

Spectrum Franchising Limited

**Directors' report and financial
statements**

Registered number 02130421

Year ended 31 December 2012

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Contents

Company information	1
Directors' report	2
Statement of directors' responsibilities in respect of the directors' report and the financial statements	4
Report of the independent auditors to the members of Spectrum Franchising Limited	5
Profit and loss account	6
Balance sheet	7
Notes	8

Company information

Directors	P M Else B Wallage R I Sykes M E S Brabin
Secretary	B Wallage
Company registration number	02130421
Registered office	ISS House, Genesis Business Park Albert Drive Woking Surrey GU21 5RW
Auditors	KPMG LLP St Nicholas House Park Row Nottingham NG1 6FQ
Bankers	HSBC Bank plc City of London Corporate Office PO Box 125 8 Canada Square London E14 5XL

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2012

Principal activities

The principal activity of the company was that of providing accidental damage, fire and water restoration services to the Insurance industry, loss adjusters and brokers via Rainbow International Carpet Care and Restoration Specialist franchise network

Business review

The results for the year and the financial position of the company are shown in the financial statements

Whilst the directors are satisfied with the results for the year, the economic climate and the continuing focus by customers on price and service delivery, has continued to make the market place in which we trade challenging for both the company and its franchise partners

Network turnover for the year to 31 December 2012 was £35,110,080 – a 30.3% decrease on the previous year (2011 £50,354,256). Network turnover is defined as the sales recorded by our franchise network, and not the turnover of this company. Operating profit for Spectrum Franchising decreased from £2,204,915 to £1,728,014 with a comparatively static margin to prior year, both being 32%. The loss towards the end of 2011 of a major account, worth between £8-10 million per annum to the network, was the major contributor to the decrease in the network turnover, and associated revenue stream for Spectrum Franchising.

Average personnel numbers have reduced to 62 (2011 76) due to restructurings that have taken place during the year.

The company exhibited at a number of commercial exhibitions during the year in the business continuity market. Insurance specific exhibitions and presentations were also made including the NFU Mutual conference.

Future developments

The roll-out of a new operational process, used to record all field based job records has been successfully deployed during 2012, with continued development of this operational tool planned for 2013 and beyond. The application, which makes use of a digital touch-screen platform, yields operational efficiencies and therefore benefits to the Franchise network. In addition, the multiple benefits of this revised working process offers a unique selling point to Spectrum Franchising customers.

Dividends

The directors do not recommend the payment of a dividend (2012 £nil per share)

Directors and directors' interests

The directors who held office during the year and up until the date of this report were as follows

P M Else
R I Sykes
M E S Brabin
B Wallage

Directors' report - (continued)

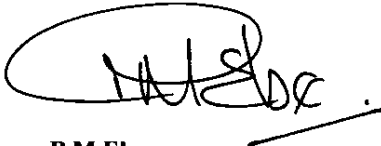
Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office

By order of the board



P M Else
Director

Registered office:

ISS House
Genesis Business Park
Albert Drive
Woking
Surrey
GU21 5RW

Dated 17 July 2013

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Report of the independent auditors to the members of Spectrum Franchising Limited

We have audited the financial statements of Spectrum Franchising Limited for the year ended 31 December 2012 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Matthew Buckingham (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham NG1 6FQ

Dated 17 July 2013

Profit and loss account
for the year ended 31 December 2012

	<i>Note</i>	2012 £	2011 £
Turnover	2	5,391,570	6,666,382
Cost of sales		<u>(1,165,011)</u>	<u>(1,412,745)</u>
Gross profit		4,226,559	5,253,637
Administrative expenses		(2,498,545)	(3,114,722)
Other income	20	<u>-</u>	<u>66,000</u>
Operating profit		1,728,014	2,204,915
Other interest receivable and similar income	3	<u>449,171</u>	<u>271,510</u>
Profit on ordinary activities before taxation	4	2,177,185	2,476,425
Tax on profit on ordinary activities	5	<u>(520,569)</u>	<u>(665,814)</u>
Profit for the financial year	16	<u>1,656,616</u>	<u>1,810,611</u>

In both the current and preceding year, the company made no material acquisitions and had no discontinued operations

There were no recognised gains or losses in either the current or preceding year other than those disclosed in the profit and loss account, and therefore no separate statement of total recognised gains and losses has been presented

