The Property Franchise Group PLC

National footprint local expertise

Annual Report and Accounts 2018

With a network of +375 offices, The Property Franchise Group PLC is one of the largest franchised property businesses in the UK

The vision

To achieve an increasing UK market share of lettings and estate agency transactions, using a proven franchise model and multiple, and clearly differentiated, property brands.

Discover more:
propertyfranchise.co.uk/investor-relations

Financial highlights

Revenue

£11.2m

+11% (2017: £10.1m)

2018	11.2
2017	10.1
2016	8.3
2015	7.1
2014	5.2

Management Service Fees

£9.4m

+14% (2017: £8.3m)

2018	9.4
2017	8.3
2016	6.9
2015	6.2
2014	4.1

Adjusted EBITDA*

£5.1m

+15% (2017: £4.4m)

2018	5.1
2017	4.4
2016	3.9
2015	3.2
2014	2.1

Profit before tax

£4.3m

+0% (2017: £4.3m)

2018	4.3
2017	4.3
2016	3.2
2015	2.7
2014	1.9

Dividend

8.4p**

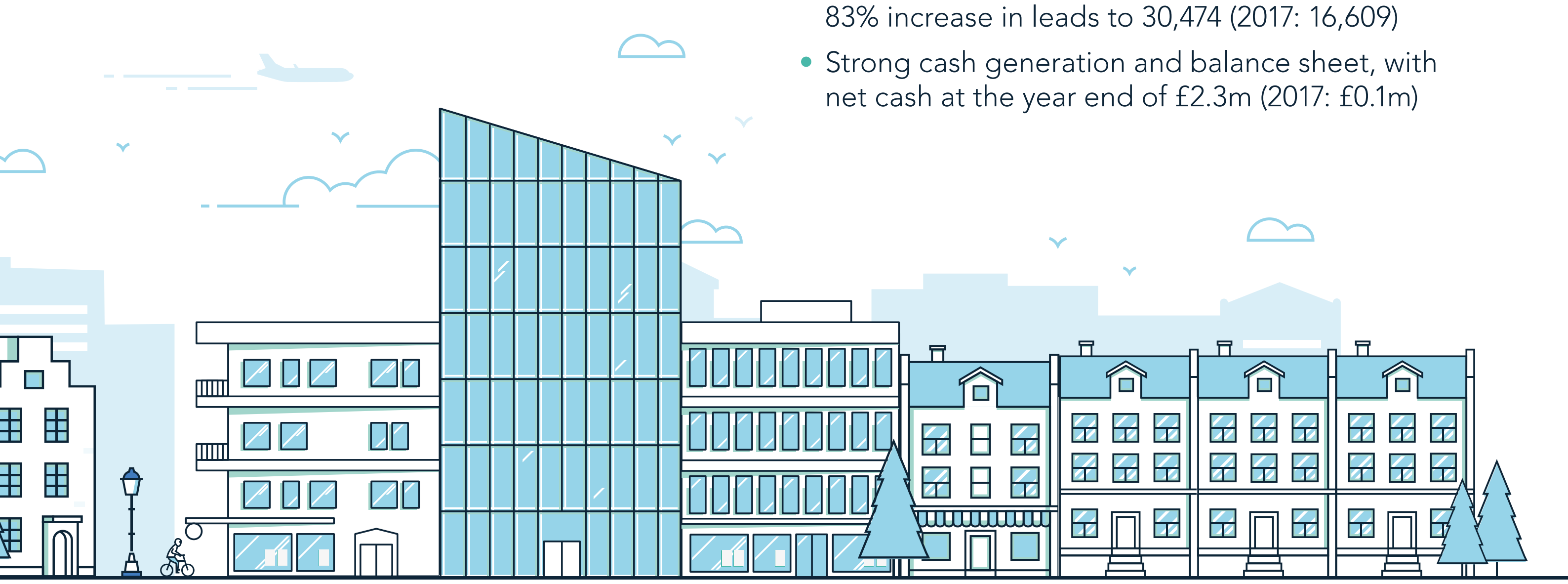
+12% (2017: 7.5p)

2018	8.4
2017	7.5
2016	6.5
2015	5.9
2014	4.0

* Before exceptional items and share-based payment charges.
** Includes 2018 proposed final dividend.

Operational highlights

- Serving c.55,000 tenanted managed properties at the year end (2017: c.52,000)
- Assisted acquisitions programme supported 28 acquisitions by franchisees (2017: 12) and added 3,115 managed properties (2017: 2,012)
- Group remains heavily weighted toward lettings, which accounts for 68% of Management Service Fees (2017: 70%)
- Pay-per-click campaigns via the traditional high street brands' customer websites delivered an 83% increase in leads to 30,474 (2017: 16,609)
- Strong cash generation and balance sheet, with net cash at the year end of £2.3m (2017: £0.1m)



We provide responsive local lettings and sales services nationally through recognised property brands

Where we focus

The Group has a strong presence in lettings and currently manages 55,000 properties on behalf of landlords which amounts to a city the size of Cambridge. It also has a growing presence in estate agency, completing on the sale of 10,750 homes in 2018.

What we do

Lettings and property management

We are one of the largest managing agents in the UK of residential properties with a deep understanding of lettings and a clear view of how to develop value in the long-term from a portfolio. Our franchisees are fully insured members of professional bodies, supported by specialist software, who know their local rental market and manage all properties locally.

Estate agency

We operate on a no sale no fee basis. We cater both for the majority of sellers who prefer to instruct an agent operating from high street premises and for those sellers who choose to use a more technologically enabled agent without a high street office. Two of our brands have been engaged in estate agency for more than 150 years.

2018 in numbers

31,750
Properties let by franchise network

£92m
Franchise network turnover

2,300
Franchise network employees

How we do it

We rely on the motive power of local people who are committed to operating franchises under our brands to the highest levels of professionalism and service. Our brands are household names in their local communities, regions and nationally. Whilst the majority of franchisees operate through high street offices and have been with us for many years, a growing number of new franchisees choose to offer a 24/7 hybrid service though EweMove. To serve the increasingly complex requirements of our customers, scale on the high street is important and some consolidation is underway to achieve this.

Our success

We are a multi-award winning Group with recent successes including a bronze for EweMove at the EA Masters awards in 2018 for best large estate agency, EweMove winning hybrid estate agency of the year at the 2018 Negotiator awards and both CJ Hole and Parkers winning silvers for lettings at the EA Masters awards in 2018. Just as importantly we have grown the revenue of our network of franchises through joint effort and support year on year since 2005.

Acquisitions

The assisted acquisitions programme whereby we provide the experts and expertise to our franchisees to assist with finding the sellers of managed property portfolios, negotiating the sales, funding the acquisitions and integrating those acquisitions is a primary focus for us.

Franchisees buying managed portfolios of properties improve their revenue stability and profitability. In times of economic uncertainty, with fewer lettings instructions to win from landlords and challenges to revenue from government legislation, franchisees that buy these portfolios improve their chances of successful future growth.

28
Acquisitions
+133% (2017: 12)

National and local brands

National brands

Lettings and investor sales brand

MARTIN & CO

The national network of independently owned property agents

Martin & Co was established in 1986 and has 172 high street offices serving England, Wales and Scotland with offices from Falmouth to Aberdeen. It is one of the major residential letting agents in the UK with over 39,000 properties under management, deriving 87% of its Management Service Fees from lettings services. A multi-award winning agency, it specialises in residential lettings, property management, property investment and sales.

1986
year established

172
offices

Lettings
national lettings focus

Hybrid estate agency brand

EweMove SALES AND LETTINGS

The UK's most trusted agent

Launched in late 2013, EweMove has rapidly grown to a network of 118 franchises at the year end. The EweMove franchise model combines the recruitment of local property experts ("LPEs"), typically serving micro territories of 20,000 households through a centralised 24/7 technology platform, with the traditional features of a full estate agency service and a consumer fee predicated on completed sales, rather than listings. It has been the UK's "No 1 Most Trusted Agent" on Trustpilot since 2015.

2013
year established

118
franchises

Sales
national sales focus

Regional brands

Balanced mix of sales and lettings

whitegates

Unrivalled local knowledge, for all your property needs

Whitegates has been trading in the Midlands and North of England since 1978 and celebrated its 40-year anniversary last year. It was one of the first estate agents to advertise on TV. Today its activities are evenly split across sales and lettings.

1978
year established

39
offices

ELLIS & CO EST. 1850

Property experts providing service and value for London communities since 1850

Ellis & Co has 19 high street offices, 18 within London. It shares complementary branding with Martin & Co offices in London and the two brands, with a combined strength of 41 offices, work together to serve London.

1850
year established

19
offices

parkers

Taking the hassle out of property, for communities across southern England, since 1948

Parkers has 13 high street offices located along the M4 corridor West of Maidenhead with a strong presence around Reading. In 2018 it won silver for lettings at the EA Masters awards.

1948
year established

13
offices

CJ HOLE

Providing expertise in sales and lettings to communities across the south west of England and Wales for over 150 years

CJ Hole was established in 1867. An award winning brand with strong local brand heritage operated through 16 high street offices in Avon, Somerset, Gloucestershire and Gwent. In 2018 it won silver for lettings at the EA Masters awards.

1867
year established

16
offices

Strong model continues to deliver

Richard Martin
Chairman

In 2018 it was property franchisor businesses which continued to make progress despite less than conducive UK property market conditions. Every one of our brands saw revenue increase.

Performance

I am pleased to report that, in a year when both the level of residential sales and lettings transactions in the market were virtually unaltered from 2017, we grew our revenue by 11%, exceeding £11m for the first time, and our operating profits before exceptional items by 19%. Even more pleasing to see was the growth in Management Service Fees of 14%. It's testimony to the strength of our franchise model and its ability to adapt to the changing market conditions.

Franchising

I've personally been involved in franchising since the mid-1990's and I have always been convinced that it is the best business model for the development of a property brand. Franchising has several strengths which appeal to both the brand owner, the "franchisor", and the individual, who is seeking to develop their business under that brand within a local marketplace, the "franchisee".

Firstly, the franchisor is the senior partner and should have plenty of experience dealing with the challenges of building a business, including tactics to cope with the cyclical nature of the UK property sales market. We have encountered most situations before and the most frequent have documented solutions within the franchise operations manual.

Secondly, franchisors are ambitious people who have chosen a path that leads to the scaling up of the business they founded. They welcome like-minded people with the energy and drive on the journey to create a business of value for themselves and their family. By working together, enterprise and new ideas become a shared currency, to everyone's gain. Its reflected in our Management Service Fees growing every year since 2005.

Thirdly, franchisors invest in their central support infrastructure and leverage the benefits across (in our case) hundreds of local businesses. In an age when digital marketing technology is both essential but hard for small independent businesses to access at affordable prices, we have built better optimised websites, created a bespoke customer relationship management platform for all our traditional brands and invest £0.5m each year in a skilled central marketing department.

Strategy

We continued to look at both the acquisition of like for like businesses and those that were very similar or complementary. Unfortunately, with the uncertainty of Brexit, and notable non-franchise competitors struggling in our sector impacting investor confidence, we found none of our targets to be sufficiently earnings enhancing. With a strong balance sheet, and a growing cash surplus, we remain committed to expanding our market share of UK residential property transactions through this route. In the meantime, we continued our focus upon organic growth in 2018 and earning more from each transaction.

Our people
Over the last few years we have strengthened our leadership team, now 7, so that we have the right strength and depth for the challenges and opportunities that we face. That allowed us, in 2018, to invest further in our marketing and digital teams with the addition of 6 new people targeted at increasing customer interaction and custom for our franchisees.

Growth
Our performance was underpinned by growth in lettings MSF of 12% and sales MSF of 18%. This in turn helped generate cash from operations of £4.5m and drove cash up to £3.9m at the year-end after £2m of dividend payments. The Board remains confident that the Group can generate similar levels of cash from operations in FY19 despite the tenant fee ban on 1 June 2019. As a result, I am pleased to announce that the Board has approved a final dividend for 2018 of 6.0p per share (2017: 5.4p per share) bringing the total dividend to 8.4p for 2018 (2017: 7.5p).

Outlook
The Group continues to be deliberately heavily weighted towards lettings, and the Directors believe that the private rented sector will continue to grow because of macro-economic drivers – continued high levels of net inward migration to the UK, the formation of smaller households because of changing family circumstances and lengthening life expectancy, the unaffordability for many people of owner occupation, negligible investment in social housing building programmes, and the lack of alternative investments with similar yields and potential for long-term capital gains. Whilst house sales may be impacted in the short-term we still believe that the number of transactions will grow over the next 5 years.

Property transactions

Source: ONS, OBR

And finally, I would like to thank my co-Directors, our staff and our many excellent, ambitious franchisees and their staff for their efforts over the last year. Together we have a determination to prove that the future of the UK property industry is franchising and that the best place to do that is within The Property Franchise Group PLC.

Richard Martin
Chairman
The Property Franchise Group PLC

Investment case

Why invest?

Leading player in a consolidating market

Strong balance sheet
£2.3m
in net cash

Capital light franchise model
25%
ROCE

Experienced management team
+150
years in property

Progressive dividend policy
+12%
year on year

Dual income streams
68%/31%
lettings/sales

Our assisted acquisitions programme gathered pace

Ian Wilson
Chief Executive Officer

2018 was a tough market for UK estate agents and letting agents. Many businesses were proud to stand still or suffer only modest retrenchment. We continued to grow.

The Property Franchise Group made progress on many fronts including, most significantly, increased trading revenue at each of our 6 brands, a better than expected number of competitors' businesses purchased under our "assisted acquisitions programme" and the enhancement of our underlying pre-tax profits for the fifth year in a row, since our IPO in December 2013.

Improving digital marketing

Turning to the operational details, we had invested in better optimised brand websites in 2017 and we built on this investment in 2018 by encouraging our franchisees to fund local area pay-per-click campaigns to generate new business leads. The results were impressive, as we generated over 30,000 leads.

Emboldened by this success we took the decision to invest in a bespoke Customer Relationship Management ("CRM") platform to operate across all 5 of our traditional high street brands, and nurture customers at the key stages of their transactional journey with us. Franchisees warmed to the concept and pledged to fund the ongoing operating costs of the CRM. Over 2m customers' data is held within our single customer view platform. There are over 53,000 variants of emails being sent aimed at informing and supporting our customers' decision-making. We have achieved an average email open rate of 68% versus an industry benchmark of 26%.

The lettings market

The lettings market, which continues to dominate our revenue streams, grew at its slowest pace for a number of years. There were 3 dynamics at play:

- The reducing number of new "buy-to-let" mortgages being entered into (estimates are 60,000 for 2018 vs a peak of 190,000 in 2008).
- Marginally higher levels of managed property stock being withdrawn (which we term "attrition"). Attrition was 10.8% of all managed stock in 2018 vs a 10% long-term trend.
- Lengthening average tenancy terms which a recent YouGov survey put at 4 years across the whole of the private rented sector and which we calculate as 30 months across our Group. This may seem like good news for landlords and their agents, but in fact shorter tenancy terms have the benefit of more transactional "churn" which translates into higher tenancy set-up fees and more opportunities to take business from the competition when properties are lying empty. It's why the paradox of historically low levels of stock to let on Rightmove and the biggest private rented sector for a generation are both statements which are true.

Our response was to put extra energy into our "assisted acquisitions programme". Under the programme we have a retained business broker who networks with other brokers in the sector to find target businesses for sale. We also sent over 10,000 direct mail communications to competitors and engaged through social media platforms to spread the word that we are an active buyer. We have a panel of approved lawyers and funding providers. We assist franchisees directly with operational and financial due diligence and we pay "cash-back" on completion equivalent to a proportion of the additional royalties we will earn. We again made significant progress with a 55% increase in the number of managed properties acquired. In all, we assisted our franchisees to purchase 28 competitor businesses and add 3,115 properties by this route to our Group's managed portfolio.

Tenant fees

We face losing the fees that agents have historically charged tenants on 1st June 2019. We think this is part of a wider approach by government to encourage a smaller number of stronger, more professional and better regulated agents, and to discourage landlords from managing their own affairs. The short-term effect will be to drive some of our competitors out of business as they struggle to deal with extra regulatory hurdles such as mandatory Client Money Protection or face a significant loss of income because their business model has been predicated towards charging excessive tenant fees. As an experienced franchisor we have a track record of dealing with regulatory hurdles on behalf of our franchisees and we see opportunities to win increased market share over the next 2 years.

Hybrid agency model

2018 was also a watershed for the new "online" or "hybrid" estate agents who operate without high street presence. We saw a high-profile business failure in the sector and an online/hybrid market share growing more slowly at 7.2% of transactions compared to some expectations that it would breach double figures.

We invested in this space in 2016 with our acquisition of EweMove, a hybrid operator with a distinctive green sheep logo and the honour of being TrustPilot's No.1 most trusted UK Estate Agent and Letting Agent. EweMove made good progress in 2018, generated cash in every trading month and increased EBITDA by £0.5m over 2017. It occupied 118 franchise territories at the end of 2018 and had over 250 franchise owners and their staff working in the field, supporting customers to sell their properties.

Unlike other online/hybrid agents EweMove operates a "no sale, no fee" model and a "happy customer guarantee" which means that dissatisfied customers can exit their contract without penalty. We disagree with the upfront fixed fee charging model offered by almost all other online/hybrid agents, as we do not believe it represents good value for customers, and is not sustainable particularly in a market with stagnant prices and fewer property sale transactions. We persist with a pure franchise model at EweMove. The lower set up costs associated with a hybrid estate agency, and the "business in a box" benefits of website, operational software, 24/7 manned call centre and properties listed on Rightmove and Zoopla for a fixed monthly fee, currently £1,000 + VAT is a compelling offer to experienced estate agents.

Future direction

In summary, the Group traded successfully in 2018 and is intent on turning regulatory threats into opportunities, whilst embracing digital marketing as a key component of its offering to all its franchisees whether based in traditional high street shops or part of the new breed of hybrid agents.

Ian Wilson
Chief Executive Officer
The Property Franchise Group PLC

It was a case of 400 up for Martin & Co Aldershot

Richard Oldaker and James Wiggins, owners of Martin & Co Aldershot, added a further 159 managed properties to their burgeoning portfolio taking them over 400 managed properties during 2018.

The experienced duo are close to marking a decade in charge of the Aldershot branch, having cold started the business in 2009.

"We were approached by one of the directors of the seller," says Richard, "as James and I used to work with him before we started Martin & Co Aldershot. They were in talks with other companies about a purchase but our reputation and high level of service stood out. They knew we would retain their clients and keep them happy."

