

5 April 2022

THE PROPERTY FRANCHISE GROUP PLC
(the "Company" or the "Group")

Final Results

A transformational year

The Property Franchise Group, the UK's largest property franchisor, is pleased to announce its final results for the year ended 31 December 2021 ("FY21").

Financial Highlights

- Network income increased 67% to £157m (2020: £94m)
 - 17% like for like increase to £110m¹
- Group revenue increased 118% to £24.0m (2020: £11.0m)
 - 26% like for like increase to £13.9m¹
- Management Service Fees ("royalties") increased 57% to £14.7m (2020: £9.4m)
 - 19% like for like increase to £11.2m¹
- Adjusted operating margin² of 40% (2020: 48%)
- Adjusted EBITDA³ increased 81% to £10.4m (2020: £5.8m)
 - 19% like for like increase to £6.8m
- Profit before tax increased 35% to £6.4m (2020: £4.8m)
- Adjusted basic earnings per share increased 61% to 27.0p (2020: 16.8p)
- Highly cash generative as demonstrated by net debt of £2.7m at 31 Dec 2021 after borrowing £12.5m to fund the acquisition of Hunters (31 Dec 2021: net cash of £8.8m).
- Net cash generated from operations increased 65% to £8.9m after acquisition costs of £0.9m (2020: £5.4m)
- Dividends paid and declared for FY21 of 11.6p (2020: 8.7p)

¹ like for like comparison excluding the impact of the acquisition of Hunters/Mortgage Genie and Aux Group disposal.

² before share-based payments charge, exceptional items and amortisation arising on consolidation

³ before share-based payments charge, exceptional items and gain on investment.

Operational Highlights

- Sales agreed pipeline increased 73% to £26.5m (2020: £15.3m)
- Managing 74,000 rental properties (2020: 58,000)
- Franchisees added 1,270 tenanted managed properties through acquisitions.
- EweMove sold 58 new territories (2020: 11)
- Acquired Hunters in March 2021
- Launched five year strategic partnership with LSL in April 2021
- Acquired Mortgage Genie in September 2021
- Further strengthened senior management team to provide enhanced franchisee support

Gareth Samples, Chief Executive Officer of The Property Franchise Group, said:

"2021 has been a milestone year for The Property Franchise Group. Our determination to make the most of a buoyant sales market saw us achieve record levels of like-for-like revenue, Management Service Fees and profits.

We also saw our strategic decisions deliver. The acquisition of Hunters, completed in March, significantly added to our shareholder value. Our focus on building EweMove resulted in record numbers of franchisees recruited. And last but not least, our decision to bolster our central executive team has provided immeasurable support to the franchisee network throughout the year, helping them to become more successful.

Looking ahead, we see an exciting period of further development for all our franchisees in 2022. While we expect over the year we'll see sales activity return close to 2019 levels, so far we have seen continued high levels of demand for both sales and lettings, well above pre-pandemic norms. Aside from market conditions, we have great confidence that the execution of our strategic initiatives, alongside the benefit of a full year's contribution from our acquisitions, will underpin continued growth this year and beyond."

Investor presentation

The Company is hosting a live private investor presentation on Wednesday 6 April 2022 at 12:30. All existing and potential private investors interested in attending are asked to register using the following link: https://bit.ly/TPFG_FY_webinar

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About The Property Franchise Group PLC:

The Property Franchise Group PLC (AIM: TPFPG) is the largest property franchisor in the UK and manages the second largest estate agency network and portfolio of lettings properties in the UK.

The Company was founded in 1986 and has since grown to a diverse portfolio of nine brands operating throughout the UK, comprising longstanding high-street focused brands and a hybrid, no sale no fee agency.

The Property Franchise Group's brands are Martin & Co, EweMove, Hunters, CJ Hole, Ellis & Co, Parkers, Whitegates, Mullucks & Country Properties.

Headquartered in Bournemouth, UK, the Company was listed on AIM on the London Stock Exchange in 2013. More information is available at www.propertyfranchise.co.uk

CHAIRMAN'S STATEMENT

In this, my final Chairman's Statement before stepping down, I cannot think of a more appropriate time to reflect on how we have achieved our current position.

Our journey

Martin & Co opened its doors for trading in May 1986 in South Somerset. My franchisor epiphany came when in 1993 I read a copy of 'Behind the Golden Arches', the story of how Ray Kroc succeeded in building McDonald's into the world's largest franchise network. In the months that followed I set about designing the systems and procedures of our franchise model.

We launched Martin & Co as a franchise offering in May 1995. We were convinced that provided we focused our efforts on our franchisee's success, and the franchisees focused their efforts on the quality of the services they were delivering to customers, then our success should duly follow.

Having built a substantial national lettings portfolio and a 180-branch network, 2012 saw our return to the residential sales market in order to build a second major revenue stream for our franchisees.

In December 2013, through an IPO, we became an AIM listed company. A true milestone moment for me, my family and the business. Soon after, in October 2014 we acquired four franchise brands and their franchisees from Legal & General - **Whitegates, Ellis & Co, CJ Hole & Parkers** – our vision being to substantially improve their franchisees' lettings revenues and leverage our group resources more effectively and efficiently.

With margins, profits and cash improving, we looked for our next acquisition. After watching a period of sustained growth by **EweMove** in a growing "hybrid/online" segment of the residential sales market, we acquired it in September 2016. It's proven customer service credentials, coupled with a sizeable "flock" and the ability to fund growth from operating cash flows gave us confidence in its long-term potential.

Being a multi-brand franchisor, we felt the time was right in 2017 to re-brand to **The Property Franchise Group**. We thought we had a resilient business model and, when put to the test, by Brexit and Covid-19, it behaved in that way. In March 2021, we acquired **Hunters, Country Properties** and **Mullucks**. Then to support an expansion into financial services across a network heading towards 600 outlets, we signed a five-year strategic partnership with LSL Property Services in April 2021 and acquired a mortgage broker, **Mortgage Genie**, in September 2021.

It has been a truly exciting journey, meeting people who were seeking a platform to build their own financial success, to achieve their ambitions, shed the 9-5 job, or just provide themselves with an early worry-free retirement. From the very start, the satisfaction of helping those people on their journey has been enormously rewarding.

In those 36 years since founding Martin & Co, we have built a leading national business, which has proven its ability time and again by outperforming the sector. Of course, none of this would have occurred without the hard work of our franchisees and head office staff. The skill and dedication of a team of experts in their various fields, coupled to the ambitions of people who want to build a business and future for themselves is a powerful force.

Board focus during 2021

It's been a busy year for our Board given the two acquisitions completed in the year, the strategic partnership with LSL, sale of Aux Group, and the evaluation of existing and potential new operating systems for our franchisees.

We also saw Board changes this year as Glynis Frew and Dean Fielding joined us from Hunters in March providing us with continuity of management for Hunters and further insight into our sector and the market. Since the year end, Glynis has stepped down from our Board and taken up the post of Group Franchise Training and Development Director. This role addresses our objective to develop the next generation of leaders within the Group and our franchise network as well as to be at the forefront of the Regulation of Property Agents ("RoPA"). Glynis has both the experience and tremendous passion necessary to achieve this objective. We are very grateful for her continued service and desire to take on a challenging remit.

We have been adjusting to being the largest UK property franchise business and the second largest agency network in the sector. This has brought with it additional opportunities such as to partner with third parties, acquire complementary businesses and attract talented people. Of course, it has also brought with it new risks which we carefully assess to ensure we continue to generate class leading service and returns.

We continued to prioritise stakeholder engagement in 2021 with our Executive Directors spending more time presenting to franchisees, investors, employees, suppliers, and lenders on progress, our strategic initiatives and our vision.

Market developments

We entered 2021 with significant sales agreed pipelines as homeowners decided to move for a myriad of reasons, including the stamp duty holiday. However, it became clear from March onwards that stamp duty alone was not fuelling the market and our sales pipeline remained strong. Having bought one of the largest brands in residential sales we reaped the benefits, selling over 26,000 homes compared to 9,000 homes in 2020.

In the residential lettings market we saw less movement by tenants. However, following the tenant fee ban, the evictions ban coming to an end, the increase in house prices and other inflationary pressures, rents have risen. Typically, rent increases of 6% to 8% were seen during 2021, a trend that is continuing into the current financial year.

Looking forward, I continue to believe that the housing market represents a strong investment opportunity. The UK government has demonstrated that the housing market is integral to a strong economy and that it will implement initiatives to support its continued strength. We need further properties to rent to satisfy our labour shortages and ensure capacity exists where that labour is required. Demand for rental properties remains strong and returns should increase. In addition, early evidence in 2022 suggests a healthy appetite remains to buy homes to satisfy post-covid lifestyle changes.

Dividend

We committed to a progressive dividend policy at the time of IPO, confident that we could generate the earnings to both maintain a strong dividend cover and yield. I am very proud of our record and confident that the Group can continue to fulfill on this commitment. Since IPO, we have paid out 47.4p in dividends to our supportive shareholders.

2021 has seen a step change in our profitability and net operating cash generation. The Board has felt it only right to reflect that in the dividends being paid. I am therefore pleased to announce that the Board has approved a final dividend for 2021 of 7.8p (second interim for 2020: 6.6p) bringing the total dividend for 2021 to 11.6p, an increase of 33% over the 8.7p paid for 2020.

Outlook

We are currently making strong progress with our strategic initiatives and I have every confidence that the executive will be able to further report positive and quantifiable results from this work in the near future.

We now have a Group which is capable of more rapid scaling up and we believe our network of local business professionals will soon challenge the largest of the corporate networks. Our year-on-year financial performance and returns are testament to the capital-light strength of our franchise model and, as it has in the US, we believe that franchising will become the dominant model in residential agency with TPGF augmenting our position as a leading player.

I am extremely proud of the Group that we have built. It's been a fascinating and inspiring journey made possible by our talented team, committed franchisees, the support of my fellow Board members in shaping today's business and by investors backing us. All have made a huge contribution to our success.

I extend my sincere thanks and gratitude to all of them.

I am delighted to be passing the baton to Paul Latham. With many years of relevant commercial and Board experience, I am confident that he will successfully lead the Board to deliver further value for our stakeholders.

As for myself, whilst standing down as Chair, I have every confidence in our potential for ongoing growth and can assure all stakeholders that our vision for the future is every bit as exciting and ambitious as it was back in May 1995.

Richard Martin
Non-Executive Chairman
4 April 2022

CEO STATEMENT

It has been a transformational year for TPGF. Seeing our network enthused by the buoyancy of the market, and having strengthened our franchisee-franchisor relationships, our team has worked hard to support franchisees to reach their goals.

We supported more franchisees this year than in the last decade, to grow multiple revenue streams and expand geographically. We have seen eight franchisees open new offices and 17 open “spokes”, the latter intended to exploit more of their existing territories whilst using the resources of the supporting office.

In line with our acquisition strategy, the Group completed the acquisitions of Hunters and Mortgage Genie as well as launching a five-year strategic partnership with LSL. The Hunters acquisition was our most significant to date and has delivered significant financial and strategic benefits. Mortgage Genie and the LSL partnership are additional milestones for the Group and both bring exciting potential growth opportunities.