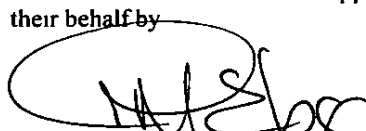
Balance sheet
as at 31 December 2012

	Note	2012	2011
		£	£
Fixed assets			
Tangible assets	9	286,341	241,061
Current assets			
Stocks	10	114,680	177,929
Debtors	11	22,167,487	1,501,095
Investments	12	5,181	5,181
Cash at bank and in hand	13	-	19,876,611
		<u>22,287,348</u>	<u>21,560,816</u>
Creditors amounts falling due within one year	14	<u>(2,014,468)</u>	<u>(2,899,272)</u>
Net current assets		<u>20,272,880</u>	<u>18,661,544</u>
Net assets		<u>20,559,221</u>	<u>18,902,605</u>
Capital and reserves			
Called up share capital	15	850,000	850,000
Profit and loss account	16	19,709,221	18,052,605
Equity shareholder funds	17	<u>20,559,221</u>	<u>18,902,605</u>

The financial statements were approved by the board of directors on their behalf by

17 July 2013

and were signed on


P M Else
Director

Company registration number 02130421

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material to the company's financial statements

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention

Going concern

The company has considerable financial resources together with long-term relationships with key players in the disaster recovery market. As a consequence the company is well placed to manage its business risks successfully despite the current uncertain economic outlook

Therefore, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and continue to adopt the going concern basis of accounting in preparing the financial statements

Under Financial Reporting Standard 1 *Cash flow statements (1996 revised)* ('FRS 1') the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements

Turnover

Turnover is the total amount receivable by the company for goods supplied and services provided, excluding VAT and trade discounts. Franchise management fees recognised as revenue are calculated on the basis of Franchisee invoiced sales

National advertising fund

Under the terms of the franchise agreement between the company and its franchisees, the company charges each franchisee a levy to be applied to a centrally held fund for use in marketing and promoting the franchise network (the 'National Advertising Fund'). Levies received under this fund are accrued as a liability and any expenditure incurred with respect to the fund are debited to the accrual, with the balance being recognised as an accrual on the balance sheet (note 14)

Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale

Tangible fixed assets and depreciation

Depreciation is calculated to write down the cost or valuation less estimated residual value of all tangible fixed assets other than freehold land over their expected useful lives. The rates generally applicable are

Leasehold improvements	Straight line over 3 years
Motor vehicles	Straight line over 3 years
IT, software and office equipment	Straight line over 2 years

Intangible fixed assets

Intangible fixed assets are capitalised and amortised on a straight-line basis over their estimated useful economic life

Notes (continued)

1 Accounting policies (continued)

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised

Negative goodwill arising on business combinations in respect of acquisitions since 1 January 1998 is included within fixed assets and released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased on the same acquisition are recovered, whether through depreciation or sale

Stocks

Stocks are valued at the lower of cost and net realisable value

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19

Foreign currencies

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rates of exchange prevailing at the balance sheet date or the contracted rate. Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. All differences are taken to the profit and loss account

Pensions

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered account. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Leased assets

Operating lease payment are charged to the profit and loss account on a straight-line basis over the lease term

Employee benefit trust

Assets held by the company's Employee Benefit Trust ('EBT') are included in the company's balance sheet as current asset investments, subject to any provision for diminution in value until they are unconditionally distributed to beneficiaries at the unfettered discretion of the trustees of the EBT

Classification of financial instruments issued by the company

Under FRS 25, financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions

- a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company, and
- b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Notes (continued)

1 Accounting policies (continued)

Classification of financial instruments issued by the company (continued)

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Turnover

	2012 £	2011 £
Management fees	3,598,386	4,031,249
Sales of franchise areas	120,000	161,000
Sales of equipment and supplies	250,980	282,830
Other sales	1,422,204	2,191,303
	<u>5,391,570</u>	<u>6,666,382</u>

During the year sales of £nil (2011 £nil) were made to countries outside the UK.

