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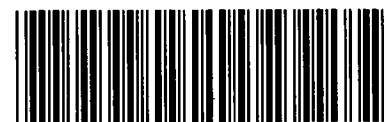
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# **BrightHouse Group Limited**

## **Report and Financial Statements**

Year ended 31 March 2019

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COMPANIES HOUSE

**Directors**

A D Mooney  
G J Campbell

**Secretary**

D J Harwood

**Auditor**

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## Chairman's statement

### **"BrightHouse ends the year with greater clarity of the future."**

The well-documented challenges for the British High Street, the lack of consumer confidence and the regulatory environment all combined to make the 2018/19 financial year another difficult one for BrightHouse.

The trading environment through the year has been tough. This is true for almost every retailer on the high street, indeed even pure play online businesses. Consumer confidence has obviously been affected by the political uncertainty evident throughout the year. In turn this has led to lower footfall in stores and customers being cautious about committing to significant purchases.

There is no doubt that the announcement from the FCA last autumn, confirming price controls and a moratorium on the sale of extended service warranty will impact the financials of rent-to-own (RTO) firms, including BrightHouse. However, we have the flexibility and adaptability as a business to respond. In addition, the new framework enables the business to plan with far greater certainty than has been possible for some time.

As this is my first year as chairman, I wish to record my observations about the business. What attracted me to BrightHouse was its very clear purpose and the passion displayed by its people. In our country, there are as many as ten million people who are on lower incomes and who are excluded from mainstream credit – it is these people that BrightHouse seeks to serve.

This sizable group of people will always require credit and their needs have consistently been underserved. More recently, many firms have exited this market as regulatory focus has been brought to bear on high-cost credit.

Our ability to attract and retain more of these customers lies at the heart of our strategy to grow the business again and return to profitability. We understand the dynamics of credit for this group. Utilising this core capability to meet the needs of more of this group, is where our future lies. During the year, we took the first important step on this journey by successfully trialling cash loans in a number of our stores across the North East of England. Customer feedback has been extremely enthusiastic and loan performance has been better than anticipated. I expect this to signal an evolution for BrightHouse into offering a range of financial products, all specifically designed for our customers.

When incomes are under pressure, you need to look carefully towards business costs. During the year we had to make tough decisions in relation to reducing the size of the store estate, and making colleagues redundant. It's never easy to do these things due to the obvious impact on our individual colleagues and customers. However, it was vital to reduce our costs for the long-term strength of the business.

In line with expectations, our revenue during the financial year was £273.9 million and our EBITdA loss was £2.3 million. The reported loss before tax and exceptional items was £27.2 million.

Following the end of the financial year, I was delighted to welcome Anth Mooney as our CEO. Anth has a wealth of financial services experience and has already displayed a deep understanding of our customers and enormous vigour in addressing the challenges faced by our business.

Spending time in our stores has given me an insight into the lives of our customers, and revealed how much they appreciate what our colleagues and business are able to do for them. Many customers have longstanding and deep relationships with BrightHouse based upon their appreciation of our offer and the frequent interaction they have with their local store team.

Ours is very much a people business. I have observed first-hand the dedication, care and expertise displayed by our colleagues every single day. I'd like to thank them all for their commitment to our customers and to BrightHouse.



**Stuart Deane**

Chairman of BrightHouse TopCo Limited

## Strategic report

### Principal activity and review of the business

BrightHouse now offers customers cash loans as well as our rent-to-own offer. The latter gives access to high-quality branded household goods, wrapped together in a straightforward proposition, which is clearly explained to customers, with insurance and after sales service options available. All loans and goods are available with affordable weekly payments, professional in-store attention and a comprehensive after sales service via 245 stores across the UK. The Group undertakes a bespoke credit assessment, incorporating third party data, combined with a detailed affordability check allowing customers with lower incomes and/or impaired credit records access to goods and/or a loan.

Cash loans have been trialled with customers from 12 November 2018 in a limited area of the country. The loans are over a fixed 18 month period, for a value up to £1,000 with an APR of 149%, and no other financial products are sold in connection with the loans.

All product agreements taken out prior to 27 April 2015 included a package of benefits within the retail price. This incorporates: delivery and installation; cover providing for unlimited repair and maintenance of the product over the life of the agreement; a short term replacement product if the product needs to be repaired outside the home; a repair or like-for-like replacement in the event of loss through accidental damage, fire or theft; and allows the customer to return the goods, cancel agreements and restart a new agreement with their equity protected.

With effect from 27 April 2015, product insurance was offered as a separate optional cover. Customers must have insurance cover in place, providing cover for loss through accidental damage, fire and theft before entering into an agreement whether through their own provider or through BrightHouse.

From 26 February 2017, the proposition was improved to allow greater flexibility and choice for the customer. Our customers are now able to choose their product as well as the term of the agreement, and hence their weekly payment, and make choices about service cover and insurance.

As at the year end, the representative APR offered in our hire purchase agreements is 69.9% and the actual rate offered to individual customers is in the range of 69.9% – 99.9% based upon the customer's individual credit score, the product taken and the length of the agreement.

### Strategy

Our strategy in the year focused on three areas:

- Attracting and retaining customers;
- Reducing business costs; and
- Improving short term funding.

Our digital channel is now a significant source of new customers. We have continued to invest in our website to develop the customer interface and improve functionality. For example the majority of visitors can now upload their proof documents and continue their journey online rather than being required to visit a store.

Our strategy includes expanding our customer offer beyond rent-to-own and as such we trialled a cash loan product in the North East of England during the second half of the year. The level of customer demand and the loan performance to date has proved encouraging and we plan to roll out this new product to all stores during the 2019/20 financial year.

The final publication of the FCA's High Cost Credit Review provides some certainty over our proposition. In February a two day deferred sale of our BrightCare service warranty product was introduced. Plans are at an advance stage to comply with the interest cap and retail price benchmarking that come into force in the first quarter of the new financial year.

Carefully managing business costs is central to the strategic plan. We have been actively managing our store portfolio, reducing occupancy costs through closures, relocations and rent reductions. During the year we closed 36 stores, and relocated a further 6 to lower cost sites. In line with the reduction in the Estate, we have restructured and reduced our store management. Numerous lease breaks or renewals during the year allowed us to take advantage in the weakness of the UK High Street property market and significantly reduce rents. Cost management will continue to be an important focus.

## Strategic report (continued)

### Principal activity and review of the business (continued)

#### Strategy (continued)

To address our short term funding requirements a new additional super senior supplier finance facility of up to £35m was secured in September 2018. This facility is ongoing, subject to a 12 month termination notice, and will help short term liquidity as the business grows.

#### Trading environment

The 2018/19 financial year was a tough trading environment for the retail industry with limited footfall on the high street. The consumer credit industry also struggled with the uncertainty caused by the High-cost Credit Review which was finalised on 5 March 2019. Despite these challenges we managed to stabilise our customer base and trialled a new proposition to our customers.

#### Regulatory environment

The FCA continues to focus on the high cost credit market with the objective of changing business models, they made this intention clear in their High-cost Credit Review. For rent-to-own, they implemented a ban on the sale of extended warranties at the point of sale in February 2019 and a Price Cap and Price Benchmarking from 1 April 2019 for all new products and from 1 July 2019 for existing products. Their focus on comprehensive affordability checks continues. We seek to work proactively and constructively with them in order to meet the needs of our customers, many of whom can be classed as vulnerable, and who have limited alternative credit options.

Since the FCA confirmed our application for authorisation on 2 February 2018, they also confirmed in December 2018 that we have successfully completed the £14.8 million Redress scheme covering first week refunds owed to customers and payments where customer's circumstances had not been properly assessed. This marks the end of nearly three years of work which has materially impacted the business, both commercially and operationally. A further regulatory challenge is the FCA's search for increased availability and awareness of lower cost options and non-credit alternatives. We are fully aware of the role of the FCA as our regulator and its expectations, the external perception of us a business and the way in which we need to operate in the future if we are to be both commercially successful and face no further FCA intervention and / or censure.

#### Financial performance

The Group financial performance for the year is summarised as follows:

	2019	2018	2019 vs 2018	
	£000	£000	£000	%
Revenue	273,933	284,711	(10,778)	(3.8%)
Gross profit	128,633	140,666	(12,033)	(8.6%)
Gross profit margin	47.0%	49.4%		
Net operating expenses before exceptional items	(144,645)	(150,214)	5,569	(3.7%)
EBITdA before exceptional items	(2,324)	3,037	(5,361)	(176.5%)

#### Revenue

Our revenue decreased by £10.8 million, or 3.8%, to £273.9 million for 2019 from £284.7 million for 2018. This decrease was primarily due to the fall in customer numbers and contract portfolio value as documented below.

#### Cost of sales

Our cost of sales increased by £1.3 million, or 0.9%, to £145.3 million (53% of revenue) for 2019 from £144.0 million (50.6% of revenue) for 2018. This was driven by year-on-year increases in rental asset depreciation, rental asset maintenance, the carrying value of rental assets written off and bad debt written off.

## Strategic report (continued)

### Principal activity and review of the business (continued)

#### Financial performance (continued)

##### Gross profit and gross profit margin

Our gross profit decreased by £12.0 million, or 8.6%, to £128.6 million (47.0% of revenue) for 2019 from £140.7 million for 2018 (49.4% of revenue). This reduction in gross profit margin was primarily due to the rise in cost of bad debt as a proportion of revenue from 12.3% for 2018 to 12.5% for 2019.

##### Net operating expenses before exceptional items

Our operating expenses decreased by £5.6 million, or 3.7%, to £144.6 million (52.8% of revenue) for 2019 from £150.2 million (52.8% of revenue) for 2018, primarily due to the reduced store base driving payroll and property cost savings.

##### EBITdA

The primary profit measure used by management of the Group is EBITdA before exceptional items. EBITdA before exceptional items (defined as operating profit before depreciation of fixtures and equipment, amortisation, impairment and certain one off items) has decreased by 176.5% from £3.0m in 2018 to (£2.3m) in 2019. A reconciliation of EBITdA before exceptional items to operating loss is provided below:

	2019	2018
	£000	£000
Consolidated EBITdA before exceptional items	(2,324)	3,037
Depreciation of fixtures and equipment and amortisation	(13,224)	(12,585)
Finance related costs	(464)	-
Exceptional items:		
Affordability claims	(11,493)	(7,082)
Affordability action plan	(414)	(940)
Vacant and onerous lease provisions	(6,154)	(1,333)
Loss on disposal and impairment of fixtures and equipment	-	(334)
Restructuring	(5,516)	(2,029)
Historical staff purchase scheme	(800)	-
Consolidated reported operating loss	(40,389)	(21,266)

The exceptional items are explained in detail in note 3 of these financial statements.

The loss before taxation was £51,551,000 for 2019, down from a profit before taxation of £4,195,000 for 2018 due to an exceptional profit on the release of loans in 2018.

##### Non-financial performance indicators

We use certain key operating measures to track the financial and operating performance of our business. None of these terms are measures of financial performance under IFRS, nor have these measures been audited or reviewed by an auditor, consultant or expert. These numbers are not derived exclusively from our internal financial systems or management accounts, but also from our non-financial operating systems. As they are defined by our management, these terms may not be directly comparable to similar terms used by competitors or other companies.

## Strategic report (continued)

### Principal activity and review of the business (continued)

#### Non-financial performance indicators (continued)

	2019	2018
<b>Customers and agreements</b>		
Total customers (thousands) <sup>(1)</sup>	195.9	202.9
Total Gross Dues for the year (in millions of £) <sup>(2)</sup>	19.1	20.6
Closing Dues base (in millions of £) <sup>(2)</sup>	24.7	25.9
Average number of contracts per customer <sup>(3)</sup>	2.51	2.61
Average revenue per customer per month <sup>(4)</sup>	£125.93	£127.69
<b>Stores</b>		
Number of stores	245	281
<b>Contract Portfolio (in millions of £)<sup>(5)</sup></b>	354.6	389.6

- (1) Total customers represents the number of distinct individuals who are party to one or more hire purchase agreements outstanding on the relevant date with us, without regard to the number of hire purchase agreements entered into by each such customer.
- (2) Dues is the expected amount of receipts from customer agreement instalments in an average month. (An average month is assumed to have 4.333 weeks). Gross Dues is the Dues value for new agreements signed in the relevant period. Closing Dues Base is the closing dues at the end of the relevant period for all active agreements.
- (3) Average number of contracts per customer is calculated by dividing the number of total hire purchase agreements outstanding on the relevant date by the number of total customers on such date.
- (4) Average revenue per customer per month is calculated by dividing the closing dues base at the period end by the closing customer base at the period end.
- (5) The value of our Contract Portfolio refers to the aggregate amount of remaining payments due under our hire purchase agreements on a given date through the term of the relevant contracts in effect on such date, assuming all contracts are paid in full. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes and payments from the purchase of our optional insurance and warranty products.