The year ahead provides further grounds for optimism. The backdrop of more normalised sales market conditions will allow us and our franchisees more time to focus on implementing our stated strategic initiatives, underpinning our long-term sustainable success.

Financial overview

We have increased our revenue every year since IPO and this was our eighth consecutive year with revenue up 118% to £24.0m (2020: £11.0m) largely driven by the acquisition of Hunters which contributed £9.8m. The Group achieved an adjusted operating margin of 40% (2020: 48%) compared to the 3-year average pre-2020 of 43% reflecting good progress with the post-acquisition synergies and a lower operating margin from Hunters’ owned offices. Profit before tax increased 35% to £6.4m (2020: £4.8m).

We are a strongly cash generative business and 2021 saw net cash generated from operations of £8.9m (2020: £5.4m). Hence, despite borrowing £12.5m to part-fund the cash consideration for Hunters of £14.5m, the £0.9m of costs for that acquisition and assuming Hunters’ bank debt of £3.0m, our net debt had reduced to only £2.7m at 31 December 2021 (2020: net cash £8.8m). Moreover, the continued strength of our balance sheet provides the stability needed to build further momentum behind our ongoing growth initiatives.

Our network’s lettings performance

Whilst we have grown our sales capabilities this year, lettings remains at the core of our DNA and represented 53% of Group MSF in 2021. Our expectation is that lettings will represent 60% of total MSF in a less buoyant sales market.

I am delighted to report that the network started the year with 58,000 tenanted managed properties and finished it with 74,000, an increase of 27%. Much of the increase came from the acquisition of Hunters, with the remainder being attributable to acquisitions by franchisees. Our franchisees acquired 1,270 (2020: 1,305) tenanted managed properties through our assisted acquisition initiative during the year. While external factors have suppressed acquisition opportunities in recent years, we expect there to be more acquisitions in 2022 and are already seeing increased activity.

We let 40,000 properties in 2021 up from 28,000 in 2020, the increase as a result of the Hunters acquisition.

We have seen rents rising on new lets and renewed tenancies between approximately 6% to 8%. Zoopla reported the fastest growth in rents in Q4 2021 than at any time over the last 13 years. Across the UK rents increased 8.3% in 2021 to an average of £969 per calendar month. Affordability as a percentage of a single earner’s income remains broadly in line with the 10-year average of 36%.

Management service fees from lettings were up 18% to £7.9m (2020: £6.6m) of which Hunters contributed £0.9m of the increase, high-street led brands £0.2m and EweMove £0.2m.

Our network's sales performance

We experienced a surge in demand for residential property in 2021, reaching a level I have not experienced before during my 30 years in the sector. The latest figures from HMRC show sales completions of 1.47m (non-seasonally adjusted) for 2021 against our pre-Covid comparator of 1.18m in 2019.

We came into 2021 with our sales agreed pipeline double the prior year end and, following the acquisition of Hunters, the Group had a sales' agreed pipeline of £31.0m as at 31 March 2021. The market continued to be strong across the remainder of the year and we ended 2021 with a sales' agreed pipeline of £26.5m, 55% higher than at 31 December 2019 (pre-Covid comparator). The high-street led brands delivered an increase of 65% and EweMove an increase of 76% against the pre-Covid comparator. Although we did not own Hunters in 2019, the pre-Covid comparator for Hunters was a 44% increase.

During 2021, the Group listed over 31,000 homes for sale, agreed sales on over 32,000 homes and helped buyers complete on almost 26,000 homes.

Management service fees from sales were up 145% to £6.9m (2020: £2.8m) of which Hunters contributed £2.6m of the increase, high-street led brands £0.9m and EweMove £0.6m.

Our view is that the re-prioritisation of housing needs will continue to be a factor in 2022 but the supply of stock will be the critical factor and therefore a similar market to 2019 is likely. That's just under 1.2m transactions or a 20% reduction over 2021. So far, however, 2022 has started better than we expected.

Strategic initiatives delivering growth

We have made significant progress this year with our strategic initiatives as first set out in September 2020.

Lettings growth

Our assisted acquisitions programme brought another 1,270 tenanted managed properties into the network. This should add a further £1.2m to network income on an annualised basis. We have also increased our expertise and the funds committed to this initiative with the aim of accelerating our progress.

Develop sales activity in the high street-led brands

In 2021 we encouraged franchisees to build their sales activities and benefit from the buoyant market. Our success is evident from average sales per office being 42% higher in the high-street led brands at the end of 2021 compared to 2019.

Financial services growth

It is our intention for all our network's end customers to have access to a full-service lettings and estate agency service, and financial services provision is part of that offering.

Pleasingly, we signed a 5-year strategic partnership with LSL in April 2021 and whilst market conditions initially limited our capacity to recruit financial advisers (against our initial target of 100 by the end of 2021), these have been improving in recent months. We also had our first block of franchisees start on the journey to run their own mortgage brokerages.

EweMove recruitment

We sold a record 58 new territories in 2021, finishing the year with 167 territories under contract. We have experienced continued strong lead flow in 2022.

We are aiming to double the number of territories occupied by EweMove franchisees to 230 by the end of 2022.

Acquisitions

We acquired Hunters Property plc on 19 March 2021. It operates under three brands from 208 high street offices: Hunters, Country Properties and Mullucks. The acquisition has been materially integrated into the Group and has delivered significant financial and strategic benefits. We will help its franchisees grow their lettings revenues to a more balanced level to improve their financial stability and increase the resale value of their franchises.

In September 2021 we bought Mortgage Genie, a mortgage broker supporting our commitment to developing a financial services income stream and providing capacity to service our franchisees requirements. We will continue to consider the acquisition of further financial services businesses which can enhance our offering.

Digital marketing

Best-in-class digital marketing is essential to running a successful estate and/or lettings agency business and we continue to invest in our capabilities.

Towards the end of 2021 we saw the completion of new websites with additional consumer functionality and, in co-operation with an experienced partner, a new CRM platform.

EweMove grows ever stronger

EweMove delivered a record performance in 2021 as it continues to demonstrate the benefits of its unique, hybrid, highly customer centric and flexible cost-based model.

EweMove's revenue increased by 41% to £4.1m (2020: £2.9m) and its adjusted profit before tax (which excludes exceptional items, share based payment charges, amortisation arising on consolidation) increased by 67% to £1.5m (2020: £0.9m). Its operating margin increased from 31% in 2020 to 37% in 2021. Importantly, profit before tax has quadrupled since 2018.

Milestone year for Hunters

Whilst our financial statements and commentary above focuses on Hunters since we acquired it on 19 March, I'd like to touch on its entire year here.

Hunters opened six offices in 2021 (2020: 9). Revenue was £12.8m (2020: £12.5m) and adjusted profit before tax which excludes exceptional items, share based payment charges, amortisation arising on consolidation increased by 29% to £3.6m (2020: £2.8m). The results from streamlining costs post acquisition accounted for circa £0.4m of the increase.

Following a strategic review, Hunters launched a hybrid offering post-period end – Hunters Personal - which is nascent but has so far been well received. Looking forward in 2022, final integration continues with consolidation into Group functions which will generate further cost savings. Alongside this we'll be driving revenue growth opportunities with the development of more lettings income, a new hybrid offering to promote, and the continued rollout of financial services to their network.

Supporting our franchisees

A key focus for the leadership team has been developing the support we provide to our franchisees. Our internal approach, culture and attitude, clearly recognises that our purpose as a business, and every individual role within that, is to support the franchisees and to help them to become more successful.

We have more franchisees than ever to support and as such we have been enhancing our leadership team. We welcomed Ellie Hall in September as Managing Director of Martin & Co (Midlands and North). Her specialism is the acquisition of lettings businesses which she has performed very successfully for our competitors over many years. Towards the end of 2021 we started to build additional training capabilities, and post-period end announced that these will be led by Glynis Frew once she has fully handed over Hunters' MD reins to Gareth Williams. We also recruited three further regional managers.

The feedback received from franchisees clearly indicates that we are heading in the right direction. There is a renewed sense of advocacy in our network and pride in what has been achieved. We are sought out more often for advice and the progress we have made is typified by the strong reputation that our team holds. That provides me with the energy and passion to ensure we keep delivering on our commitment.

Outlook

In 2022, we expect a similar residential sales market to 2019 and will therefore be focusing on encouraging franchisees to drive the activities which underpin our strategic initiatives. We have assembled the team to support them, and we are confident in our ability to execute.

Whilst we appear to have weathered the worst of the pandemic, none of us currently understand the implications of the conflict in Ukraine and the increasing cost of living. However, what we do know is that the Government has thus far been supportive of our sector, rental inflation is happening, and we are seeing greater sales activity than we were expecting so far this year.

With a significant lettings business, a hybrid model with a flexible cost base, the strength from our network of committed franchisees and a platform capable of scaling faster, we remain confident in our ability to grow the Group and continue to deliver value for our shareholders.

Gareth Samples

Chief Executive

4 April 2022

FINANCIAL REVIEW

In 2021 we forged ahead with our six strategic initiatives alongside a buoyant sales market. Our progress was undoubtedly helped by our investment in a new leadership team in late 2020, and further investment in 2021, giving us the bandwidth and expertise to implement and develop all our initiatives.

We added 17 companies in the year through the acquisitions of Hunters on 19 March 2021 and Mortgage Genie on 6 September 2021. The former put us at the forefront of sales agency networks in the UK and grew our tenanted managed portfolio by 25%. The latter complements our 5-year strategic partnership with LSL Property Services, and overall ambition to develop a meaningful third revenue stream from financial services.

Our scale allowed us to use Group functions more efficiently, start to eliminate operational resource duplication and agree several beneficial long-term partnership arrangements. That, on top of saving duplicated PLC costs, meant an initial £0.4m of annualised cost savings were achieved.

On a like-for-like basis including Hunters (artificial because we did not own Hunters until March 2021), the sales agreed pipeline was £32.6m at the start of the year and finished 2021 at £26.5m. Whilst the conversion of sales agreed into completion income started slowly in the year, the volume of transactions and longevity have been pleasing and the benefits of this will continue to be felt for at least Q1 2022.

By the year end we had exceeded 74,000 tenanted managed properties and rents were rising by circa 8% per annum by the end of the year. These two factors drove our lettings result in 2021 and as the latter will take several years to be substantially reflected across the portfolio, it should drive growth in income in 2022 and beyond.

Revenue

Group revenue for the financial year to 31 December 2021 was £24.0m (2020: £11.0m), an increase of £13m (118%) over the prior year. Hunters contributed £9.8m to revenue. There was like-for-like growth (excluding Hunters) of 26% to £13.9m

Management Service Fees (“MSF”), our key underlying revenue stream, increased 57% from £9.4m to £14.7m and represented 61% (2020: 85%) of the Group’s revenue. Hunters contributed £3.5m of MSF. There was like-for-like growth (excluding Hunters) of 19% to £11.2m.