It was Richard and James' first acquisition of a managed portfolio of tenanted properties and whilst confident in their decision, it was aided by an experienced support team on hand within the central office of The Property Franchise Group and the experiences of a growing group of franchisees who had made similar purchases.

"It was extremely helpful to know that support was on hand as we had not done this before," says Richard. "We lent on guidance from Penny Sanders and her team at central office. Other franchisees that had gone through the process also proved invaluable as we were able to pick their brains."

EweMove's improved earnings and support for franchisee acquisitions drives growth

David Raggett
Chief Financial Officer

Focus on our managed properties' portfolio, operating margin and return on capital employed underpins our investment decisions and delivery of growth in shareholder value.

In a flat housing market environment (fifth year at circa 1.2m** transactions) and with challenges to the viability of high street agents starting to crystalise we focused on winning more sales instructions (up 6%), growing our managed properties portfolio (up 7%), consolidating offices and building EweMove's sustainable profit path.

** HMRC UK Property Transaction Statistics 21 February 2019.

Revenue

Group revenue for the financial year to 31 December 2018 was £11.2m (2017: £10.1m), an increase of £1.1m (11%) over the prior year. EweMove contributed £0.6m of the increase as its revenue increased 28% to £2.7m (2017: £2.1m).

Management Service Fees ("MSF") increased 14% from £8.3m to £9.4m and represented 84% (2017: 81%) of Group revenue with the remainder being from franchise sales and ancillary services to support MSF generation.

Lettings contributed 68% of MSF (2017: 70%), sales contributed 31% of MSF (2017: 29%) and financial services contributed 1% of MSF (2017: 1%). Lettings MSF grew by 12% in the year and sales MSF grew by 18%.

Revenues and Management Service Fees in the prior year are restated following the fully retrospective application of IFRS 15. The application of this standard has resulted in cashback payments and payments to brokers previously presented as intangible assets under IAS 38 being restated as prepaid assisted acquisitions support, as they represent consideration payable to a customer under IFRS 15 and costs for securing the acquisition. The impact on results for the current year was to reduce revenue and administrative expenses by £0.1m. There was negligible impact on revenue and administrative expenses in the prior year and no impact on profit or net assets in either year.

Operating profit

Although headline operating profit was unchanged at £4.3m, operating profit before exceptional items and share-based payments charges ("Adjusted operating profit") increased from £3.8m to £4.4m (16%) and the margin increased from 37% to 39%.

Administration expenses, increased by £0.5m (10%) with employee costs contributing £0.4m of that increase as we strengthened our leadership team, recruited a marketing team, reorganised our support services within the traditional brands and increased our IT capabilities.

	2018	2017
Revenue	**£11.2m**	£10.1m
Management Service Fees	**£9.4m**	£8.3m
Admin expenses	**£5.8m**	£5.3m
Adjusted operating profit*	**£4.4m**	£3.8m
Operating profit	**£4.3m**	£4.3m
Adjusted profit before tax*	**£4.3m**	£3.7m
Profit before tax	**£4.3m**	£4.3m
Adjusted EBITDA*	**£5.1m**	£4.4m
Dividend	**8.4p**	7.5p

* Before exceptional costs and share-based payment charges.

EBITDA

Adjusted EBITDA for 2018 was £5.1m (2017: £4.4m) an increase of £0.7m (15%) over the prior year. EweMove contributed £0.5m of this increase through additional gross margin.

Exceptional items

There were no exceptional items in 2018 (2017: net exceptional gain £0.7m). In the prior year EweMove's deferred consideration payable reduced by £1.2m and there was a write-down from a revision to valuation estimates of £0.5m against EweMove's master franchise rights.

Profit before tax

The profit before tax was £4.3m for 2018 (2017: £4.3m). Although the headline number remained unchanged from the prior year it should be borne in mind that the prior year included a net exceptional gain of £0.7m. Excluding this net exceptional gain and share-based payments charges, adjusted profit before tax increased £0.6m or 17%.

Taxation

The effective rate of corporation tax for the year was 19.0% (2017: 19.25%). The total tax charge for 2018 was £0.8m (2017: £0.6m). The increase of £0.2m is due to the growth in operating profits before exceptional items and, as no options were exercised in 2018, nil tax credit for the exercise of share options. In 2017 management exercised options over 522,000 ordinary shares generating a notional gain of £0.7m and tax relief of £0.1m.

Earnings per share

Earnings per share for the year was 13.3p (2017: 14.2p), a reduction of 6% based on an average number of shares in issue for the period of 25,822,750 (2017: 25,651,423). The profit attributable to owners was £3.4m (2017: £3.7m) with the reduction of £0.3m largely due to the increase in the tax charge.

Dividends

The Board is recommending a final dividend of 6.0p per share which, together with the interim dividend of 2.4p per share paid to shareholders on 3 October 2018, equates to a total dividend for the financial year of 8.4p (2017: 7.5p) an increase of 12%. If approved, it will be paid on 28 May 2019 to all shareholders on the register on 23 April 2019. Our shares will be marked ex-dividend on 18 April 2019.

Cash flow

The Group is strongly operationally cash generative.

The net cash inflow from operating activities in 2018 was £4.5m (2017: £4.4m) as the Group continued to generate strong operating cash inflows.

The net cash outflow from investing activities was £0.3m (2017: outflow £1.4m) mainly due to assisted acquisition support payments. In 2017, £1.0m of consideration was paid to the founders of EweMove in return for them forgoing any rights to contingent consideration, £0.2m was invested in new websites and £0.2m was paid in assisted acquisition support.

Loan repayments totalling £0.9m (2017: £0.9m) plus interest payments of £0.1m (2017: £0.1m) were made on the Santander UK plc loans during 2018 leaving £1.6m (2017: £2.5m) outstanding. Dividend payments were £2.0m (2017: £1.7m).

Liquidity

The Group had cash balances of £3.9m at 31 December 2018 (2017: £2.6m).

Key performance indicators

The Group uses a number of key financial and non-financial performance indicators to measure performance. The Group also adjusts certain well-known financial performance measures for uncontrollable and one-off factors so as to aid comparability between reporting periods.

The key financial measures are as follows:

- Adjusted operating profit and margin
- Adjusted EBITDA
- Adjusted profit before tax
- Earnings per share
- Management Service Fees

These have been discussed above in further detail.

The key non-financial measures focus on some long-standing drivers of financial performance as well as reflecting the Board's continued investment in its assisted acquisitions programme and digital marketing

- Number of properties listed for sale
- Number of properties let
- Number of properties sold
- Number of leads generated through digital marketing
- Number of managed properties
- Number of managed properties acquired through assisted acquisitions

All bar 2 of these measures are detailed in my review and all are detailed throughout the Strategic Report. Digital marketing is a relatively new investment for the Group following the acquisition of EweMove in September 2016 and progress with this is detailed on page 16.

Financial position

The balance sheet remains strong with total assets of £20.8m (2017: £20.0m) and a reduction of £0.6m in liabilities during the year. This reduction in liabilities was due to repayments of bank debt totalling £0.9m, an increase in accruals of £0.1m and an increase in tax payable of £0.2m.

The Group finished the year with the total equity attributable to owners of £15.7m an increase of £1.5m or 10% over FY17.

The Group is strongly operationally cash generative which, together with the facility from Santander UK plc of which £3.4m is undrawn, puts it in a strong position to continue to fulfil its strategy as set out on page 12 and its future developments as detailed in the Directors' report on page 27.

David Raggett
Chief Financial Officer
The Property Franchise Group PLC

Key performance indicators

Tenanted managed properties at year end

55,000 +7% (2017: 52,000)

2018	**55,000**
2017	52,000
2016	48,000
2015	45,000
2014	42,000

All properties let in year

31,736 +1% (2017: 31,366)

2018	**31,736**
2017	31,366
2016	30,457
2015	31,573
2014	26,264

Properties listed for sale in year

19,667 +6% (2017: 18,630)

2018	**19,667**
2017	18,630
2016	15,066
2015	14,059
2014	5,140

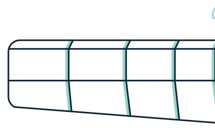
Properties sold in year

10,763 +3% (2017: 10,432)

2018	**10,763**
2017	10,432
2016	8,270
2015	7,689
2014	1,355

Our understanding of the macro-economic drivers

Residential property has established itself as an investment asset class and the economic need for residential agency remains strong.



Market drivers

- People will always need somewhere to live
- Population growth/increased life expectancy means more UK households in the future
- Social housing provision has declined significantly over the last 30 years
- The private rental sector has grown significantly to 20% of total housing stock
- Residential property has become an investment asset class
- Demand continues to outstrip supply

Key macro-economic factors

Stored equity
There is an estimated £2.5 trillion of equity stored in UK housing stock unencumbered by mortgages, with the over 65s owning £1.5 trillion* of it. The majority of rental properties are bought wholly from cash resources. Cash buyers now account for 34% of all house purchases and 45%* of all sums spent on house purchases. PwC estimates that only 28% of UK households have a mortgage**. Cash and first time buyers are forecast to be the growth drivers of residential property purchases over the next 5 years.

Stored equity
£2.5tn

* Savills Research (Autumn 17)
** PwC UK Economic Outlook (July 18)

Net migration remains high
Net migration for the year to September 2018 was 283,000* against a prior year of 244,000. Whilst net migration fell in the year after the EU referendum it has steadily increased with the reduction in EU immigrants replaced by an increase in non-EU immigrants. The foreign-born UK population has lower home ownership rates and is almost 3 times as likely to be in the private rented sector.

Year to September 2018
283,000

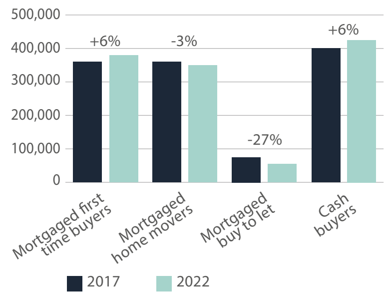
* ONS Quarterly Report (28 Feb 2019)

Brexit
Whilst property remains a fundamentally safe asset class, the uncertainty about what Brexit will mean for individual households' wealth is making UK buyers more cautious. Despite this, UK house sales of 1.2m* have been a consistent theme over the last 5 years. Prime residential rents in London have almost stopped falling with a 0.8% reduction in 2018. In the London commuter belt rents for 1 to 3-bedroom properties continued to rise in 2018**. Of course, Brexit's impact on employment will impact rental growth, housing supply and demand but the market is proving more resilient than some commentators thought.

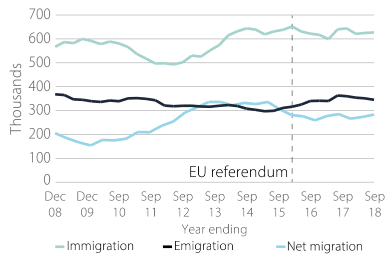
Annual house sales
1.2m

* HMRC UK Property Transactions (Feb 19)
** Savills Prime Residential Rents (Q4 2018)

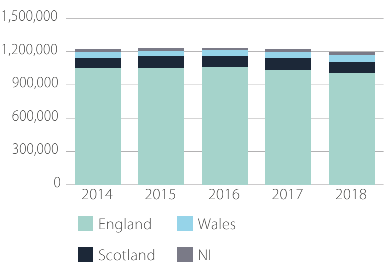
Residential property forecasts Autumn 2017



Long-term international migration, UK



Residential property sales of £40k or above



Key market opportunities

Growing private rented sector
The private rented sector ("PRS") has grown from a low of 9% to almost 20% of UK housing stock, that's 5.4m homes, overtaking the social housing sector. In England alone, 4.8m homes were privately rented at 31 March 2017*. By 2021 it's estimated that the PRS will account for 5.8m privately rented homes in the UK.

Privately rented homes
5.4m

* Ministry of Housing, Communities & Local Government, Dwelling Stock Estimates: England (May 18)

Increased regulation
The government is trying to professionalise the property rental sector. It's increasing regulation on both agents and landlords. The tenant fee ban from 1 June 2019 is expected to cause a significant reduction in the number of agents from more than 25,000 today. Similarly, for landlords, obligations are being continually increased. Only 25% of landlords in England have ever belonged to a recognised trade body*. These changes favour agents in fully supported networks. In England, landlords using agents for letting and management services was just 14%* in 2018.

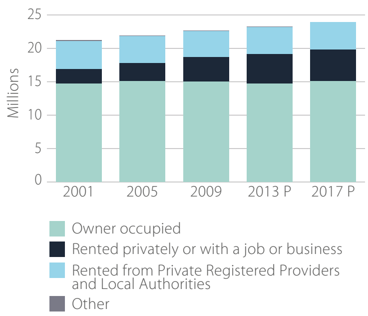
* Ministry of Housing, Communities & Local Government, English Private Landlord Survey 2018 (Jan 19)

Online/Hybrid
This element of agency has established a growing foothold. There has been a "shake out" going on amongst online/hybrid agents with a number of notable demises as well as some scaling back. How many will remain and whether any new entrants will appear is yet to be seen. Online/hybrid agents accounted for 7.2%* of transactions in Q4 2018 an increase of 19% over the same period in the prior year when their market share of transactions was 6.1%**.

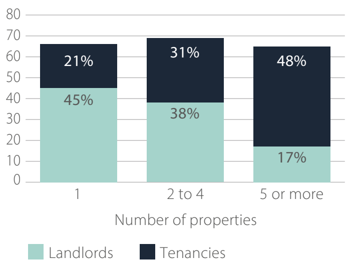
Market share
7.2%

* Statista
** Twenty CI

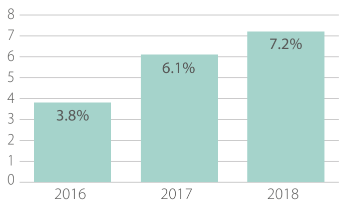
Dwelling stock in England by tenure, as at 31 March 2001–2017



Landlords by portfolio size in England 2018



Market share in final quarters of 2016, 2017 and 2018



Clear strategy to deliver growth

Our Mission

The Property Franchise Group PLC intends to develop both the depth and breadth of its network and, by importing digital and marketing techniques, grow the local market share of its franchisees.

Our Vision

To achieve an increasing UK market share of lettings and estate agency transactions, using a proven franchise model and multiple, and clearly differentiated, property brands.

Strategy

Buy & Build

The Group continues to investigate possible acquisitions either of property franchisors or complementary businesses whilst at the same time assisting franchisees with acquisitions of independent agents' businesses.

Operational Efficiency

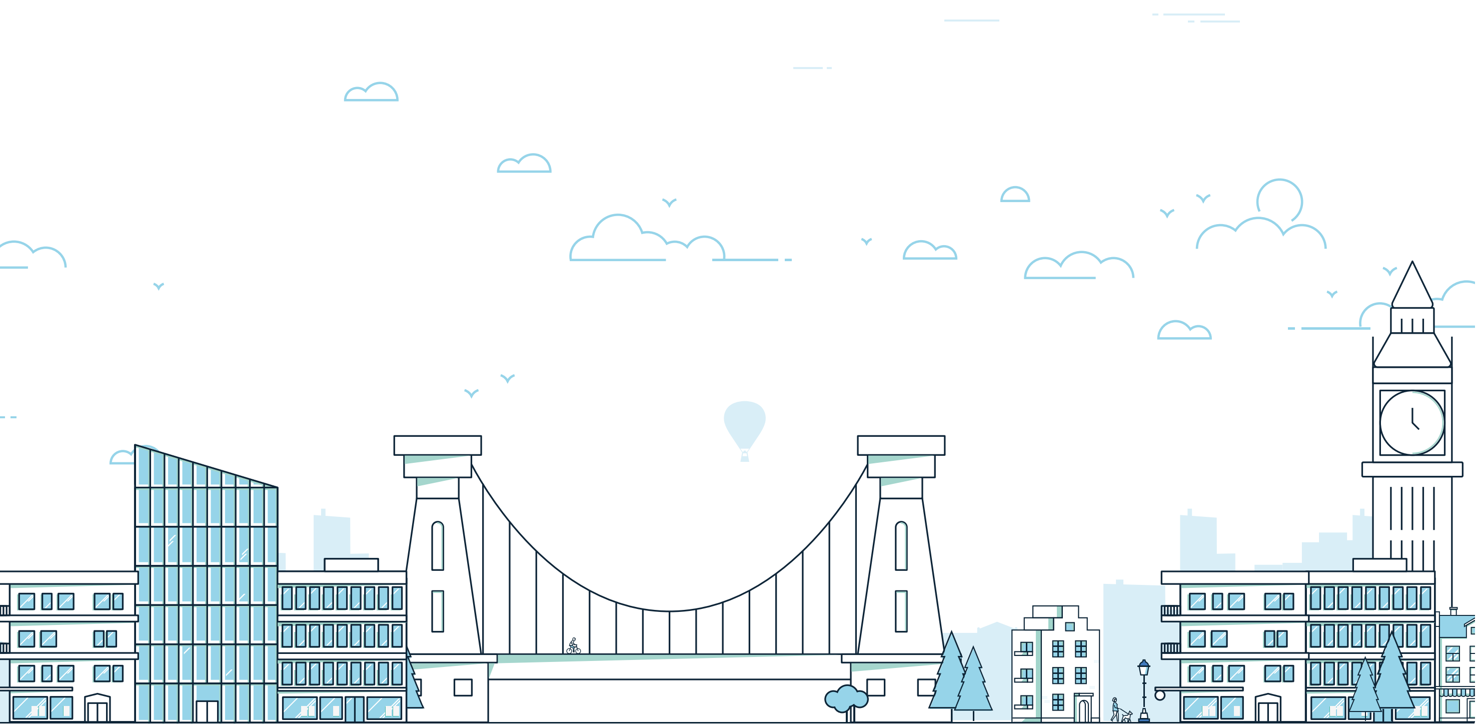
We have continued to develop relationships with key suppliers in our sector and are now looking beyond to other sectors and their suppliers. We continue to ensure that all our traditional brands are on common platforms and to invest in developing our digital marketing capabilities.

Income Diversification

We aim to increase our earnings from property sales and financial services by leveraging the estate agency credentials acquired with Xperience together with the know-how acquired through the acquisition of EweMove. However, the Group's core focus will continue to be its lettings business.

Franchisee Recruitment/Expansion

The recruitment of franchisees for new territories and for resales of existing territories is central to maintaining the health and vitality of the network as well as achieving our network aims. At the same time we are assisting franchisees to expand through acquisitions in existing territories and to grow into new territories, often by buying out neighbouring franchisees.