#### Total customers

Revenue is driven by the number of customers and their average spend with BrightHouse. Customer numbers have decreased by 3.4%, from 202,900 as of 31 March 2018 to 195,900 as of 31 March 2019. The rate of customer termination in the last twelve months continued to reflect the higher level of customer acquisition achieved before the stricter affordability processes and tightened credit criteria were put in place during the 2016-17 financial year.

#### Total Gross Dues

Total Gross Dues decreased by 7.3% to £19.1 million for 2019 from £20.6 million for 2018. This is due to lower gross dues from existing customer add-on sales which reduced by 10.5% from £16.3 million in 2018 to £14.6 million in 2019. This is a result of the lower customer numbers year on year.

#### Closing Dues base

The Closing Dues base decreased by 4.6% to £24.7 million as of 31 March 2019 from £25.9 million as of 31 March 2018 primarily due to the lower gross dues from existing customer add-on sales as discussed above.

## Strategic report (continued)

### Principal activity and review of the business (continued)

#### Non-financial performance indicators (continued)

##### Average number of contracts per customer

Average number of contracts per customer decreased to 2.51 as of 31 March 2019 compared to 2.61 as of 31 March 2018.

##### Number of stores

The Group closed 36 of its stores across the UK in 2019, as part of a business-wide cost reduction programme, aligned to a new business strategy. Our strategy to expand the customer base is to grow like-for-like revenues through further simplification of the sign-up processes, the development of our E-Commerce capabilities and improved customer retention.

The E-commerce programme has continued the development of a clicks and mortar strategy. The business launched its fully transactional website on 1 August 2017 which allowed new customers to complete their entire application online including the affordability checks. A further iteration was launched in March 2018 which allowed existing customers to apply for additional products.

##### Contract Portfolio

The value of our Contract Portfolio as of 31 March 2019 was £354.6 million, representing a decrease of 9.0% compared to £389.6 million as of 31 March 2018. This decrease is due to the fall in customer numbers and shorter terms.

### Principal risks and uncertainties

#### Risk strategy

The Group has invested considerable time in enhancing and embedding its Risk Management Framework and processes. An iterative Risk Management process is in place which consists of the identification of new risks, their analysis, and dependent on the agreed risk appetite, their remediation. Risks are assessed, mitigated and regularly reviewed. The risk function oversees conduct risk and risk management activities, as well as supporting business with their risk management work.

The directors consider that BrightHouse has a thorough risk management process that involves the formal review of all risks identified below. Board, Audit and Risk, and management committees are in place to monitor and mitigate such risks.

As part of the Risk Management Framework various levels of risk registers exist, considering both business and strategic risks. CEO Top Risks (Level 1) are mostly strategic in nature, these are determined by the Executive Committee and ratified by the Board. Divisional Risks (level 2) are generally operational in nature, and impact on a specific department or specialist risk areas such as Financial Crime or Information Security. Level 3 registers relate to projects, and are owned by the relevant Project Sponsor.

The Audit and Risk Committee assists the Board in all matters relating to risk. In addition, the Risk Committee is responsible for making sure that credit and operational risks are tabled and reviewed, and that mitigating actions are considered, formulated and thereafter driven to completion.

BrightHouse operates a 'three lines of defence' model: the first line involves the operational identification, assessment and management of risk; the second line involves internal monitoring, guidance, review and reporting; and the third line provides independent external assurance.

The key focus and work undertaken by the Audit and Risk Committee, together with the Board in the current year has been around managing regulatory risk, cash flow risk, and the finalisation of actions from the Section 166, which was officially signed off in January 2019.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

Further details of these risks are given in the relevant sections below:

#### Funding and cash flow

**Risk:** Challenges to funding and cash flow pose a risk to our strategic growth strategy, impacting on both projects and the supply of goods.

**Mitigation:**

- BrightHouse has full monthly management accounts, a monthly rolling forecast and an annual budgeting process.
- Senior Management and Directors from all key functions are involved in the planning and production of budgets.
- Rigorous cash controls are in place.
- Ongoing liaison with suppliers and trade creditors to ensure strong relationships.
- BrightHouse has a £35m revolving credit facility with a draw down option as required.
- We have developed a mitigation strategy to remain cash positive.

#### Complaint handling

**Risk:** The risk that BrightHouse receives significant numbers of complaints, both affordability claims and BAU, and is unable to manage incoming volumes and complaint handling across the business.

**Mitigation:**

- Customer Resolutions Centre set up to manage largescale complaints.
- Strong Management Team supported by the Managing Director of Financial Services.
- Experienced complaint handlers and administrators recruited to manage affordability and BAU complaint volumes.
- First and Second Line monitoring of Complaints process.
- Complaints Steering Group in place.

#### Insufficient customer growth

**Risk:** Insufficient take-up via BrightHouse sales channels.

**Mitigation:**

- Monthly Customer Focus meeting to understand trends in customer feedback in order to drive continuous improvement throughout our Business.
- BrightHouse to pilot additional sales channels in an effort to increase the uptake of new business.
- Prompt and considered response to the High-cost Credit Review with consideration to both customer and commercial outcomes.
- Root cause analysis of complaint data in order to understand and improve upon customer experience.
- Continued investment in CRM software which enables better communication with our customers.
- Successful trial of a new Cash Loan product in order to understand customer uptake and behaviour in advance of phased roll out.
- Online investment.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### Legal/regulatory risk

**Risk:** The risk of adverse regulatory change or failure to comply with relevant regulatory requirements. This includes impacts from the High-cost Credit Review, namely price caps, benchmarking and deferred warranty sales.

#### Mitigation:

- Compliance function in place which monitors compliance with relevant regulations and reports to the Board.
- Regulatory changes tracked, actioned and reported to Senior Management and Directors on a regular basis.
- Independent expert third-party regulatory support is in place.
- Constructive dialogue is maintained with regulators and BrightHouse plays an active role in all relevant regulatory reviews and consultation processes.
- Scenario modelling based on impacts of the High-cost Credit Review.
- High-cost Credit Project and Steering Committee.
- First Line and Second Line monitoring of business practices.
- Ongoing training for staff.

#### Corporate/strategic risks

**Risk:** Failure of the Group's strategy or management actions (includes delivery of the change programme)

#### Mitigation:

- Regular meetings of the Executive Committee and the Trading and Operations Committee.
- A strategy planning meeting is held annually.
- New products and processes are thoroughly tested prior to roll-out.
- Competitor products, pricing and strategy are monitored.
- Specialist business change functions oversee change programmes.
- BrightHouse has full monthly management accounts, a monthly rolling forecast and an annual budgeting process.
- Business continuity and disaster recovery procedures are tested on a regular basis.

#### Conduct risks

**Risk:** Failure to ensure that detriment is not caused to customers resulting from the execution of business activities.

#### Mitigation:

- Policies, processes and procedures in place to: minimise the risk of customers potentially receiving products that are unaffordable; ensure that financial promotions are clear, fair and not misleading; and ensure effective complaints handling.
- Regular customer satisfaction surveys are undertaken.
- BrightHouse has an Audit & Risk committee overseeing all risks, with conduct risks central to the agenda.
- BrightHouse has a Compliance committee focused on FCA rules and guidelines, a monthly Customer Focus meeting and a Conduct Risk Working Group to ensure issues are considered from a customer perspective. Conduct risk is a standing agenda item at the Risk Committee.
- Introduction Product Governance Oversight Committee.

## Strategic report (continued)

### Principal risks and uncertainties (continued)

#### Governance and human factor risks

**Risk:** The risk that the Group fails to operate effectively due to inadequate internal processes, people and systems.

**Mitigation:**

- A Compliance Monitoring team oversees key business operations.
- An Enterprise Risk and Control Management Framework is used across the business.
- A fully-integrated ERP solution is being implemented.
- Succession planning is in place across all departments.
- A recruitment strategy is established ahead of the hiring process.
- Continued focus on retention initiatives such as performance management, development plans, encouraging internal transfers wherever appropriate and performance related rewards.
- Focus on employee turnover levels, exit interviews, monitoring and identifying trends, implementing changes to recruitment and retention strategies as needed.
- Governance surrounding policy, process and procedure imbedded into the organisation.

#### Health and safety risk

**Risk:** The risk that BrightHouse fails in their duty of care leading to a colleague, customer or member of the public suffering injury as a result.

**Mitigation:**

- Induction sessions and regular updates are provided on safety awareness.
- Health & Safety awareness regularly promoted to staff.
- Use of a Health and Safety Management System.
- Health & Safety incidents are monitored closely by management with follow-up actions taken.
- Independent audits of Health and Safety policies and procedures are carried out.
- New and Refreshed product quality testing and assurance.

#### Reputational / brand risk

**Risk:** Inability to attract and retain the right staff and grow the business as a result of our proposition and brand reputation.

**Mitigation:**

- Public Relations team acts both reactively and proactively to provide positive messages to the marketplace.
- Media monitoring.
- Constructive dialogue is maintained with regulators and BrightHouse plays an active role in all relevant regulator reviews and consultation processes.
- A recruitment strategy is established ahead of the hiring process.
- Continued focus on retention initiatives such as performance management, development plans, encouraging internal transfers wherever appropriate and performance related rewards.
- Focus on employee turnover levels, exit interviews, monitoring and identifying trends, implementing changes to recruitment and retention strategies as needed.

#### Outsourcing / third party risk

**Risk:** Loss of oversight of vital business functions resulting from outsourcing key business functions to third parties.

**Mitigation:**

- Introduction of a Procurement Function.
- Full Due Diligence which includes site visits for any potential suppliers and outsourcers.
- Strong relationship management and SLA's in place for material outsourced arrangements.
- Consistent documented approach for oversight and management for any outsourced functions.

## **Strategic report** (continued)

### **Corporate responsibility**

The Group has identified six main areas of corporate responsibility as:

- Fair treatment of customers and suppliers
- Colleague welfare
- Community involvement
- Ethical trading
- Environmental responsibility
- Pay tax on time

### **Fair treatment of customers and suppliers**

BrightHouse customers expect good quality products that meet all safety requirements and have been manufactured to high ethical standards. BrightHouse aims to deal honestly with customers and suppliers, securing their loyalty and trust by providing outstanding choice, value and service.

### ***Responsible lender***

BrightHouse aims to deliver a friendly and flexible service for its customers whilst acting responsibly by lending within customer affordability levels. A detailed affordability assessment is undertaken with customers, including a credit check, before an agreement is offered. Once they have an agreement, customers can build a history of payments and BrightHouse shares this information with Credit Reference Agencies. Sales advisors are trained to understand an individual customer's financial capability and the consequential affordability of products.

As an active member of the Finance and Leasing Association, we adhere to the standards set out in their code of practice to ensure fairness and responsible lending. The Group is committed to supporting those who have difficulties making payments. Our operations are designed to support those in difficulty and, when appropriate, the business will signpost borrowers towards providers of free, independent debt advice. In order to support the provision of free, independent debt advice to all who need it, we make financial contributions towards the running costs of The Money Charity and the Money Advice Trust.

### ***Transparency in all our dealings***

The Group aims to achieve clear and consistent communication with all stakeholders and honour its promises. BrightHouse is committed to ensuring that documents use language that is simple and understandable for customers.

### **Colleague welfare**

BrightHouse aspires to become a recognised "employer of choice" within its sector, with a workforce that is representative of the communities it serves. The Group strives to achieve an environment that encourages mutual respect and teamwork, where personal performance matters and colleagues are encouraged to develop and reach their full potential.

### ***Health and Safety***

BrightHouse fully recognises and complies with the duties placed upon it under the Health and Safety at Work Act 1974 and all other relevant legislation to ensure a safe and healthy working environment. It also recognises the duty it has not only to its staff, but also to customers, contractors, visitors and any others who may be affected by its activities.

### ***Learning and development***

The directors are committed to encouraging the continuous development of colleagues with the objective of optimising the overall performance of the business. Emphasis is placed on work-based learning, with the provision of development opportunities supported by appropriate coaching and mentoring.

### ***Equal opportunities***

BrightHouse values the diversity of its workforce. The Group is an equal opportunities employer and works hard to maintain an open and honest working environment, recognising the contribution everyone can make to the business. Career progression for existing or potential colleagues is assessed only on the grounds of performance and aptitude.

## Strategic report (continued)

### Corporate responsibility (continued)

#### *Colleague engagement*

BrightHouse wants to listen to and learn from its colleagues, through a number of methods including regular employee engagement surveys.

#### *Community involvement*

BrightHouse stores are located in high streets across the UK. The Group endeavours to be a “good neighbour” in positively exercising our responsibilities towards the wider community.