The remainder of Group revenue was from owned offices £4.7m (2020: nil), franchise sales of £0.6m (2020: £0.2m), ancillary services to support MSF generation of £3.6m (2020: £1.5m) and revenue from financial services of £0.4m (2020: £0.4m).

Lettings contributed 53% of MSF (2020: 70%), sales contributed 46% of MSF (2020: 29%) and financial services contributed 1% of MSF (2020: 1%). Lettings MSF increased by 19% in the year, excluding the amortisation of prepaid assisted acquisitions support, and sales MSF increased by 145%.

Our franchise sales activity was predominantly focused on reselling existing franchises to experienced franchise owners in the high street-led brands, and to encouraging new entrants into EweMove. Resale activity recovered in 2021. Territory sales in EweMove set a new record of 58 (2020: 11).

	2021	2020
Revenue	£24.0m	£11.0m
Management Service Fees	£14.7m	£9.4m
Administrative expenses	£12.7m	£5.3m
Adjusted operating profit*	£9.7m	£5.3m
Operating profit	£6.7m	£4.8m
Adjusted profit before tax*	£9.4m	£5.3m
Profit before tax	£6.4m	£4.8m
Adjusted EBITDA*	£10.4m	£5.7m
Dividend	11.6p	8.7p

*Before exceptional costs, amortisation of acquired intangibles, share-based payment charges and gain on listed investment

Operating profit

Headline operating profit increased 34% to £6.7m (2020: £4.8m) with an operating margin of 27% (2020: 43%). Adjusted operating profit before exceptional items, amortisation of acquired intangibles and share-based payments charges increased 82% from £5.3m to £9.7m and the resulting operating margin was 40% (2020: 48%).

The average adjusted operating margin for the three years prior to 2020 was 43%. The operating margin for 2021 is lower than prior years due to Hunters operating some of its offices itself, which is a lower margin activity. There has been good progress with the initial post-acquisition synergies realising £0.4m of cost savings and we continue to seek further synergies in 2022.

As a result of the acquisitions in 2021, cost of sales increased by 297% to £3.7m (2020: £0.9m) and administrative expenses increased by 147% to £13.0m (2020: £5.3m), which included exceptional costs and the cost of repaying the furlough money back to HMRC in full of £0.09m.

Exceptional costs were £0.9m due to the acquisition of Hunters Property plc.

Share options were granted to the Executive Directors in 2021 over a maximum of 1,200,000 shares, with 100,000 arising through a deferred bonus plan, adding to those granted in 2020 over a maximum of 200,000 shares. There were also share options granted to senior employees in 2021 amounting to a maximum of 425,500 shares on the same conditions as those applying to the Executive Directors. All other grants for previous years vested during 2021.

An assessment of the share-based payment charges resulting from the options granted was made on 31 December 2021 resulting in £1.0m being charged to the profit and loss account (2020: £0.1m).

Adjusted EBITDA

Adjusted EBITDA for 2021 was £10.4m (2020: £5.7m), an increase of £4.7m (81%) over the prior year.

The high street-led brands contributed £5.2m (includes PLC costs), Hunters contributed £3.6m, and EweMove contributed £1.6m.

Profit before tax

Profit before tax was £6.4m for 2021 (2020: £4.8m). Excluding exceptional costs of £0.9m (2020: nil), amortisation arising on acquired intangibles of £1.2m (2020: £0.5m), the share-based payment charges of £1.0m (2020: £0.1m) and the gain on the listed investment of £0.1m (2020: nil), the adjusted profit before tax increased by 76% from £5.3m to £9.4m. The high-street led brands contributed £4.9m (includes PLC costs), Hunters contributed £3.0m and EweMove contributed £1.5m.

Taxation

The effective rate of corporation tax for the year was 42.7% (2020: 21.2%) due to the Government increasing corporation tax from 19% to 25% from April 2023 which has caused a deferred tax adjustment of £1.5m. The total tax charge for 2021 was £2.74m (2020: £1.0m).

Discontinued operations

On 22 July 2021 the Group disposed of its majority shareholding in Aux Group Limited. This resulted from the decision to partner LSL so as to scale up more quickly without the regulatory burdens. A cost of £0.2m has been recognised under discontinued operations being the loss on disposal of £0.3m less the profit after tax up to the point of disposal of £0.1m.

Earnings per share

Basic earnings per share ("EPS") for the year was 11.3p (2020: 14.6p), a decrease of 23% based on an 19% increase in the average number of shares in issue for the period to 30,622,102 (2020: 25,822,750). EPS is significantly impacted in the year by the deferred tax rate change from 19% to 25% that was substantially enacted on 24 May 2021, reducing earnings by £1.5m.

Diluted EPS for the year was 11.3p (2020: 14.4p) a decrease of 22% based on the average number of shares in issue

for the period plus an estimate for the dilutive effect of option grants vesting, being 30,721,692 (2020: 26,342,567). Again, this is also impacted by the deferred tax rate change reducing earnings by £1.5m in 2021.

The impact of the deferred tax rate change of £1.5m is to reduce basic EPS from 16.3p to 11.3p in the year and diluted EPS from 16.3p to 11.3p in the year.

Adjusted basic EPS for the year was 27.0p (2020: 16.8p), an increase of 61% based on the average number of shares in issue for the period of 30,622,102 (2020: 25,822,750).

Adjusted diluted EPS for the year was 26.9p (2020: 16.5p), an increase of 63% based on an estimate of diluted shares in issue of 30,721,692 (2020: 26,342,567).

The adjustments to earnings to derive the adjusted EPS figures total £4.8m (2020: £0.6m) and result from the share-based payment charge of £1.0m, amortisation of acquired intangibles of £1.2m, exceptional costs of £0.9m, a deferred tax rate change generating a charge of £1.5m, and a loss on disposal of subsidiary of £0.2m

The profit attributable to owners was £3.5m (2020: £3.8m).

Dividends

The Board remains committed to its progressive dividend policy whilst maintaining strong dividend cover as part of its overall cash allocation policy.

The Group has made significant progress with its strategic initiatives and is generating significantly more cash than ever before. As a result, the Board is pleased to announce a final dividend of 7.8p (second interim dividend for 2020: 6.6p), an increase of 18%, bringing the total dividend for 2021 to 11.6p (2020: 8.7p). It will be paid on 27 May 2022 to all shareholders on the register on 29 April 2022. Our shares will be marked ex-dividend on 28 April 2022. The total amount payable is £2.5m.

Cash flow

The Group is strongly operationally cash generative. The net cash inflow from operating activities in 2021 was £8.9m (2020: £5.4m).

The net cash outflow from investing activities was £13.7m (2020: outflow £0.1m). This consisted of £13.0m for the purchase of Hunters Property PLC, £0.1m for the purchase of Mortgage Genie Limited and its sister company, £0.3m on the disposal of Auxilium and £0.3m for the purchase of assets. In 2020, £0.2m was paid to franchisees following their purchase of tenanted managed properties and the acquisition of Auxilium Partnership Ltd netted to a cash inflow of £0.1m following a loan repayment of £0.2m.

The Group borrowed £12.5m from Barclays to fund all but £2.0m of the cash element of the consideration for Hunters Property Plc. This was made up of a revolving credit facility of £5.0m and a term loan of £7.5m repayable over 4 years. The Group had no bank borrowings in the prior year. It made repayments against the term loan of £1.4m during 2021. In addition, the Group repaid loans that Hunters had with HSBC of 3.0m.

Dividend payments totalling £2.9m were paid in the year (2020: £0.5m).

Shares were purchased by the TPFGE EBT for £0.3m (2020: £nil).

Liquidity

The Group had cash balances of £8.4m on 31 December 2021 (2020: £8.8m) and due to the bank loans mentioned above its net debt was £2.7m (2020: net cash £8.8m).

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 share-based payments charges, amortisation on acquired intangibles and exceptional items so as to aid comparability between reporting periods.

Financial position

The consolidated statement of financial position remains strong with total assets of £60.4m (2020: £25.2m), the significant increase being mainly due to the acquisition of Hunters Property plc.

There was an increase of £22.4m in liabilities during the year due to the new bank loan which contributed £11.1m of the increase as well as from an increase in the deferred tax liability of £4.5m resulting from the Hunters acquisition and the increase in the deferred tax rate, and an increase in other liabilities mainly resulting from the Hunters acquisition of £6.8m.

The Group finished the year with the total equity attributable to owners of £33.6m, an increase of £13.1m or 64% over the prior year.

The Group generated stronger cash inflows than ever before in 2021 due to its operating margins, acquisitions and the strength of the residential sales market. This has quickly brought the net debt down from a high of £7.3m following the acquisition of Hunters to a net debt of £2.7m at the year end.

David Raggett
Chief Financial Officer
4 April 2022

Consolidated statement of comprehensive income

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Revenue	7	24,042	11,017
Cost of sales		(3,697)	(933)
Gross profit		20,345	10,084
Administrative expenses	8	(12,719)	(5,257)
Share-based payments charge	9, 33	(970)	(68)
Operating profit	11	6,656	4,759
Finance income	12	4	11
Finance costs	12	(320)	(3)
Other gains and losses	21	83	-
Profit before income tax expense		6,423	4,767
Income tax expense	13	(2,745)	(1,008)
Profit for the year from continuing operations		3,678	3,759
Discontinued operations	14	(169)	33
Profit and total comprehensive income for the year		3,509	3,792
Profit and total comprehensive income for the year attributable to:			
Owners of the parent		3,469	3,783
Non-controlling interest		40	9
		3,509	3,792
Earnings per share attributable to owners of parent	15	11.3p	14.6p
Diluted Earnings per share attributable to owners of parent	15	11.3p	14.4p

Adjusted results

Adjusted profit for the financial year ¹	15	8,256	4,349
Earnings per share attributable to owners of parent	15	27.0p	16.8p
Diluted Earnings per share attributable to owners of parent	15	26.9p	16.5p

- Adjusted profit for the financial year is reconciled to the statutory profit for the year in note 15. Adjusted profit for 2021 is the profit before charging £1.5m deferred tax rate adjustment, £1.2m amortisation on acquired intangibles, £1.0m share based payments charge, £0.85m exceptional costs, and £0.2m other items.