Progress to date

- In 2018 the Group continued to invest in EweMove, developing its existing franchises, and recruiting 15 experienced estate agents as franchisees (2017: 15 recruited) and developing a sustainable profit path with an EBITDA of £0.4m (2017: -£0.1m).
- EweMove had 118 franchise territories at the year end (2017: 120) and contributed £2.7m of turnover (2017: £2.1m).
- Assisted franchisees with 28 deals (2017: 12) resulting in the acquisition of 3,115 properties under management (2017: 2,012).

Key performance indicators

Revenue from Group acquisitions

£5.4m

+21% (2017: £4.5m)

Managed properties acquired by franchisees

3,115

+55% (2017: 2,012)

- In the traditional brands we delivered 30,474 leads from pay per click campaigns (2017: 16,609). Open rates on emails sent from our new CRM system have been running at 68% compared to an industry benchmark of 26%.
- EBITDA margin percentage before exceptional items and share-based payment charges was 45% (2017: 44%).
- Investment in our leadership team, marketing team and IT team in 2018 caused average employee costs to increase by 10%. This was significantly offset by the increase in turnover per head of 7%.

Adjusted EBITDA margin

45%

+4% (2017: 44%)

Turnover per head

£225k

+7% (2017: £211k)

- The number of house sales' transactions completed across the Group increased by 3% from 10,432 to 10,763 in a flat market on the back of sales instructions increasing by 6%.
- Revenue from financial services including MSF increased by 5% comparing favourably with sales instructions which increased 6%.

Estate agency MSF as % of total MSF

31%

+7% (2017: 29%)

Financial services income

£141k

+5% (2017: £135k)

- In 2018 EweMove recruited 23 franchisees for new territories of which 15 were experienced estate agents (2017: 31 franchisees, 15 experienced).
- The traditional brands recruited 3 new franchisees for resales (2017: 6).
- The tenant fee ban from 1 June 2019 threatens the financial viability of agents including some of our own so we have been engaged in assisting consolidation in 2018 to financially strengthen our network. The number of traditional brand offices has reduced from 283 to 259 over the year. Existing franchisees bought 22 resales.

Franchisee suitability meetings conducted

57

-31% (2017: 83)

Franchisees recruited

26

-30% (2017: 37)

Over the last 25 years we have built a robust and effective business model

Our business model and proposition

We pride ourselves on the comprehensive start-up training and support we offer. As the success of our franchise owners on an ongoing basis is very important to us we support them throughout their initial 5-year franchise agreement and beyond.

Our services

- There is ongoing support through a regional training programme, online training, acquisitions team and our business development team.
- All offices have unlimited access to our business systems, helpdesk and to specialist "market intelligence" tools.
- Marketing campaigns and collaterals are developed in coordination with the brands' marketing committees and made available through a digital hub.
- We build, update and optimise our 6 brand websites.
- We support our franchisees with regular customer targeted mailings/messages, PR and monthly newsletters.
- We use specialist operational software and work with our providers to ensure all franchisees and their staff are competent users.
- We have an internal audit team and conduct regular checks on the financial practices of our franchisees.

Our key strengths

Expertise and scale

We have significant expertise in buying, letting and managing rental properties. In the last 5 years we have developed our expertise in selling houses such that today 31% of our business comes from this activity. The franchise network employs over 2,300 people and a growing number of our franchise owners have +20 years of experience in this sector.

National footprint

We have representation stretching from Falmouth to Aberdeen. We are represented in most major towns and cities including 41 offices in London. What sets us apart is that we achieve this both through traditional high street offices and through virtual offices where the franchisee typically works from home or a serviced office.

Multi brand strategy

Whilst we have a national brand in Martin & Co, we saw the opportunity to increase our franchisee gene pool, add to our expertise through experienced estate agent franchise owners, meet the aspirations and ambitions of our franchise owners, increase our national footprint, stimulate further franchisee recruitment and derive value from long established brands.

How we add value

Established franchise model

At our core, all our brands operate exactly the same franchise model. It's a model that's been developed over the last 25 years. Based around long-term commitment by franchisor and franchisee to the development of the franchisees' revenue streams. Franchisees sign a 5-year agreement and agree to put all their efforts into developing the franchise brand in their territory.

Central support

The support required by franchisees changes as their franchises mature and as the economic environment changes. We continue to evolve and invest in our central support through IT, marketing, assisted acquisitions and compliance. We have also benefited from maintaining a core team of experts in franchising and business development since IPO. Of course, we need and use external support - IT, marketing, funding, businesses for sale, lettings, sales, legal and training.

Harnessing technology

The use of technology has been slowly adopted and evolved in our sector. The acquisition of EweMove helped us understand how we might meet customers' expectations. Having improved lead generation through providing useful information and improved websites, we have built a customer relationship management ("CRM") platform to be able to engage at the right times with customers. Live chat has been implemented on a 24/7 basis.

Providing leadership

A franchisor's role is to research, gain insight into the future environment and determine those factors likely to impact franchisees' businesses in the future. We then implement strategies to help them navigate a good path. A leadership team of 7 does this (4 women, 3 men). We also recognise that experienced franchise owners have an important role to play and we achieve this through various franchise committees and regional business meetings.

Who benefits

Shareholders

- A stable earnings' stream due to the size of the managed portfolio of properties.
- A growing dividend through the success of acquisitions and diversifying income.

Earnings per share
13.3p
-6% (2017: 14.2p)

Full-year dividend
8.4p
+12% (2017: 7.5p)

Franchisees

- At the forefront of technology and digital marketing in our sector.
- Central expertise to steer franchisees through challenging economic times.
- Opportunities to achieve scale and ambitions, some through assisted acquisitions and some through consolidation. Existing franchisees bought 22 resales in 2018.

Total number of offices
377
-6% (2017: 403)

Assisted acquisitions
3,115
+55% (2017: 2012)

Landlords

- One of the largest letting agents in the UK with a deep understanding of lettings.
- Franchisees supported by the best operational software available.
- High standards of compliance that exceeds legal requirements.

Number of managed properties
55,000
+7% (2017: 52,000)

Tenants

- Local service and extensive local knowledge to help find the right property.
- Long established and far reaching landlord relationships.
- A full redress scheme when needs arise.

Properties let in year
31,736
+1% (2017: 31,366)

Vendors

- A service more suited to customers, having the choice of traditional or hybrid.
- No sale no fee across all our brands.
- Deep understanding of local markets, some brands with +150 years of operation.

Properties sold in year
10,763
+3% (2017: 10,432)

We have a comprehensive digital marketing infrastructure to help franchise owners to develop and grow

Customer Relationship Management ("CRM")

Our bespoke CRM platform launched in Q4 2018. Data held on over 2m customers within the GDPR compliant single customer view platform. A trigger based eCRM programme sends over 53,000 variants of emails to customers and prospects, delivering an open rate of over 68% (vs industry benchmark of 26%) and over 25% click through rate (vs industry benchmark of 13%).

Pay Per Click ("PPC")

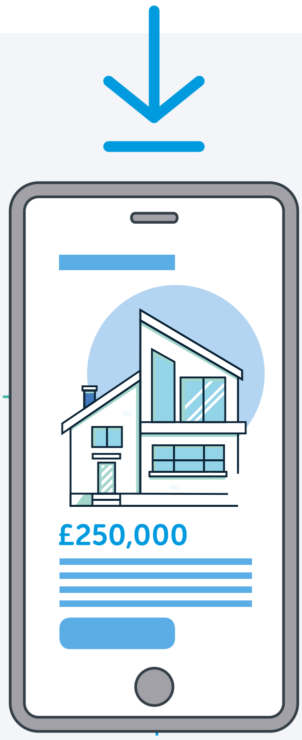
PPC is a paid advertising format operating on the Google and Bing search engines online. PPC campaigns are optimised to generate high value, cost effective leads to offices through the brand websites. In 2018, PPC campaigns generated over 550,000 visits to the brand websites (171% increase year-on-year) and over 30,000 leads (83% increase year-on-year).

Search Engine Optimisation ("SEO")

SEO is the process of affecting the online visibility and ranking of a website in a web search engine's unpaid organic results. Brand websites have been optimised to support SEO with over 70 recommended technical improvements and insight driven content optimisation. Social media and eCRM supports SEO by delivering relevant, high quality traffic to the brand websites.

Social Media

Social media is a cost-effective channel to improve brand consideration and support SEO by driving quality traffic to the brand websites. Using insight from SEO and PPC keyword analysis, a regular organic and paid programme of relevant social media content attracts a high value target audience.



Local Insight

Local market insight is a valuable tool to drive brand credibility and consideration as well as supporting SEO. Using real-time land registry data supplied by Dataloft, every high street office has a postcode specific local market insight page on their website. Various CRM emails and social media campaigns direct traffic to the relevant office local insight page.

Live Chat

24/7 Live Chat support is available across the brand websites. Over 35,000 visitors to the websites used Live Chat services in 2018 with over 50% of those chats taking place outside of office hours providing high quality 24/7 customer service.

Instant Valuation

Over 52,000 instant valuation reports were downloaded through the brand websites in 2018. Provided by Hometrack, the reports include not only the customer's property valuation but local market insight and are used by many UK mortgage lenders. Offices have great success when responding to these leads immediately to secure valuation appraisal appointments.

Effective management with regular reviews, evaluations and prioritising of risks

The Board considers that the risks detailed below represent the key risks to achieving the Group's strategy. There could be additional risks and uncertainties which are not known to the Board and there are risks and uncertainties which are currently deemed to be less material, which may adversely impact on the achievement of the Group's strategy and objectives.

Risk area	Potential impact
No guarantee of growth There is no certainty that the Group will continue to successfully execute its strategy for growth. Its main source of revenue is Management Service Fees ("MSF") derived from franchise network turnover. MSF is dependent on market conditions and the experience/expertise/commitment of the franchisees. We continue to expect our franchisees to outperform the underlying growth rates for their core services and to continue to diversify their offerings.	Reduced growth in MSF especially from sales which are more prone to economic uncertainty. Reduced market share and representation. Poor or no profit growth from the franchise model. Less attractive to new franchisees for which a growth track record is an essential element.
Legislative changes and government policy The residential property market is being continually influenced by changes in UK legislation (often UK specific and not EU driven), changes in government policy and Brexit. The outcomes of these influences on the housing market are uncertain. This can cause short-term changes in the behaviour of our clients and long-term changes in the way our sector develops.	Landlords are starting to feel the impact of tax changes in interest relief on mortgages, the Homes (Fitness for Human Habitation) Act came into force on 20 March 2019 and a redress scheme for private landlords, The Housing Complaints Resolutions Service, is promised shortly. All these factors and the trends in policy may encourage private landlords to sell their properties. Letting agents will be banned from charging tenants' fees from 1 June 2019. It's a significant source of income for our franchisees (estimated at 16% of lettings turnover). Brexit weighs heavily on the sales market with transactions expected to mirror 2018 in 2019. Longer range forecasts show 0.1m (8%) more transactions in 2021 compared to 2018.
Ability to compete for portfolios of managed properties The Group needs to continue to find suitable portfolios of managed properties for its franchisees to buy and more of them to meet its targets. We are not the only franchisor in our sector pursuing this strategy and we also face competition from well-known estate agents. At the same time the tight lending criteria of major lenders and some evidence of tightening in the next tier may limit the external funding available to our franchisees.	With fewer opportunities to win letting instructions due to the increased length of tenancies and the loss of tenant fees, franchisees should buy turnover. Some of those that don't may end up running unprofitable businesses and, whilst most will be bought out by existing franchisees, some network representation may be lost. Franchisees may be unable to complete on deals for lack of external funding. Slowing growth in the portfolio of managed properties.
Ability to find, recruit, retain and scale up skilled franchisees An inability of the Group to attract new franchisees with the necessary skills, expertise and resources to cold start or purchase resales of existing territories and/or an unwillingness for existing franchisees to take on further opportunities would impact on our growth.	There may be slower growth through an inability to increase market representation or achieve a timely exit for a franchisee. The uplifts in revenue seen in the first year of a resale may be lower or fewer. We may suffer a fall in franchise resale income.
Reputational risk to our brand A strong brand is key to being successful in any sector and central to that is the reputation of the Group and its franchisees. Our combined ability to provide our service commitments and the way in which we do that is central to our reputation. Failures by us or our franchisees to meet the expectations of and commitments made to our customers can readily impact reputation in today's digital age and, thereby, turnover.	Failure by the franchisees to meet the expectations of landlords, and tenants or to fall short of the standards set by the Group may have a material impact on reputation. As a result, they may lose landlords and revenue. We may lose MSF and find it difficult to recruit franchisees.

Mitigation	Indicator
The leadership team and Board continually monitor revenue from MSF and the underlying KPIs that determine future MSF. Variances are noted and explained to determine where future challenges may exist and to determine key focuses for the leadership team and network of franchisees. These are communicated through regular business meetings and briefings of our franchise network. The EweMove acquisition has given us access to a lower cost model of operating a franchise, a continuing significant entry of "new blood" and insight/experience into improving both our reach and our appeal to customers.	No change
Professionalisation of the private rented sector is underway and we aim to win more instructions as a result. Our network of franchisees has complied with higher than legal standards for years and we intend to ensure that they continue to do so. We audit them every year to ensure that they do. Our focus is on exploiting digital marketing further to provide good quality leads to our network, encouraging further participation in our assisted acquisitions programme as a bed rock for stability, persuading franchisees that when only 14% of private landlords use agents for management services there is still a significant opportunity available to them and looking at upsell activities through financial services. Our Board has invested in people (more focused expertise), IT, marketing and the assisted acquisitions programme.	Increase
A process exists internally for finding and completing on acquisitions supported by very experienced external resource which was enhanced in 2017 and again in 2018. There is financial support provided to franchisees for expanding. There is estimated to be 25,000 agents in the UK all with potential portfolios to buy, and with estimates of a 20% reduction in agents over the next 3 to 5 years, there should be sufficient supply. The Group has expanded its relationships with non-high street lenders. It has further cash available which it can allocate to this programme if needs arise.	Decrease
Experienced franchise recruitment department. EweMove has been one of the only and certainly the fastest growing "cold start" franchisee recruiters in our sector for the last 5 years. Strong demand for resales from existing franchisees. A strong offering and one of the lowest rates of Management Service Fees amongst our competitors with increased support in place since 2017 for experienced franchisees to grow their representation in existing and new territories. Supportive UK banks.	No change
The Group strives to make sure that its franchisees achieve the service levels set down for them, remain compliant with the law and remain compliant with our own standards by providing support specialists (internally and externally), regular auditing and training. PR agencies are retained to monitor, assist with and advise on strategies to minimise these risks. The Brands have been positioned to make it clear where their expertise lies, what each brand stands for and the experience a customer can expect. EweMove has net promoter scores to identify high achievers and under performers who need assistance.	No change

Increase Decrease No change

The Board is committed to the development of the business in a socially responsible way

Stakeholders

The Group's stakeholders include shareholders, employees, franchisees, suppliers, banks, regulators and industry bodies. Engaging with stakeholders strengthens the Group's relationships and helps the team to make better business decisions. The Board receives regular updates on stakeholders' views on the issues which are of significant common interest and considers these issues in its decision-making.

People

The Group is committed to equal opportunities. Recruitment and promotion are undertaken on the basis of merit, regardless of gender, race, age, marital status, sexual orientation, religion, nationality, colour or disability. If an employee becomes disabled during the course of their employment, adjustments are made where possible to enable the employee to carry on working despite their disability.

Headquartered in Bournemouth, Dorset, the Group comprises 50 employees at 31 December 2018 including 15 who are based at EweMove's offices in Cleckheaton and a leadership team of 7 (including 2 main Board Directors). All of whom are dedicated to supporting our franchisees.

Happy employees

Our employees are one of our most important stakeholder groups.

To recognise their contribution to our success story both through their own efforts and through their long-term commitment to our vision, they all participate in our share option scheme once they qualify to do so. Recently, they have formed a social committee with the Group's support to organise events during the year, including charitable fund raising events and, as further recognition of their importance to us, their holidays have been increased by 1 day, their birthday.

Communicating with franchisees

We are bound in partnership with our franchisees to help develop their franchise territories, offerings and turnover. One way in which we work together is through the brands' national marketing committees where our Group Marketing Director assists those committees to make decisions about where to spend the money raised through their respective marketing levies and to appraise the success of those decisions.

All our franchisees are required to participate in our half yearly regional business meetings which address key factors affecting the residential property market, explore opportunities to grow their revenue and discuss ways of improving customer service. These are hosted by the franchise brand's Managing Director and often attended by the Executive Directors of the Company.

Our annual franchisee conference is hosted by our Chief Executive and attended by our key suppliers as well as guest speakers. It looks at what the year ahead may bring, discusses general franchisee performance over the past year and encourages interaction so as to gain feedback on how to address risks and opportunities. This conference is attended by the Board of Directors.

Every week a newsletter called *In The Know* highlights any significant changes in our processes and procedures, as well as new offerings, changes in the services available from third parties and training events.

Conduct of business

The Group strives to conform to all relevant legislation and codes of practice and this is monitored regularly at Board level.

The Board understands that the Group's conduct of its business can have social and environmental impacts and considers these impacts and what can be done to minimise any detriment in its decision-making.

The Group is committed to social and environmental awareness throughout its operations, notwithstanding the relatively low environmental impact of the Group's activities. The Group takes its obligation to its customers, employees, suppliers and the local community very seriously.

Anti-Bribery Policy
The Group adopts a zero tolerance towards bribery.

Communicating to our shareholders

The Board recognises and places significant importance on the Group's communications with its shareholders. The Group publishes an interim financial statement for its half-year results, usually in the second week of September, and an Annual Report of its full-year results, usually at the start of April. Both events are accompanied by roadshows where the Executive Directors discuss the results with analysts, press, current institutional investors and potential institutional investors. At the end of January, the Group publishes a trading update for the year just completed.

The Annual Report is mailed to shareholders along with details of the AGM and resolutions to be voted on. It is also accessible via the Company's website as is our interim results presentation at www.propertyfranchise.co.uk/investor-relations. We have recently signed an agreement with Research Tree to enable access to the reports written by Cenkos on us, historical analysis of our financial performance and other published information on us.

The Strategic Report is contained on pages 1 to 21.