#### *Charitable causes*

BrightHouse supports a number of charities which touch the lives of our colleagues and customers, including those involved with our industry and those which provide free, independent debt advice.

#### *Ethical trading*

Partnership working is at the heart of the BrightHouse business. The Group seeks to conduct its business with integrity and respect, honouring the terms and conditions of every business agreement. Through these relationships, the Group aims to provide customer confidence in its products, ensuring that they are of a consistently high quality and that everyone in the supply chain is treated with honesty, fairness and respect.

#### *Environmental responsibility*

BrightHouse is committed to working continuously, in collaboration with its partners and colleagues, to contribute positively to environmental sustainability. The Group actively explores ways to reduce its eco-footprint through employing initiatives designed to limit its impact on the environment, including ongoing reviews of purchasing policies and finding new opportunities to recycle or redeploy products and materials.

#### *Packaging recycling*

Whenever possible, the major packaging constituents in BrightHouse’s business – cardboard, paper, plastics and polystyrene – are taken back to the Group’s National Distribution Centre in Manchester. The materials are then compacted and passed to recycling businesses for processing.

#### *Product refurbishment*

All customers entering into our hire purchase agreements are entitled to return products, without any charges or further payments. Wherever possible, these products are refurbished to a high standard and re-sold as refreshed items.

Products which are beyond economic repair are used as a source of spare parts, with the remainder being processed for recycling. BrightHouse adopts a similar approach to redundant IT equipment, in order to minimise environmentally unfriendly waste.

#### *Environment-friendly products*

Our range continues to incorporate various energy efficient products.

#### *Paying tax on time*

The directors are committed to working closely with HMRC to ensure that we calculate our tax liability correctly and ensure that there is no delay in making our payments.

This report is authorised by the Board of Directors and sign on behalf of the Board



**D Harwood**  
Secretary  
26 July 2019

5 Hercules Way  
Leavesden Park  
Watford  
WD25 7GS

## Directors' report

The directors present their report and financial statements for the year ended 31 March 2019. These financial statements have been prepared under the International Financial Reporting Standards as adopted by the European Union.

### Results and dividends

The loss for the year after taxation amounted to £49,687,000 (2018 – profit after taxation of £6,654,000). The directors do not recommend the payment of a final dividend (2018 – £nil).

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the principal activity and review of the business section of the Strategic Report on pages 3 to 7. The principal risks and uncertainties on pages 7 to 10 include the Group's objectives, policies and processes for managing regulation; its staff; and its financial, credit and economic risks.

In September 2018, in accordance with the five year business plan, the directors negotiated an additional super senior supplier finance facility of up to £35m and, as at 31 March 2019, we had drawn £10.7m from the facility.

On 5 March 2019, the FCA released their final High-cost Credit report on rent to own firms which included the new rules which they will put in place. These rules include for all such firms a price cap, which limits the cost of the product and the credit charges, and a ban on point of sale warranty products with a two day no contact period.

There is an uncertainty around the future volumes of affordability claims that the business might receive in the future, and although the business is seeing a reduction in the long term average number of complaints received, other firms in the market have experienced unexpected significant increases in the volumes so, whilst not expected, that cannot be excluded.

Since the year end, there has been a downturn in our monthly results which increases pressure on our liquidity and RCF covenant compliance. Management are taking initiatives to address this, which includes adjusting investment and growth plans to preserve liquidity. We expect our future results to improve once these initiatives start to deliver. If the initiatives fail to deliver the required improvements to performance, the Directors may need to seek alterations to the existing covenants or/and additional funding which may be secured against our contract portfolio. The Directors consider the risks around this and/or the possible need to obtain additional funding may represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

These financial statements have been prepared on a going concern basis and do not contain adjustments that may result if the Group were unable to continue as a going concern.

### Impact of Brexit on the financial statements

We have considered the potential impact on our business from the UK's vote to leave the EU and the on-going Brexit process.

We relocated our insurance business from Malta to Gibraltar on 16<sup>th</sup> April 2019 as a result of the uncertainty surrounding Brexit and the risks posed to the business if there were not appropriate trade agreements between the UK and EU.

All of our stores and customers are based in the UK which limits potential impacts and we are not directly exposed to currency volatility as all of our stock payments are made in pounds Sterling.

The principal risk identified is a period of disruption to our product supply chain caused by delays at entrance ports.

We carry multiple weeks of stock cover which would mitigate some of the impact and are in discussions with our key suppliers to make alternative plans should the risk arise.

## Directors' report (continued)

### Directors

The directors who served during the year and up to the date of signing of the financial statements were those listed below:

H S Paton	(Resigned 29 March 2019)
A M Maby	(Resigned 3 October 2018)
G J Campbell	(Appointed 3 October 2018)
S J Deane	(Appointed 29 March 2019) (Resigned 1 July 2019)
A D Mooney	(Appointed 1 July 2019)

### Employees

#### Employee involvement

During the year the Group continued and, where practicable, extended its policy of staff involvement through consultation and communication on a wide variety of topics.

#### Employment of disabled persons

It is the policy of the Group to encourage good employment practices with regard to disabled persons, in accordance with government recommended guidelines. Where existing staff become disabled, it is the policy of the Group, wherever practicable, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled staff wherever appropriate.

#### Training and development

The Group, as part of its business planning process, continues to place emphasis on the development and training of its staff, to meet the needs of the Group both now and in the future.

#### Political and charitable contributions

The Group made charitable contributions of £150,000 (2018 – £62,000) during the year. This is in addition to contributions made by our customers and BrightHouse colleagues, raised through fundraising events, during the year. No donations were made to political organisations during the year (2018 – £nil).

### Corporate governance

The Company is exempt from a number of requirements of DTR 7.2 relating to Corporate Governance statements as under DTR1B.1.6 the rules of DTR 7.2.2, DTR 7.2.3 and DTR 7.2.7 do not apply as the Company has no issued shares which are admitted to trading. However included below is a description of the key features of the Company's internal control and risk management systems in relation to the financial reporting process:

- Management is responsible for ensuring the appropriate maintenance of financial records and processes that ensure that financial information is relevant, reliable, in accordance with applicable laws and regulations and is distributed both internally and externally in a timely manner.
- Transactions and balances are recognised and measured in accordance with the prescribed accounting policies and transactions are reviewed and reconciled as part of the reporting process.
- A review of the financial statements is completed by management to ensure that the financial position and results of the Group are appropriately reflected.
- The board review and approve the financial statements.

## Directors' report (continued)

### Disclosure of information to the auditor

So far as each person who was a director at the date of approving the report is aware, there is no relevant audit information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the Group's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

### Auditor

Ernst & Young LLP resigned as auditor and Deloitte LLP were appointed.

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office.

This report is authorised by the Board of Directors and sign on behalf of the Board



**D Harwood**  
Secretary  
26 July 2019

5 Hercules Way  
Leavesden Park  
Watford  
WD25 7GS

## Statement of directors' responsibilities

The directors are responsible for preparing the Group and parent company report and financial statements in accordance with applicable United Kingdom law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law the directors are required to prepare the Group and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the profit or loss of the Group for that year. In preparing each of the Group and parent company financial statements, the directors are required to:

- present fairly the financial position, financial performance and cash flows of the Group and parent company;
- select suitable accounting policies in accordance with IAS8: Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- make judgments that are reasonable;
- provide additional disclosures when compliance with the specific requirements in IFRSs as adopted by the European Union is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and parent company's financial position and financial performance;
- state whether the Group and parent company's financial statements have been prepared in accordance with IFRSs as adopted by the European Union, subject to any material departures disclosed and explained in the financial statements; and
- make an assessment of the Group and parent company's ability to continue as a going concern.

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

## **Independent auditor's report**

to the members of BrightHouse Group Limited

### **Report on the audit of the financial statements**

#### **Opinion**

In our opinion:

- the financial statements of BrightHouse Group Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company statement of financial position;
- the group and parent company statements of changes in equity;
- the group and parent company statement of cash flows; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

#### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Material uncertainty related to going concern**

We draw attention to note 1 in the financial statements, which indicates that there is uncertainty around future volumes of unaffordable lending complaints and there has been a downturn in trading results, which increase pressure on liquidity and covenant compliance. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## **Independent auditor's report**

**to the members of BrightHouse Group Limited (continued)**

### **Other information**

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

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

We have nothing to report in respect of these matters.

### **Responsibilities of directors**

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

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

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## **Independent auditor's report**

**to the members of BrightHouse Group Limited** (continued)

### **Report on other legal and regulatory requirements**

#### **Opinions on other matters prescribed by the Companies Act 2006**

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

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

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

#### **Matters on which we are required to report by exception**

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

#### **Use of our report**

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



Peter Birch (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

26 July 2019

## Group income statement

for the year ended 31 March 2019

Year ended 31 March 2019				Year ended 31 March 2018			
		<i>Before Exceptional items</i>	<i>Exceptional items</i>		<i>Before Exceptional items</i>	<i>Exceptional items</i>	
	<i>Notes</i>	<i>£000</i>	<i>£000</i>	<i>Total £000</i>	<i>£000</i>	<i>£000</i>	<i>Total £000</i>
<b>Revenue</b>	4	273,933	–	273,933	284,711	–	284,711
Cost of sales		(145,300)	–	(145,300)	(144,045)	–	(144,045)
<b>Gross profit</b>		128,633	–	128,633	140,666	–	140,666
Operating expenses		(144,645)	(24,377)	(169,022)	(150,214)	(11,718)	(161,932)
<b>Operating loss</b>	5	(16,012)	(24,377)	(40,389)	(9,548)	(11,718)	(21,266)
Finance income	8	95	–	95	80	–	80
Finance expense	8	(11,257)	–	(11,257)	(20,294)	–	(20,294)
Release of debt	16	–	–	–	–	45,675	45,675
<b>(Loss) / profit before taxation</b>		(27,174)	(24,377)	(51,551)	(29,762)	33,957	4,195
Tax credit	9	1,864	–	1,864	7	2,452	2,459
<b>(Loss) / profit for the year</b>		(28,749)	(24,377)	(49,687)	(29,755)	36,409	6,654

The results shown above all relate to continuing activities.

The exceptional items are explained in detail in note 3 of these financial statements.

There are no recognised gains or losses other than the (loss) / profit for the year, therefore a group statement of comprehensive income has not been presented.

# Group statement of financial position

at 31 March 2019

	Notes	2019 £000	2018 £000
<b>Non-current assets</b>			
Property, plant and equipment	10	104,049	112,546
Intangible assets	11	16,565	20,314
Trade and other receivables	14	9,808	11,086
Deferred tax assets	12	13,712	13,164
		<u>144,134</u>	<u>157,110</u>
<b>Current assets</b>			
Inventories	13	8,582	13,498
Trade and other receivables	14	40,923	42,723
Cash and cash equivalents	15	13,569	19,961
Corporation tax debtor		1,276	–
		<u>64,350</u>	<u>76,182</u>
<b>Total assets</b>		<u>208,484</u>	<u>233,292</u>
<b>Current liabilities</b>			
Trade and other payables	17	29,420	32,501
Other provisions	18	22,858	13,574
Current tax payable		803	802
Financial liabilities	16	10,399	–
		<u>63,480</u>	<u>46,877</u>
<b>Non-current liabilities</b>			
Financial liabilities	16	123,367	115,091
<b>Total liabilities</b>		<u>186,847</u>	<u>161,968</u>
<b>Net assets</b>		<u>21,637</u>	<u>71,324</u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	20	1,294	1,294
Share premium		72,598	72,598
Capital redemption reserve		57	57
Capital contribution reserve		39,274	39,274
Retained earnings		(91,586)	(41,899)
<b>Total equity</b>		<u>21,637</u>	<u>71,324</u>

These financial statements were authorised for issue by the board of directors on 26 July 2019 and were signed on its behalf by:



G J Campbell  
Director

**Group statement of changes in equity**

at and for the year ended 31 March 2019

	Share capital £000	Share premium £000	Own shares £000	Retained earnings £000	Capital redemption reserve £000	Capital contribution reserve £000	Total equity £000
At 1 April 2017	50	552	(296)	(28,867)	57	–	(28,504)
Share issue on debt for equity swap (note 16)	1,253	72,046	–	(19,399)	–	–	53,900
Release of unsecured 10% loan stock issued to related parties (note 16)	–	–	–	–	–	39,274	39,274
Share transactions with management	(9)	–	296	(287)	–	–	–
Total comprehensive income for the year	–	–	–	6,654	–	–	6,654
At 31 March 2018	1,294	72,598	–	(41,899)	57	39,274	71,324
Total comprehensive loss for the year	–	–	–	(49,687)	–	–	(49,687)
At 31 March 2019	1,294	72,598	–	(91,586)	57	39,274	21,637