Consolidated statement of financial position

31 December 2021

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Intangible assets	17	46,498	14,380
Property, plant and equipment	18	217	68
Right-of-use assets	19	1,568	86
Prepaid assisted acquisitions support	20	424	600
Investments	21	169	-
Investment properties	22	256	-
		49,132	15,134
Current assets			
Trade and other receivables	23	2,820	1,291
Cash and cash equivalents		8,413	8,771
		11,233	10,062
Total assets		60,365	25,196
Equity			
Shareholders' equity			
Called up share capital	24	320	258
Share premium	25	4,129	4,040
Own share reserve	27	(348)	-
Merger reserve	26	14,345	2,797
Other reserves	27	905	778
Retained earnings		13,999	12,690
		33,350	20,563
Non-controlling interest		6	9
Total equity attributable to owners		33,356	20,572
Liabilities			
Non-current liabilities			
Borrowings	28	9,219	-
Lease liabilities	19	2,275	45
Deferred tax	30	5,570	1,115
Provisions	31	212	-
		17,276	1,160
Current liabilities			
Borrowings	28	1,875	-
Trade and other payables	29	6,280	2,750
Lease liabilities	19	465	41
Tax payable		1,113	673
		9,733	3,464
Total liabilities		27,009	4,624
Total equity and liabilities		60,365	25,196

The financial statements were approved and authorised for issue by the Board of Directors on 4 April 2022 and were signed on its behalf by:

David Raggett
Chief Financial Officer

Company statement of financial position

31 December 2021 (Company No: 08721920)

	Notes	2021 £'000	2020 £'000
Assets			
Non-current assets			
Investments	21	60,743	34,083
Deferred tax asset	30	377	228
		61,120	34,311
Current assets			
Trade and other receivables	23	811	221
Cash and cash equivalents		4,635	4,601
		5,446	4,822
Total assets		66,566	39,133
Equity			
Shareholders' equity			
Called up share capital	24	320	258
Share premium	25	4,129	4,040
Own share reserve	27	(348)	-
Merger reserve	26	32,335	20,787
Other reserves	27	905	778
Retained earnings		16,668	13,123
Total equity		54,009	38,986
Liabilities			
Non-current liabilities			
Borrowings	28	9,219	-
		9,219	-
Current liabilities			
Borrowings	28	1,875	-
Trade and other payables	29	1,463	147
		3,338	147
Total liabilities		12,557	147
Total equity and liabilities		66,566	39,133

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 £5.705m (2020: £4.025m).

The financial statements were approved and authorised for issue by the Board of Directors on 4 April 2022 and were signed on its behalf by:

David Raggett
Chief Financial Officer

Consolidated statement of changes in equity

for the year ended 31 December 2021

	Attributable to owners						Total equity £'000	Non-controlling interest £'000	Total equity £'000
	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Own share reserve £'000	Merger reserve £'000	Other reserves £'000			
Balance at 1 January 2020	258	9,449	4,040	–	2,797	710	17,254	–	17,254
Profit and total comprehensive income	–	3,783	–	–	–	–	3,783	9	3,792
Dividends	–	(542)	–	–	–	–	(542)	–	(542)
Share-based payments charge	–	–	–	–	–	68	68	–	68
Total transactions with owners	-	(542)	–	–	–	68	(474)	–	(474)
Balance at 31 December 2020	258	12,690	4,040	–	2,797	778	20,563	9	20,572
Profit and total comprehensive income	–	3,469	–	–	–	–	3,469	40	3,509
Disposal of subsidiary	–	–	–	–	–	–	–	(43)	(43)
Dividends	–	(2,922)	–	–	–	–	(2,922)	–	(2,922)
Shares issued – acquisition consideration	55	–	–	–	11,548	–	11,603	–	11,603
Shares issued – share option exercises	7	762	89	–	–	(762)	96	–	96
Purchase of shares by Employee Benefit Trust	–	–	–	(348)	–	–	(348)	–	(348)
Release of deferred tax on share based payments	–	–	–	–	–	(81)	(81)	–	(81)
Share-based payments charge	–	–	–	–	–	970	970	–	970
Total transactions with owners	62	(2,160)	89	(348)	11,548	127	9,318	–	9,318
Balance at 31 December 2021	320	13,999	4,129	(348)	14,345	905	33,350	6	33,356

Company statement of changes in equity

for the year ended 31 December 2021

	Called up share capital £'000	Retained earnings £'000	Share premium £'000	Own share reserve £'000	Merger reserve £'000	Other reserves £'000	Total equity £'000
Balance as at 1 January 2020	258	9,640	4,040	–	20,787	710	35,435
Profit and total comprehensive income	–	4,025	–	–	–	–	4,025
Dividends	–	(542)	–	–	–	–	(542)
Share-based payments charge	–	–	–	–	–	68	68
Total transactions with owners	–	(542)	–	–	–	68	(474)
Balance as at 31 December 2020	258	13,123	4,040	–	20,787	778	38,986
Profit and total comprehensive income	–	5,705	–	–	–	–	5,705
Dividends	–	(2,922)	–	–	–	–	(2,922)
Shares issued – acquisition consideration	55	–	–	–	11,548	–	11,603
Shares issued – share option exercises	7	762	89	–	–	(762)	96
Purchase of shares by Employee Benefit Trust	–	–	–	(348)	–	–	(348)
Release of deferred tax on share based payments	–	–	–	–	–	(81)	(81)
Share-based payments charge	–	–	–	–	–	970	970
Total transactions with owners	62	(2,160)	89	(348)	11,548	127	9,318
Balance as at 31 December 2021	320	16,668	4,129	(348)	32,335	905	54,009

Consolidated statement of cash flows

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Cash generated from operations	A	10,856	6,378
Interest paid		(232)	-
Tax paid		(1,679)	(972)
Net cash from operating activities		8,945	5,406
Cash flows from investing activities			
Acquisition of subsidiary net of cash acquired – Hunters	B	(13,041)	-
Acquisition of subsidiary net of cash acquired – The Mortgage Genie	C	(103)	-
Acquisition of subsidiary net of cash acquired - Auxilium		-	(81)
Disposal of subsidiary net of cash disposed of - Auxilium	D	(323)	-
Purchase of intangible assets		(116)	-
Purchase of tangible assets		(87)	(18)
Assisted acquisitions support		(57)	(155)
Loan repaid		-	200
Interest received		4	11
Net cash used in investing activities		(13,723)	(43)
Cash flows from financing activities			
Issue of ordinary shares		96	-
Equity dividends paid		(2,922)	(542)
Purchase of shares by Employee Benefit Trust		(348)	-
Bank loan drawn		12,500	-
Bank loan repaid		(4,419)	-
Principal paid on lease liabilities		(399)	(59)
Interest paid on lease liabilities		(88)	(3)
Net cash used in financing activities		4,420	(604)
(Decrease) / Increase in cash and cash equivalents		(358)	4,759
Cash and cash equivalents at beginning of year		8,771	4,012
Cash and cash equivalents at end of year		8,413	8,771

Notes to the consolidated statement of cash flows

for the year ended 31 December 2021

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

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit before income tax	6,423	4,767
Profit before income tax – discontinued	152	38
Depreciation of property, plant and equipment	79	28
Amortisation of intangibles	1,249	591
Amortisation of prepaid assisted acquisitions support	233	213
Amortisation of right-of-use assets	317	56
Share-based payments charge	970	68
Gain on revaluation of listed investment	(83)	-
Finance costs	320	3
Finance income	(4)	(11)
Operating cash flow before changes in working capital	9,656	5,753
Decrease/(increase) in trade and other receivables	247	(18)
Increase in trade and other payables	953	643
Cash generated from operations	10,856	6,378

B. Acquisition of Subsidiary undertakings net of cash acquired

On 19 March 2021 the Group obtained control of Hunters Property plc and its subsidiaries.

	2021 £'000	2020 £'000
Consideration – cash element	14,531	-
Less: Cash acquired	(1,490)	-
Acquisition of subsidiary undertakings net of cash acquired	13,041	-

C. Acquisition of Subsidiary undertakings net of cash acquired

On 6 September 2021 the Group obtained control of The Mortgage Genie Limited and The Genie Group UK Ltd.

	2021 £'000	2020 £'000
Consideration – cash element	400	-
Less: Cash acquired	(297)	-
Acquisition of subsidiary undertakings net of cash acquired	103	-

D. Disposal of Subsidiary undertakings net of cash disposed of

On 22 July 2021 the Group disposed of its controlling interest in Aux Group Limited and Auxilium Partnership Limited

	2021 £'000	2020 £'000
Consideration – cash element	20	-
Less: Cash disposed of	(343)	-
Disposal of subsidiary undertakings net of cash disposed of	(323)	-

Company statement of cash flows

for the year ended 31 December 2021

	Notes	2021 £'000	2020 £'000
Cash flows from operating activities			
Cash generated from operations	E	(1,005)	(660)
Interest paid		(220)	-
Net cash used in operating activities		(1,225)	(660)
Cash flows from investing activities			
Acquisition of subsidiary – Hunters		(14,531)	(81)
Acquisition of subsidiary – The Mortgage Genie		(400)	-
Disposal of subsidiary - Auxilium		20	-
Loan repaid		-	200
Equity dividends received		8,250	4,610
Net cash generated from investing activities		(6,661)	4,729
Cash flows from financing activities			
Issue of ordinary shares		96	-
Equity dividends paid		(2,922)	(542)
Purchase of own shares by Employee Benefit Trust		(348)	-
Bank loan drawn		12,500	-
Bank loan repaid		(1,406)	-
Net cash used in financing activities		7,920	(542)
Increase in cash and cash equivalents		34	3,527
Cash and cash equivalents at beginning of year		4,601	1,074
Cash and cash equivalents at end of year		4,635	4,601

Notes to the Company statement of cash flows

for the year ended 31 December 2021

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

	2021 £'000	2020 £'000
Cash flows from operating activities		
Profit before income tax	4,846	3,898
Share-based payments charge	773	85
Gain on revaluation of listed investment	(68)	-
Loss on disposal of subsidiary	180	-
Finance costs	220	-
Finance income	-	-
Equity dividend received	(8,250)	(4,610)
Operating cash flow before changes in working capital	(2,299)	(627)
Increase in trade and other receivables	(8)	(163)
Increase in trade and other payables	1,302	130
Cash used in operations	(1,005)	(660)

Notes to the consolidated and Company financial statements

for the year ended 31 December 2021

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 UK adopted international accounting standards and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The consolidated financial statements have been prepared under the historical cost convention modified to include the revaluation of certain investments at fair value.

The preparation of financial statements in accordance with UK adopted international accounting standards 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 thousand pounds.

Going concern

The Group has produced detailed budgets, projections and cash flow forecasts, which include a forecast of future bank covenant compliance. These have been stress tested to understand the impacts of reductions in revenue and costs. The Directors have concluded after reviewing these budgets, projections and forecasts, making appropriate enquiries of the business, 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 2021

We do not consider there to be any relevant new standards, amendments to standards or interpretations, that are effective for the financial year beginning on 1 January 2021, which would have a material impact on the financial statements.

b) New standards, amendments and interpretations not yet effective

We do not consider there to be any relevant new standards, amendments to standards or interpretations that have been issued, but are not effective for the financial year beginning on 1 January 2021, which would have a material impact on the financial statements.

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 2021. 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 acquire 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 ad hoc services and ongoing support to franchisees. In addition there is lettings and residential sales income, net of VAT, from a small number of Hunters' owned offices and financial services commissions.

Franchises excluding EweMove:

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, which is the typical period of on-boarding for new franchisees.

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 services and support is provided to the franchisee. There are no performance obligations associated with levying the Management Service Fees. For ad hoc services 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, which is the typical period of on-boarding for new franchisees.

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 services and support are 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 ad hoc services and support all performance obligations have been fulfilled at the time of revenue recognition.

Hunters owned offices:

Revenue from the sale of residential property is recognised, net of vat, at the point the Group has performed its performance obligation to see the transaction through to the exchange of contracts between a buyer and a vendor.

