer or solicitation is unlawful and is not for distribution in any jurisdiction in which such distribution is unlawful. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or under the applicable securities laws of any state of the United States, any province or territory of Canada, Japan, South Africa or Australia (the "**Excluded Territories**") and may not be sold, directly or indirectly, within the United States or the Excluded Territories or to any citizen, national or resident of the United States or the Excluded Territories.

## **20. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of this document will be available free of charge on the Company's website [www.franchisebrands.co.uk](http://www.franchisebrands.co.uk).

Dated 22 March 2017

# Franchise Brands plc

## NOTICE OF GENERAL MEETING

**NOTICE IS GIVEN** that a general meeting of the above named Company will be held at the offices of Gateley Plc, One Paternoster Square, London EC4M 7DX on 10 April 2017 at 10.00 a.m. for the purpose of considering and, if thought fit, passing the following resolutions, which will be proposed as ordinary or special resolutions as indicated:

### ORDINARY RESOLUTIONS

1. **THAT**, subject to and conditional upon the passing of resolutions 2 and 3 below, the acquisition by the Company of Metro Rod Limited on the terms and subject to the conditions contained in the Acquisition Agreement (as defined in the Company's admission document dated 22 March 2017 of which the notice of the general meeting to consider this resolution forms a part) be and is hereby approved and that the board of directors of the Company (the **Directors**) (or a duly constituted committee of the board) be and is hereby authorised to take all steps necessary or, in its opinion, desirable, to give effect to the Acquisition Agreement.
2. **THAT**, subject to and conditional upon the passing of resolution 1 above and resolution 3 below and in substitution for all existing and unexercised authorities and powers, the Directors be generally and unconditionally authorised for the purpose of section 551 of the Companies Act 2006 (the "**Act**") to exercise all or any of the powers of the Company to allot shares of the Company or to grant rights to subscribe for, or to convert any security into, shares of the Company (such shares and rights being together referred to as **Relevant Securities**) up to an aggregate nominal value of £129,553 to such persons at such times and generally on such terms and conditions as the Directors may determine (subject always to the articles of association of the Company) **PROVIDED THAT** this authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next annual general meeting or on the date which is 15 months from the date of this resolution (if earlier) save that the Directors may, before the expiry of such period, make an offer or agreement which would or might require Relevant Securities or equity securities (as the case may be) to be allotted after the expiry of such period and the Directors may allot Relevant Securities or equity securities (as the case may be) in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired.

### SPECIAL RESOLUTION

3. **THAT**, subject to and conditional upon the passing of resolutions 1 and 2 above and in substitution for all existing and unexercised authorities and powers, the Directors be empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred upon them by resolution 2 above as if section 561 of the Act did not apply to any such allotment provided that this authority and power shall be limited to:
  - 3.1.1 the allotment of equity securities in connection with a rights issue or similar offer in favour of ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject only to such exclusions or other arrangements as the Directors may consider appropriate to deal with fractional entitlements or legal and practical difficulties under the laws of, or the requirements of, any recognised regulatory body in any, territory; and
  - 3.1.2 the allotment (otherwise than pursuant to paragraph 3.1.1 above) of equity securities up to an aggregate nominal amount of £58,299,

and shall expire at the conclusion of the next annual general meeting of the Company or on the date which is 15 months from the date of this resolution (if earlier) save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of such offer or agreement as if the power conferred by this resolution had not expired.