## Group statement of cash flows

for the year ended 31 March 2019

	<i>Notes</i>	<i>2019</i> <i>£000</i>	<i>2018</i> <i>£000</i>
<b>Cash flows from operating activities</b>			
(Loss) / profit for the year		(49,687)	6,654
Adjustments for:			
Sales proceeds from sales of rental assets		2,382	2,334
Depreciation		89,190	90,923
Amortisation of intangible assets		10,518	9,030
Impairment of fixtures and equipment		–	334
Financial income		(95)	(80)
Financial expense		11,257	20,294
Profit on rental assets sold to customers		(192)	(1,945)
Rental assets written off as obsolete or not recoverable from defaulting customers		24,275	23,764
Purchase of rental assets		(105,170)	(109,845)
Gain on release of debt	16	–	(45,675)
Taxation		(1,864)	(2,459)
<b>Operating cash outflow before changes in working capital</b>		<b>(19,386)</b>	<b>(6,671)</b>
Decrease / (increase) in trade and other receivables		3,125	(5,083)
Decrease / (increase) in inventories		4,916	(208)
Decrease in trade and other payables		(5,644)	(4,730)
Increase / (decrease) in provisions		9,284	(2,822)
<b>Cash used in operations</b>		<b>(7,705)</b>	<b>(19,514)</b>
Tax reclaimed / (paid)		41	(110)
<b>Net cash flow from operating activities</b>		<b>(7,664)</b>	<b>(19,624)</b>
<b>Cash flows from investing activities</b>			
Interest received		48	80
Purchase of property, plant and equipment		(1,988)	(1,081)
Payments to acquire intangible assets		(6,769)	(10,755)
<b>Net cash outflow from investing activities</b>		<b>(8,709)</b>	<b>(11,756)</b>
<b>Cash flows from financing activities</b>			
Interest paid		(719)	(17,324)
Cost of refinancing	16	–	(8,749)
Settlement of senior secured notes	16	–	(2,845)
Issuance of share capital	16	–	2,463
Proceeds of new loans		10,700	–
<b>Net cash inflow / (outflow) from financing activities</b>		<b>9,981</b>	<b>(26,455)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(6,392)</b>	<b>(57,835)</b>
Cash and cash equivalents at 1 April		19,961	77,796
Cash and cash equivalents at 31 March	15	13,569	19,961

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies

#### *General information*

BrightHouse Group Limited is private company ("company"), limited by shares, incorporated in England and Wales under the Companies Act 2006 (registration number 06250176). The Company is domiciled in the United Kingdom and its registered address is 5 Hercules Way, Leavesden, Watford, WD25 7GS.

The Group has in issue £115m senior secured notes which are listed on The International Stock Exchange.

#### *Authorisation of financial statements and statement of compliance with IFRS*

The financial statements of BrightHouse Group Limited and its subsidiaries for the year ended 31 March 2019 were authorised for issue on 26 July 2019 by the board of directors and the statement of financial position signed on the board's behalf by Graeme Campbell. The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to Companies reporting under IFRS.

#### *Basis of preparation*

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated and prepared under the historical cost convention.

A summary of the Group's accounting policies are set out below.

#### *Group financial statements*

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intercompany transactions, balances and unrealised income and expenses between Group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

#### *Going concern*

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the principal activity and review of the business section of the Strategic Report on pages 3 to 7. The principal risks and uncertainties on pages 7 to 10 include the Group's objectives, policies and processes for managing regulation; its staff; and its financial, credit and economic risks.

In September 2018, in accordance with the five year business plan, the directors negotiated an additional super senior supplier finance facility of up to £35m and, as at 31 March 2019, we had drawn £10.7m from the facility.

On 5 March 2019, the FCA released their final High-cost Credit report on rent to own firms which included the new rules which they will put in place. These rules include for all such firms a price cap, which limits the cost of the product and the credit charges, and a ban on point of sale warranty products with a two day no contact period.

There is an uncertainty around the future volumes of affordability claims that the business might receive in the future, and although the business is seeing a reduction in the long term average number of complaints received, other firms in the market have experienced unexpected significant increases in the volumes so, whilst not expected, that cannot be excluded.

Since the year end, there has been a downturn in our monthly results which increases pressure on our liquidity and RCF covenant compliance. Management are taking initiatives to address this, which includes adjusting investment and growth plans to preserve liquidity. We expect our future results to improve once these initiatives start to deliver. If the initiatives fail to deliver the required improvements to performance, the Directors may need to seek alterations to the existing covenants or/and additional funding which may be secured against our contract portfolio. The Directors consider the risks around this and/or the possible need to obtain additional funding may represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

These financial statements have been prepared on a going concern basis and do not contain adjustments that may result if the Group were unable to continue as a going concern.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies (continued)

#### *Foreign currencies*

The Group financial statements are presented in pounds sterling, which is the functional and presentation currency of all companies in the Group. Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

#### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Depreciation is charged to the income statement to write off the cost, less any residual value, of property, plant and equipment on a straight-line basis over the estimated useful lives of each part of an item. Rental assets are depreciated at rates estimated to write off the cost to nil residual value, by equal amounts, over their useful lives from the date of installation to the contract end date, revised for returned goods subsequently sold.

Estimated useful lives:

Rental assets	– equal to the total contract length (1 to 3 years) which may vary from asset to asset
Fixtures and equipment	– 3 to 7 years

Residual values and useful economic lives are reviewed annually. Property, plant and equipment, including rental assets, are assessed for impairment annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Where an impairment review is deemed necessary it is performed in accordance with the policies set out below. Depreciation is charged on all additions or disposals of assets pro-rated in the year of purchase or disposal.

#### *Goodwill*

Goodwill arose from the acquisition of BrightHouse Limited, a subsidiary of BrightHouse Group Limited, and has been allocated to a single group of CGU's being the lowest level at which goodwill is monitored. During 2016/17 the goodwill balance was fully impaired.

#### *Intangible assets*

Intangible assets comprise software that is separable and not integral to hardware platforms. Externally acquired software is stated at cost less accumulated amortisation and impairment losses. Costs relating to the development of software for internal use are capitalised when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development.

When the software is available for its intended use, these costs are amortised. Externally acquired and internally developed software are amortised on a straight-line basis over their useful economic lives of 3 years.

Other internally generated intangible assets, which do not meet the recognition criteria under IAS 38, are not capitalised and expenditure is reflected in the income statement in the year in which the expenditure is incurred.

#### *Inventories*

Inventories relate to stock held at the warehouse and in-transit yet to be transferred to a customer under a signed rental agreement. Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories, shipping and warehousing costs and transport costs incurred in bringing them to their present location and condition. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies (continued)

#### ***Supplier funding***

Volume related incentives received from the suppliers of inventory are credited to the cost of inventory, and ultimately rental assets. Marketing related incentives are recognised in the income statement in the period the incentives fall due. Amounts are recognised when earned by the Group, which occurs when all obligations conditional for earning funding have been discharged, and the funding can be measured reliably based on the terms of the contract. Total funding received during the year was £9,366,000 of which £1,518,000 was outstanding as at the year end date. Entitlement to funding is based on contracts with suppliers and actual purchase volumes, resulting in no significant estimation processes in calculating amounts due.

Amounts due are recognised within trade and other receivables, except in cases where the Group has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers.

#### ***Cash and cash equivalents***

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents comprise cash in hand and deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

A proportion of the cash and cash equivalents held by the Group's insurance subsidiaries is restricted due to regulatory and solvency requirements. The restricted cash also includes cash at bank held by the Group on behalf of customers; this cash is held in a separate and ring-fenced bank account.

#### ***Impairment***

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Property, plant and equipment assets are depreciated over their estimated useful lives and reviewed for impairment whenever indicators of impairment are identified. Goodwill is tested for impairment annually and is not amortised.

If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates, the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset. An impairment loss is recognised whenever the carrying amount of an asset or its CGU exceeds its recoverable amount. Impairment losses are recognised in the income statement. A cash generating unit (CGU) is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets.

Impairment losses recognised in respect of cash-generating units are allocated firstly to reduce the carrying amount of goodwill and then to reduce the carrying amount of assets in the unit on a pro rata basis.

For assets excluding goodwill, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and 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.

#### ***Revenue recognition***

Revenue comprises consideration from the provision of a range of services to domestic customers who are predominately in the sub-prime market. During the year we offered customers cash loans products and/or rent-to-own hire purchase agreements and related insurance and warranty agreements. Our rent-to-own product catalogue includes home electronic, domestic appliances, technology products and household furniture.

#### ***Rent-to-own agreements and related services***

Customers entering into our hire purchase agreements from 2 September 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. With effect from 26 February 2017, when we unbundled warranty cover, the automatic right of return remains included within the hire purchase agreement.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies (continued)

#### *Revenue recognition* (continued)

Transactions are classified as operating leases at the inception of the hire purchase agreement as the majority of the risks and rewards of the goods remain within the Group. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Customer incentives are recognised on a straight-line basis over the average lease term.

The Group also derives revenues from premiums related to the provision of insurance and warranties against breakdown of home electronic, domestic appliances, technology products and household furniture rented under hire-purchase agreements.

The Group accounts for its revenue on an accruals basis for all domestic hire-purchase, insurance and warranty agreements taking credit for all weekly or monthly instalments that have fallen due, but not for instalments which will fall due in the future under contracts in existence at the balance sheet date. No revenue is recognised on non-performing agreements where payments are over 90 days overdue until payments recommence. An appropriate provision is made against unpaid accounts which have fallen due where it is believed that they may not be receivable.

Revenue excludes value added tax and insurance premium tax.

#### *Cash loans*

Revenue comprises interest income and fee income earned. Interest income on customer receivables is recognised using an effective interest rate as defined by IFRS 9 until the end of the agreement. Income is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2, and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition purposes at the Group's interim or year end balance sheet date.

#### *Trade receivables*

Current trade receivables do not carry any interest and are stated at their original value as reduced by appropriate allowances for estimated recoverable amounts. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original term of the receivable. Trade receivables older than 90 days are fully provided for with no revenue being recognised on these non-performing agreements until customer payments recommence. Trade receivable balances between 1 and 90 days overdue are partially provided for based on the age of the debt between 20% and 99%. The amount of the provision is the difference between the carrying amount and the recoverable amount and this difference is recognised in the income statement.

Trade receivables due after more than one year are discounted to reflect the time value of money.

#### *Cash loans receivable from customers*

Customer loan receivables are initially recorded at the amount advanced to the customer. Subsequently, receivables are increased by revenue and reduced by cash collections and deductions for impairment. Impairment provisions are recognised on inception of a loan based on the probability of default (PD) and the loss arising on default (LGD). On initial recognition, all accounts are recognised in IFRS 9 stage 1. When an account is deemed to have suffered a significant increase in credit risk, such as missing 2 payments, but has not defaulted, it moves to stage 2. When an account defaults, after missing further payments or moving to a payment arrangement, it moves into stage 3.

We have developed PD/LGD models which focus on forecasting customer behaviour to calculate an expected loss impairment provision in accordance with IFRS 9. Losses are recognised on inception of a loan based on the probability of a customer defaulting within 12 months, utilising historical rent-to-own data which is deemed to be indicative of future performance. Where possible we have confirmed that the early performance of our cash loans product agrees to the expectations from the model. Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from two consecutive missed weekly payments or a number of quantitative or qualitative factors. A customer is deemed to have defaulted when they become 10 weekly payments in arrears or the combination of a breathing space commitment and payment arrears of more than 6 weekly payments.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies (continued)

#### **Trade payables**

Trade payables are not interest bearing and are stated at their nominal value.

#### **Classification of financial instruments issued by the Group**

Financial instruments issued by the Group 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 Group 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 Group; and
- (b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group 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.

#### **Financial liabilities**

##### **i) Initial recognition and measurement**

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit or loss or loans and borrowings. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables and loans and borrowings.

##### **ii) Subsequent measurement – loans and borrowings**

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised costs is calculated by taking into account any discount or premium on acquisition, and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

#### **Provisions**

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated.

Provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, dilapidation provisions, restructuring provisions, our affordability action plan in relation to customer acceptance policies, a provision for affordability claims and a provision for our historical staff purchase scheme.

#### **Defined contribution pension plans**

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

#### **Insurance and warranty claims**

Contracts covering customers against breakdown and damage are renewed on a weekly basis. A provision under existing contracts is calculated based on claims received to date and, based on historical experience, claims which the Group has yet been notified of but expects in the near future. Based on historical experience, management do not believe that a change in this estimate would have a material impact on the Group's financial information.