Revenue from lettings represents commission earned from operating as a lettings agent, net of vat. Where the performance obligation relates to the letting of a property the revenue is recognised at the point the property has been let. Where the performance obligation relates to the management of a lettings property revenue is recognised over the period the property is managed.

Financial services commissions:

Financial services commissions received are recognised upon receipt, being a point in time when the Group has met its obligations in delivering a customer to the mortgage and / or insurance partners. A provision is made for the best estimate of future clawbacks resulting from insurance policies being subsequently cancelled, however this is not material to the financial statements. There is no vat applicable to financial services commissions.

Rental income:

Rental income represents rent received from short term licensing arrangements entered into to make use of vacant office space. The Group's obligation is to provide office accommodation through the period of the license. Revenue is recognised over the period of the license.

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
Brands – Hunters	20 years
Customer lists – lettings books	12 years
Customer lists – franchise development grants	15 years
Master franchise agreements – Whitegates, CJ Hole, Parkers, Ellis & Co	25 years
Master franchise agreements – Hunters	21 years
Master franchise agreements – EweMove	15 years
Technology – Ewureka	5 years
Technology – Websites, CRM system and Software	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 acquired as part of the Hunters acquisition relate to Lettings books and are being written off over a remaining life of 12 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.

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.

Equity investments

Investments in the Group balance sheet represent listed investments which are measured at market value and unlisted investments which are measured at cost. Listed investments are revalued at fair value through the profit and loss account based on the quoted share price.

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% - 25% reducing balance or 10% - 33% straight line
Computer equipment	over 3 years
Leasehold buildings and short leasehold improvements	over the lease term

Right-of-use assets

Right of use assets relate to operating leases that have been brought onto the balance sheet under IFRS 16. They are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- lease payments made at or before commencement of the lease;
- initial direct costs incurred; and
- the amount of any provision recognised where the group is contractually required to dismantle, remove or restore the leased asset

Subsequent to initial measurement right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Lease liabilities

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

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.

Investment properties

Investment property comprises a property held under a lease by Hunters which is subleased to an independent third party. The investment property is held at historic cost less accumulated depreciation, and is being depreciated over the term of the lease as set out in the Property, plant and equipment note above. It is recognised on this basis because it is a short term lease and as such it is not possible to reliably determine a fair value.

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. On 24 May 2021 the Finance Bill 2021 was substantively enacted which amends the corporation tax rate from 19% to 25% with effect from 1 April 2023. 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 the 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.

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 Group and Company issue 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 Group and 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 and Company revise 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.

Valuation of separable intangible assets on acquisition

When valuing the intangibles acquired in a business combination, management estimate the expected future cash flows from the asset and choose

a suitable discount rate in order to calculate the present value of those cash flows. Separable intangibles valued on acquisitions made in year were £17.4m (2020: £nil) as detailed further in note 17 and note 35.

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 17.

Share-based payment charge ("SBPC")

The aggregate fair value expense of each grant is determined through using the Black-Scholes model and an estimate for the attainment of the performance condition. The estimate of earnings per share ("EPS") for FY22 was based on budget and FY23 relies on a projection of earnings taking into account available market data and performance trends.

The vesting of the options granted in 2020 is dependent on adjusted EPS and total shareholder return for FY22, 100% of these options are expected to vest and a share based payment of £0.13m has been calculated on this basis and recognised in the statement of comprehensive income in the year.

The vesting of the options granted in 2021 is dependent on adjusted EPS and total shareholder return for FY23. The base adjusted EPS for the 2021 scheme is 16.84p. If adjusted EPS reaches 26.95p in 2023 then 75% vesting is achieved. If adj EPS reaches 27.79p then 100% vesting is achieved. A share based payment charge of £0.33m has been calculated on the basis of 100% vesting and has been recognised in the statement of comprehensive income in the year. At this juncture 100% of the options are expected to vest. If the assumption was changed to 75% vesting the charge would have been £0.28m. If it were lower than 75% then the charge would be £nil.

The base share price for the 2021 scheme is 192p. If a combination of share price growth and dividends paid reaches 154p then 75% vesting is achieved. If a combination of share price growth and dividends paid reaches 173p then 100% vesting is achieved. A share based payment charge of £0.33m has been calculated on the basis of 100% vesting and has been recognised in the statement of comprehensive income in the year. At this juncture 100% of the options are expected to vest. If the assumption was changed to 75% vesting the charge would have been £0.28m. If it were lower than 75% then the charge would be £nil.

6. Segmental reporting

The directors consider there to be two operating segments in 2021 and 2020 being Property Franchising and Other.

For the year ended 31 December 2021:

	Property Franchising	Other	Total
	£'000	£'000	£'000
Continuing			
Revenue	23,595	447	24,042
Segment profit before tax	6,363	60	6,423
Discontinued			
Revenue	-	267	267
Segment profit before tax	-	153	153

For the year ended 31 December 2020:

	Property Franchising	Other	Total
	£'000	£'000	£'000
Continuing			
Revenue	11,017	-	11,017
Segment profit before tax	4,767	-	4,767
Discontinued			
Revenue	-	448	448
Segment profit before tax	-	38	38

The Other segment related to Financial Services in both years. There was no inter-segment revenue in any period. See note 14 for details of discontinued operations.

7. Revenue

	2021 £'000	2020 £'000
Property Franchising segment:		
Management Service Fees	14,706	9,365
Owned offices – lettings and sales fees	4,708	-
Franchise sales	589	145
Other	3,592	1,507
	23,595	11,017
Other segment:		
Financial Services commissions	447	-
	24,042	11,017

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 ad hoc services and ongoing support to franchisees.

See note 23 for details of accrued income and note 29 for details of deferred income.

See note 20 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:

	2021 £'000	2020 £'000
Employee costs	6,301	3,370
Marketing and digital costs	995	334
Property costs	547	130
Amortisation	1,567	646
Exceptional costs (note 10)	853	-
Other administrative costs	2,456	777
	12,719	5,257

9. Employees and Directors

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

	Group		Company	
	2021	2020	2021	2020
Administration	171	41	1	-
Management	12	10	2	2
	183	51	3	2

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

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Wages and salaries	6,785	2,945	731	580
Social security costs	1,117	358	263	67
Pension costs	194	67	19	15
Private medical insurance	19	-	-	-
	8,115	3,370	1,013	662
Share-based payments charge	970	68	773	85

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

	2021 £'000	2020 £'000
Wages and salaries	2,218	1,953
Social security costs	456	251
Pension costs	97	43
	2,771	2,247
Share-based payments charge	902	72

Details of the Directors' emoluments are disclosed in the Directors' remuneration report. The share-based payments charge for the current year has been charged to the Statement of Comprehensive Income, of this £0.77m (2020: £0.09m) relates to Directors.

10. Exceptional costs

Exceptional costs of £0.85m are included in administrative expenses for the year ended 31 December 2021 which comprised costs associated with the acquisition of Hunters Property plc.

11. Operating profit

	2021 £'000	2020 £'000
The operating profit is stated after charging:		
Depreciation	79	28
Amortisation – intangibles	1,249	591
Amortisation – prepaid assisted acquisitions support	233	213
Amortisation – leases	317	56
Share-based payments charge	970	68
Auditor's remuneration (see below)	113	58
Staff costs (note 9)	8,115	3,737
Exceptional costs (note 10)	853	-
Audit services		
– Audit of the Company and consolidated accounts	113	58
	113	58

12. Finance income and costs

	2021 £'000	2020 £'000
Finance income:		
Bank interest	2	6
Other similar income	2	5
	4	11
Finance costs:		
Bank interest	232	-
Interest expense on lease liabilities	88	3
	320	3

13. Taxation

	2021 £'000	2020 £'000
Current tax	1,680	1,031
Adjustments in respect of previous periods	29	3
Current tax total	1,709	1,034
Deferred tax credit on acquired business combinations	1,245	(13)
Deferred tax credit on share-based payments	(209)	(13)
Deferred tax total	1,036	(26)
Total tax charge in statement of comprehensive income	2,745	1,008

The tax assessed for the period is higher (2020: higher) than the standard rate of corporation tax in the UK. The difference is explained below.

	2021 £	2020 £
Profit on ordinary activities before tax	6,423	4,767
Profit on ordinary activities multiplied by the effective standard rate of corporation tax in the UK of 19%	1,220	906
Effects of:		
Expenses not deductible for tax purposes	448	2
Depreciation in excess of capital allowances	12	13
Effect of change in deferred tax rate	1,540	83
Deferred tax provision	(504)	-
Adjustments in respect of previous periods	29	4
Total tax charge in respect of continuing activities	2,745	1,008

14. Discontinued operations

On 22 July 2021 the Group sold its majority shareholdings in Aux Group Limited and Auxilium Partnership Limited. Auxilium was a financial services business operating as life assurance buyers club. The Group took the decision to pursue a different approach to delivering its financial services strategy so no longer operates a life assurance buyers club.

The profit of Aux Group Limited and Auxilium Partnership Limited for the period up to 22 July 2021, net of tax, has been included in discontinued operations and the profit net of tax for the comparative period has been moved to discontinued operations. The difference between the proceeds received on sale, £0.02m and the assets to be disposed of, £0.29m, resulted in an impairment loss of £0.27m, which has been included in discontinued operations. The profit for the period to 22 July 2021, net of tax, was £0.1m.

15. 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.

	2021 £'000	2020 £'000
Profit for the financial year attributable to owners of the parent	3,469	3,783
Amortisation on acquired intangibles	1,214	498
Share-based payments charge	970	68
Exceptional costs (note 10)	853	-
Deferred tax rate change from 19% to 25%	1,540	-
Discontinued operations – loss on disposal	293	-
Gain on revaluation of listed investment	(83)	-
Adjusted profit for the financial year	8,256	4,349
Weighted average number of shares		
Number used in basic earnings per share	30,622,102	25,822,750

Dilutive effect of share options on ordinary shares	99,590	519,817
Number used in diluted earnings per share	30,721,692	26,342,567
<hr/>		
Basic earnings per share	11.3p	14.6p
Diluted earnings per share	11.3p	14.4p
<hr/>		
Adjusted basic earnings per share	27.0p	16.8p
Adjusted diluted earnings per share	26.9p	16.5p

There were options over 1,825,500 ordinary shares outstanding at 31 December 2021; 100,000 do not have performance conditions attached to them. The average share price during the year ended 31 December 2021 was above exercise price of the 100,000 options without performance conditions, for this reason in 2021 there is a dilutive effect of share options on the earnings per share calculation.

In 2020 there were options over 2,379,800 ordinary shares outstanding at 31 December 2020; 300,000 had not yet vested and had performance conditions that determined whether they would vest or not in the future; 64,800 vested in a previous year and were exercisable at 31 December 2020, and it was determined that 503,750 of the remaining 2,015,000 options (25%) would vest. The average share price during the year ended 31 December 2020 was above exercise price of the options that had either vested or were due to vest based on the 2020 financial statements. For these reasons in 2020 there is a dilutive effect of share options on the earnings per share calculation.