3 Other interest receivable and similar income

	2012 £	2011 £
Bank interest receivable	449,171	271,510
	<u>449,171</u>	<u>271,510</u>

4 Profit on ordinary activities before taxation

	2012 £	2011 £
<i>The profit on ordinary activities is stated after charging</i>		
Depreciation	100,335	74,877
Operating lease rentals	160,240	146,384
- land and buildings	41,653	36,808
- other		
<i>Auditors' remuneration</i>		
- audit of these financial statements	21,000	20,000
	<u>21,000</u>	<u>20,000</u>

Notes (continued)

5 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2012 £	2011 £
<i>The tax charge represents</i>		
UK corporation tax	534,113	650,232
Adjustment in respect of prior years	(13,536)	6,091
	<u>520,577</u>	<u>656,323</u>
<i>Deferred taxation</i>		
Origination and reversal of timing differences	3,310	12,533
Effect of rate change	3,900	3,762
Prior year adjustment	(7,218)	(6,804)
	<u>(8)</u>	<u>9,491</u>
Total deferred tax	(8)	9,491
Tax charge on profit on ordinary activities	<u>520,569</u>	<u>665,814</u>

(b) Factors affecting the tax charge in the year

The current tax charge for the year is lower (2011 higher) than the standard rate of corporation tax in the UK of 24.5% (2011 26.5%). The differences are explained below

	2012 £	2011 £
Profit on ordinary activities before taxation	2,177,185	2,476,425
	<u>2,177,185</u>	<u>2,476,425</u>
Tax on profit on ordinary activities at 24.5% (2011 26.5%)	533,410	656,253
<i>Effects of</i>		
Expenses not deductible for tax purposes	4,012	6,512
Capital allowances for the year (in excess of)	(1,892)	(10,331)
Other timing differences	(1,418)	(2,202)
Prior year adjustment	(13,536)	6,091
	<u>520,577</u>	<u>656,323</u>

(c) Deferred tax

	2012 £	2011 £
<i>Deferred tax is included in the balance sheet as follows</i>		
Difference between accumulated depreciation and capital allowances	42,654	43,154
Other timing differences	1,420	912
	<u>44,074</u>	<u>44,066</u>
Deferred tax asset (note 11)	44,074	44,066
	<u>44,066</u>	<u>53,557</u>
At 1 January	8	(9,491)
Deferred tax charged to the profit and loss account in the year	<u>44,066</u>	<u>44,066</u>
At 31 December	<u>44,074</u>	<u>44,066</u>

Notes (continued)

5 Tax on profit on ordinary activities (continued)

(d) Factors affecting the future tax charges

A reduction in the UK corporation tax rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the company's future current tax charge accordingly. The deferred tax asset at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The March 2013 Budget announced that the rate will further reduce to 20% by 2015 in addition to the planned reduction to 21% by 2014 previously announced in the December 2012 Autumn Statement. It has not yet been possible to quantify the full anticipated effect of the announced further 3% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax asset accordingly.

6 Dividends

	2012 £	2011 £
Final dividend paid in respect of the current year	-	-

7 Directors and employees

	2012 £	2011 £
<i>Staff costs during the year were as follows</i>		
Wages and salaries	1,026,220	1,464,453
Social security costs	119,071	145,499
Other pension costs (note 22)	48,498	44,353
	<u>1,193,789</u>	<u>1,654,305</u>

The average number of employees during the year was

	2012 Number	2011 Number
Directors	2	2
Sales	6	5
Administration	54	69
	<u>62</u>	<u>76</u>

	2012 £	2011 £
<i>Remuneration in respect of directors was as follows</i>		
Emoluments	157,800	223,554
Pension contributions to money purchase pension schemes	14,293	14,180
	<u>172,093</u>	<u>237,734</u>

Notes (continued)

7 Directors and employees (continued)

During the year one director (2011 two) participated in money purchase schemes

	2012 £	2011 £
<i>The amounts set out above include remuneration in respect of the highest paid director as follows</i>		
Emoluments	138,315	136,950
Pension contributions to money purchase pension schemes	11,688	9,040
	<u>150,003</u>	<u>145,990</u>

8 Intangible fixed assets

	Franchise licence £
<i>Cost or valuation</i>	
At 1 January 2012 and 31 December 2012	400,000
<i>Accumulated amortisation</i>	
At 1 January 2012 and 31 December 2012	400,000
<i>Net book value</i>	
At 31 December 2012	-
At 31 December 2011	-

The intangible fixed asset represented the cost of the know-how associated with the United Kingdom master franchise licence acquired in 1989

9 Tangible fixed assets

	Leasehold land and buildings £	Motor vehicles £	IT software and office equipment £	Total £
<i>Cost or valuation</i>				
At 1 January 2012	70,001	90,171	1,124,139	1,284,611
Additions	10,615	-	135,000	145,615
At 31 December 2012	<u>80,616</u>	<u>90,171</u>	<u>1,259,439</u>	<u>1,430,226</u>
<i>Accumulated depreciation</i>				
At 1 January 2012	57,762	40,471	945,317	1,043,550
Provided in the year	9,300	24,495	66,540	100,335
At 31 December 2012	<u>67,062</u>	<u>64,966</u>	<u>1,011,857</u>	<u>1,143,885</u>
<i>Net book value</i>				
At 31 December 2012	<u>13,554</u>	<u>25,205</u>	<u>247,582</u>	<u>286,341</u>
At 31 December 2011	<u>6,989</u>	<u>49,700</u>	<u>184,372</u>	<u>241,061</u>