#### **Operating lease payments**

Leases where the lessor retains a significant portion of risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and are spread on a straight-line basis over the lease term.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies (continued)

#### **Net financing costs**

Net financing costs comprise interest payable, interest receivable, the unwinding of trade receivables due after more than one year and fair value movements that are recognised in the income statement. Interest income and expenses are recognised in the income statement as it accrues, using the effective interest method.

#### **Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is recognised in other comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

#### **Exceptional items**

The Group has shown separately on the face of the Group income statement, items which it considers to be exceptional in nature. The Group defines exceptional items as those material items, by virtue of their size or nature, which the Group considers should be presented separately in order to aid comparability from period to period.

#### **Ordinary shares**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### **New standards and interpretations not applied**

The following standards and interpretations that are relevant to the Group have not been applied in the consolidated financial information as, although in issue at the date of preparation, were not effective for the periods covered by these consolidated financial statements:

- **IFRS 16 – Leases**

The IASB issued IFRS 16 Leases in January 2016. The new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset has a low value. It replaces the existing leasing Standard, IAS 17 Leases, and related interpretations and becomes effective for annual periods beginning on or after 1 January 2019, subject to EU adoption. The Group has considered the impact of IFRS 16 on its consolidated results and financial position. The principles of accounting for lessors remain largely unchanged from IAS 17 however there are changes to the way that leases should be accounted for by lessees. BrightHouse Group Limited will adopt this standard for the accounting period beginning 1 April 2019.

We have completed our analysis of the effects of IFRS 16 and we will be using the modified retrospective approach for the period from 1 April 2019. The effect on the balance sheet as at 1 April 2019 is as follows:

Property, plant and equipment	£26m to £28m increase
Liabilities	£36m to £38m increase
Equity	£8m to £12m reduction

# Notes to the group financial statements (continued)

for the year ended 31 March 2019

## 1. Accounting policies (continued)

### *New standards and interpretations not applied* (continued)

- IFRS 9 – Financial instruments

IFRS 9 credit risk disclosures have not been provided given the customer loan book in the current period is considered immaterial. A further assessment will be made in the coming financial period.

Whilst the following standards and interpretations are relevant to the Group, they have been assessed as having minimal or no financial impact or additional disclosure requirements at this time:

International Accounting Standards	Effective date
<ul style="list-style-type: none"> <li>• IFRS 17 Insurance contracts</li> </ul>	1 January 2021

### **Accounting judgements**

Certain critical accounting judgements in applying the Group's accounting policies are described below.

#### ***Finance and operating leases***

Under hire-purchase agreements the customer has the right to acquire title through a purchase option after payment of all required weekly or monthly payments. Customers entering into our hire purchase agreements from 2 September 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. With effect from 26 February 2017, when we unbundled warranty cover, the automatic right of return remains included within the hire purchase agreement.

On this basis such transactions are classified as operating leases at the inception of the hire purchase agreement as the majority of the risks and rewards of the goods remain within the Group.

#### ***Taxation***

The carrying amount of deferred tax assets is reviewed at each balance sheet date and assessments are made as to whether sufficient taxable profits will be available in the future to allow all or part of the asset to be recovered. The assessment includes estimates of future profits of the group and the ability of the group to utilise the losses generated to date.

#### ***Onerous contract provisions***

Onerous contract provisions include leases on unprofitable stores and vacant properties. When setting these provisions, the Group must make judgements around the least net cost of fulfilling or exiting lease contracts.

#### ***Intangible assets***

Internally developed computer software programs are capitalised when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during development. The Group makes a judgement as to the successful outcome of the development activity. Only expenditure incurred from the start of the development phase until the software is available for its intended use is capitalised as an intangible asset. The Group estimates the amount of internal staff time which is appropriate to be capitalised based on timesheet records and payroll information.

#### ***Revenue recognition and impairment of receivables***

Revenue is recognised on contracts where the recognition criteria continue to be met. Where contracts cease to meet the recognition criteria due to missed payments falling beyond 90 days overdue, revenue is no longer recognised and the related receivables fully provided against. Receivables aged up to 90 days overdue are provided for depending on their age. The Group estimates the provision based on the expected recovery of overdue contracts and monitors the estimate against actual recoveries.

#### ***Determination of rental assets' useful economic lives***

Rental assets are depreciated to write down the cost of the assets over the term of the contracts as this is the expected life of the contract at inception. Rental assets in respect of contracts which are terminated early, for whatever reason, have the useful lives revised at the time of termination. Accordingly the asset value is written down at the point of formal termination, and not before this event.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 1. Accounting policies (continued)

#### Accounting estimates

Certain critical accounting estimates in applying the Group's accounting policies are described below.

#### Affordability claims provision

As discussed further in note 18, there are a number of judgements within the calculation of this provision. We have identified the following as key sensitivities; payout amount per claim received from claims management companies, volume of claims received from claims management companies, administration costs per claims closed, rate of claims sent to financial ombudsman service. We have calculated sensitivities as follows:

	Incurred to date	Anticipated future	Sensitivity
Average payout amount per agreement reviewed	£22	£29	£1 = £450k
Future volume of claims from claims management companies	15,100	4,980	1,000 claims = £750k
Number of agreements processed per week per case handler	76	76	8 agreements = £300k

#### Impairment

Intangible assets with finite lives are amortised over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Property, plant and equipment assets are depreciated over their estimated useful lives and reviewed for impairment whenever indicators of impairment are identified. When carrying out impairment reviews, the Group must estimate the asset's recoverable amount.

### 2. Operating segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Board of Directors to allocate resources to the segment and to assess their performance.

The directors consider that there is only one operating segment being the provision of goods and services to third party consumers through rental and related insurance and warranty agreements, based entirely in the United Kingdom. Accordingly, segment profit or loss and segment assets and liabilities have not been reported below as this does not differ to that shown in the Group income statement and the Group statement of financial position.

The Board of Directors assesses the performance of the business segment based on earnings before interest, taxation, depreciation of fixtures and equipment, amortisation, impairment and exceptional items (EBITdA). The Board of Directors have assessed the performance of the Group based on the following reconciliation between the performance presented in the income statement and the management accounts:

	2019 £000	2018 £000
BrightHouse Group Limited reported operating loss	(40,389)	(21,266)
Depreciation of fixtures and equipment and amortisation	13,224	12,585
Finance related costs	464	–
Exceptional items:		
Affordability claims	11,493	7,082
Affordability action plan	414	940
Vacant and onerous lease provisions	6,154	1,333
Loss on disposal and impairment of fixtures and equipment	–	334
Restructuring	5,516	2,029
Historical staff purchase scheme	800	–
BrightHouse Group Limited EBITdA before exceptional items	(2,324)	3,037

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**3. Exceptional items***Recognised as part of operating loss*

	2019 £000	2018 £000
Affordability action plan (note 18)	(414)	(940)
Affordability claims (note 18)	(11,493)	(7,082)
Vacant and onerous lease provisions (note 18)	(6,154)	(1,333)
Loss on disposal and impairment of fixtures and equipment (note 10)	–	(334)
Restructuring (note 18)	(5,516)	(2,029)
Historical staff purchase scheme (note 18)	(800)	–
	<u>(24,377)</u>	<u>(11,718)</u>

The costs of our affordability action plan (which includes the costs associated with our Redress scheme) was increased by £414,000 in the year (2018 - £940,000). This has been explained in detail in note 18 of these financial statements.

We continued to receive affordability claims from customers not included within the Redress scheme which we are required to investigate and, if it is found that the correct procedures have not been followed, reimburse them accordingly. We have further increased the provision by £11,493,000 which includes the cost of settlement of any claims together with the estimated expenses to process and agree claims. The provision is explained in more detail in note 18 of these financial statements.

The Group's vacant and onerous lease provisions have increased by £6,154,000 in the year (2018 - £1,333,000).

There was no impairment loss recognised in the year on fixtures and equipment associated with the identified unprofitable stores (2018 - £598,000) and no partial reversal of the prior year impairment has been recognised for stores no longer identified as unprofitable (2018 - £264,000).

Restructuring costs of £5,516,000 were incurred in the year (2018 - £2,029,000). This has been explained in detail in note 18 of these financial statements.

During the year we closed our staff purchase scheme and as a result we have provided for £800,000 of estimated costs that may be incurred in relation to the scheme.

*Recognised below operating loss*

In the prior year we recognised £45,675,000 below operating loss in connection with the release of debt during the year. Please see note 16 for more details.

**4. Revenue**

Revenue comprises consideration from the provision of a range of services to domestic customers who are predominately in the sub-prime market. During the year we offered customers cash loans products and/or rent-to-own hire purchase agreements and related insurance and warranty agreements. Our rent-to-own product catalogue includes home electronic, domestic appliances, technology products and household furniture.

Customers entering into our hire purchase agreements from 2 September 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. With effect from 26 February 2017, when we unbundled warranty cover, the automatic right of return remains included within the hire purchase agreement.

On this basis the rent-to-own transactions are treated as being operating leases in nature and the directors believe that at the inception of the lease there are no minimum future lease payments as the goods can be returned at any time.

Cash loans revenue comprises interest income and fee income earned. Interest income on customer receivables is recognised using an effective interest rate as defined by IFRS 9 until the end of the agreement. Income is recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2, and on the net receivable for accounts in stage 3. Accounts can only move between stages for revenue recognition purposes at the Group's interim or year end balance sheet date.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**5. Operating (loss) / profit**

This is stated after charging:

	2019	2018
	£000	£000
Depreciation of property, plant and equipment:		
– owned assets	2,706	3,555
– rental assets	86,484	87,368
Impairment of fixtures and equipment	–	334
Amortisation of intangible assets	10,518	9,030
Rental assets written off as obsolete or not recoverable from defaulting customers	24,274	23,764
Net book value of rental assets sold to customers	2,191	388
Operating lease rentals payable:		
– property	14,617	16,177
– vehicles	1,676	1,918
– equipment	94	248
Other occupancy costs	15,513	16,284
Cost of inventories recognised as an expense	899	1,070
Exchange differences	10	5

Operating expenses include auditors' remuneration for audit and non-audit services as follows. These fees relate to different auditors in each year.

	2019	2018
	£000	£000
Fees payable to the Company's auditor for the audit of the Company's group financial statements	20	20
The audit of the Company's subsidiaries pursuant to legislation	180	230
Taxation advisory services	77	202
Taxation compliance services	–	76

**6. Directors' remuneration**

	2019	2018
	£000	£000
Directors' remuneration (consisting of basic pay and bonus)	1,693	1,650
Pension contributions	42	42
	1,735	1,692

	2019	2018
	No.	No.
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	3	2

The remuneration of the highest paid director was £815,000 (2018: £849,000), and in addition company pension contributions of £24,000 (2018: £24,000) were made to a money purchase scheme on his behalf.

See note 24 for the remuneration of key management.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**7. Staff costs**

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Wages and salaries	52,782	59,438
Social security costs	4,691	5,654
Pension contributions	1,576	1,443
	<u>59,049</u>	<u>66,535</u>

The average number of full-time equivalent persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	<i>2019</i>	<i>2018</i>
	<i>No.</i>	<i>No.</i>
Customer sales and service	2,350	2,234
Administration	301	292
	<u>2,651</u>	<u>2,526</u>

BrightHouse Group Limited had no employees during the year to 31 March 2019 (2018 – nil).

**8. Finance income and expense**

Recognised in income statement

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Interest income	49	80
Unwinding of discount on VAT incurred in advance (note 14)	46	–
Finance income	<u>95</u>	<u>80</u>

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Interest expense	11,257	20,216
Discount on VAT incurred in advance (note 14)	–	78
Finance expense	<u>11,257</u>	<u>20,294</u>

Interest expense includes £nil payable on loans provided from Haig Luxembourg HoldCo (2018: £2,248,000), which was the ultimate parent company until 2 February 2018.