The charge relating to share-based payments that have a dilutive effect is immaterial and therefore the earnings used in the diluted earnings per ordinary share calculation are the earning per ordinary share calculation before dilution.

16. Dividends

	2021 £'000	2020 £'000
<hr/>		
Final dividend for 2020		
6.6p per share paid 23 February 2021 (2020: No final dividend paid)	1,704	-
Interim dividend for 2021		
3.8p per share paid 11 October 2021 (2020: 2.1p per share paid 23 September 2020)	1,218	542
Total dividend paid	2,922	542

The Directors propose a final dividend for 2021 of 7.8p per share totalling £2.488m, which they expect will be paid on 27 May 2022. As this is subject to approval by the shareholders no provision has been made for this in these financial statements.

17. Intangible assets

	Master Franchise Agreement £'000	Brands £'000	Technology £'000	Customer lists £'000	Goodwill £'000	Total £'000
<hr/>						
Cost						
Brought forward 1 January 2020	7,803	1,972	338	225	7,226	17,564
Additions	-	-	-	-	185	185
Carried forward 31 December 2020	7,803	1,972	338	225	7,411	17,749
Acquisitions (note 35)	10,789	3,060	14	3,556	16,017	33,436
Additions	-	-	51	65	-	116
Disposals	-	-	-	-	(185)	(185)
Carried forward 31 December 2021	18,592	5,032	403	3,846	23,243	51,116
<hr/>						
Amortisation & Impairment						
Brought forward at 1 January 2020	2,152	222	238	166	-	2,778
Charge for year	413	67	76	35	-	591
Carried forward 31 December 2020	2,565	289	314	201	-	3,369
Charge for year	798	181	30	240	-	1,249
Carried forward 31 December 2021	3,363	470	344	441	-	4,618
<hr/>						
Net book value						
At 31 December 2021	15,229	4,562	59	3,405	23,243	46,498
At 31 December 2020	5,238	1,683	24	24	7,411	14,380

The carrying amount of goodwill relates to 6 (2020: 5) 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 completed in October 2014 – Xperience & Whitegates

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 2021 and projections through to 31 December 2022. 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 2021 was 17 years 10 months.

The brand names under which XFL trades of C J Hole, Parkers and Ellis & Co have been in existence for between 72 years and 170 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 2022. 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 completed in September 2016 - EweMove

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 2021 and projections through to 31 December 2025. 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 7 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 32% in FY22 to 4% in FY25. The growth rate in FY22 is high because of the significant number of new franchisees recruited in FY21.

The cash flows arising were discounted by the weighted average cost of capital being 13.72% 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 useful life of the master franchise agreement was assessed as 15 years and remains unchanged. The period of amortisation remaining at 31 December 2021 was 9 years 8 months.

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 2021 was 15 years and 8 months.

The carrying value of EweMove the identified cash generating unit, was £9.1m at 31 December 2021 whereas the recoverable amount was assessed to be £16.9m at the same date. Headroom of £7.8m therefore existed at the year end.

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 2020. Thus, if the discount rate increased by 82% to 25%, an impairment change would result against goodwill, all other assumptions remaining unchanged.

Assumption	Judgement	Sensitivity
Discount rate	As indicated above the rate used is 13.72%	82%
Revenue – FY22 to FY25	The range of growth rates for FY22 to FY25 are stated above	(133%)
Direct costs – all years	Assumed to be 21% of revenue for all years	88%
Indirect costs – all years	Assumed to be 38% of revenue in FY22 but 40% previous average in FY23 onwards	47%
Direct and indirect costs – all years	As indicated above for direct and indirect costs	31%

Business combination completed in January 2020 - Auxilium

Auxilium Partnership Limited was acquired in January 2020 and disposed of in July 2021.

Business combination completed in March 2021 - Hunters

Details of the Acquisition of Hunters Property plc can be found in note 35.

The value of the master franchise agreement was based on the value of the cash flows derived from the actual revenue and operating margins for 2021, projections of revenue through to 2042 applying historic attrition rates of 4% and growth rate of 2%. The revenue streams represent the return from all the assets employed in generating those revenues. Thus, to value the franchise rights separately, the fair value and expected rate of return of these other assets, known as the contributory asset charge, was determined and deducted.

A discount rate of 9.5% was applied which represented a 2% reduction on the company's WACC as the risk profile of the master franchise rights was seen as slightly less than that of the overall company. The resulting present value was not increased by the tax adjusted benefit as the amortisation of master franchise rights are not deductible for UK corporation tax. The master franchise rights are being amortised over 21 years. The period of amortisation remaining at 31 December 2021 was 20 years 3 months.

Hunters was founded in 1992 and in the following 30 years has established a widely recognised brand within the estate agency sector, which attracts a significant number of franchise enquiries and has a significant fixed element to its royalties. Management expects to derive income from the brand for the next 20 years and, with this as the assets' useful life, the period of amortisation remaining at 31 December 2016 was 19 years 3 months.

The Relief-from-Royalty-Method was used to value the brand name. Looking at independent research of royalty rates and taking into account the factors highlighted in the last paragraph, management selected a pre-tax royalty rate of 5%.

The after tax royalty rate was then applied to the projected cash flows of the brand up until December 2042. The projected cash flows being the forecast growth in revenues of 2% through to 2042. The after tax cash flows determined through this process were then discounted at 11.5%. 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 value of the lettings books was based on the value of the cash flows derived from the actual revenue and operating margins for 2021, projections of revenue through to 2033 applying historic attrition rates of 4% and growth rate of 2%. The revenue streams represent the return from all the assets employed in generating those revenues. Thus, to value the lettings books separately, the fair value and expected rate of return of these other assets, known as the contributory asset charge, was determined and deducted.

A discount rate of 9.5% was applied which represented a 2% discount over the company's WACC as the risk profile of the lettings books was seen as slightly less than that of the overall company. The resulting present value was not increased by the tax adjusted benefit as the amortisation of lettings books are not deductible for UK corporation tax. The lettings books are being amortised over 12 years. The period of amortisation remaining at 31 December 2021 was 11 years 3 months.

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 Hunters is based on the cash flows derived from the actual revenues and operating margins for 2021 and projected revenue growth of 2% assumed through 2042.

The cash flows arising were discounted by between 9.5% and 11.5% based on the weighted average cost of capital for Hunters. This resulted in a total value for the company of the identifiable intangible assets that exceeded the carrying values of the company's 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 useful life of the master franchise agreement was assessed as 21 years and remains unchanged. The period of amortisation remaining at 31 December 2021 was 20 years 3 months.

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

The Directors believe that no reasonably possible change in assumptions at the year end will cause the value in use of the Hunters brand to fall below its carrying value and hence impair its intangible values.

The useful life of the lettings books was assessed as 12 years and remains unchanged. The period of amortisation remaining at 31 December 2021 was 11 years 3 months.

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 this intangible.

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 2021. Thus, if the discount rate increased by 12% to 12.9%, an impairment change would result against goodwill, all other assumptions remaining unchanged.

Assumption	Judgement	Sensitivity
Discount rate	Weighted average cost of capital used of 11.5%	12%
Revenue – FY22 to FY25	The range of growth rates for FY22 (10%), FY23 to FY25 2%	(196%)
Indirect costs – all years	Assumed to be 66% of revenue	7%

Business combination completed in September 2021 – The Mortgage Genie

Details of the Acquisition of The Mortgage Genie Limited and The Genie Group UK Ltd can be found in note 35.

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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Xperience Franchising Limited	912	912	571	571
Whitegates Estate Agency Limited	401	401	-	-
Martin & Co (UK) Limited	75	75	-	-
EweMove Sales & Lettings Ltd	5,838	5,838	-	-
Hunters Property Limited	15,871	-	-	-
The Mortgage Genie Limited & Genie Group UK Ltd	146	-	-	-
Auxilium Partnership Limited	-	185	-	-
	23,243	7,411	571	571

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.

18. Property, plant and equipment

Group

	Short leasehold improvements £'000	Office equipment £'000	Fixtures & fittings £'000	Total £'000
Cost				
Brought forward 1 January 2020	37	138	162	337
Acquisitions	-	2	1	3
Additions	-	15	-	15
Carried forward 31 December 2020	37	155	163	355
Acquisitions (note 35)	-	62	99	161
Additions	7	64	16	87
Disposals	-	(14)	(116)	(130)
Carried forward 31 December 2021	44	267	162	473
Depreciation				
Brought forward 1 January 2020	29	92	138	259
Charge for year	4	20	4	28
Carried forward 31 December 2020	33	112	142	287
Charge for year	6	48	25	79
Depreciation on disposals	-	(6)	(104)	(110)
Carried forward 31 December 2021	39	154	63	256
Net book value				
At 31 December 2021	5	113	99	217
At 31 December 2020	4	43	21	68

19. Leases

The Group's has several operating leases relating to office premises and motor vehicles. Under IFRS16, which was adopted on 1 January 2019 these operating leases are accounted for by recognising a right-of-use asset and a lease liability,

Right-of-use assets

	Land and Buildings £'000	Motor vehicles £'000	Total £'000
At 1 January 2020	75	-	75
Additions	67	-	67
Amortisation	(56)	-	(56)
Carried forward 31 December 2020	86	-	86

Acquisitions (note 35)	1,579	22	1,601
Additions	145	53	198
Amortisation	(304)	(13)	(317)
Carried forward 31 December 2021	1,506	62	1,568

Lease liabilities

	Land and Buildings £'000	Motor vehicles £'000	Total £'000
At 1 January 2020	77	-	77
Additions	67	-	67
Interest expenses	3	-	3
Lease payments	(61)	-	(61)
Carried forward 31 December 2020	86	-	86
Acquisitions (note 35)	2,833	22	2,855
Additions	145	53	198
Interest expenses	86	2	88
Lease payments	(457)	(30)	(487)
Carried forward 31 December 2021	2,693	47	2,740

20. Prepaid assisted acquisitions support Group

	Total £'000
Cost	
Brought forward 1 January 2020	954
Additions	155
Carried forward 31 December 2020	1,109
Additions	57
Carried forward 31 December 2021	1,166
Amortisation	
Brought forward 1 January 2020	296
Charge for year – to revenue	169
Charge for year – to cost of sales	44
Carried forward 31 December 2020	509
Charge for year – to revenue	188
Charge for year – to cost of sales	45
Carried forward 31 December 2021	742
Net book value	
At 31 December 2021	424
At 31 December 2020	600

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.

21. Investments

Group

	Shares in listed and unlisted companies £'000	Total £'000
Cost		
At 1 January 2020 and 1 January 2021	-	-
Acquisitions (note 35)	61	61
Additions	25	25

Movement in fair value of listed investment	83	83
At 31 December 2021	169	169
Net book value		
At 31 December 2021	169	169
At 31 December 2020	-	-

Company

	Shares in Group undertakings £'000	Shares in listed company £'000	Total £'000
Cost			
At 1 January 2020	33,900	-	33,900
Acquisition of Auxilium Partnership Limited	200	-	200
Capital contribution to subsidiaries – share options	(17)	-	(17)
At 31 December 2020	34,083	-	34,083
Disposal of Auxilium Partnership Limited	(200)	-	(200)
Acquisition of Hunters Property plc	26,134	-	26,134
Acquisition of The Mortgage Genie Limited and The Genie Group UK Ltd	461	-	461
Capital contribution to subsidiaries – share options	197	-	197
Movement in fair value of listed investment	-	68	68
At 31 December 2021	60,675	68	60,743
Net book value			
At 31 December 2021	60,675	68	60,743
At 31 December 2020	34,083	-	34,083

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.