It was approved by the Board on 8 April 2019 and signed on its behalf by:

David Raggett
Chief Financial Officer

1

Richard Martin
Non-Independent Non-Executive Chairman

After leaving Bristol Technical School, Richard became an apprenticed sterotyper for the Bristol Evening Post in 1967. In 1975 he moved to The Western Gazette, another newspaper in the same group based in Yeovil. Ahead of the introduction of computerisation into the industry, Richard moved into the commercial side and in 1981, became trained in advertising design and sales. After a few years he gained promotion to advertising manager for the group's free press titles distributed throughout Somerset, Dorset, Devon and Wiltshire. Following the profitable sale of a retail business in early 1986, which Richard set up and was managed by his wife Kathy, he left the newspaper business to pursue his interest in property and forge a career in estate agency. Richard founded Martin & Co in 1986 in Yeovil. In 1995, Martin & Co became a franchise operation and the brand has since gone from strength to strength.

2

David Raggett
Chief Financial Officer

Since qualifying with PwC as a Chartered Accountant David has spent his whole working life in franchising as franchisor and franchisee. Initially David held financial responsibility for several Ford franchises before, in the mid 90s, moving to Porsche's UK headquarters. Here he held financial responsibility for its distribution, retail and financial services businesses at various times, as well as being their company secretary and, for several years, Head of Legal. In 2007 David took up the role of Finance director for the Motability Scooter and Powered Wheelchair Scheme to restore its financial stability, to improve its offering and to expand its customer base. After successfully turning the scheme around and leading it into new ownership, David joined the Group in February 2013.

3

Christopher Varley
Company Secretary

After qualifying as a Chartered Accountant Chris spent 4 years at BDH Limited a subsidiary of Merck. He then worked for Beale PLC, a listed department store group, from 1987 to 2015 where he held senior positions in Finance and was company secretary for over 18 years. Chris joined TPFG as Company Secretary in April 2016.

4

Paul Latham
Independent Non-Executive Director

Paul is a Chartered Surveyor. Until 2014, he sat on the Residential Board for the Royal Institution of Chartered Surveyors of which he was Chair until 2011. Paul served as Deputy Group CEO of LSL Property Services plc until 2010 having been part of the management buyout in 2004, which ultimately saw the business successfully list on the London Stock Exchange in 2006. During this period Paul was managing director of a number of the LSL Group's subsidiary businesses including e.surv Chartered Surveyors and also sat on a number of external company boards and trade bodies. Subsequently Paul served as a non-executive director of LSL until 2012. Paul was appointed as an Independent Non-Executive Director of The Property Franchise Group PLC's Board and Chair of its Remuneration Committee in December 2013.

5

Ian Wilson
Chief Executive Officer

Ian has worked in the property industry for over 35 years. After graduating from Bristol Polytechnic with a degree in Housing, Ian's first job was to manage one of the UK's most deprived housing estates in the North East of England. When the Conservative government introduced the Housing Act 1988 which set the legal framework for a resurgence of the private rented sector, Ian was working as a Fair Rent Officer and shortly after applied to Halifax Property Services in Newcastle-upon-Tyne to become its first Area Lettings Manager. Ian moved to General Accident Property Services as a Regional Lettings Manager and subsequently was promoted to National Lettings Manager. Ian moved to Connells as its first Lettings director and in the course of business met Richard Martin, who invited Ian to join Martin & Co as Managing Director in July 2003.

6

Phil Crooks
Independent Non-Executive Director

Phil is a Chartered Accountant and currently a partner in Forensic and Investigations Services at Grant Thornton UK LLP with 40 years' experience in accounting, auditing and investigations. He was previously UK Head of Audit for 6 years and a member of the International Assurance Advisory Board at Grant Thornton. Previously he spent 15 years at Price Waterhouse. Phil has extensive audit and advisory experience, addressing financial reporting and accounting issues and has worked with a wide range of listed and private international companies. Phil was appointed as an independent Non-Executive Director of The Property Franchise Group PLC's Board and Chair of its Audit and Risk Committee in May 2015.

High standards of corporate governance contribute to our success

Richard Martin
Chairman

My main function is to manage the Board, so the Company and Group are run in the best interests of stakeholders. As part of my role as Chairman I am responsible for overseeing the adoption, delivery and communication of the Company's corporate governance model. Corporate governance is an important element of the management of long-term shareholder value, mitigating the risks and helping to create sustainable growth.

Since our IPO in December 2013, we have stated that the Directors recognise the importance of applying sound corporate governance guidelines, to the extent appropriate for a Company of our nature and size, and we have observed and complied with the Corporate Governance Guidelines devised by the Quoted Companies Alliance ("QCA"). Following the London Stock Exchange's recent changes to the AIM rules requiring AIM-listed companies to state which recognised corporate governance code they have adopted; our Board reconfirms its commitment by adopting the Quoted Companies Alliance Corporate Governance Code (Edition 2018) which contains 10 principals. We believe this code provides us with the most appropriate governance code to allow us to successfully develop our business. Our full statement of compliance with the Quoted Companies Alliance Corporate Governance Code is set out on our website at www.propertyfranchise.co.uk/investor-relations/governance-policy.

We continually review the framework within which we operate, reflecting upon the updated guidelines and research published by the QCA so as to ensure we have a framework reflecting the complexities of our business which is capable of adding value as we grow.

The Board sets the strategic direction, regularly reviews performance and ensures that there are sufficient and appropriate resources available to support its achievement. It is satisfied that there are the necessary controls and resources in place to discharge these responsibilities.

Our primary objective is to enhance shareholder value and to ensure that the Company and Group is managed for the long-term benefit of its shareholders. We do recognise our responsibilities to all stakeholders in our Group and the importance these relationships play in the delivery of our vision. The Board promotes a culture of good governance in dealing with all stakeholders.

Changes to corporate governance regime

We confirm that our governance structures and practices are in agreement with the Quoted Companies Alliance Corporate Governance Code (Edition 2018).

Richard Martin
Chairman

The Board

The Board comprises the non-independent Non-Executive Chairman, 2 independent Non-Executive Directors and 2 Executive Directors who are the Chief Executive Officer and the Chief Financial Officer of the Company. It has established an Audit and Risk Committee and a Remuneration Committee.

The Board is responsible for the overall performance of the Group, which includes the broad strategic direction, development and control of the Group. The policies and strategies of the Group are formulated by the Board and the detailed considerations about the day-to-day operations are delegated to a senior management team under the leadership of the Executive Directors.

The Board of Directors meets at least 9 times a year to review the implementation of strategy and policy decisions and to review the Group's progress to ensure that the operation of the Group is at all times in line with the Group's objectives.

The Board has regular contact with its advisers to keep up to date with corporate governance matters. The Group purchases appropriate insurance cover in respect of legal action against its Directors.

The Chairman's main function is to manage the Board so that the Group is run in the best interests of its stakeholders. It is also the Chairman's responsibility to ensure the Board's integrity and effectiveness.

The Chief Executive is responsible for the running of the Group's businesses. There is a schedule of matters specifically reserved for the Board's decision to ensure that the management and direction of the Company are under its control. Each Executive Director has his own sphere of responsibility. Decisions relating to strategy, major contracts, acquisitions, internal controls for example are taken at Board level.

The Board has an appropriate balance of skills, capabilities and experience, including in areas of residential property sales and lettings, franchising, finance and marketing. Each Directors' biography is set out on pages 22 to 23 which demonstrates the experience mix.

The Board are supported by a strong senior management team which contains two managing directors of the franchisors, a marketing director and several qualified accountants alongside the Chief Executive Officer and Chief Financial Officer.

During the years ended 2017 and 2018, the Remuneration Committee has sought advice from RSM and Deloitte in relation to share option schemes and other employee reward mechanisms.

All Directors are able to take independent professional advice in the furtherance of their duties and to attend seminars and training to assist them with the development of their own knowledge and expertise.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that Board procedures are followed and the applicable rules and regulations are complied with.

Evaluation of Board performance

The Board reviews its effectiveness internally by discussion, members suggest improvements and where agreed upon, these are implemented. However, the Board does not consider it appropriate for a Company of its size to carry out regular formal evaluations of its performance as a unit.

Directors time commitments

The Executive Directors are employed on a 8.30 am to 5.30 pm basis and such additional hours as may be required for proper performance of their duties and responsibilities. Non-Executive Directors are required to allocate sufficient time to properly carry out their duties and perform their roles as the circumstances will dictate. This includes attendance at monthly Board meetings, committee meetings and the AGM. Non-Executive Directors are required to devote appropriate preparation time ahead of each meeting.

Non-Executive Directors/Board independence

The Company has two independent Non-Executive Directors, Paul Latham and Phil Crooks, who provide an important contribution to its strategic development. Paul Latham and Phil Crooks both meet the independence criteria which are set out in the UK Corporate Governance Code.

Board Committees

The Board has delegated specific responsibilities to the Audit & Risk and Remuneration Committees. The Board considers that all the members of each committee have the appropriate experience. All Board Committees have their own terms of reference which are available on request.

Remuneration Committee

The Remuneration Committee is chaired by Paul Latham and its other member is Phil Crooks. It met 3 times in 2018 and will continue to meet at least twice a year.

The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior executives and specific remuneration packages for Executive Directors including pension payments and compensation rights. It is also responsible for making recommendations for grants of options under the Share Option Plans.

The remuneration of Non-Executive Directors is a matter for the Board. No Director may be involved in any discussions as to their own remuneration.

Details of the level and composition of the Directors' remuneration are disclosed in the Directors' remuneration report on pages 29 to 30.

Audit and Risk Committee

Phil Crooks is the Chair of the Audit and Risk Committee. Paul Latham is its other member. It met 4 times in 2018 and will continue to meet at least twice a year.

The Audit and Risk Committee has the primary responsibility for ensuring that the financial performance of the Group is properly measured, reported on and monitored. These responsibilities extend to:
- the Group's draft financial statements and interim results statement prior to Board approval and reviewing the external auditor's detailed reports thereon;
- the appropriateness of the Group's accounting policies;
- the potential impact on the Group's financial statements of certain events and risks;
- the external auditor's plan for the audit of the Group's accounts, which includes key areas of audit focus, key risks, the proposed audit fee and approving the terms of engagement for the audit;
- internal assurance reporting;
- non-audit services;
- the dividend policy;
- the processes for identifying the risks to the business and managing those risks; and
- its terms of reference.

For more information on the work of the Audit & Risk Committee during the year please refer to its report on pages 31 to 32.

Risk management

The Board carries out a risk review annually. Board Directors and senior management all contribute to the drawing up of the risk review. The Audit and Risk Committee review the document, examine the risks, decide on the actions to recommend and then pass it on to the Board for approval. The document sets out the name of the risk as well as describing it, considering the effect on the business, looking at the controls in place, looking for additional mitigating factors, and deciding its seriousness by considering the probability of it occurring and what damage it would cause if the event occurred. Once a risk has been determined as requiring action, the Board allocates the responsibility to the appropriate Board member.

During the course of the year the Board review progress against the risks set out in the risk review. The key risks are set out in the section principal risks and uncertainties on pages 18 to 19.

Directors attendance at meetings held during the financial year ended 31 December 2018

	Board	Audit Committee	Remuneration Committee
Number of meetings	10	4	3
Richard Martin	9	–	–
Ian Wilson	10	–	–
David Raggett	10	4	–
Paul Latham	9	4	3
Phil Crooks	10	4	3

Internal control

The Board acknowledges that it is responsible for the Group's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has established clear operating procedures and responsibility structures. These procedures include:
- monthly financial reporting against budget and the prior year;
- day-to-day financial control of operations;
- annual budgeting and quarterly forecasting;
- the monitoring and assessment of risk;
- performance monitoring and the taking of remedial action; and
- planning, reviewing, approving and monitoring major projects.

Relations with shareholders

The Board is committed to maintaining good communications with shareholders and the website propertyfranchise.co.uk provides up-to-date information on the Group.

The AGM is an important opportunity to meet and communicate with its investors and for them to raise with the Board any issues or concerns they may have. The Group dispatches the Notice of AGM at least 21 days before the meeting. Registered shareholders have direct access to the Group and receive a copy of the Annual Report, which contains the full financial statements of the Group.

The Directors present their Annual Report and audited financial statements for the financial year ended 31 December 2018. Information that would normally be presented in the Director's report has been presented in the Group's Strategic Report in accordance with S414C(11) of the Companies Act 2006.

Principal activities

The principal activity of the Group during the year was the sale of franchises and the support of franchisees in supplying residential letting, sales and property management services within the UK.

Results for the financial year and business review

The Group achieved a profit before tax of £4.3m in the financial year as compared to £4.3m for the prior year and a profit after tax of £3.4m (2017: £3.7m). The results are shown in the Consolidated Statement of Comprehensive Income on page 36. A full review of the Group's business is included in the Strategic Report on pages 1 to 21.

The net exceptional gain for 2018 is nil (2017: net exceptional gain £0.7m). In the prior year the net exceptional gain related entirely to EweMove, being the reduction in contingent consideration payable of £1.2m and a write-down from a revision to valuation estimates of £0.5m against the master franchise agreement.

Financial risk management

The Group's objectives and policies with regards to financial risk management are set out in note 28 to the consolidated financial statements.

Future developments

The Group intends to further develop some key focuses for it over the last two years. These are summarised below:

- Improved use of digital marketing to win business for all our brands.
- Increased focus and support to aid franchisees in buying independent operators.
- Continued development of our financial services offering.
- Continued recruitment of experienced estate agents as franchisees in EweMove.
- Consolidation of the number of franchise owners.

More details on the progress made to date with these key areas of focus can be found in the Strategic Report on pages 1 to 21.

Dividends

The Group paid a final dividend for the financial year ended 31 December 2017 of 5.4p per share on 21 May 2018 and an interim dividend for the financial year ended 31 December 2018 of 2.4p per share on 3 October 2018.

The Board recommends a final dividend for the financial year ended 31 December 2018 of 6.0p per share (2017: 5.4p per share) to be paid on 28 May 2019 to all shareholders on the register at the close of business on 23 April 2019 subject to shareholders approval on 22 May 2019.

Directors

The Directors shown below have held office throughout the year unless otherwise stated:
R W Martin
I Wilson
D A Raggett
P M Latham
P J Crooks

The Directors' remuneration and the Directors' interests in the Group are disclosed in the Directors' remuneration report on pages 29 to 30.

The Group maintains Directors and Officers liability insurance, which gives appropriate cover against any legal action that may be brought.

Going concern

The Group and Company's financial statements have been prepared on a going concern basis. The Group has produced detailed budgets, projections and cash flow forecasts. The Directors have concluded after reviewing these budgets, projections and forecasts and making appropriate enquiries of the business that the Group and Company has adequate resources to continue in operational existence, and execute its plan for acquisition growth, for the foreseeable future.

In October 2014, the Group agreed a £5m loan facility with Santander UK plc of which £3.4m remains unutilised and available to the Group at 31 December 2018 for development and expansion of operations. As this facility is due to expire in October 2019, discussions are at an advanced stage for an enhanced new facility. The Board has already approved an offer in terms of amount and pricing subject only to agreement of the legal terms.

For these reasons, the Directors continue to adopt the going concern basis in preparing the financial statements.

Auditor
BDO LLP has expressed their willingness to continue in office. In accordance with section 489 of the Companies Act 2006; a resolution to reappoint BDO LLP will be proposed at the Annual General Meeting.

The Directors confirm that:
- so far as each Director is aware, there is no relevant audit information of which the Group and Company's auditor is unaware; and
- the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Statement of Directors' responsibilities
The Directors are responsible for preparing the Strategic report and the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. The Directors are required by the AIM Rules of the London Stock Exchange to prepare Group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the Company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the Group and the Company and the financial performance of the Group. The Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing the Group and Company financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

By Order of the Board

David Raggett
Chief Financial Officer
8 April 2019

Remuneration Committee

The remuneration of each Executive Director is determined by the Remuneration Committee. It is chaired by Paul Latham and its other member is Phil Crooks.

Policy on remuneration of Directors

The Remuneration Committee has responsibility for determining, within agreed terms of reference, the Group's policy on the remuneration of senior management and specific remuneration packages for Executive Directors including pension payments and compensation rights. It is also responsible for making recommendations for grants of options under the Share Option Plan.

The remuneration of Non-Executive Directors is a matter for the Board. It consists of fees for their services in connection with Board and Committee meetings. No Director may be involved in any discussions as to their own remuneration.

The remuneration policy is designed to shape the Group's remuneration strategy for an anticipated 3 years, ensuring that the structure and levels of remuneration continue to remain appropriate for the Group. The policy aims to:
- Pay competitive salaries to aid recruitment, retention and motivation being reflective of the person's experience and importance to the Group.
- Pay annual bonuses to incentivise the delivery of stretching short-term business targets whilst maintaining an element of variability allowing flexible control of the cost base and being able to respond to market conditions.
- Provide long-term share incentive plans designed to incentivise long-term value creation, reward execution of strategy, align Directors' interests with the long-term interests of investors and promote retention.

The main remuneration components for Directors are:

Basic salary or fees

Basic salary or fees for each Director are determined taking into account the performance of the individual and information from independent sources on the rates of salary and fees for similar posts. The salaries and fees paid to Directors by the Group were £470k (2017: £390k).

Annual bonus

The Company has a formal bonus scheme which was effective for the Executive Directors from 18 December 2013. Bonuses were paid to the Executive Directors by the Group of £237k (2017: £263k).

Pension

Contributions made to Executive Directors' pensions in the year were £10,703 (2017: £385).

Share options

On 9 June 2017 options over 1,000,000 and 500,000 new ordinary shares of the Company were granted to Ian Wilson and David Raggett, respectively, under a new share option scheme. The options have an exercise price of 1 pence per share. The awards are conditional on the achievement of an adjusted earnings per share target as measured at 31 December 2019 (adjusted earnings per share being basic earnings per share excluding exceptional income/costs and share-based payments). Adjusted EPS growth of 15% between inception and 31 December 2019 will be required for threshold vesting of the awards, with adjusted EPS growth of 44% or higher required for all the awards to vest. There is a straight-line sliding scale between these two points.

On 1 August 2018 the Board agreed to roll the arrangements contained in the 2017 share options forward by 1 year, such that the performance period runs until 31 December 2020. The roll-forward has been structured as the grant to each individual of a new nil-cost option "in parallel" to, and over the same number of shares as, the option originally granted to him so that: (1) if the option originally granted is exercised, the new option will lapse; and (2) if the new option is to be exercised, the original option must either have lapsed or been released. Therefore, Ian Wilson and David Raggett will only be able to benefit from one of the options granted to them. The other terms and the EPS growth hurdles are the same as for the original options.