**Notes to the group financial statements (continued)****for the year ended 31 March 2019****9. Taxation****(a) Tax on ordinary activities**

Recognised in the income statement

	2019 £000	2018 £000
<i>Current tax:</i>		
Corporation tax charge overseas	54	62
Adjustment in respect of prior years	(1,369)	–
Adjustment in respect overseas tax of prior years	–	(7)
Total current tax	<u>(1,315)</u>	<u>55</u>
<i>Deferred tax:</i>		
Deferred tax credit	(53)	(3,916)
Adjustment in respect of prior years	(496)	1,402
Total deferred tax credit (note 12)	<u>(549)</u>	<u>(2,514)</u>
Total taxation in income statement	<u><u>(1,864)</u></u>	<u><u>(2,459)</u></u>

**(b) Reconciliation of the total tax credit**

	ETR* %	2019 £000	ETR %	2018 £000
Accounting (loss) / profit before tax		(51,551)		4,195
Accounting (loss) / profit before tax by standard rate of corporation tax in the UK of 19% (2018 – 19%)	19.0%	(9,795)	19.0%	797
Non-deductible expenses	(3.6%)	1,859	231.3%	9,701
Non-taxable income	4.8%	(2,473)	(354.6%)	(14,876)
Deferred tax rate change	0.3%	(146)	11.0%	461
Movement in unprovided deferred tax	(20.4%)	10,502	–	–
Prior year adjustment - deferred tax	1.0%	(496)	33.4%	1,403
Prior year adjustment – corporation tax	2.7%	(1,369)	(0.2%)	(7)
Effect of tax rates in different jurisdictions	(0.1%)	54	1.5%	62
Total taxation in income statement	3.6%	<u>(1,864)</u>	(58.6%)	<u>(2,459)</u>

\* Effective Tax Rate

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**10. Property, plant and equipment**

	<i>Rental assets</i>	<i>Fixtures and equipment</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At 1 April 2017	230,457	62,250	292,707
Additions	109,845	1,081	110,926
Disposals	(128,194)	–	(128,194)
At 1 April 2018	212,108	63,331	275,439
Additions	105,170	1,988	107,158
Disposals	(119,622)	–	(119,622)
At 31 March 2019	197,656	65,319	262,975
Depreciation:			
At 1 April 2017	123,622	52,056	175,678
Depreciation charge for the year	87,368	3,555	90,923
Impairment charge for the year	–	334	334
Disposals	(104,042)	–	(104,042)
At 1 April 2018	106,948	55,945	162,893
Depreciation charge for the year	86,484	2,706	89,190
Disposals	(93,157)	–	(93,157)
At 31 March 2019	100,275	58,651	158,926
Net book value:			
At 31 March 2019	97,381	6,668	104,049
At 1 April 2018	105,160	7,386	112,546
At 1 April 2017	106,835	10,194	117,029

**Impairment testing**

An impairment loss of £nil (2018 - £598,000) arose on reducing the carrying value of fixtures and equipment to their recoverable amount at stores identified as unprofitable whilst a partial reversal of the prior year impairment of £nil (2018 - £264,000) has been recognised for stores no longer identified as unprofitable. The recoverable amount has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a five year period. The discount rate applied to these cash flows is 9.0% (2018 - 9.0%). The impairment has been included in operating exceptional items within the income statement.

**Notes to the group financial statements (continued)**

for the year ended 31 March 2019

**11. Intangible assets**

	<i>Software</i> £000	<i>Goodwill</i> £000	<i>Total</i> £000
Cost:			
At 1 April 2017	70,117	74,978	145,095
Additions	10,755	–	10,755
At 1 April 2018	80,872	74,978	155,850
Additions	6,769	–	6,769
At 31 March 2019	87,641	74,978	162,619
Amortisation:			
At 1 April 2017	51,528	74,978	126,506
Amortisation charge for the year	9,030	–	9,030
At 1 April 2018	60,558	74,978	135,536
Amortisation charge for the year	10,518	–	10,518
At 31 March 2019	71,076	74,978	146,054
Net book value:			
At 31 March 2019	16,565	–	16,565
At 1 April 2018	20,314	–	20,314
At 1 April 2017	18,589	–	18,589

Amortisation is charged within operating expenses in the income statement.

**Impairment testing**

Goodwill arose from the acquisition of BrightHouse Limited and has been allocated to a single group of CGU's being the lowest level of assets at which goodwill is monitored.

An impairment loss of £74,978,000 was recognised in the FY16/17.

After fully impairing goodwill based on the recoverable amount from the value in use calculation, the remaining net assets of the CGU have not been reduced further due to the restriction of not reducing the carrying amount of an asset below its fair value less costs of disposal or value in use.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**12. Deferred tax assets**

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Assets:		
Tax losses recognised	7,516	7,444
Other property, plant and equipment	6,047	5,520
Capital contributions on lease incentives	150	200
Total tax assets	<u>13,712</u>	<u>13,164</u>

	<i>1 April</i>	<i>Recognised</i>	<i>31 March</i>
	<i>2018</i>	<i>in income</i>	<i>2019</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Tax losses recognised	(7,444)	(72)	(7,516)
Difference between carrying value and tax base of property, plant and equipment	(5,520)	(527)	(6,047)
Capital contributions on lease incentives	(200)	50	(150)
Net asset	<u>(13,164)</u>	<u>(548)</u>	<u>(13,712)</u>

	<i>1 April</i>	<i>Recognised</i>	<i>31 March</i>
	<i>2017</i>	<i>in income</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Tax losses recognised	(3,939)	(3,505)	(7,444)
Difference between carrying value and tax base of property, plant and equipment	(6,579)	1,059	(5,520)
Capital contributions on lease incentives	(132)	(68)	(200)
Net asset	<u>(10,650)</u>	<u>(2,514)</u>	<u>(13,164)</u>

At the year end date, there are unrecognised deferred tax assets of £10,979,000 (2018 - £2,287,000).

The Finance Act 2018, which was substantively enacted in March 2018, maintains the reduction of the main rate of corporation tax from 19% to 17% from 1 April 2020. The deferred tax asset has been calculated at the 17% future rate.

The impact of this measure is to reduce the deferred tax asset at 31 March 2019 by £1,613,000.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**13. Inventories**

	2019 £000	2018 £000
Goods held for resale at cost	8,582	13,498

During the year assets acquired for resale amounting to £105,170,000 (2018 – £109,845,000) were capitalised within property, plant and equipment as rental assets when issued to stores in advance of being hired to customers pursuant to hire and hire-purchase agreements.

**14. Trade and other receivables**

	2019 £000	2018 £000
Current:		
Trade receivables	1,994	1,754
Customer loans receivable	715	–
Amounts owed from ultimate parent undertaking	4,137	3,388
Other taxes and social security	–	775
Other trade receivables and prepayments	15,219	15,561
Other non-trade receivables	231	804
VAT incurred in advance of recovery from customers	18,627	20,441
	<u>40,923</u>	<u>42,723</u>
Non-current:		
VAT incurred in advance of recovery from customers	8,829	10,094
Other trade receivables and prepayments	979	992
	<u>9,808</u>	<u>11,086</u>

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Trade receivables primarily comprise VAT recoverable which is paid on the full value of assets acquired by customers under hire and hire-purchase agreements when the contracts commence and is recovered from customers over the full length of these agreements or from HMRC on customer default. Within trade receivables £8,829,000 (2018 – £10,094,000) is receivable after more than one year and have been discounted to determine their fair value (note 21).

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**14. Trade and other receivables** (continued)

All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and a bad debt provision of £1,286,000 (2018– £1,345,000) has been recorded accordingly.

In addition, some of the unprovided trade receivables are past due as at the reporting date. The age of financial assets past due but not provided for is as follows:

	2019 £000	2018 £000
1-7 days	89	41
8-14 days	79	78
15-45 days	299	356
45-90 days	9	9
	<u>476</u>	<u>484</u>
Movements in bad debt provision		
	2019 £000	2018 £000
At beginning of year	1,345	1,335
Amounts written off as uncollectable	(16,434)	(17,393)
Increase in bad debt provision	16,375	17,403
At end of year	<u>1,286</u>	<u>1,345</u>

The movement in the bad debt provision consists of individually insignificant balances. The Group's exposure to credit risk related to trade and other receivables is disclosed in note 21.

**15. Cash and cash equivalents**

	2019 £000	2018 £000
Cash and cash equivalents per statement of financial position and statement of cash flows	<u>13,569</u>	<u>19,961</u>

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £4,744,000 (2018 – £5,495,000). This includes restricted cash of £4,744,000 (2018 - £4,477,000) which represents cash at bank held by entities who supply insurance related services within the Group which is restricted due to regulatory and solvency requirements. This also includes restricted cash of £nil (2018 – £1,018,000) which represents cash held by the Group on behalf of customers; this cash is held in a separate and ring-fenced bank account.

The directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**16. Financial liabilities**

	2019 £000	2018 £000
Current liabilities		
Revolving credit facility	10,399	–
Non-current liabilities:		
Senior secured notes 2023	123,367	115,091
	<u>133,766</u>	<u>115,091</u>

**Terms and debt repayment schedule****Revolving credit facility**

On 13 September 2018 the Group agreed a revolving credit facility with Greensill Capital (UK) Limited which is secured against our contract portfolio. The interest rate on the facility is LIBOR + 8.75% fixed at the date of each drawdown. The facility requires that we maintain a minimum ratio of 1 between our contract portfolio and our external liabilities divided by 55%. The facility has a revolving 12 month term from the date either party issues a notice to terminate the agreement or if the covenant is breached.

**Senior secured notes 2023**

On 2 February 2018 the Group issued £115,091,000 of senior secured notes due 15 May 2023. Interest is fixed at 9% and payable on 15 May and 15 November every year to the date of expiry either in cash or with additional notes depending on the amount of cash within the Group during the period.

**Changes in liabilities arising from financing activities**

	Revolving credit facility £000	Senior secured notes 2023 £000	Total £000
At 1 April 2018	–	115,091	115,091
Interest charge	418	10,839	11,257
Interest accrual movement	–	(2,563)	(2,563)
Cash flow	9,981	–	9,981
At 31 March 2019	<u>10,399</u>	<u>123,367</u>	<u>133,766</u>

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 16. Financial liabilities (continued)

#### Changes in liabilities arising from financing activities (continued)

##### Debt for equity swap on 2 February 2018

On the 2nd of February 2018 the £220 million bond was refinanced in exchange for debt and equity.

The holders of the existing bond accepted the following in exchange for releasing the liability:

- An equal share of £107,208,000 of new debt to be issued on The International Stock Exchange, an additional £4,467,000 which was issued to bondholders who consented early to the refinancing and £3,706,000 which was issued to all bondholders in exchange for the accrued interest on the existing bond. After adjustments for de minimus payments in cash of £286,000, the total value of the new issued debt is £115,091,000. The bond was issued with an interest rate of 9% which is payable on 15 May and 15 November. The bond is due for payment on 15 May 2023.
- An equal share of 97% of the new holding company of the group, BrightHouse TopCo Limited. The bondholders could choose whether to receive cash in exchange for these shares, in which case the remaining shares were offered to the remaining bondholders at £245 per share. All offers of remaining shares were taken up. The value of the cashouts and subsequent share subscriptions was £2,463,000.

BrightHouse Group Limited was released from its bond in exchange for an intercompany debt due to its subsidiary, BrightHouse FinCo Limited, (issuer of the new issued debt of £115,091,000) and an intercompany debt due to its ultimate parent, BrightHouse TopCo Limited, (issuer of the new equity to bondholders). The debt due to BrightHouse TopCo Limited was immediately capitalised via the issue of shares with a nominal value of £1,252,000.

Accounting for this transaction under the relevant accounting standards lead to the following adjustments to these financial statements:

	<i>Debit</i>	<i>Credit</i>
	<i>£000</i>	<i>£000</i>
<b><u>Statement of financial position</u></b>		
Senior secured notes 2018	220,000	
Accrued interest	3,706	
Senior secured notes 2023		115,091
Cash		286
Share capital		1,252
Share premium		72,046
Retained earnings	19,399	
<b><u>Income statement</u></b>		
Accounting gain on bond release		58,895
Early consent fee	4,467	

In addition to the transaction entries above, there were fees incurred in connection with the transaction. £8,753,000 was expensed to the income statement and £3,388,000 was attributed to the issued share capital of BrightHouse TopCo Limited and appears in these financial statements as an intercompany debtor.

# Notes to the group financial statements (continued)

for the year ended 31 March 2019

## 16. Financial liabilities (continued)

### Changes in liabilities arising from financing activities (continued)

	Unsecured 10% loan stock £000	Senior secured notes 2018 £000	Senior secured notes 2023 £000	Total £000
At 1 April 2017	37,026	218,242	–	255,268
Interest charge	2,248	14,425	1,631	18,304
Interest accrual movement	–	6,605	(1,631)	4,974
Cash flow	–	(17,324)	–	(17,324)
Repayment of loan	–	(2,846)	–	(2,846)
Refinancing	–	(220,860)	115,091	(105,769)
Debt released	(39,274)	–	–	(39,274)
Other	–	1,758	–	1,758
At 31 March 2018	–	–	115,091	115,091

The “Other” movement reflects the amortisation and write off of the refinancing costs.