On 7 January 2020 the Company acquired a majority share of Auxilium Partnership Limited for a total cash consideration of £0.2m. The Company disposed of this on 22 July 2021.

On 19 March 2021 the Company acquired the entire issued share capital of Hunters Property plc for a total consideration of £26.1m.

On 6 September 2021 the Company acquired the entire issued share capital of The Genie Group UK Ltd and 80% of the issued share capital of The Mortgage Genie Limited for an initial cash consideration of £0.4m. A further consideration of £0.06m is due which was based on working capital at the time of acquisition.

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 2021.

The carrying value of the investment in Hunters Property Limited 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 2021.

The carrying values of the other investments (all companies except for EweMove and Hunters) 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 listed investments comprise a 0.2% holding of ordinary shares in OnTheMarket plc, a company listed on the Alternative Investment Market. The movement in fair value of listed investment represents the difference between original cost and market value. A decision was taken to measure at fair value going forwards.

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

	Company number	Share class	% ownership and voting rights	Country of incorporation
Martin & Co (UK) Limited	02999803	Ordinary	100	England
Xperience Franchising Limited	02334260	Ordinary	100	England
Whitegates Estate Agency Limited	00757788	Ordinary	100	England
EweMove Sales & Lettings Ltd	07191403	Ordinary	100	England
Ewesheep Ltd*	08191713	Ordinary	100	England
MartinCo Limited	09724369	Ordinary	100	England
Hunters Property Limited	09448465	Ordinary	100	England
Hunters Property Group Limited*	03947557	Ordinary	100	England
Greenrose Network (Franchise) Limited*	02934219	Ordinary	100	England
Hunters Franchising Limited*	05537909	Ordinary	100	England
Hunters (Midlands) Limited*	02587709	Ordinary	100	England
Hunters Financial Services Limited*	02604278	Ordinary	100	England
Hapollo Limited*	08008359	Ordinary	100	England
RealCube Limited*	07736494	Ordinary	100	England
Hunters Group Limited*	02965842	Ordinary	100	England
Hunters Land & New Homes Limited*	06292723	Ordinary	100	England
Maddison James Limited*	05920686	Ordinary	100	England
Herriot Cottages Limited*	04452874	Ordinary	100	England
Hunters Partners Limited*	03777494	Ordinary	100	England
Hunters Survey & Valuation Limited*	02602087	Ordinary	100	England
RealCube Technology Limited*	08139888	Ordinary	100	England
The Genie Group UK Ltd	12372201	Ordinary	100	England
The Mortgage Genie Limited	09803176	Ordinary	80	England

* indirectly owned

All companies in the Subsidiaries list above 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 all companies in the Subsidiaries list above. The value of the contingent liability resulting from this guarantee is unknown at the year-end.

22. Investment properties

Group

	Total £'000
Cost	
Brought forward 1 January 2020 and 1 January 2021	-
Acquisitions	292
Carried forward 31 December 2021	292
Depreciation	
Brought forward 1 January 2020 and 1 January 2021	-
Charge for year	36
Carried forward 31 December 2021	36
Net book value	
At 31 December 2021	256
At 31 December 2020	-

Investment property comprises a property held under operating lease within Hunters Property Group Limited which is subleased to an independent third party. The investment property is held at historic cost less accumulated depreciation.

23. Trade and other receivables

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade receivables	1,193	212	–	3
Less: provision for impairment of trade receivables	(323)	(155)	–	–
Trade receivables – net of impairment provisions	870	57	–	3
Loans to franchisees	31	49	–	–
Other receivables	137	4	–	–
Amounts due from Group undertakings	–	–	21	45
Prepayments and accrued income	1,782	1,181	47	36
Tax receivable	–	–	743	137
	2,820	1,291	811	221

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:

	2021 £'000	2020 £'000
Group		
Not more than 3 months	137	32
More than 3 months but not more than 6 months	7	–
More than 6 months but not more than 1 year	13	–
	157	32

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.

Included within "Prepayments and accrued income" is accrued income of £1.11m (2020: £0.84m) 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 and EweMove license fees. Hunters invoices to franchisees are dated the same month to which they relate therefore their December month balance is included in trade receivables rather than accrued income at the year end.

24. Called up share capital

	2021		2020	
	Number	£'000	Number	£'000
Group				
Authorised, allotted issued and fully paid ordinary shares of 1p each	32,041,966	320	25,822,750	258
Company				
Authorised, allotted issued and fully paid ordinary shares of 1p each	32,041,966	320	25,822,750	258

On 19 March 2021 5,551,916 shares were issued to the owners of Hunters Property plc at market price of £2.09 as part of the purchase consideration relating to the acquisition. The premium on the shares issued is included in the merger reserve rather than share premium in line with accounting principles.

On 19 May 2021 667,300 shares were issued to certain employees and directors following the exercise of share options. 602,500 shares were issued at £0.01 and 64,800 shares were issued at £1.385. The premium on the 64,800 shares is included in share premium.

25. Share premium

	Number of shares	Share capital £'000	Share premium £'000
At 31 December 2021	32,041,966	320	4,129
At 31 December 2020	25,822,750	258	4,040

Details of the movements in shares can be found in note 23.

26. Merger reserve

	Merger reserve £'000
Group	
At 1 January 2020 and 1 January 2021	2,797
Acquisition of Hunters Property plc	11,548
At 31 December 2021	14,345
Company	
At 1 January 2020 and 1 January 2021	20,787
Acquisition of Hunters Property plc	11,548
At 31 December 2021	32,335

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 £17.99m (the value of the investment). As these shares had a nominal value of £179,900, the merger reserve in the Company is £17.81m.

On consolidation the investment value of £17.99m is eliminated so that the nominal value of the shares remaining is £0.1799m 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 £0.1798m.

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 £2.797m 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.

Acquisition of Hunters Property plc

The consideration for the acquisition of Hunters Property plc included the issue of 5,551,916 shares to the vendors at market price. A merger reserve of £11.548m 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.

27. Own share reserve and Other reserves

Own share reserve

Weighted average cost of own shares held in the Employee Benefit Trust.

Other reserves

	Share-based payment reserve £'000	Other reserve £'000	Total £'000
Group			
At 1 January 2020	629	81	710
Share-based payment charge	68	–	68
At 1 January 2021	697	81	778
Share-based payment charge	970	–	970
Release of reserve – share options exercised	(762)	–	(762)
Deferred tax on share-based payments	–	(81)	(81)
At 31 December 2021	905	–	905

Company

At 1 January 2020	629	81	710
Share-based payment charge	68	–	68
At 1 January 2021	697	81	778
Share-based payment charge	970	–	970
Release of reserve – share options exercised	(762)	–	(762)
Deferred tax on share-based payments	–	(81)	(81)
At 31 December 2021	905	–	905

Share-based payment reserve

The share-based payments reserve comprises charges made to the income statement in respect of share-based payments.

28. Borrowings

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Repayable within 1 year:				
Bank loan (term loan)	1,875	-	1,875	-
Repayable in more than 1 year:				
Bank loan (term loan)	9,219	-	9,219	-
Bank loans due after more than 1 year are repayable as follows:				
Between 1 and 2 years	1,875	-	1,875	-
Between 2 and 5 years	7,344	-	7,344	-

On 30 March 2021 the Company drew down a £12.5m loan facility provided by Barclays to partially fund the purchase consideration for the acquisition of Hunters Property plc. This loan facility comprises:

Term loan – £7.5m drawn down on 30 March 2021 and is repayable over 4 years in equal instalments. Interest was charged quarterly on the outstanding amount and the rate is 2.4% above Bank of England base rate. The amount outstanding at 31 December 2021 was £6.1m (2020: £nil).

Revolving credit facility (“RCF”) – £5m drawn down on 30 March 2021 and is repayable on 26 January 2024 being the third anniversary of the date of facility agreement. Interest is charged quarterly on the outstanding amount, the rate is variable during the term at 2.2% above Bank of England base rate. The amount outstanding at 31 December 2021 was £5m (2020: £nil).

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.

The cash outflow for borrowings arising from financing activities during the year was £4.4m (2020: £nil), this included the repayment of £3.0m in relation to a Hunters loan balance at acquisition.

As at 31 December 2020 the Company had no loans outstanding.

29. Trade and other payables

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Trade payables	850	176	39	37
Other taxes and social security	1,387	1,274	134	–
Other payables	159	248	–	–
Amounts due to Group undertakings	–	–	102	–
Accruals and deferred income	3,884	1,052	1,188	110
	6,280	2,750	1,463	147

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 £0.7m (2020: £nil) in relation to revenue received in advance which will be recognised over the next 4 years.

30. Deferred tax

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Balance at beginning of year	(1,115)	(1,140)	228	215
Movement during the year:				
Acquisitions	(3,419)	-	-	-
Adjustment to deferred tax rate from 19% to 25%	(1,540)	-	15	-
Statement of changes in equity	-	-	-	-
Statement of comprehensive income	657	25	287	13
Release of deferred tax balance relating to share options exercised in year	(153)	-	(153)	-
Other	-	-	-	-
Balance at end of year	(5,570)	(1,115)	377	228

Deferred taxation has been provided as follows:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Accelerated capital allowances	6	7	10	29
Share-based payments	409	199	367	199
Acquired business combinations	(5,985)	(1,321)	-	-
	(5,570)	(1,115)	377	228

31. Provisions

The provisions relate to dilapidations on office buildings £0.21m (2020: £nil) in relation to Hunters.

32. 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	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Loans and receivables:				
Trade receivables	870	57	-	3
Loans to franchisees	31	49	-	-
Other receivables	137	5	-	-
Cash and cash equivalents	8,413	8,771	4,635	4,601

Accrued income	1,107	840	–	–
Amount owed by Group undertakings	–	–	21	45
	10,558	9,722	4,656	4,649

Financial liabilities

Financial liabilities measured at amortised cost:

	Group		Company	
	2021 £'000	2020 £'000	2021 £'000	2020 £'000
Other financial liabilities:				
Trade payables	850	176	39	37
Other payables	159	248	134	–
Accruals	3,172	1,052	526	110
Amounts owed to Group undertakings	–	–	102	–
	4,181	1,476	801	147

All of the financial assets and liabilities above are recorded in the statement of financial position at amortised cost.

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 franchisees 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 £31k.

The Group does not offer credit terms with regards sales and lettings transactions occurring in the offices it operates itself, revenue is typically recognised at the completion date of property or upon receipt of rent from tenants.

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.