Company policy on contracts of service

The Executive Directors of the Company do not have a notice period in excess of 12 months under the terms of their service contracts. Their service contracts contain no provisions for pre-determined compensation on termination, which exceeds 12 months' salary and benefits in kind. Non-Executive Directors do not have service contracts with the Company, but have letters of appointment which can be terminated on 3-months' notice.

Termination date

Richard Martin	3-months' notice
Ian Wilson	12-months' notice
David Raggett	12-months' notice
Paul Latham	3-months' notice
Phil Crooks	3-months' notice

Company policy on external appointments

The Company recognises that its Executive Directors are likely to be invited to become non-executive directors of other companies and that exposure to such non-executive duties can broaden their experience and knowledge, which will benefit the Group. Executive and Non-Executive Directors are therefore, subject to approval of the Company's Board, allowed to accept non-executive appointments, as long as these are not with competing companies and are not likely to lead to conflicts of interest. Executive and Non-Executive Directors are allowed to retain the fees paid.

Taxable benefits

The Executive Directors are not entitled to taxable benefits such as a company car, car allowance or private medical insurance.

Directors' emoluments

The figures below represent emoluments earned by the Executive Directors and Non-Executive Directors from the Group during the financial year and relate to the period of each Director's membership of the Company's and Subsidiaries' Boards.

	Salary & fees £'000	Bonus £'000	**Total 2018 £'000**	Total 2017 £'000
Executive Directors:				
Ian Wilson	200	135	**335**	297
David Raggett	150	102	**252**	236
	350	237	**587**	533
Non-Executive Directors:				
Richard Martin	40	–	**40**	40
Paul Latham	40	–	**40**	40
Phil Crooks	40	–	**40**	40
	120	–	**120**	120
Total remuneration	470	237	**707**	653

Vesting of options

No options vested during the year ended 31 December 2018.

On 12 April 2017 David Raggett was issued 200,000 ordinary shares and on 9 June 2017 he was issued 192,400 ordinary shares both at an exercise price of 17.64p as a result of exercising options granted in August 2013. On the 12 April 2017 the market price was 153p and on 9 June 2017 the market price was 161.5p giving notional gains of £270,720 and £276,787 respectively.

Changes to Board members

No Director resigned from or joined the Board during the year.

Directors' interests

The interests of the Executive Directors, Non-Executive Directors and their spouses in the shares of the Company were as follows:

The Property Franchise Group PLC ordinary 1 pence shares.

	2018		2017	
	Shares	**Options**	Shares	Options
Directors:				
Richard Martin	**10,189,950**	**–**	10,999,950	–
Ian Wilson	**1,479,200**	**1,000,000**	1,479,200	1,000,000
David Raggett	**217,400**	**500,000**	217,400	500,000
Paul Latham	**25,000**	**–**	25,000	–

The dividends paid to the Executive Directors, Non-Executive Directors and their spouses during the year are disclosed in note 30 to the Financial Statements.

By order of the Board

Paul Latham
Non-Executive Director
8 April 2019

Our inaugural Audit and Risk Committee Report

Phil Crooks
Chairman of the Audit and Risk Committee

I am delighted to present our first ever Audit and Risk Committee ("ARC") report which summarises the work we have undertaken during the year and how we have fulfilled our responsibilities.

As part of my role as Chair of the ARC, I very much welcome the opportunity to meet franchisees at the annual conferences so as to gain a greater understanding of the opportunities and challenges that they face. As you might expect I keep in regular contact with David Raggett, CFO, to understand current financial performance, to discuss the controls and processes in place, to aid an understanding of how technical requirements can be implemented, to discuss areas where judgement needs to be applied and to ensure that mitigation plans formulated as a result of our risk identification processes are being implemented.

The ARC is formed of Paul Latham and myself. Whilst I possess 40 years of experience in accounting, audit and forensic investigation, Paul possesses tremendous industry knowledge. Both of us are independent Non-Executive Directors with extensive general business and management experience. We have worked together on this Committee for the last 3.5 years.

Regular meeting attendees include Paul and myself as well as our CFO, Company Secretary and representatives of our external auditor, BDO LLP. As part of our review of the annual results, the Group's Financial Controller attends our meeting in March.

We undertake to meet at least twice a year but have invariably met more than this. Indeed, in the last year we met 4 times, not I should add because of any sudden increase in adverse events or concerns, but because we have a rolling system of reviewing matters during the year and aim to ensure that actions are both being undertaken in a timely manner and, as importantly, supported with necessary expertise. In 2018, we also focused on the transition from RSM UK Audit LLP to BDO LLP following our tendering of the audit. Details of attendance at meetings can be found on page 26.

Role

The ARC assists the Board in fulfilling its oversight responsibilities by reviewing and monitoring the integrity of the financial information provided to shareholders, the Group's systems of internal control and risk management, the internal and external audit process, auditors and the process for compliance with relevant laws and regulations.

The Committee has written terms of reference including its role and the authorities delegated by the Board to it.

Activity

The ARC has taken a leading role in ensuring, on behalf of the Board that the Annual Report when taken as a whole remains fair, balanced, understandable and provides the information required by shareholders to assess the Group's performance, business model and strategy.

During the year we have reviewed the Interim Results, Trading Update and Preliminary Results to ensure the integrity of the financial information being presented. We have also monitored the implementation of the changes brought about by GDPR and work towards the Cyber Essentials accreditation.

We welcomed BDO as our new auditors and ensured that they were obtaining the necessary information from both management and the departing auditors to allow them to quickly get familiar with the Group. We also invited them to undertake a benchmarking process primarily of the finance function and its processes to highlight any weaknesses, to identify areas that could be improved and to see how we compared with similar sized organisations.

We have reviewed the impact of the implementation of IFRS 9 'Financial Instruments' and of IFRS 15 'Revenue from Contracts with Customers'. The latter was part of a series of reviews leading up to implementation to ensure that the impacts of IFRS 15 were fully understood.

The impairment of intangible assets is considered by the ARC on an annual basis. A review for impairment triggers is performed at each reporting date by questioning if changes in circumstances suggest the recoverable value of certain intangible assets may be less than their carrying value. The ARC reviewed management's assessment of recoverable value and relevant judgements made. No impairment triggers were identified during the year.

The Company operates a share option scheme for the benefit of the Group's employees to further align their interests with those of the Group. The valuation of the share-based payments charge is considered by the ARC on a regular basis. Currently we have unexercised options issued in 2017 and 2018 as well as an unexercised option over 64,800 shares relating to the share option scheme implemented in 2013. The Committee reviewed managements' assessment that no charge was likely to arise for the options issued in 2017 because the 'parallel options' issued in 2018 were likely to be more beneficial, and the levels of the share-based payments charges relating to the remaining unexercised share options. The assessments were agreed by the ARC.

External audit

The effectiveness of the external audit process is dependent on the appropriate audit risk identification at the start of the audit cycle. A detailed audit plan was received from BDO which set out the key risks identified. The ARC approved this plan and the auditor's remuneration.

At various meetings during the year the ARC considered reports prepared by the auditors in relation to the interim audit, planning for the year end audit and the year-end audit.

The independence and objectivity of the external audit function is a fundamental safeguard to the Company's shareholders. In order to ensure audit independence, the ARC restricts the engagements of BDO in relation to non-audit work. It recognises that for some non-audit work a detailed understanding of the Group's business is a distinct advantage but that, before appointing the external auditor, it should satisfy itself that it's the most suitable supplier of the service required.

The effectiveness of the external audit process is currently assessed by the ARC based on discussions with those involved in the process. The ARC has made a recommendation to the Board to reappoint BDO as the Company's auditors for the 2019 financial year. In making that recommendation the ARC has also considered the independence and objectivity of the auditors as well as the cost effectiveness of the external audit. Accordingly, a resolution proposing the re-appointment of BDO will be tabled at the AGM in 2019.

Risk management and internal control

On an annual basis the Group draws up an updated risk review. This risk review is drawn up with contributions from Directors and senior management. Once the ARC has approved the risk review documentation it is then presented to our Board for their approval.

The Committee review the auditor's report on controls within the business. The Committee ensures that Company responds appropriately.

And finally

In the year ahead the ARC will continue to focus on key risks, operations and accounting matters. These will include regulations and government policy impacting our sector, information security, the results of our internal audits of franchisees, the results of the external auditors benchmarking exercise and our year-end audit.

I would like to thank the attendees of our ARC meetings for their time and valuable contributions during the year.

Phil Crooks
Chairman of the Audit and Risk Committee
8 April 2019

Independent auditor's report to the members of The Property Franchise Group PLC

Opinion

We have audited the financial statements of The Property Franchise Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Financial Position, the Company Statement of Financial Position, the Consolidated Statement of Changes in Equity, the Company Statement of Changes in Equity, the Consolidated Statement of Cash Flows, the Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies.

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

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2018 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Conclusions relating to going concern

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

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

Key audit matters

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

Goodwill and intangible asset impairment risk

As detailed in the accounting policies and critical accounting estimates and judgements and key sources of uncertainty, goodwill and other intangible assets are tested for impairment at least annually through comparing the recoverable amount of the cash-generating unit, based on a value-in-use calculation, to the carrying value. Furthermore, other intangible assets are tested for impairment where an indicator of impairment arises. Management's review found no evidence of impairment in the Ewemove or other cash-generating units, nor indicators of impairment in relation to other intangible assets. The risk that goodwill and intangible assets may be impaired is considered significant due to the level of judgement involved in the impairment review and the opportunity for management bias within the impairment model assumptions.

How We Addressed the Key Audit Matter in the Audit

We performed a review of the Group's goodwill and intangible assets and examined for indicators of impairment. We also reviewed impairment reviews prepared by management, specifically reviewing the integrity of management's value-in-use model and, with the assistance of our valuation specialists, we challenged the key inputs, being forecast growth rates, operating cash flows and the discount rate. Our audit procedures for the review of operating cash flows and forecast growth rates included, amongst others, comparing the forecast to recent financial performance and budgets approved by the Board. We used market data to independently calculate a discount rate for comparison and also performed our own sensitivity analysis upon the key valuation inputs.

Revenue recognition
As detailed in the accounting policies, the Group earns revenue principally in the form of Managed Service Fees ("MSF"), which are derived as a percentage of the franchisees' income. The Managed Service Fees are recorded in separate sales systems based on information uploaded by the franchisees and imported into the accounting system on a monthly basis.

Due to the need to transfer data across the systems, we consider there to be a significant risk that revenue may not be fully recognised or recorded in the wrong period. Through the need to reconcile data between the two systems and ensure that revenues had been fully recorded in the nominal ledger, the procedures on revenue recognition also represented a significant part of our audit strategy in terms of the level of direction and supervision and allocation of resources and so, consequently, revenue recognition is considered a key audit matter.

How We Addressed the Key Audit Matter in the Audit
We have obtained and tested management's reconciliation between the underlying sales systems to which franchisees upload their lettings/sales data and the MSF recorded in the nominal ledger. We witnessed the data extraction from the underlying systems and engaged our technology and systems experts to reperform a full reconciliation of the two data sets and investigated and corroborated any reconciling items.

We tested the integrity of the data in the underlying sales systems by tracing a sample from franchisee submission, ensuring that the correct MSF rate had been applied in accordance with the franchise agreement, through to invoice issued and ultimately cash collection.

In considering the completeness of the data in the underlying sales systems, we selected a sample of franchise agreements and ensured that the MSF had been appropriately included in the sales system and at the appropriate rate.

Our application of materiality
Group materiality: £215,000 (2017: £316,000).

Parent Company materiality: £140,000.

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken based on the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below this level will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements.

Our group materiality for the financial statements, for the current year was based on 5% of profit before tax, which we consider to be a key performance measure for the Group and the members of the parent company in assessing financial performance. In the prior year, materiality was calculated as an average of 1% of gross assets; 100% of the smallest disclosed balance; 5% PBT; and 0.5% revenue

On the basis of our risk assessment, together with our assessment of the Company's control environment, our judgement we set performance materiality at 70% of group materiality, namely £150,000. Materiality levels used for each key component ranged from £80,000 to £150,000. We agreed with the audit committee that we would report to the committee all audit differences in excess of £5,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The group's operations are based solely in Bournemouth, United Kingdom.

The scope of our group audit was established by obtaining an understanding of the group, including its control environment, and assessing the risks of material misstatement.

We identified five significant components, all of which were subject to a full-scope audits by BDO LLP.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 28, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

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

Use of our report

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

Malcolm Thixton (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Southampton, United Kingdom

8 April 2019

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

Consolidated statement of comprehensive income
for the year ended 31 December 2018

	Notes	2018 £	2017 as restated £
Revenue	7	11,245,613	10,145,196
Cost of sales		(1,080,271)	(1,065,073)
Gross profit		10,165,342	9,080,123
Administrative expenses	8	(5,783,482)	(5,301,196)
Share-based payments charge	9, 29	(49,857)	(137,020)
Operating profit before exceptional items		4,332,003	3,641,907
Exceptional items	10	–	701,463
Operating profit	11	4,332,003	4,343,370
Finance income	12	8,968	28,075
Finance costs	12	(71,494)	(120,769)
Profit before income tax expense		4,269,477	4,250,676
Income tax expense	13	(847,041)	(598,917)
Profit and total comprehensive income for the year attributable to owners		3,422,436	3,651,759
Earnings per share attributable to owners	14	13.3p	14.2p
Diluted Earnings per share attributable to owners	14	13.3p	14.2p

Consolidated statement of financial position
31 December 2018

	Notes	2018 £	2017 as restated £
Assets			
Non-current assets			
Intangible assets	16	15,324,755	15,912,297
Property, plant and equipment	17	103,584	109,266
Prepaid assisted acquisitions support	18	453,836	292,452
		15,882,175	16,314,015
Current assets			
Trade and other receivables	20	1,096,274	1,117,337
Cash and cash equivalents		3,857,988	2,594,526
		4,954,262	3,711,863
Total assets		20,836,437	20,025,878
Equity			
Shareholders' equity			
Called up share capital	21	258,228	258,228
Share premium	22	4,039,800	4,039,800
Other reserves	23	2,983,861	2,934,004
Retained earnings		8,442,960	7,034,699
Total equity attributable to owners		15,724,849	14,266,731
Liabilities			
Non-current liabilities			
Borrowings	24	700,000	1,600,000
Deferred tax	27	1,372,196	1,467,598
		2,072,196	3,067,598
Current liabilities			
Borrowings	24	900,000	900,000
Trade and other payables	25	1,476,819	1,299,638
Tax payable		662,573	491,911
		3,039,392	2,691,549
Total liabilities		5,111,588	5,759,147
Total equity and liabilities		20,836,437	20,025,878

The financial statements were approved and authorised for issue by the Board of Directors on 8 April 2019 and were signed on its behalf by:

David Raggett
Chief Financial Officer

Company statement of financial position
31 December 2018
(Company No: 08721920)

	Notes	2018 £	2017 £
Assets			
Non-current assets			
Investments	19	33,803,886	33,776,075
Deferred tax asset	27	30,101	23,318
		33,833,987	33,799,393
Current assets			
Trade and other receivables	20	361,520	840,211
Cash and cash equivalents		1,278,026	346,960
		1,639,546	1,187,171
Total assets		35,473,533	34,986,564
Equity			
Shareholders' equity			
Called up share capital	21	258,228	258,228
Share premium	22	4,039,800	4,039,800
Other reserves	23	20,973,761	20,923,904
Retained earnings		8,537,181	7,131,341
Total equity		33,808,970	32,353,273
Liabilities			
Non-current liabilities			
Borrowings	24	700,000	1,600,000
		700,000	1,600,000
Current liabilities			
Borrowings	24	900,000	900,000
Trade and other payables	25	64,563	133,291
		964,563	1,033,291
Total liabilities		1,664,563	2,633,291
Total equity and liabilities		35,473,533	34,986,564

As permitted by Section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial year was £3,420,015 (2017: £4,393,361).

The financial statements were approved and authorised for issue by the Board of Directors on 8 April 2019 and were signed on its behalf by:

David Raggett
Chief Financial Officer

Consolidated statement of changes in equity
for the year ended 31 December 2018

	Attributable to owners				
	Called up share capital £	Retained earnings £	Share premium £	Other reserves £	Total equity £
Balance at 1 January 2017	253,008	5,078,584	3,952,939	2,901,362	12,185,893
Profit and total comprehensive income	–	3,651,759	–	–	3,651,759
Issue of share capital					
Issue of share capital – exercise of options	5,220	–	86,861	–	92,081
Dividends	–	(1,695,644)	–	–	(1,695,644)
Deferred tax on share-based payments	–	–	–	(104,378)	(104,378)
Share-based payments charge	–	–	–	137,020	137,020
Total transactions with owners	5,220	(1,695,644)	86,861	32,642	(1,570,921)
Balance at 31 December 2017	258,228	7,034,699	4,039,800	2,934,004	14,266,731
Profit and total comprehensive income	–	3,422,436	–	–	3,422,436
Dividends	–	(2,014,175)	–	–	(2,014,175)
Share-based payments charge	–	–	–	49,857	49,857
Total transactions with owners	258,228	(2,014,175)	–	49,857	(1,964,318)
Balance at 31 December 2018	**258,228**	**8,442,960**	**4,039,800**	**2,983,861**	**15,724,849**

Company statement of changes in equity
for the year ended 31 December 2018

	Called up share capital £	Retained earnings £	Share premium £	Other reserves £	Total equity £
Balance as at 1 January 2017	253,008	4,433,624	3,952,939	20,891,262	29,530,833
Profit and total comprehensive income	–	4,393,361	–	–	4,393,361
Issue of share capital					
Issue of share capital – exercise of options	5,220	–	86,861	–	92,081
Dividends	–	(1,695,644)	–	–	(1,695,644)
Deferred tax on share-based payments	–	–	–	(104,378)	(104,378)
Share-based payments charge	–	–	–	137,020	137,020
Total transactions with owners	5,220	(1,695,644)	86,861	32,642	(1,570,921)
Balance as at 31 December 2017	258,228	7,131,341	4,039,800	20,923,904	32,353,273
Profit and total comprehensive income	–	3,420,015	–	–	3,420,015
Dividends	–	(2,014,175)	–	–	(2,014,175)
Share-based payments charge	–	–	–	49,857	49,857
Total transactions with owners	–	(2,014,175)	–	49,857	(1,964,318)
Balance as at 31 December 2018	**258,228**	**8,537,181**	**4,039,800**	**20,973,761**	**33,808,970**

Consolidated statement of cash flows
for the year ended 31 December 2018

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	A	5,314,349	4,839,650
Interest paid		(75,346)	(102,887)
Tax paid		(771,779)	(297,166)
Net cash from operating activities		4,467,224	4,439,597
Cash flows from investing activities			
Purchase of subsidiary undertakings net of cash acquired	B	–	(1,000,000)
Purchase of intangible assets		(20,000)	(56,626)
Purchase of tangible assets		(30,505)	(12,840)
Assisted acquisitions support		(248,050)	(345,738)
Interest received		8,968	28,075
Net cash used in investing activities		(289,587)	(1,387,129)
Cash flows from financing activities			
Issue of ordinary shares		–	92,081
Repayment of bank loan		(900,000)	(900,000)
Equity dividends paid		(2,014,175)	(1,695,644)
Net cash used in financing activities		(2,914,175)	(2,503,563)
Increase in cash and cash equivalents		1,263,462	548,905
Cash and cash equivalents at beginning of year		2,594,526	2,045,621
Cash and cash equivalents at end of year		3,857,988	2,594,526

Notes to the consolidated statement of cash flows
for the year ended 31 December 2018

A. Reconciliation of profit before income tax to cash generated from operations

	2018 £	2017 £
Cash flows from operating activities		
Profit before income tax	4,269,477	4,250,676
Depreciation and amortisation charges	714,440	646,006
Net exceptional income	–	(701,463)
Share-based payments charge	49,857	137,020
Loss on disposal of intangible assets	17,989	2,579
Finance costs	71,494	120,769
Finance income	(8,968)	(28,075)
Operating cash flow before changes in working capital	5,114,289	4,427,512
Decrease in trade and other receivables	21,062	359,710
Increase in trade and other payables	178,998	52,428
Cash generated from operations	5,314,349	4,839,650

B. Purchase of subsidiary undertakings net of cash acquired
On 5 September 2016 the Group obtained control of EweMove Sales & Lettings Ltd ("ESL") and its dormant subsidiary Ewesheep Ltd ("EL").