## 17. Trade and other payables

	2019 £000	2018 £000
Trade payables	6,857	8,793
Other taxes and social security	2,765	2,420
Other non-trade payables	4	329
Accrued expenses	15,600	19,328
Accrued interest	4,194	1,631
	29,420	32,501

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**18. Other provisions**

	<i>Dilapidation provision</i>	<i>Affordability Action Plan</i>	<i>Affordability claims</i>	<i>Restructuring</i>	<i>Onerous lease provision</i>	<i>Historical staff purchase scheme</i>	<i>Total provision</i>
	£000	£000	£000	£000	£000	£000	£000
As of 1 April 2017	3,807	8,246	–	154	4,100	–	16,307
Transfer	(72)	–	–	–	72	–	–
Charged to the income statement	313	940	7,082	2,029	1,333	–	11,697
Released during the period	(159)	–	–	–	–	–	(159)
Utilised during the period	(572)	(8,371)	(742)	(2,043)	(2,543)	–	(14,271)
As of 1 April 2018	3,317	815	6,340	140	2,962	–	13,574
Charged to the income statement	–	414	11,493	5,584	5,391	800	23,682
Released during the period	–	–	–	(68)	–	–	(68)
Utilised during the period	(275)	(1,229)	(6,447)	(4,412)	(1,967)	–	(14,330)
As of 31 March 2019	3,042	–	11,386	1,244	6,386	800	22,858

**Dilapidation provision**

During the year we have incurred costs of £275,000 on properties that we have chosen to upgrade in order to reduce our future dilapidation charges which has reduced our liability.

**Affordability Action Plan**

On 24 October 2017 we announced our Redress Scheme, reviewed by the FCA, and began repaying monies to our customers. During the year we finished issuing cheques and any funds we were unable to pay to customers were paid to charities. We incurred an additional £414,000 of administrative costs during the year to close the scheme.

**Affordability claims**

From October 2017 we also started to receive claims from customers not included within the Redress scheme which we are required to investigate and, if it is found that the correct procedures have not been followed, reimburse them accordingly.

Of the £6.4m spent during the year £2.7m was payouts to customers and £3.7m was administrative costs in relation to the complaints.

The current provision recognised is based upon an estimation of future claims, payout rates using historical rates and processing costs. However, a number of risks and uncertainties remain in particular with respect to the number of claims that will be received. There is significant uncertainty about the future volumes of claims received from claims management activities even though the ratio remains low and the collection of monies from our customers remain problematic.

The cost could therefore differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 18. Other provisions (continued)

#### Affordability claims (continued)

We have identified the following as key sensitivities; payout amount per claim received from claims management companies, volume of claims received from claims management companies and number of agreements processed per week per case handler. We have calculated sensitivities as follows:

	Incurred to date	Anticipated future	Sensitivity
Average payout amount per agreement reviewed	£22	£29	£1 = £450k
Future volume of claims from claims management companies	15,100	4,980	1,000 claims = £750k
Number of agreements processed per week per case handler	76	76	8 agreements = £300k

#### Restructuring

During the year we continued to work towards the 5 year plan created in January 2017 and extend out to 2023. The plan consisted of actions which would either lower our cost to serve or generate additional future income for the business.

The items charged to the income statement during the year included retail and supply chain redundancies of £2,199,000 and head office reorganisation of £749,000. At the year end we had a provision of £1,244,000 which related to redundancies for employees affected by the store closure programme which were to be paid after the year end.

During the year we restructured our customer relations department to improve the service we were providing to our customers, this caused costs during the year of £2,567,000.

#### Onerous lease provision

This provision covers both leases on unprofitable stores and vacant properties.

During the year we continued our 5 year plan to lower our cost-to-serve by transitioning our customers away from stores and towards lower cost channels.

On 5 February 2019 we announced a further 30 stores would close at the end of March, which was in addition to 10 stores that we closed throughout the rest of the year. At the year end we had a provision for £4,609,000 for 30 stores which were closed during the year and we still have a liability and £1,065,000 for 7 stores which were closed in previous years but which we still have some liability.

A separate onerous contract provision continued to be recognised for those leasehold properties where there is currently no intention to vacate but the lease has become onerous to the point of being directly loss-making. Where future operating results are not expected to recover the associated lease payments, a provision has been recognised. This year £1,197,000 was utilised and we increased the provision by £207,000.

#### Historical staff purchase scheme

During the year we closed our staff purchase scheme and as a result we have provided for £800,000 of estimated costs that may be incurred in relation to the scheme.

### 19. Employee benefits

#### **Pension schemes**

##### ***Defined contribution***

In the financial year total contributions in respect of defined contribution schemes were £1,576,000 (2018 – £1,442,000).

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**20. Capital and reserves**

<i>Authorised, allotted, called up and fully paid</i>	<i>2019 No.</i>	<i>£000</i>	<i>2018 No.</i>	<i>£000</i>
A Ordinary shares of £0.001 each	1,291,642,507	1,294	1,291,642,507	1,294

**Nature and purpose of reserves****Share capital**

Share capital comprises the nominal value of the Company's Ordinary shares as stated above.

**Share Premium**

The share premium reserve is the premium paid on the Company's ordinary shares.

**Capital redemption reserve**

The capital reserve includes the nominal value of shares brought back by the company.

**Capital contribution reserve**

The reserve includes amounts given to the group from the shareholders.

**Own shares reserves**

The own shares reserve includes the nominal value of shares held by the employee benefit trust.

**21. Financial instruments****Capital management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of debt and equity. The Group's overall strategy remains unchanged from 2016. The capital structure of the Group consists of debt, which includes borrowings disclosed in note 16, cash and cash equivalents and equity, comprising issued capital, reserves and retained earnings. The capital structure of the Group at the year end was as follows:

	<i>2019 £000</i>	<i>2018 £000</i>
Debt (i)	(133,766)	(115,091)
Cash and cash equivalents	13,569	19,961
Net debt	(120,197)	(95,130)
Equity (ii)	21,637	71,324
Net debt to equity ratio	(556%)	(133%)

(i) Debt is defined as long-and short-term borrowings, as detailed in note 16.

(ii) Equity includes all capital and reserves of the Group.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 21. Financial instruments (continued)

#### Categories of financial instruments

	2019	2018
	£000	£000
<i>Financial assets</i>		
Carried at amortised cost:		
Cash and cash equivalents	13,569	19,961
Trade and other receivables	50,731	53,809
	<u>64,300</u>	<u>73,770</u>
<i>Financial liabilities</i>		
Carried at amortised cost:		
Borrowings	133,766	115,091
Trade and other payables	26,655	30,081
	<u>160,420</u>	<u>145,172</u>

#### Financial risk management objectives

The risks facing the Group comprise market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's approach to these risks is noted below.

##### Credit risk

The primary credit risk of the Group arises from the significant cash investment in all new agreements which are at risk of payment default or theft of the product made available to the customer before the full term of the agreement is reached.

The Group manages these risks by developing close relationships with its customers. These relationships are managed by requiring customers to pay amounts due weekly in-store, using an outsourced contact centre or via a recurring weekly payment and in the event of a payment default, through the application of proven positive collection processes.

The amounts presented in the balance sheet are net of allowances for impairment calculated by the Group's management based on prior experience and their assessment of the current economic environment. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and customers. The directors consider that the carrying value of trade and other receivables approximates to their fair value. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

##### Liquidity risk

The objective of the Group's liquidity risk management is to ensure sufficient cash resources and the availability of funding as required by maintaining a balance between continuity of funding and flexibility through cash pooling and shareholder funding. The Group holds financial assets either for which there is a liquid market or which are expected to generate cash inflows that are available to meet liquidity needs.

On 2 February 2018, the new Senior Secured notes 2023 were issued at a value of £115,091,000. There are no covenants associated to the senior secured notes.

On 13 September 2018 the group agreed a £35 million revolving credit facility with Greensill Capital (UK) Limited. The facility includes a covenant that our contract portfolio should not fall below the value of our external liabilities divided by 55%. As at the year end we had a ratio of 1.41 and our forecasts indicate that we will not breach the covenant within our going concern period.

The Group monitors its liquidity risk on an ongoing basis by undertaking rigorous cash flow forecasting procedures. This monitoring includes financial ratios to assess headroom on bank facilities and takes into account the accessibility of cash and cash equivalents.

Liquidity and cash flow is monitored monthly and reported through the management accounts to the Board. All budgets and plans assess the impact on liquidity and banking covenants.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**21. Financial instruments** (continued)

The following table details the remaining capital and interest due on the Group's non-derivative interest bearing undiscounted financial liabilities until contractual maturity.

**At 31 March 2019**

	<i>6 months or less £000</i>	<i>6 -12 months £000</i>	<i>1 - 2 years £000</i>	<i>Over 2 years £000</i>	<i>Total £000</i>
Revolving credit facility	10,700	–	–	–	10,700
Senior secured notes	5,552	5,801	12,398	155,155	178,906
Trade and other payables	26,655	–	–	–	26,655
	<u>42,907</u>	<u>5,801</u>	<u>12,398</u>	<u>155,155</u>	<u>216,261</u>

**At 31 March 2018**

	<i>6 months or less £000</i>	<i>6 -12 months £000</i>	<i>1 - 2 years £000</i>	<i>Over 2 years £000</i>	<i>Total £000</i>
Senior secured notes	2,964	5,179	10,358	151,344	169,845
Trade and other payables	30,081	–	–	–	30,081
	<u>33,045</u>	<u>5,179</u>	<u>10,358</u>	<u>151,344</u>	<u>199,926</u>

**Interest rate risk**

The Group manages its interest rate risk through a combination of cash pooling, shareholder funding and borrowing at a mix of both fixed and variable rates. Management regularly monitors movements in interest rates to determine the most advantageous debt profile for the Group. Whilst the fixed rate interest bearing debt is not exposed to cash flow interest rate risk, the floating rate borrowings expose the Group to cash flow risk as costs increase if market rates rise. At the year end 100% of the Group's borrowings (2018: 100%) were at fixed rates however since the revolving credit facility is charged at a variable rate at the date of drawdown there is a risk to future borrowings of changes to the interest rate.

**Currency risk**

The Group is exposed to fluctuations in foreign currencies when purchasing goods and services from overseas suppliers, which impacts operating activities. Management aim to limit this market risk with selected derivative financial instruments being used for this purpose. There were no open foreign currency forward exchange contracts at the year end (2018 – nil).

**Fair value****Derivative financial instruments**

As at 31 March 2019 and 31 March 2018 respectively the Group held no derivative financial instruments.

**Trade receivables**

Trade receivables due after more than one year have been discounted to determine the present value of the future cash flows using a discount rate of 0.06% (2018: 0.09%) based on the government bond yield curve.

**Fair value compared to carrying value**

The directors consider that the carrying amount of financial instruments approximates to their fair value.

**Notes to the group financial statements** (continued)

for the year ended 31 March 2019

**22. Other financial commitments****The Group as a lessee**

Non-cancellable operating lease rentals are payable as follows:

	2019		2018	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Operating leases which expire:				
Less than one year	15,254	1,603	14,762	2,085
Between two and five years	22,709	678	37,991	1,502
More than five years	3,128	–	9,460	–
	<u>41,091</u>	<u>2,281</u>	<u>62,213</u>	<u>3,587</u>

The Group leases a number of retail facilities under operating leases. Land and buildings have been considered separately for lease classification in accordance with IAS17 “Leases” and based on the nature and terms of the respective agreements the directors believe they are operating in nature.

During the year £16,387,000 was recognised as an expense in the income statement in respect of operating leases (2018 – £18,343,000).

**23. Capital commitments**

There were no capital commitments at the end of the financial year (2018 – £nil).

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 24. Related party transactions

#### Identity of related parties

Until 2 February 2018, Vision Capital Partners VI B L.P. (VCP VI B), a Scottish Limited Partnership acting through Haig Luxembourg HoldCo S.a.r.l. (Haig Luxembourg HoldCo), a company incorporated in Luxembourg, were related parties by virtue of the fact that from 18 July 2007 to 2 February 2018, they controlled the majority of the share capital of BrightHouse Group Limited, the largest group of which the Company was a member and for which financial statements were drawn up. The directors therefore consider VCP VI B and Haig Luxembourg HoldCo S.a.r.l. to be related parties. Vision Capital LLP is also considered a related party by virtue of the fact that it is the investment adviser to the general partner of VCP VI B. After the refinancing on 2 February 2018 we no longer consider VCP VI B, Haig Luxembourg HoldCo S.a.r.l. or Vision Capital LLP to be related parties. On that date we recognised Apollo Global Management Llc., a company incorporated in the United States, as a related party due to it being the ultimate beneficial owner of significant shareholding of BrightHouse TopCo Limited, the largest group of which the Company was a member and for which financial statements were drawn up. The refinancing undertaken during the year included transactions with related parties. See Note 16 for further details.