The following table sets out the contractual maturities (representing undiscounted contractual cash-flows) of financial liabilities, including future interest charges, which may differ from the carrying value of the liabilities as at the reporting date:

	Up to 3 months £'000	Between 3 and 12 months £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	Over 5 years £'000
As at 31 December 2021					
Trade and other payables	1,009	-	-	-	-
Loans and borrowings	469	1,406	1,875	7,344	-

Lease liabilities	151	420	524	971	1,144
Total	1,629	1,826	2,399	8,315	1,144

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 ongoing basis with the primary objective of limiting the effect of an adverse movement in interest rates. The Group has bank borrowings with a variable interest rate linked to the Bank of England base rate (see note 28). The recent rate increases are in line with expectations and the Group has factored in further changes to its forecasts.

Fair values of financial instruments

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

33. Share-based payments

Enterprise Management Incentive ("EMI") Share Option Scheme 2021

On 24 April 2021 a new EMI Share Option Scheme 2021 was introduced, all options under this scheme have an exercise price of £0.01.

This option has a vesting condition based on two performance conditions; adjusted basic earnings per share adjusted for exceptional income/costs, amortisation arising on consolidation and share-based payment charges ("adjusted EPS") and total shareholder return ("TSR") over the 3 years to 31 December 2023. Each performance condition will apply to 50% of the award being made.

In respect of both performance conditions, growth of 60% in adjusted EPS and 80% in TSR over the three-year period will be required for threshold vesting of the awards, with growth of 65% or higher in adjusted EPS and 90% or higher in TSR required for all of the awards to vest. At threshold vesting, 75% of the shares subject to each performance condition, will vest.

Grant - 24 April 2021

On 24 April 2021 an option over 700,000 ordinary shares was granted to the Chief Executive Officer and an option over 400,000 ordinary shares was granted to the Chief Financial Officer under this scheme.

The following principal assumptions were used in the valuation of the grant made in the year ended 31 December 2021 using the Black-Scholes option pricing model:

Assumptions

Date of vesting	30/04/2024
Share price at grant	£2.15
Exercise price	£0.01
Risk free rate	0.1%
Dividend yield	4.90%
Expected life	3 years
Share price volatility	31.00%

The weighted average contractual life remaining of this option is 2 year 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, the holder will exercise as soon as the option vests. The Group announces its results usually within the first 10 days of April. So, it has been assumed that the options will be exercised on 30 April 2024.

EPS is measured as the basic earnings per share excluding any exceptional income/costs and any share-based payments charges.

Management has used the budget for FY22, the market outlook and projections for FY23 to determine, at 31 December 2021, the achievement of the EPS condition. The expectation is that 100% of the options will vest.

The estimated fair value of the option over 1,100,000 ordinary shares at 31 December 2021 was £2,035,015. This fair value, moderated for the extent to which the option is expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £459,221 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2021.

Grant – 2 July 2021

On 2 July 2021 options over 425,500 ordinary shares were granted to a director and senior management under this scheme.

Assumptions

Date of vesting	30/04/2024
Share price at grant	£2.99
Exercise price	£0.01
Risk free rate	0.1%
Dividend yield	4.90%

Expected life	2.83 years
Share price volatility	31.00%

The weighted average contractual life remaining of this option 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, the holder will exercise as soon as the option vests. The Group announces its results usually within the first 10 days of April. So, it has been assumed that the options will be exercised on 30 April 2024.

EPS is measured as the basic earnings per share excluding any exceptional income/costs and any share-based payments charges.

Management has used the budget for FY22, the market outlook and projections for FY23 to determine, at 31 December 2021, the achievement of the EPS condition. The expectation is that 100% of the options will vest.

The estimated fair value of the option over 425,500 ordinary shares at 31 December 2021 was £1,141,535. This fair value, moderated for the extent to which the option is expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £201,122 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2021.

Enterprise Management Incentive ("EMI") Share Option Scheme – CEO bonus deferral

On 24 March 2021 the Chief Executive Officer was granted an option over 100,000 ordinary shares. The award of the nil cost option was in substitution for two thirds of the total £150,000 performance-based cash bonus payable to the Chief Executive Officer for the financial year to 31 December 2020, with a 100% uplift based on a 30-day VWAP applied to the deferred element, and will become exercisable two years' after being granted subject to continued employment, vesting criteria and malus conditions. Under the award, the Chief Executive Officer is not be able to dispose of any of the acquired shares for a further period of two years (save as required to pay tax due on exercise).

The following principal assumptions were used in the valuation of the grant made in the year ended 31 December 2021 using the Black-Scholes option pricing model:

Assumptions

Date of vesting	23/03/2023
Share price at grant	£2.34
Exercise price	£0.01
Risk free rate	0.1%
Dividend yield	4.90%
Expected life	2 years
Share price volatility	31.00%

The weighted average contractual life remaining of this option is 1 year and 3 months.

The estimated fair value of the option over 100,000 ordinary shares at 31 December 2021 was £211,455. This fair value, moderated for the extent to which the option is expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £81,797 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2021.

Enterprise Management Incentive ("EMI") Share Option Scheme 2020

On 23 July 2020 a new EMI Share Option Scheme 2020 was introduced and an option over 100,000 ordinary shares each at an exercise price of £0.01 each was granted to two directors under this scheme.

This option has a vesting condition based on two performance conditions; basic earnings per share adjusted for exceptional income/costs and share based payments ("adjusted EPS") and total shareholder return over the 3 years to 31 December 2022. Each performance condition will apply to 50% of the award being made. In respect of both performance conditions, growth of 15% over the three year period will be required for threshold vesting of the awards, with growth of 35% or higher required for all of the awards to vest. The shares will be awarded on a sliding scale for growth between 15% and 35%. None of the awards will vest for adjusted EPS growth below 15% over the period.

The weighted average contractual life remaining of this option is 1 year and 4 months.

It's expected that with an exercise price of £0.01, should the EPS condition be met, the holder will exercise as soon as the option vests. The Group announces its results usually within the first 10 days of April. So, it has been assumed that the options will be exercised on 30 April 2023.

Management has used the budget for FY22, to determine, at 31 December 2021, that it expects 100% of the options will vest.

The estimated fair value of the option over 200,000 ordinary shares at 31 December 2021 was £312,800. This fair value, moderated for the extent to which the option is expected to vest, is spread as a charge between grant and the assumed vesting date. Accordingly, a share-based payments charge of £130,275 has been recognised in the Statement of Comprehensive Income in the year ended 31 December 2021.

Enterprise Management Incentive ("EMI") Share Option Schemes 2013, 2017, 2018 and 2019

There are no options remaining under these schemes as all vested options were exercised during 2021. Share-based payments charges totalling £97,389 were recognised in the Statement of Comprehensive Income in the year ended 31 December 2021 in relation to share options that were exercised

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

	2021 '000	Weighted average exercise price	2020 '000	Weighted average exercise price
Number of share options				
Outstanding at the beginning of the year	2,380	£0.0474	2,210	£0.0503
Exercised	(667)	£0.14	-	-
Forfeited	(1,513)	£0.01	(30)	£0.01
Granted	1,626	£0.01	200	£0.01
Outstanding at the end of the year	1,826	£0.01	2,380	£0.0474

The outstanding options at 31 December 2021 comprised 1,825,500 options with an exercise price of £0.01. 100,000 are exercisable on 23/03/2023, 200,000 are exercisable on 30/4/2023 and 1,525,500 are exercisable on 30/04/2024.

The outstanding options at 31 December 2020 comprised 2,315,000 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 2020, 2,015,000 were exercisable on the announcement of the financial statements for the year ended 31 December 2020 and the remaining 300,000 options were not yet exercisable.

During the year ended 31 December 2021:

- The 64,800 options were exercised on 19 May 2021
- 5,000 of the 2,015,000 options were forfeited leaving 2,010,000 remaining, 25% of these vested (502,500) and were exercised on 19 May 2021 resulting in 1,507,500 being forfeited.
- 100,000 of the 300,000 options mentioned above vested in full and were exercised on 19 May 2021.
- 1,625,500 options were granted under the 2021 scheme and the CEO bonus deferral scheme

The weighted average remaining contractual life of options is 2.3 years (2020: 0.4 years).

34. 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:

	2021 £'000	2020 £'000
Interim and final dividend (ordinary shares of £0.01 each)		
Richard Martin	836	169
Paul Latham	8	1
Phil Crooks	0	-
Dean Fielding	1	-
David Raggett	29	5
Glynis Frew	12	-
	886	175

Directors' emoluments

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

	2021 £'000	2020 £'000
Wages and salaries	1,096	1,040
Social security costs	291	134
Pension contribution	76	19
	1,463	1,193

Details of Directors' interests in share options are disclosed in the Directors' remuneration report..

35. Acquisitions

Acquisition of Hunters Property plc

Effective 19 March 2021 the Group acquired the entire issued share capital of Hunters Property plc, a competitor property franchisor with a network of 211 offices across the UK. Consideration of £26.1m was paid which comprised of each Hunters shareholder receiving 0.1655 New shares in The Property Franchise Group PLC and 43.2 pence in cash. In addition the Group took over loans of £3.0m which it repaid post completion, bringing total consideration to £29.1m.

The fair value of the identifiable assets and liabilities acquired and the consideration paid and payable are set out below:

£'000

Master franchise agreements	10,789
Brands	3,060
Lettings book	3,556
Right of use assets	1,601
Property, plant and equipment	161
Investments	353
Trade and other receivables	1,561
Cash	1,490
Trade and other payables	(2,824)
Lease liabilities	(2,855)
Provisions	(197)
Deferred tax	(3,419)
Net assets acquired	13,276
Goodwill	15,871

Consideration	29,147
Satisfied by:	
New shares in The Property Franchise Group plc issued to Hunters shareholders	11,604
Cash paid to Hunters shareholders	14,531
Hunters loans repaid by The Property Franchise Group plc post completion	3,012
Total	29,147

Post acquisition results

	Total
	£'000
Revenue	9,776
Profit before tax since acquisition included in the Consolidated statement of comprehensive income	3,014

Acquisition of The Mortgage Genie Limited and The Genie Group UK Ltd

The Board are pursuing a strategy to develop financial services as a revenue stream to complement lettings and sales MSF. On 6 September 2021 the Group took an 80% share in The Mortgage Genie Limited and acquired the entire share capital of The Genie Group UK Limited. The minority shareholder of The Mortgage Genie Limited is Matthew Stevens who continues as a director. Both companies operate under the name The Mortgage Genie, an online mortgage broker.

The initial consideration was £400,000 and a further consideration of £61,400 was payable post completion based on opening balances, bringing the total consideration to £461,400.

The fair value of the identifiable assets and liabilities acquired and the consideration paid and payable are set out below:

	£'000
Intangible asset - software	14
Trade and other receivables	182
Cash	297
Trade and other payables	(178)
Net assets acquired	315
Goodwill	146
Consideration	461
Satisfied by:	
Initial consideration paid on completion	400
Deferred consideration paid post 31 December 2021	61
Total	461

Post acquisition results

	Total
	£'000
Revenue	421
Profit before tax since acquisition included in the Consolidated statement of comprehensive income	35