**BY ORDER OF THE BOARD**

Director

**Date:** 22 March 2017

**Registered office:**

5 Edwin Avenue, Hoo Farm Industrial Estate, Kidderminster, Worcestershire DY11 7RA

## NOTES:

1. You can only appoint a proxy using the procedures set out in these notes and the notes to the form of proxy. A member entitled to attend, speak and vote at the meeting is entitled to appoint one or more proxies to attend, speak and vote instead of him, provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the form of proxy. The proxy need not be a member of the Company. Details of how to appoint the Chairman of the meeting or another person as your proxy using the form of proxy are set out in the notes to the form of proxy. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
2. The notes to the form of proxy explain how to direct your proxy how to vote on each resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting. Completion of the form of proxy will not preclude a member from attending and voting in person.
3. A form of proxy is enclosed with this notice. To be valid, the form must be deposited at the offices of the Company's Registrars, SLC Registrars, 42-50 Hershaw Road, Walton on Thames, Surrey KT12 1RZ not less than 48 hours (excluding, in the calculation of such time period, any part of a day that is not a working day) before the time fixed for holding the meeting or any adjourned meeting.
4. Subject to the following principles, where more than one proxy is appointed, where a form of proxy does not state the number of shares to which it applies (a "**blank proxy**") then that proxy is deemed to have been appointed in relation to the total number of shares registered in your name (the member's "**entire holding**"). In the event of a conflict between a blank proxy and a form of proxy which does state the number of shares to which it applies (a "**specific proxy**"), the specific proxy shall be counted first, regardless of the time it was sent or received (on the basis that as far as possible, the conflicting forms of proxy should be judged to be in respect of different shares) and remaining shares will be apportioned to the blank proxy (pro rata if there is more than one).
5. Where there is more than one proxy appointed and the total number of shares in respect of which proxies are appointed is no greater than your entire holding, it is assumed that proxies are appointed in relation to different shares, rather than that conflicting appointments have been made in relation to the same shares. When considering conflicting proxies, later proxies will prevail over earlier proxies, and which proxy is later will be determined on the basis of which proxy is last delivered. Proxies in the same envelope will be treated as sent and delivered at the same time, to minimise the number of conflicting proxies.
6. If conflicting proxies are sent or delivered at the same time in respect of (or deemed to be in respect of) your entire holding, none of them shall be treated as valid.
7. Where the aggregate number of shares in respect of which proxies are appointed exceeds your entire holding and it is not possible to determine the order in which they were sent or delivered (or they were all sent or delivered at the same time), the number of votes attributed to each proxy will be reduced pro rata (on the basis that as far as possible, conflicting forms of proxy should be judged to be in respect of different shares). Where this gives rise to fractions of shares, such fractions will be rounded down.
8. If you appoint a proxy or proxies and then decide to attend the meeting in person and vote, on a poll, using your poll card, then your vote in person will override the proxy vote(s). If your vote in person is in respect of your entire holding then all proxy votes will be disregarded. If, however, you vote at the meeting in respect of less than your entire holding, if you indicate on your polling card that all proxies are to be disregarded, that shall be the case; but if you do not specifically revoke proxies, then your vote in person will be treated in the same way as if it were the last delivered proxy and earlier proxies will only be disregarded to the extent that to count them would result in the number of votes being cast exceeding your entire holding.
9. In relation to note 8 above, in the event that you do not specifically revoke proxies, it will not be possible for the Company to determine your intentions in this regard. However, in light of the aim to include votes wherever and to the fullest extent possible, it will be assumed that earlier proxies should continue to apply to the fullest extent possible.
10. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
11. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.
12. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com](http://www.euroclear.com)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company's agent (ID 7RA01) not less than 48 hours (excluding, in the calculation of such time period, any part of a day that is not a working day) before the time fixed for holding the meeting or any adjourned meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the Company's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.
13. CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s) such action as shall be necessary to



ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

14. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
15. To change your proxy instructions simply submit a new proxy appointment using the method set out above. Note that the cut-off time for receipt of proxy appointments (see note 3 above) also applies in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.
16. In order to revoke a proxy instruction you will need to inform the Company by sending a signed notice clearly stating your intention to revoke your proxy appointment to SLC Registrars at the address set out at note 3. The revocation notice must be received by SLC Registrars no later than 12.00 p.m. on 7 April 2017. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.
17. In the case of a member which is a company, the form of proxy and any revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the form of proxy and any revocation notice is signed (or a duly certified copy of such power or authority) must be included with the form of proxy and any revocation notice.
18. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend, speak and vote at the General Meeting is 6.00 pm on 6 April 2017. Changes to entries on the register of members after that time will be disregarded in determining the right of any person to attend, speak or vote at the meeting.
19. Except as provided above, members who have general queries about the meeting should contact Mark Peters, Company Secretary on +44 (0) 7764 191 980 (no other methods of communication will be accepted). You may not use any electronic address provided either:
  - 19.1 in this notice of General Meeting; or
  - 19.2 any related documents (including the form of proxy), to communicate with the Company for any purposes other than those expressly stated.