	2018 £	2017 £
Consideration – cash element	–	1,000,000
Less: Cash acquired	–	–
Purchase of subsidiary undertakings net of cash acquired	–	1,000,000

Company statement of cash flows
for the year ended 31 December 2018

	Notes	2018 £	2017 £
Cash flows from operating activities			
Cash generated from operations	C	(179,425)	(496,993)
Interest paid		(75,346)	(102,887)
Net cash used in operating activities		(254,771)	(599,880)
Cash flows from investing activities			
Purchase of subsidiary undertakings net of cash acquired		–	(1,000,000)
Interest received		12	1,026
Equity dividends received		4,100,000	4,250,000
Net cash generated from investing activities		4,100,012	3,251,026
Cash flows from financing activities			
Issue of ordinary shares		–	92,081
Repayment of bank loan		(900,000)	(900,000)
Equity dividend paid		(2,014,175)	(1,695,644)
Net cash used in financing activities		(2,914,175)	(2,503,563)
Increase in cash and cash equivalents		931,066	147,583
Cash and cash equivalents at beginning of year		346,960	199,377
Cash and cash equivalents at end of year		1,278,026	346,960

C. Reconciliation of profit before income tax to cash generated from operations

	2018 £	2017 £
Cash flows from operating activities		
Profit before income tax	3,257,306	4,075,966
Net exceptional income	–	(701,463)
Share-based payments charge	22,046	110,619
Finance costs	71,494	120,769
Finance income	(12)	(1,026)
Equity dividend received	(4,100,000)	(4,250,000)
Operating cash flow before changes in working capital	(749,166)	(645,135)
Decrease in trade and other receivables	568,037	127,890
Increase in trade and other payables	1,704	20,252
Cash used in operations	(179,425)	(496,993)

1. General information

The principal activity of The Property Franchise Group PLC and its Subsidiaries is that of a UK residential property franchise business. The Group operates in the UK. The Company is a public limited company incorporated and domiciled in the UK and listed on AIM. The address of its head office and registered office is 2 St Stephen's Court, St Stephen's Road, Bournemouth, Dorset, UK.

2. Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The presentational currency of the financial statements is in British pounds and amounts are rounded to the nearest pound.

Going concern

The Group has produced detailed budgets, projections and cash flow forecasts. The Directors have concluded after reviewing these budgets, projections and forecasts, making appropriate enquiries of the business and having considered uncertainties under the current economic environment, that there is a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements.

Changes in accounting policies

a) New standards, amendments and interpretations effective from 1 January 2018

The following new or amended standards are mandatory for the first time for the period beginning 1 January 2018 and have been adopted in the annual financial statements for the year ended 31 December 2018:

Standard	Key requirements
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

IFRS 9 "Financial Instruments"

IFRS 9 supersedes IAS 39 in its entirety, and is effective for accounting periods commencing on or after 1 January 2018, as such these are the first financial statements under this standard.

The core areas addressed within IFRS 9 are as follows:

- Classification and measurement of financial assets and liabilities
- Impairment of financial assets
- Hedge accounting

The Group has not identified any adjustments are required to the classification and measurement of financial assets and liabilities as a result of adopting this standard. As such no adjustment to the opening balance sheet is necessary.

IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 replaces IAS 18, IAS 11 and related interpretations, and is effective for accounting periods commencing on or after 1 January 2018, as such these are the first financial statements under this standard.

This standard establishes a principles-based approach for revenue recognition and is based on the concept of recognising revenue for obligations only when they are satisfied and the control of goods and services is transferred. It applies to all contracts with customers, except those in the scope of other standards.

The Group has performed an assessment which has highlighted that the new standard impacts on franchise sales revenue recognition but not Management Service Fee recognition or the recognition of other income. Franchise sales revenue currently consists of 4 elements:

1. A fee to buy a new franchise territory which is recognised upon the earlier of receipt of funds or signing of the franchise agreement.
2. A fee to buy a franchise territory that is being sold through the exit of the current franchisee which is recognised upon the earlier of receipt of funds or signing of the franchise agreement.
3. A fee paid by the seller of the franchise which is recognised in the month that a contract for the resale of a franchise is signed.
4. A fee paid upfront by franchisees for the first 12 months use of its systems which is deferred and released over the first 12 months as the obligations are discharged.

For the fees described at points 1 and 2 above the franchisors have some initial obligations that extend beyond the receipt of funds and the signing of a franchise agreement, including the provision of training and initial support. These obligations are discharged during a period of between 1 to 4 months with the majority released by month 2.

2. Basis of preparation continued

The impact on these financial statements of adjustments to defer income in relation to obligations not yet fulfilled was assessed as £4k, this was considered immaterial so no adjustment was made to the financial statements. No adjustments were made to the opening balance sheet.

The other area of impact is that of the presentation of the non-current asset in respect of acquired customer lists relating to cashback. Whilst this element had previously been presented as an intangible asset under IAS 38, the payments of cashback are now considered to meet the definition of consideration payable to a customer under IFRS 15.

Consequently, this asset is described as "Prepaid assisted acquisitions support" on the consolidated statement of financial position. The asset continues to be amortised over a five-year period, however, the amortisation is now recognised as a reduction in revenue rather than an amortisation charge to administrative expenses. As a result, 2017 revenue and administrative expenses have been restated by £0.02m; there has been no impact on profit or net assets.

The impact of this change at the opening balance sheet date, as at 31 December 2016, was an immaterial reclassification of £58,000 between intangible assets and prepaid assisted acquisition support and, as such, a third balance sheet has not been presented.

b) New standards, amendments and interpretations not yet effective

The following relevant new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning on 1 January 2018, and endorsed by the European Union, and have not been early adopted:

Standard	Key requirements	Effective date as adopted by the EU
IFRS 16	Leases	1 January 2019

IFRS 16 "Leases"

IFRS 16 requires that almost all leases will be brought onto lessees' balance sheets under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. IFRS 16 will be adopted in the Group's consolidated financial statements when it becomes mandatory. Currently, the Group holds some non-cancellable operating leases but no finance leases. For the Group's non-cancellable operating lease commitments of £0.1m as at 31 December 2018 (note 26), a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under IFRS 16. Thus, the Group will have to recognise a right-of-use asset and a corresponding liability in respect of all these leases – unless they qualify for low value or short-term leases upon the application of IFRS 16. The Group believes that the adoption of IFRS 16 will not have a material impact on the consolidated financial statements, if it were to have been applied at 31 December 2018 there would have been an asset and corresponding liability of £80k and no change to the charge recognised in the consolidated statement of comprehensive income which is estimated to be £45k for 2019, comprising depreciation and interest.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3. Basis of consolidation

The Group financial statements include those of the Parent Company and its Subsidiaries, drawn up to 31 December 2018. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by Subsidiaries have been adjusted to conform to the Group's accounting policies.

4. Significant accounting policies

Revenue recognition

Performance obligations and the timing of revenue recognition

Revenue represents income, net of VAT, from the sale of franchise agreements, resale fees and Management Service Fees levied to franchisees monthly based on their turnover, and other income being the provision of training and ongoing support to franchisees.

Traditional brands:

Fees from the sale of franchise agreements are not refundable. These fees are for the use of the brand along with initial training and support and promotion during the opening phase of the new office. As such the Group has some initial obligations that extend beyond the receipt of funds and signing of the franchise agreement so an element of the fee is deferred and released as the obligations are discharged, usually between 1 to 4 months after receipt of funds.

Resale fees are recognised in the month that a contract for the resale of a franchise is signed. Upon signing of the contract all obligations have been completed.

Management Service Fees are recognised on a monthly basis and other income is recognised when the training and support is provided to the franchisee. There are no performance obligations associated with levying the Management Service Fees. For training and support all performance obligations have been fulfilled at the time of revenue recognition.

EweMove:
Fees from the sale of franchise agreements for the EweMove brand are not refundable. Some new franchisees pay a higher fee to include the first 12 months' licence fee, in this scenario the licence fee element of the initial fee is deferred and released over the first 12 months of trading of the franchise where no monthly licence fees are payable. The franchise fee is for the use of the brand along with initial support and promotion during the opening phase of the new franchise. As such the Group has some initial obligations that extend beyond the receipt of funds and signing of the franchise agreement so an element of the fee is deferred and released as the obligations are discharged, usually between 1 to 4 months after receipt of funds.

Management Service Fees consist of monthly licence fees and completion fees. Licence fees are recognised on a monthly basis, completion fees are recognised when sales or lettings transactions complete and other income is recognised when the training and support is provided to the franchisee. There are no additional performance obligations associated with levying the licence fee and completion fees beyond providing access to the systems, brand and marketing support. For training and support all performance obligations have been fulfilled at the time of revenue recognition.

Operating profit
Profit from operations is stated before finance income, finance costs and tax expense.

Business combinations
On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably in which case the value is subsumed into goodwill. Where the fair values of acquired contingent liabilities cannot be measured reliably, the assumed contingent liability is not recognised but is disclosed in the same manner as other contingent liabilities.

Goodwill is the difference between the fair value of the consideration and the fair value of identifiable assets acquired. Goodwill arising on acquisitions is capitalised and subject to an impairment review, both annually and when there is an indication that the carrying value may not be recoverable.

Intangible assets
Intangible assets with a finite life are carried at cost less amortisation and any impairment losses. Intangible assets represent items which meet the recognition criteria of IAS 38, in that it is probable that future economic benefits attributable to the assets will flow to the entity and the cost can be measured reliably.

In accordance with IFRS 3 Business Combinations, an intangible asset acquired in a business combination is deemed to have a cost to the Group of its fair value at the acquisition date. The fair value of the intangible asset reflects market expectations about the probability that the future economic benefits embodied in the asset will flow to the Group.

Amortisation charges are included in administrative expenses in the Statement of Comprehensive Income. Amortisation begins when the intangible asset is first available for use and is provided at rates calculated to write-off the cost of each intangible asset over its expected useful life, on a straight-line basis, as follows:

Brands – CJ Hole, Parkers, Ellis & Co	Indefinite life
Brands – EweMove	21 years
Customer lists	5 years
Master franchise agreements – Whitegates, CJ Hole, Parkers, Ellis & Co	25 years
Master franchise agreements – EweMove	15 years
Technology – Ewereka	5 years
Technology – Websites	3 years

Acquired trade names are identified as separate intangible assets where they can be reliably measured by valuation of future cash flows. The trade names CJ Hole, Parkers and Ellis & Co are assessed as having indefinite lives due to their long trading histories.

Acquired customer lists are identified as a separate intangible asset as they are separable and can be reliably measured by valuation of future cash flows. This valuation also assesses the life of the particular relationship. The life of the relationship is assessed annually.

Customer lists are being written off over a remaining life of 5 years.

Acquired master franchise agreements are identified as a separate intangible asset as they are separable and can be reliably measured by valuation of future cash flows. The life of the relationship is assessed annually. Master franchise agreements are being written off over a remaining life of 15-25 years as historical analyses shows that, on average, 4% – 10% of franchises will change ownership per annum.

The cost of the new brand websites launched in 2017 have been capitalised and are being amortised over 3 years from launch date, being the expected period over which the websites are expected to generate economic benefit.

4. Significant accounting policies continued

Subsequent to initial recognition, intangible assets are stated at deemed cost less accumulated amortisation and impairment charges, with the exception of indefinite life intangibles.

Impairment of non-financial assets

In respect of goodwill and intangible assets that have an indefinite useful lives, management are required to assess whether the recoverable amount of each exceeds their respective carrying values at the end of each accounting period.

In respect of intangible assets with definite lives, management are required to assess whether the recoverable amount exceeds the carrying value where an indicator of impairment exists at the end of each accounting period.

The recoverable amount is the higher of fair value less costs to sell and value in use.

Impairment losses represent the amount by which the carrying value exceeds the recoverable amount; they are recognised in profit or loss. Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. Where an indicator of impairment exists against a definite life asset and a subsequent valuation determines there to be impairment, the intangible asset to which it relates is impaired by the amount determined.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

The master franchise agreement is assessed separately for impairment as an independent asset that generates cash inflows that are largely independent of those from other assets.

Investment in subsidiaries

Investments in subsidiaries are stated in the Parent Company's balance sheet at cost less any provisions for impairments.

Property, plant and equipment

Items of property, plant and equipment are stated at cost of acquisition less accumulated depreciation and impairment losses. Depreciation is charged so as to write-off the cost of assets over their estimated useful lives on the following bases:

Fixtures, fittings and office equipment	15% reducing balance
Computer equipment	over 3 years
Short leasehold improvements	over the lease term

Prepaid assisted acquisitions support

Prepaid assisted acquisitions support represents amounts payable to franchisees in relation to their acquisition of qualifying managed property portfolios and amounts payable to brokers for assisting with the acquisition of those portfolios. The payments are recognised as an asset and amortised to the profit and loss account over 5 years. The amounts payable to franchisees are amortised as a reduction in revenue, whereas amounts payable to brokers are amortised through cost of sales.

Income taxes

Income tax currently payable is calculated using the tax rates in force or substantively enacted at the reporting date. Taxable profit differs from accounting profit either because some income and expenses are never taxable or deductible, or because the time pattern that they are taxable or deductible differs between tax law and their accounting treatment.

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except if it arises from transactions or events that are recognised in other comprehensive income or directly in equity.

Deferred tax

Deferred income taxes are calculated using the liability method on temporary differences, at the tax rate that is substantively enacted at the balance sheet date. Deferred tax is generally provided on the difference between the carrying amount of assets and liabilities and their tax bases. However, deferred tax is not provided on the initial recognition of goodwill, nor on the initial recognition of an asset or liability unless the related transaction is a business combination or affects tax or accounting profit. Tax losses available to be carried forward as well as other income tax credits to the Group are assessed for recognition as deferred tax assets.

Deferred tax liabilities are provided in full, with no discounting. Deferred tax assets are recognised to the extent that it is probable that the underlying deductible temporary differences will be able to be offset against future taxable income. Current and deferred tax assets and liabilities are calculated at tax rates that are expected to apply to their respective period of realisation, provided they are enacted or substantively enacted at the balance sheet date. Changes in deferred tax assets or liabilities are recognised as a component of tax expense in the income statement. For share-based payments the deferred tax credit is recognised in the income statement to the extent that it offsets the share-based charge, with any remaining element after offset being shown in the statement of changes in equity.

Operating lease commitments
Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged to profit/loss on a straight-line basis over the period of the lease.

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

Financial assets
The Group and Company only have financial assets comprising trade and other receivables and cash and cash equivalents in the Consolidated Statement of Financial Position.

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

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

Impairment provisions for receivables from related parties and loans to related parties are recognised based on a forward looking expected credit loss model. The methodology used to determine the amount of the provision is based on whether there has been a significant increase in credit risk since initial recognition of the financial asset. For those where the credit risk has not increased significantly since initial recognition of the financial asset, 12 month expected credit losses along with gross interest income are recognised. For those for which credit risk has increased significantly, lifetime expected credit losses along with the gross interest income are recognised. For those that are determined to be credit impaired, lifetime expected credit losses along with interest income on a net basis are recognised.

Financial liabilities
Financial liabilities are comprised of trade and other payables, borrowings and other short-term monetary liabilities, which are recognised at amortised cost.

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

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

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Share-based payments
The Company issues equity-settled share-based payments to employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments are amortised through the Consolidated Statement of Comprehensive Income over the vesting period of the options, together with a corresponding increase in equity, based upon the Company's estimate of the shares that will eventually vest.

Fair value is measured using the Black-Scholes option pricing model taking into account the following inputs:
- the exercise price of the option;
- the life of the option;
- the market price on the date of the grant of the option;
- the expected volatility of the share price;
- the dividends expected on the shares; and
- the risk free interest rate for the life of the option.

The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-market conditions and recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

5. Critical accounting estimates and judgements and key sources of estimation uncertainty

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

Impairment of intangible assets

The Group is required to test, where indicators of impairment exist or there are intangible assets with indefinite lives, whether intangible assets have suffered any impairment. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Key assumptions for the value in use calculation are described in note 16.

Share-based payment charge

The aggregate fair value expense of each grant is determined through using the Black-Scholes model detailed above and an estimate for the attainment of the non-market based performance condition in FY20. The estimate of earnings per share, the non-market based performance measure, relies on the assumptions regarding the achievement of the current year's budget and a projection of earnings for FY20, taking into account available market data and performance trends. At this juncture it's estimated that 48% of the non-market based performance condition will be met.

6. Segmental reporting

The Board of Directors, as the chief operating decision-making body, review financial information for and make decisions about the Group's overall franchising business and have identified a single operating segment, that of property franchising.