Notes (continued)

10 Stocks

	2012 £	2011 £
Finished goods and goods for resale	114,680	177,929

11 Debtors

	2012 £	2011 £
Trade debtors	949,764	1,302,841
Amounts owed from group undertakings	21,127,715	117,079
Deferred tax (note 5)	44,074	44,066
Prepayments	45,934	37,109
	<u>22,167,487</u>	<u>1,501,095</u>

12 Current asset investments

	2012 £	2011 £
EBT	5,181	5,181

EBT

In 2000 the company made a contribution to the Spectrum Franchising Limited Employee Benefit Trust ('the EBT') which has been established to provide benefits to employees and directors of the company. Assets held by the EBT may be distributed to individuals at the unfettered discretion of the trustees, from time to time. During the year £nil (2011 £nil) was allocated. At the year end the company held £3,624 (2011 £3,624) of shares in Thornybolt (No 55) and £1,557 (2011 £1,557) in cash.

13 Cash at bank

In the current year the cash balance of the company is controlled centrally by the company's ultimate parent company and is therefore classified in the accounts within intercompany.

An amount of £600,000 (2011 £600,000) is held in a separate account, on behalf of the franchise partners in respect of monies relating to the National Advertising Fund (note 1).

The company also recognises an accrual for £161,931 (2011 £437,960) in respect of the franchise partners' contributions to the National Advertising Fund held centrally by the company (note 14).

Notes (continued)

14 Creditors: amounts falling due within one year

	2012 £	2011 £
Payments in advance	1,220,761	1,567,424
Trade creditors	211,663	258,610
Amounts owed to group undertakings	-	-
Corporation tax	204,810	300,602
Social security and other taxes	177,839	224,251
National Advertising Fund	161,931	437,960
Accruals and deferred income	37,464	110,425
	<u>2,014,468</u>	<u>2,899,272</u>

15 Called up share capital

	2012 £	2011 £
<i>Allotted, called up and fully paid</i> 850,000 ordinary shares of £1 each	<u>850,000</u>	<u>850,000</u>

16 Profit and loss account

	£
At 1 January 2012	18,052,605
Profit for the year	<u>1,656,616</u>
At 31 December 2012	<u>19,709,221</u>

17 Reconciliation of movements in shareholder funds

	2012 £	2011 £
Profit for the year	<u>1,656,616</u>	1,810,611
Net addition to shareholder funds	1,656,616	1,810,611
Opening shareholder funds	<u>18,902,605</u>	<u>17,091,994</u>
Closing shareholder funds	<u>20,559,221</u>	<u>18,902,605</u>

18 Capital commitments

There are no capital commitments contracted for but not provided in these financial statements (2011 £nil)

Notes (continued)

19 Contingent liabilities

There are no contingent liabilities at 31 December 2012 (2011 £nil)

Along with other members of the ISS group in the UK, the company participates in a cash pooling arrangement operated by the group's bankers in the UK

20 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows

	Land and buildings		Other	
	2012	2011	2012	2011
	£	£	£	£
Operating leases which expire within one year	-	-	121,000	20,615
within the second to fifth year inclusive	140,000	115,000	78,000	61,801

21 Pensions

The company operates a defined contribution pension scheme. The pension charge represents contributions payable by the company to the scheme and amounted to £48,498 (2011 £44,353). There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

22 Related party transactions

Transactions with directors were as follows

Mr P Else owns one of the properties occupied by the company. Rent payable to Mr Else during the year amounted to £37,500 (2011 £75,000).

As a wholly owned subsidiary included in the publicly available consolidated financial statements of ISS A/S the company is exempt under FRS 8 from disclosure of transactions with other members of the group.

23 Ultimate parent and controlling undertaking

The company is a subsidiary undertaking of Spectrum Holdings Limited incorporated in England and Wales. The largest and only group into which the results of the company are consolidated is that headed by ISS A/S incorporated in Denmark. ISS A/S is the company's ultimate parent and controlling company. The consolidated financial statements of this group are available to the public and may be obtained from the following address: ISS A/S, Bredgade 30, DK1260, Copenhagen, Denmark.