7. Revenue

The Directors believe there to be 3 material income streams relevant to property franchising which are split as follows:

	2018 £	2017 as restated £
Management Service Fees	9,402,896	8,256,438
Franchise sales	289,808	569,857
Other	1,552,909	1,318,901
	11,245,613	10,145,196

All revenue is earned in the UK and no customer represents greater than 10% of total revenue in either of the years reported.

Other revenue relates to training and ongoing support to franchisees.

See note 20 for details of accrued income and note 25 for details of deferred income.

See note 18 for the value of prepaid assisted acquisitions support amortised as a deduction from Management Service Fees.

8. Administrative expenses

Administrative expenses relate to those expenses that are not directly attributable to any specific sales activity.

Administrative expenses for the year were as follows:

	2018 £	2017 as restated £
Employee costs (see note 9)	3,110,452	2,704,417
Marketing and digital costs	617,274	592,931
Property costs	129,626	134,315
General administrative costs	1,333,807	1,284,078
Amortisation	592,323	585,455
	5,783,482	5,301,196

9. Employees and Directors

Average numbers of employees (including Directors), employed during the year:

	Group		Company	
	2018	2017	2018	2017
Administration	41	39	–	–
Management	9	9	2	2
	50	48	2	2

Employee costs (including Directors) during the year amounted to:

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Wages and salaries	2,737,019	2,403,067	502,118	424,581
Social security costs	331,577	289,756	59,381	45,062
Pension costs	41,856	11,594	10,044	1,328
	3,110,452	2,704,417	571,543	470,971
Share-based payments charge	49,857	137,020	22,046	110,619

Key management personnel are defined as Directors and executives of the Group. Details of the remuneration of the key management personnel are shown below:

	2018 £	2017 £
Wages and salaries	1,452,880	1,206,556
Social security costs	187,711	155,259
Pension costs	25,736	3,194
	1,666,327	1,365,009
Share-based payments charge	46,847	126,367

Details of the Directors' emoluments are disclosed in the Directors' remuneration report on pages 29 to 30. The share-based payments charge for the current year has been charged to the Statement of Comprehensive Income of this £21,772 (2017: £110,452) relates to Directors.

10. Exceptional items

There were no exceptional items in the year ended 31 December 2018.

The net exceptional income in the year ended 31 December 2017 of £701,463 all related to EweMove. It consisted of the reduction in contingent consideration payable of £1,179,146 and the associated unwinding of discounting on contingent consideration in the year (see note 12) and a write-down from a revision to valuation estimates of £500,000 against the master franchise agreement following evidence suggesting that the asset's value was impaired (see note 5).

11. Operating profit

	2018 £	2017 as restated £
The operating profit is stated after charging:		
Depreciation	33,416	29,212
Amortisation	681,024	616,794
Share-based payments charge	49,857	137,020
Loss on disposal of intangible assets	–	2,579
Auditor's remuneration (see below)	45,000	62,500
Staff costs (note 9)	3,110,452	2,704,417
Operating lease expenditure	67,333	70,000
Exceptional items	–	(701,463)
Audit services		
– Audit of the Company and consolidated accounts	45,000	55,500
– Audit related assurance services	–	7,000
Other non-audit services		
– Corporate finance services	–	–
– Tax advisory services	–	–
– IT consultancy services	–	11,641
	45,000	74,141
Comprising:		
Audit services	45,000	62,500
Non-audit services	–	11,641
	45,000	74,141

12. Finance income and costs

	2018 £	2017 £
Finance income:		
Bank interest	6,464	16,176
Other similar income	2,504	11,899
	8,968	28,075

	2018 £	2017 £
Finance costs:		
Bank interest	71,494	98,452
Unwinding of discounting on deferred consideration	–	22,317
	71,494	120,769

13. Taxation

	2018 £	2017 £
Current tax	925,702	667,065
Adjustments in respect of previous periods	16,740	43,787
Current tax total	942,442	710,852
Deferred tax credit on acquired business combinations	(95,401)	(88,617)
Deferred tax credit on share-based payments	–	(23,318)
Deferred tax total	(95,401)	(111,935)
Total tax charge in statement of comprehensive income	847,041	598,917

The tax assessed for the period is higher (2017: lower) than the standard rate of corporation tax in the UK. The difference is explained below.

	2018 £	2017 £
Profit on ordinary activities before tax	4,269,477	4,250,676
Profit on ordinary activities multiplied by the effective standard rate of corporation tax in the UK of 19% (2017: 19.25%)	811,200	818,255
Effects of:		
Expenses/(income) not deductible for tax purposes	9,412	(105,946)
Depreciation in excess of capital allowances	9,689	–
Effect of change in rate used for deferred tax	–	(14,815)
Tax relief on share-based payments	–	(142,364)
Adjustments in respect of previous periods	16,740	43,787
Total tax charge in respect of continuing activities	847,041	598,917

14. Earnings per share

Earnings per share is calculated by dividing the profit for the financial year by the weighted average number of shares during the year.

	2018 £	2017 £
Earnings per ordinary share		
Profit from continuing operations	3,422,436	3,651,759
	3,422,436	3,651,759

Diluted earnings per ordinary share

The charge relating to share-based payments is immaterial and therefore the earnings used in the diluted earnings per ordinary share calculation are the same as that shown above.

	2018 Number	2017 Number
Weighted average number of shares		
Number used in basic earnings per share	25,822,750	25,651,423
Dilutive effect of share options on ordinary shares	–	–
Number used in diluted earnings per share	25,822,750	25,651,423

There were options over 2,184,800 ordinary shares outstanding at 31 December 2018; 2,120,000 had not yet vested and have performance conditions which will determine whether they vest or not in the future. The remaining option over 64,800 ordinary shares was exercisable at 31 December 2018 but the average share price during the year ended 31 December 2018 was below the exercise price. For these reasons in 2018 there is no dilutive effect of share options on the earnings per share calculation.

In 2017 there were options over 2,204,800 ordinary shares outstanding at 31 December 2017; 2,140,000 had not yet vested and had performance conditions determining whether they vested in the future or not. The remaining option over 64,800 shares was exercisable at 31 December 2017 but the average share price during the year ended 31 December 2017 was below the exercise price. For these reasons in 2017 there was no dilutive effect of share options on the earnings per share calculation.

15. Dividends

	2018 £	2017 £
Final dividend for 2017		
5.4p per share paid 21 May 2018 (2017: 4.5p per share paid 11 May 2017)	1,394,429	1,153,366
Interim dividend for 2018		
2.4p per share paid 3 October 2018 (2017: 2.1p per share paid 6 October 2017)	619,746	542,278
Total dividend paid	2,014,175	1,695,644

The Directors propose a final dividend for 2018 of 6.0p per share totalling £1,549,365, which they expect will be paid on 28 May 2019. As this is subject to approval by the shareholders no provision has been made for this in these financial statements.

16. Intangible assets

	Master Franchise Agreement £	Brands £	Technology £	Customer lists £	Goodwill £	Total £
Cost						
Brought forward 1 January 2017	7,803,436	1,972,239	92,704	256,751	7,226,160	17,351,290
Additions	–	–	181,506	56,626	–	238,132
Disposals	–	–	–	(11,665)	–	(11,665)
Carried forward 31 December 2017	**7,803,436**	**1,972,239**	**274,210**	**301,712**	**7,226,160**	**17,577,757**
Additions	–	–	–	20,000	–	20,000
Disposals	–	–	–	(106,772)	–	(106,772)
Carried forward 31 December 2018	**7,803,436**	**1,972,239**	**274,210**	**214,940**	**7,226,160**	**17,490,985**
Amortisation & Impairment						
Brought forward at 1 January 2017	412,354	22,242	6,180	148,250	–	589,026
Charge for year	413,174	66,726	42,938	62,618	–	585,456
Impairment	500,000	–	–	–	–	500,000
Eliminated on disposals	–	–	–	(9,022)	–	(9,022)
Carried forward 31 December 2017	1,325,528	88,968	49,118	201,846	–	1,665,460
Charge for year	413,174	66,726	79,037	33,386	–	592,323
Eliminated on disposals	–	–	–	(91,553)	–	(91,553)
Carried forward 31 December 2018	**1,738,702**	**155,694**	**128,155**	**143,679**	**–**	**2,166,230**
Net book value						
At 31 December 2018	**6,064,734**	**1,816,545**	**146,055**	**71,261**	**7,226,160**	**15,324,755**
At 31 December 2017	6,477,908	1,883,271	225,092	99,866	7,226,160	15,912,297

The carrying amount of goodwill relates to 4 (2017: 4) cash generating units, and reflects the difference between the fair value of consideration transferred and the fair value of assets and liabilities purchased.

Business combinations acquired October 2014

Goodwill is assessed for impairment by comparing the carrying value to the value in use calculations. The value in use of the goodwill arising on the acquisitions of Xperience Franchising Limited ("XFL") and Whitegates Estate Agency Limited ("WEAL") is based on the cash flows derived from the actual revenues and operating margins for 2018 and projections through to 31 December 2020. Thereafter projected revenue growth was assumed to decline linearly to a long-term growth rate of 2.2%.

The cash flows arising were discounted by the weighted average cost of capital which included a small companies' risk premium to allow for factors such as illiquidity in the shares. These discount rates were 13.5% for XFL and 15.0% for WEAL, the latter higher rate reflecting WEAL's smaller size and more volatile earnings. This resulted in a total value for each company of the identifiable intangible assets that exceeded the carrying values of the respective companies' goodwill.

The Directors do not consider goodwill to be impaired. The Directors believe that no reasonably possible change in assumptions at the year end will cause the value in use to fall below the carrying value and hence impair the goodwill.

The master franchise agreements are being amortised over 25 years. The period of amortisation remaining at 31 December 2018 was 20 years 10 months.

The brand names under which XFL trades of C J Hole, Parkers and Ellis & Co have been in existence for between 70 years and 168 years. Management see them as strong brands with significant future value and has deemed them to have indefinite useful lives as there is no foreseeable limit to the period over which the assets are expected to generate net cash inflows for the Group. As a consequence, management annually assess whether the carrying value of these brands have been impaired.

The Relief-from-Royalty-Method was used to value the brand names. Looking at independent research of royalty rates, management selected pre-tax royalty rates of between 3% and 5% for the above brand names.

The after tax royalty rates were then applied to the projected cash flows of each brand. The projected cash flows being the forecast growth in current revenues using market data through to 31 December 2020. Thereafter projected revenue growth was assumed to decline linearly to a long-term growth rate of 2.2%. The after tax cash flows determined through this process were then discounted at 13.5% to determine a value for each brand name. This discount rate approximated the Company's WACC as the risk profile of the brand names was seen as commensurate with that of the overall Company. The values derived exceeded their carrying values.

The Directors believe that no reasonably possible change in assumptions at the year end will cause the value in use of the brands names CJ Hole, Parkers and Ellis & Co to fall below their carrying values and hence impair their intangible values.

The Whitegates brand was valued in a similar manner and deemed to have an immaterial value when the acquisition was made principally due to its lack of profitability over preceding years. It is therefore not recognised separately.

Business combination acquired September 2016

Goodwill is assessed for impairment by comparing the carrying value to the value in use calculations. The value in use of the goodwill arising on the acquisition of EweMove Sales & Lettings Ltd ("ESL") is based on the cash flows derived from the actual revenues and operating margins for 2018 and projections through to 31 December 2024. Thereafter projected revenue growth was assumed to be 2.2% per annum.

A period of projected cash flows exceeding 5 years was deemed appropriate because the business has only been operating for 5 years, is continuing to recruit relatively high levels of new franchisees, each new franchisee should grow significantly in the first 5 years of operation and it has yet to develop the operational efficiencies of a mature franchisor.

The revenue growth rates used in the valuation range from 19% in FY19 to 4% in FY24.

The cash flows arising were discounted by the weighted average cost of capital being 14.07% which included a small companies' risk premium to allow for factors such as illiquidity in the shares. This resulted in the value in use exceeding the carrying value of the goodwill and separately identifiable intangible assets. The enterprise's overall value exceeds the cash generating unit's carrying value.

The attrition rate of franchisees existing at acquisition implied that the remaining useful life of the master franchise agreement may be shorter than that originally assumed of 21 years at acquisition. For this reason, the remaining useful life of the master franchise agreement was reduced to 15 years during the 2017 financial year. The period of amortisation remaining at 31 December 2018 was 12 years 8 months.

During 2017, the master franchise agreement was written down by £0.5m as a result of a revision to valuation estimates.

The remaining useful life of the brand name was also reviewed. It continues to attract and recruit the same level of franchisees as in previous years and to attract higher numbers of customers. Given these 2 factors the remaining useful life of the brand was considered to be unaltered at 21 years. The period of amortisation remaining at 31 December 2018 was 18 years and 8 months.

The following table reflects the level of movements required in revenue or costs which could result in a potential impairment per the value in use calculation of goodwill. A further percentage (fall)/increase, of the magnitude indicated in the table below, in any one of the key assumptions set out above would result in a removal of the headroom in the value in use calculation for goodwill in 2018. Thus, if the discount rate increased by more than 24% to above 17.44%, an impairment change would result against goodwill, all other assumptions remaining unchanged.

Assumption	Judgement	Sensitivity
Discount rate	As indicated above the rate used is 14.07%	24%
Revenue – FY19 to FY25	The range of growth rates for FY19 to FY25 are stated above	(48%)
Direct costs – all years	Assumed to be 28% of revenue for all years	32%
Indirect costs – all years	Assumed to be 45% of revenue in FY19 and then decline linearly to 31% of revenue in FY28 onwards	25%
Direct and indirect costs – all years	As indicated above for direct and indirect costs	14%

Goodwill and indefinite life intangible assets have been allocated for impairment testing purposes to the following cash generating units.

The carrying values are as follows:

	Goodwill		Brands	
	2018 £	2017 £	2018 £	2017 £
Xperience Franchising Limited	912,716	912,716	571,000	571,000
Whitegates Estate Agency Limited	400,501	400,501	–	–
Martin & Co (UK) Limited	75,000	75,000	–	–
EweMove Sales & Lettings Ltd	5,837,943	5,837,943	–	–
	7,226,160	7,226,160	571,000	571,000

Website costs included in technology

In 2017 new websites were launched for each of the 5 traditional brands. The costs associated with these websites have been capitalised as intangible assets as the purpose of the websites is to generate leads and revenue for the network.

Company

No goodwill or customer lists exist in the Parent Company.

17. Property, plant and equipment

Group

	Short leasehold improvements £	Office equipment £	Fixtures & fittings £	Total £
Cost				
Brought forward 1 January 2017	37,034	98,662	154,239	289,935
Additions	–	9,955	2,885	12,840
Disposals	–	(732)	–	(732)
Carried forward 31 December 2017	37,034	107,885	157,124	302,043
Additions	–	26,522	3,983	30,505
Disposals	–	(4,067)	–	(4,067)
Carried forward 31 December 2018	**37,034**	**130,340**	**161,107**	**328,481**
Depreciation				
Brought forward 1 January 2017	18,169	38,942	106,840	163,951
Charge for year	3,703	14,569	10,940	29,212
Disposals	–	(386)	–	(386)
Carried forward 31 December 2017	21,872	53,125	117,780	192,777
Charge for year	3,703	19,554	10,159	33,416
Depreciation on disposals	–	(1,296)	–	(1,296)
Carried forward 31 December 2018	**25,575**	**71,383**	**127,939**	**224,897**
Net book value				
At 31 December 2018	**11,459**	**58,957**	**33,168**	**103,584**
At 31 December 2017	15,162	54,760	39,344	109,266

18. Prepaid assisted acquisitions support

Group

	Total £
Cost	
Brought forward 1 January 2017	60,074
Additions	265,718
Disposals	–
Carried forward 31 December 2017	325,792
Additions	250,085
Disposals	–
Carried forward 31 December 2018	**575,877**
Amortisation	
Brought forward 1 January 2017	2,002
Charge for year – to revenue	24,800
Charge for year – to cost of sales	6,538
Disposals	–
Carried forward 31 December 2017	33,340
Charge for year – to revenue	61,492
Charge for year – to cost of sales	27,209
Disposals	–
Carried forward 31 December 2018	**122,041**
Net book value	
At 31 December 2018	**453,836**
At 31 December 2017	292,452

Cashback and broker's commission is presented as prepaid assisted acquisitions support

The additions represent sums provided to franchisees that have made qualifying acquisitions to grow their lettings' portfolios. The cashback sum provided is based on a calculation of the estimated increase in MSF as a result of the acquisition and the sum provided for broker's commission is based on the charge payable to the broker. In providing these sums the Group ensures that franchisees are contractually bound to the relevant franchisor for a period in excess of that required for the economic benefits to exceed the sums provided.

Company

No prepaid assisted acquisitions support exists in the Parent Company.

19. Investments

Company

	Shares in Group undertakings £
Cost	
At 1 January 2017	34,249,674
Capital contribution to subsidiaries – share options	26,401
Impairment of Investment	(500,000)
At 31 December 2017	33,776,075
Capital contribution to subsidiaries – share options	27,811
At 31 December 2018	**33,803,886**
Net book value	
At 31 December 2018	**33,803,886**
At 31 December 2017	33,776,075

The Property Franchise Group PLC was incorporated on 7 October 2013. On the 10 December 2013 a share for share exchange acquisition took place with Martin & Co (UK) Limited; 17,990,000 ordinary shares in The Property Franchise Group PLC were exchanged for 100% of the issued share capital in Martin & Co (UK) Limited.

On 31 October 2014 the Company acquired the entire issued share capital of Xperience Franchising Limited and Whitegates Estate Agency Limited for a consideration of £6,110,284.

On 5 September 2016 the Company acquired the entire issued share capital of EweMove Sales & Lettings Ltd, and its dormant subsidiary Ewesheep Ltd, for an initial consideration of £8m. Of the total consideration, £2.1m represented contingent consideration, of which £0.5m was paid out on 30 July 2017 and £0.5m was paid out on 31 December 2017. No further sums are due.

Martin & Co (UK) Limited, Xperience Franchising Limited, Whitegates Estate Agency Limited, EweMove Sales & Lettings Ltd and Ewesheep Ltd are exempt from the requirements of the Companies Act 2006 relating to the audit of accounts under section 479A of the Companies Act 2006.

At the year-end The Property Franchise Group PLC has guaranteed all liabilities of Martin & Co (UK) Limited, Xperience Franchising Limited, Whitegates Estate Agency Limited and EweMove Sales & Lettings Ltd. The value of the contingent liability resulting from this guarantee is unknown at the year-end.

The carrying value of the investment in EweMove has been considered for impairment through value in use calculations and it was determined that no impairment was required in the year ended 31 December 2018. In the prior year a write-down from a revision to valuation estimates of £500,000 against the carrying value of the master franchise agreement was appropriate (see note 5 – Impairment of intangible assets), this was accounted for in the year ended 31 December 2017.

The carrying values of the other investments (all companies except for EweMove) have been considered for impairment and it has been determined that the value of the discounted future cash inflows exceeds the carrying value. Thus, there is no impairment charge.

The Company's investments at the balance sheet date in the share capital of companies include the following, which all have their registered offices at the same address as the Company:

Subsidiaries

	Share class	% ownership and voting rights	Country of incorporation
Martin & Co (UK) Limited	Ordinary	100	England
Xperience Franchising Limited	Ordinary	100	England
Whitegates Estate Agency Limited	Ordinary	100	England
EweMove Sales & Lettings Ltd	Ordinary	100	England
Ewesheep Ltd*	Ordinary	100	England
MartinCo Limited	Ordinary	100	England

* indirectly owned

20. Trade and other receivables

	Group 2018 £	Group 2017 £	Company 2018 £	Company 2017 £
Trade receivables	217,040	254,722	3,191	–
Less: provision for impairment of trade receivables	(103,574)	(116,862)	–	–
Trade receivables – net of impairment provisions	113,466	137,860	3,191	–
Loans to franchisees	36,523	39,344	–	–
Other receivables	8,539	21,225	5,556	–
Amounts due from Group undertakings	–	–	160,782	–
Prepayments and accrued income	937,746	918,908	23,011	39,684
Tax receivable	–	–	168,980	800,527
	1,096,274	1,117,337	361,520	840,211

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

The Group is entitled to the revenue by virtue of the terms in the franchise agreements and can force the sale of a franchise to recover a debt if necessary.

Ageing of trade receivables
The following is an analysis of trade receivables that are past due date but not impaired. These relate to a number of customers for whom there is no recent history of defaults. The ageing analysis of these trade receivables is as follows:

	2018 £	2017 £
Group		
Not more than 3 months	70,149	80,898
More than 3 months but not more than 6 months	18,080	11,926
More than 6 months but not more than 1 year	4,585	9,667
	92,814	102,491

The Directors consider that the carrying value of trade and other receivables represents their fair value.

The Group does not hold any collateral as security for its trade and other receivables. In the current year a loan was made to a franchisee for £30k and is secured by way of a fixed and floating charge over their assets. At the 31 December 2018 £23k was outstanding in relation to this loan. In a prior year a loan was made to another franchisee for £147k and as at 31 December 2018 £11k (2017: £19k) was outstanding in relation to this loan.

Included within "Prepayments and accrued income" is accrued income of £663k (2017: £633k) in relation to Management Service Fees for some of our brands that are invoiced at the beginning of the month following the month to which they relate.

21. Called up share capital

	2018 Number	2018 £	2017 Number	2017 £
Group				
Authorised, allotted issued and fully paid ordinary shares of 1p each	25,822,750	258,228	25,822,750	258,228
Company				
Authorised, allotted issued and fully paid ordinary shares of 1p each	25,822,750	258,228	25,822,750	258,228

Movements in shares are summarised below:

	Number of shares
At 1 January 2017	25,300,750
12 April 2017: shares issued upon exercise of share options at 17.64p by a Director and 2 senior employees	329,600
2 June 2017: shares issued upon exercise of share options at 17.64p by a Director	192,400
At 31 December 2017 and 31 December 2018	**25,822,750**

22. Share premium

	Number of shares	Share capital £	Share premium £
At 1 January 2017	25,300,750	253,008	3,952,939
12 April 2017: share issue	329,600	3,296	54,846
2 June 2017: share issue	192,400	1,924	32,015
At 31 December 2017 and 31 December 2018	**25,822,750**	**258,228**	**4,039,800**

For further details of share issues refer to note 21.

23. Other reserves

	Merger reserve £	Share-based payment reserve £	Total £
Group			
1 January 2017	2,796,984	104,378	2,901,362
Deferred tax on share options	–	(104,378)	(104,378)
Share-based payment charge	–	137,020	137,020
1 January 2018	2,796,984	137,020	2,934,004
Share-based payment charge	–	49,857	49,857
31 December 2018	**2,796,984**	**186,877**	**2,983,861**
Company			
1 January 2017	20,786,884	104,378	20,891,262
Deferred tax on share options	–	(104,378)	(104,378)
Share-based payment charge	–	137,020	137,020
1 January 2018	20,786,884	137,020	20,923,904
Share-based payment charge	–	49,857	49,857
31 December 2018	**20,786,884**	**186,877**	**20,973,761**

Merger reserve

Acquisition of Martin & Co (UK) Limited

The acquisition of Martin & Co (UK) Limited by The Property Franchise Group PLC did not meet the definition of a business combination and therefore, falls outside of the scope of IFRS 3. This transaction was in 2013 and accounted for in accordance with the principles of merger accounting.

The consideration paid to the shareholders of the subsidiary was £17,990,000 (the value of the investment). As these shares had a nominal value of £179,900, the merger reserve in the Company is £17,810,000.

On consolidation the investment value of £17,990,000 is eliminated so that the nominal value of the shares remaining is £179,900 and, as there is a difference between the Company value of the investment and the nominal value of the shares purchased in the subsidiary of £100, this is also eliminated, to generate a merger reserve in the Group of £179,800.

Acquisition of EweMove Sales & Lettings Ltd

The consideration for the acquisition of EweMove Sales & Lettings Ltd included the issue of 2,321,550 shares to the vendors at market price. A merger reserve of £2,976,784 is recognised in the Group and the Company being the difference between the value of the consideration and the nominal value of the shares issued as consideration.

Share-based payment reserve

The share-based payments reserve comprises charges made to the income statement in respect of share-based payments and related deferred tax impacts under the Group's equity compensation scheme.

24. Borrowings

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Repayable within 1 year:				
Bank loan (term loan)	900,000	900,000	900,000	900,000
Repayable in more than 1 year:				
Bank loan (term loan)	700,000	1,600,000	700,000	1,600,000
Bank loans due after more than 1 year are repayable as follows:				
Between 1 and 2 years	700,000	900,000	700,000	900,000
Between 2 and 5 years	–	700,000	–	700,000

The Company has a loan facility of £5m, and has drawn down 2 term loans under this facility, referred to below as 'Loan 1' and 'Loan 2'. The loans are secured with a fixed and floating charge over the Group's assets and a cross guarantee across all companies in the Group.

Loan 1 – £2.5m drawn down on 30 October 2014 and is repayable over 5 years in equal instalments. Interest is charged quarterly on the outstanding amount and the rate is fixed during the term at 4.08%. The amount outstanding at 31 December 2018 was £0.5m (2017: £1m).

Loan 2 – £2m drawn down on 5 September 2016 and is repayable over 5 years in equal instalments. Interest is charged quarterly on the outstanding amount, the rate is variable during the term at 2.5% above LIBOR, at 31 December 2018 the rate was 3.41% (2017: 3.02%). The amount outstanding at 31 December 2018 was £1.1m (2017: £1.5m).

At 31 December 2018 the unutilised amount of the facility was £3.4m (2017: £2.5m).

The cash outflow for borrowings arising from financing activities during the year was £0.9m (2017: £0.9m).

25. Trade and other payables

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Trade payables	164,181	154,076	15,596	14,427
Other taxes and social security	619,119	572,573	–	–
Other payables	28,113	49,707	–	2,070
Accruals and deferred income	665,406	523,282	48,967	61,606
Amounts owed to Group undertakings	–	–	–	55,188
	1,476,819	1,299,638	64,563	133,291

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

Included in "Accruals and deferred income" is deferred income of £36k (2017: £117k) in relation to charges levied on franchisees in advance and EweMove licence fees.

26. Leasing agreements

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Non-cancellable operating leases	
	2018 £	2017 £
Group		
Within 1 year	48,000	54,536
Between 1 and 5 years	33,200	86,200
	81,200	140,736

The lease arrangements above consist of those relating to land and buildings and office equipment.

Company
No leases exist in the Parent Company.

27. Deferred tax

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Balance at beginning of year	(1,467,598)	(1,475,481)	23,318	104,378
Movement during the year:				
Statement of changes in equity	–	(104,378)	–	(104,378)
Adjustment to deferred tax rate from 20% to 17%	–	–	–	–
Statement of comprehensive income	95,402	111,935	6,783	23,318
Other	–	326	–	–
Acquisitions	–	–	–	–
Balance at end of year	(1,372,196)	(1,467,598)	30,101	23,318

Deferred taxation has been provided as follows:

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Accelerated capital allowances	(5,895)	(5,895)	–	–
Share-based payments	30,101	23,318	30,101	23,318
Acquired business combinations	(1,396,402)	(1,485,021)	–	–
	(1,372,196)	(1,467,598)	30,101	23,318

28. Financial instruments

Financial instruments – risk management

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

- Credit risk
- Liquidity risk
- Interest rate risk

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

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

Principal financial instruments

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

- Receivables
- Loans to franchisees
- Cash at bank
- Trade and other payables
- Borrowings

Financial assets

Financial assets measured at amortised cost:

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Loans and receivables:				
Trade receivables	113,466	137,860	3,191	–
Loans to franchisees	36,523	39,344	–	–
Other receivables	8,539	21,225	–	–
Cash and cash equivalents	3,857,988	2,594,526	1,278,026	346,960
Accrued income	663,089	633,454	–	–
	4,679,605	3,426,409	1,281,217	346,960

Financial liabilities

Financial liabilities measured at amortised cost:

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
Other financial liabilities:				
Bank loan	1,600,000	2,500,000	1,600,000	2,500,000
Trade payables	164,181	154,076	15,596	14,427
Other payables	28,112	49,707	–	2,070
Accruals	629,200	378,043	48,969	61,606
Amounts owed to Group undertakings	–	–	70,428	55,188
	2,421,493	3,081,826	1,734,993	2,633,291

Maturity analysis of financial liabilities

	Group		Company	
	2018 £	2017 £	2018 £	2017 £
In less than one year:				
Bank loan	940,519	967,609	940,519	967,609
Trade payables	164,118	154,076	15,596	14,427
Other payables	28,112	49,707	–	2,366
Accruals	629,200	378,043	48,969	61,606
Amount owed to Group undertakings	–	–	70,428	55,188
	1,761,949	1,549,435	1,075,512	1,101,196
In more than one year:				
Bank loan	722,715	1,663,236	722,715	1,663,236
	722,715	1,663,236	722,715	1,663,236

All of the financial assets and liabilities above are recorded in the statement of financial position at amortised cost. The above maturity analysis amounts reflect the contractual undiscounted cash flows, including future interest charges, which may differ from carrying values of the liabilities at the reporting date.

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

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

Capital management policy
The Board considers capital to be the carrying amount of equity and debt. Its capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide progressive returns for shareholders and safeguard the Group's status as a going concern. The principal financial risks faced by the Group are liquidity risk and interest rate risk. The Directors review and agree policies for managing each of these risks. These policies remain unchanged from previous years.

The Board monitors a broad range of financial metrics including growth in MSF, operating margin, EBITDA, return on capital employed, and balance sheet gearing.

It manages the capital structure and makes changes in light of changes in economic conditions. In order to maintain or adjust the capital structure, it may adjust the amount of dividends paid to shareholders.

Credit risk
Credit risk is the risk of financial loss to the Group if a franchisee or counterparty to a financial instrument fails to meet its contractual obligations. It is Group policy to assess the credit risk of new franchisees before entering contracts and to obtain credit information during the franchise agreement to highlight potential credit risks.

The highest risk exposure is in relation to loans to franchises and their ability to service their debt. The Directors have established a credit policy under which franchisees are analysed for creditworthiness before a loan is offered. The Group's review includes external ratings, when available, and in some cases bank references. The Group does not consider that it currently has significant concentration of credit risk with loans extended to franchisees of £20k.

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

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future development, the Group monitors forecast cash inflows and outflows on a monthly basis.

Interest rate risk
The Group's exposure to changes in interest rate risk relates primarily to interest earning financial assets and interest bearing financial liabilities. Interest rate risk is managed by the Group on an on-going basis with the primary objective of limiting the effect of an adverse movement in interest rates. Hence, the fixed rate of interest on one of its two bank loans. If LIBOR increased by 1%, this would cost the Group an extra £10k in interest for a full year. The Directors monitor movements in interest rates and believe that any reasonable fluctuation in LIBOR would not have a material impact on the Group.

Fair values of financial instruments
The fair value of financial assets and liabilities is considered the same as the carrying values.

29. Share-based payments

Enterprise Management Incentive ("EMI") Share Option Scheme 2017

During the year ended 31 December 2017 the Company implemented an Enterprise Management Incentive scheme as part of the remuneration for all staff and granted options over 2,290,000 ordinary shares at an exercise price of £0.01 each.

The options over 2,290,000 ordinary shares were granted to different classes of employees at different times as follows:

1. Executive Directors were granted options over 1,500,000 ordinary shares on 9 June 2017
2. Staff were granted options over 185,000 ordinary shares on 20 July 2017
3. Leadership team recruits in FY17 were granted options over 605,000 ordinary shares on 14 September 2017

During the year ended 31 December 2017 an option was forfeited over 150,000 shares following the departure of an employee. At 31 December 2017 options over 2,140,000 ordinary shares existed.

During the year ended 31 December 2018 options over 175,000 shares were forfeited following the departure of employees. At 31 December 2018 options over 1,965,000 ordinary shares existed.

These options have a vesting condition based on EPS targets for the year ended 31 December 2019. The share-based payment charge recognised in the year ended 31 December 2017 in respect of these options was reversed in the year ended 31 December 2018 because none of these options are expected to vest.

Enterprise Management Incentive ("EMI") Share Option Scheme 2018

On 1 August 2018 employees with options in the EMI Share Option Scheme 2017 were granted options in a parallel scheme, over the same number of shares, and with the same EPS target, but these are exercisable 1 year later, after the approval of the financial statements for the year ending 2020. Participants will only be able to exercise one of their options. The total number of parallel options granted was 1,965,000.

On 1 August 2018 new employees who did not have options in the EMI Share Option Scheme 2017 were granted options over 155,000 shares at an exercise price of £0.01 each.

At 31 December 2018 options over 2,120,000 ordinary shares existed.

These options have a vesting condition based on EPS targets for the year ended 31 December 2020.

The following principal assumptions were used in the valuation of each of the grants made in the year ended 31 December 2018 using the Black-Scholes option pricing model:

Assumptions	
Date of vesting	30/04/2021
Share price at grant	£1.415
Exercise price	£0.01
Risk free rate	0.57%
Dividend yield	5.30%
Expected life	2.75 years
Share price volatility	31.00%

The weighted average contractual life remaining of these options is 2 years and 4 months.

Expected volatility is a measure of the amount by which a share price is expected to fluctuate during a period. The assumptions used in valuing each grant are based on the daily historical volatility of the share price over a period commensurate with the expected term assumption.

The risk free rate of return is the implied yield at the date of grant for a zero coupon UK government bond with a remaining term equal to the expected term of the options.

It's expected that with an exercise price of £0.01, should the EPS condition be met, all holders will exercise as soon as the options vest. The Group announces its results usually within the first 10 days of April. So it has been assumed that all options will be exercised on 30 April 2021.

EPS is measured as the basic earnings per share excluding any exceptional income/costs and any share-based payments charges. Further details can be found in the Directors' remuneration report on pages 29 and 30.

Management has used the budget for FY19, the projections for FY20 and the market outlook to determine, at 31 December 2018, the achievement of the EPS condition.

The estimated fair value of the options over 2,120,000 ordinary shares at 31 December 2018 was £1,142,985. This fair value, moderated for the extent to which the options are expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £49,857 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2018, which is the net of the share-based payments charge on the 2018 options £186,877 less the share-based payments charge recognised last year of £137,020 on the 2017 options.

Enterprise Management Incentive ("EMI") Share Option Scheme 2013
At 31 December 2018 all the conditions for the scheme had been fulfilled.

During the year ended 31 December 2017 options vested over 586,800 ordinary shares and options over 522,000 ordinary shares were exercised leaving 1 option over 64,800 ordinary shares unexercised.

The maximum term of the vested but unexercised option granted is 10 years from the grant date. The option allows the holder to purchase 64,800 ordinary shares at an exercise price stated of £1.385.

Movement in the number of ordinary shares under options for all schemes was as follows:

	2018 £		2017 £	
		Weighted average exercise price		Weighted average exercise price
Number of share options				
Outstanding at the beginning of the year	2,204,800	£0.0504	586,800	£0.3099
Forfeited	(175,000)	£0.01	(150,000)	£0.01
Granted	155,000	£0.01	2,290,000	£0.01
Exercised	–	–	(522,000)	£0.1764
Outstanding at the end of the year	2,184,800	£0.0508	2,204,800	£0.0504

The outstanding options at 31 December 2018 comprised 2,120,000 options with an exercise price of £0.01 and 64,800 options with an exercise price of £1.385. The 64,800 options were exercisable at 31 December 2018 and the remaining options were not yet exercisable.

The outstanding options at 31 December 2017 comprised 2,140,000 with an exercise price of £0.01 and 64,800 options with an exercise price of £1.385. The 64,800 options were exercisable at 31 December 2017 and the remaining options were not yet exercisable.

The weighted average remaining contractual life of options is 2.5 years (2017: 2.5 years).

30. Related party disclosures

Transactions with Directors

Dividends

During the year the total interim and final dividends paid to the Directors and their spouses were as follows:

	2018 £	2017 £
Interim and final dividend (ordinary shares of £0.01 each)		
Richard Martin	838,556	725,997
Ian Wilson	115,378	97,614
Paul Latham	1,950	1,650
David Raggett	16,957	7,940
	972,841	833,201

Directors' emoluments

Included within the remuneration of key management and personnel detailed in note 9, the following amounts were paid to the Directors:

	2018 £	2017 £
Wages and salaries	715,502	653,326
Social security costs	90,224	82,305
Pension contribution	10,703	–
	816,429	735,631

Details of Directors' interests in share options are disclosed in the Directors' remuneration report on pages 29 and 30.

Shareholder information

Financial calendar
Announcement of Preliminary results – 9 April 2019
Annual General Meeting – 22 May 2019
Half year results – 30 September 2019
Interim dividend – October 2019

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