During the year, the Group entered into the following transactions with related parties:

#### 2019

	<i>Management charge £000</i>	<i>Interest charge £000</i>	<i>Amounts owed from/(due to) related parties £000</i>
BrightHouse TopCo Limited	—	—	4,131
BrightHouse MidCo Limited	—	—	6
Apollo Global Management LLc	—	4,547	(50,001)
	<u>          </u>	<u>          </u>	<u>          </u>

#### 2018

	<i>Management charge £000</i>	<i>Interest charge £000</i>	<i>Amounts owed from/(due to) related parties £000</i>
BrightHouse TopCo Limited	—	—	3,388
BrightHouse MidCo Limited	—	—	—
Haig Luxembourg HoldCo	—	2,248	—
Vision Capital LLP	81	—	—
Apollo Global Management LLc	—	626	(47,072)
	<u>          </u>	<u>          </u>	<u>          </u>

#### Other related party transactions

Transactions between BrightHouse Group Limited and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. During the prior year all the shares held by management were returned to the company at £nil consideration.

## Notes to the group financial statements (continued)

for the year ended 31 March 2019

### 24. Related party transactions (continued)

#### Remuneration of key management

The compensation of key management personnel for the group and the company (including the directors) are as follows:

	<i>2019</i>	<i>2018</i>
	<i>£000</i>	<i>£000</i>
Key management remuneration	4,044	3,860
Company contributions to money purchase pension plans	67	86
	<u>4,111</u>	<u>3,946</u>

These following pages present information about the Company as an individual undertaking and not about its group.

## **BrightHouse Group Limited**

### **Financial Statements**

Year ended 31 March 2019

✶

# Company statement of financial position

at 31 March 2019

	Notes	2019 £000	2018 £000
<b>Non-current assets</b>			
Investments	26	141,925	141,925
Deferred tax assets		–	803
		<u>141,925</u>	<u>142,728</u>
<b>Current assets</b>			
Trade and other receivables	27	7,853	3,788
Cash and cash equivalents	28	–	94
		<u>7,853</u>	<u>3,882</u>
<b>Total assets</b>		<u>149,778</u>	<u>146,610</u>
<b>Current liabilities</b>			
Trade and other payables	29	8	17,391
Financial liabilities	30	217,094	195,900
		<u>217,102</u>	<u>213,291</u>
<b>Total liabilities</b>		<u>217,102</u>	<u>213,291</u>
<b>Net liabilities</b>		<u>(67,324)</u>	<u>(66,681)</u>
<b>Equity attributable to equity holders of the parent</b>			
Share capital	32	1,294	1,294
Share premium		72,598	72,598
Capital redemption reserve		57	57
Capital contribution reserve		39,274	39,274
Retained earnings		(180,547)	(179,904)
<b>Total equity</b>		<u>(67,324)</u>	<u>(66,681)</u>

The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented an income statement for the Company alone. The Company made a loss of £643,000 in the year (2018 – profit of £27,020,000).

These financial statements were authorised for issue by the board of directors on 26 July 2019 and were signed on its behalf by:



**G J Campbell**  
Director

## Company statement of changes in equity

at and for the year ended 31 March 2019

	Share capital £000	Share premium £000	Own shares £000	Retained earnings £000	Capital redemption reserve £000	Capital contribution reserve £000	Total equity £000
At 1 April 2017	50	552	(296)	(187,238)	57	–	(186,875)
Share issue on debt for equity swap	1,253	72,046	–	(19,399)	–	–	53,900
Release of unsecured 10% loan stock issued to related parties	–	–	–	–	–	39,274	39,274
Share transactions with management	(9)	–	296	(287)	–	–	–
Comprehensive income for the year	–	–	–	27,020	–	–	27,020
At 31 March 2018	1,294	72,598	–	(179,904)	57	39,274	(66,681)
Total comprehensive loss for the year	–	–	–	(643)	–	–	(643)
At 31 March 2019	1,294	72,598	–	(180,547)	57	39,274	(67,324)

## Company statement of cash flows

for the year ended 31 March 2019

	Notes	2019 £000	2018 £000
<b>Cash flows from operating activities</b>			
(Loss) / profit for the year		(643)	27,020
Adjustments for:			
Financial expense		11,212	20,109
Taxation		803	(501)
Refinancing debt written off	16	–	(45,675)
<b>Operating cash inflow before changes in working capital</b>		<b>11,372</b>	<b>953</b>
Increase in trade and other receivables		(4,065)	(2,740)
(Decrease) / increase in trade and other payables		(17,382)	28,241
<b>Net cash (outflow) / inflow from operating activities</b>		<b>(10,075)</b>	<b>26,454</b>
<b>Cash flows from financing activities</b>			
Proceeds of new loans		10,700	–
Interest paid		(719)	(17,324)
Issuance of share capital	16	–	2,463
Cost of refinancing	16	–	(8,749)
Settlement of senior secured notes	16	–	(2,845)
<b>Net cash inflow / (outflow) from financing activities</b>		<b>9,981</b>	<b>(26,455)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(94)</b>	<b>(1)</b>
Cash and cash equivalents at 1 April		94	95
Cash and cash equivalents at 31 March	28	–	94

## Notes to the company financial statements

for the year ended 31 March 2019

### 25. Accounting policies

#### *General information*

BrightHouse Group Limited is a company ("company"), limited by shares, incorporated in England and Wales under the Companies Act 2006 (registration number 06250176). The Company is domiciled in the United Kingdom and its registered address is 5 Hercules Way, Leavesden, Watford, WD25 7GS.

The company's financial statements are individual entity financial statements.

#### *Authorisation of financial statements and statement of compliance with IFRS*

The financial statements of BrightHouse Group Limited for the year ended 31 March 2019 were authorised for issue on 26 July 2019 by the board of directors and the statement of financial position signed on the board's behalf by Graeme Campbell. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee ("IFRIC") interpretations as endorsed by the European Union, and with those parts of the Companies Act 2006 applicable to Companies reporting under IFRS.

#### *Basis of preparation*

The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated and prepared under the historical cost convention.

A summary of the Company's accounting policies are set out below.

#### *Going concern*

As at 31 March 2019 the Company has net liabilities of £67,324,000 resulting from the historical loan refinancing structure entered into across the BrightHouse group of companies.

Further information around the group's assessment of going concern is disclosed within the going concern section of note 1 to the group financial statements.

#### *Investments*

The investment in the subsidiary undertaking is stated at cost, less any amounts written off.

#### *Impairment*

If any indicators of impairment exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU's) fair value less costs to sell and its value in use and is determined for an individual asset.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated from other assets or groups of assets.

Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of assets in the unit on a pro rata basis.

If impairment loss is reversed when there is an indication that the impairment loss may no longer exist and 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.

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 25. Accounting policies (continued)

#### *Taxation*

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

#### *Classification of financial instruments issued by the Company*

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 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.

#### *Financial liabilities*

##### *i) Initial recognition and measurement*

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or loans and borrowings. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value less, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables and loans and borrowings.

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 25. Accounting policies (continued)

#### ii) Subsequent measurement – loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the Effective Interest Rate (EIR) method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised costs is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in finance costs in the income statement.

#### Dividends

Revenue is recognised when the Company's right to receive payment is established.

#### New standards and interpretations not applied

The impact of new accounting standards are discussed in detail under the group accounting policies.

### 26. Investments

	<i>Investments</i> £000
Cost:	
At 1 April 2017	244,644
At 1 April 2018	244,644
At 31 March 2019	244,644
Impairment:	
At 1 April 2017	102,719
At 1 April 2018	102,719
At 31 March 2019	102,719
Net book value:	
At 31 March 2019	141,925
At 31 March 2018	141,925

The Group performed its annual impairment test as at 31 March 2019.

The recoverable amount of the asset has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the board covering a five year period. The discount rate applied to these cash flow projections is 9.0% (2018 - 9.0%) and cash flows beyond the five year budget are extrapolated using a 2% growth rate (2018 - 2%) that is the long term growth rate for the UK.

No impairment loss has been recognised in the current year (2018 - £nil).

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 26. Investments (continued)

	<i>Country of incorporation</i>	<i>Principal activity</i>	<i>Shares</i>	<i>Percentage of shares held %</i>
BrightHouse FinCo Limited	Jersey	Finance company	Ordinary	100
BrightHouse Holdings Limited	England	Holding company	Ordinary	100
BrightHouse Limited*	England	Holding company	Ordinary	100
Caversham Finance Limited*	England	Rental of domestic equipment	Ordinary	100
Caversham Insurance Limited*	Gibraltar	Insurance	Ordinary	100
Caversham Holdings (Malta) Limited *	Malta	Holding company	Ordinary	100
Caversham Trading Limited*	England	Repairs and Supply Chain	Ordinary	100
Crazy George's Limited*	England	Dormant	Ordinary	100

\* denotes entity held indirectly through subsidiary

The subsidiary incorporated in Jersey has its registered office at 44 Esplanade, St. Helier.

The subsidiary incorporated in Malta has its registered office at Development House, Floriana.

The subsidiary incorporated in Gibraltar has its registered office at Suite 23 Portland House, Gibraltar.

The subsidiaries incorporated in England have their registered office at 5 Hercules Way, Leavesden.

### 27. Trade and other receivables

	<i>2019 £000</i>	<i>2018 £000</i>
Current:		
Other trade receivables and prepayments	647	–
Amounts due from group undertakings	7,206	3,388
Other non-trade receivables	–	400
	<u>7,853</u>	<u>3,788</u>

### 28. Cash and cash equivalents

	<i>2019 £000</i>	<i>2018 £000</i>
Cash and cash equivalents per balance sheet and cash flow statement	–	94

Cash and cash equivalents comprise cash at bank and in hand.

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 29. Trade and other payables

	2019 £000	2018 £000
Amounts due to group undertakings	–	17,060
Accrued expenses	8	278
Other taxes and social security	–	53
	<u>8</u>	<u>17,391</u>

### 30. Financial liabilities

	2019 £000	2018 £000
Current liabilities:		
Revolving credit facility	10,399	–
Amounts due to group undertakings	206,695	195,900
	<u>217,094</u>	<u>195,900</u>

#### Terms and debt repayment schedule

##### Revolving credit facility

On 13 September 2018 the Company agreed a revolving credit facility with Greensill Capital (UK) Limited which is secured against the Group's contract portfolio. The facility requires that we maintain a minimum ratio of 1 between our contract portfolio and our external liabilities divided by 55%. The facility has a revolving 12 month term from the date either party issues a notice to terminate the agreement or if the covenant is breached.

##### Changes in liabilities arising from financing activities

	Revolving credit facility £000	Amounts due to group undertakings £000	Total £000
At 1 April 2018	–	195,900	195,900
Interest charge	418	10,795	11,213
Cash flow	9,981	–	9,981
	<u>10,399</u>	<u>206,695</u>	<u>217,094</u>
At 31 March 2019	<u>10,399</u>	<u>206,695</u>	<u>217,094</u>

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 30. Financial liabilities (continued)

	Unsecured 10% loan stock £000	Senior secured notes 2018 £000	Amounts due to group undertakings £000	Total £000
At 1 April 2017	37,026	218,242	–	255,268
Interest charge	2,248	14,425	1,676	18,349
Interest accrual movement	–	6,605	–	6,605
Cash flow	–	(17,324)	–	(17,324)
Repayment of loan	–	(2,846)	–	(2,846)
Refinancing	–	(220,860)	115,091	(105,769)
Debt Released	(39,274)	–	–	(39,274)
Transfer from trade payables	–	–	79,133	79,133
Other	–	1,758	–	1,758
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
At 31 March 2018	–	–	195,900	195,900
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The “Other” movement reflects the amortisation and write off of the refinancing costs.

### 31. Financial instruments

#### Capital management

The capital structure of the Company consists of debt, which includes borrowings disclosed in note 30, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings. The capital structure of the Company at the year end was as follows:

	2019 £000	2018 £000
Debt (i)	(217,094)	(195,900)
Cash and cash equivalents	–	94
Net debt	<u>(217,094)</u>	<u>(195,806)</u>
Equity (ii)	<u>(67,324)</u>	<u>(66,681)</u>
Net debt to equity ratio	322%	294%

(i) Debt is defined as long-and short-term borrowings as detailed in note 31.

(ii) Equity includes all capital and reserves of the Company.

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 31. Financial instruments (continued)

#### Categories of financial instruments

	2019 £000	2018 £000
<i>Financial assets</i>		
Carried at amortised cost:		
Cash and cash equivalents	–	94
Trade and other receivables	7,853	3,788
	<u>7,853</u>	<u>3,882</u>
	2019 £000	2018 £000
<i>Financial liabilities</i>		
Carried at amortised cost:		
Borrowings	217,094	195,900
Trade and other payables	8	17,391
	<u>217,102</u>	<u>213,291</u>

#### Financial risk management objectives

The risks facing the Company comprise market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Company's approach to these risks is noted below.

##### Credit risk

The directors consider that the carrying value of trade and other receivables approximates to their fair value. The maximum exposure to credit risk is represented by the carrying amount of each financial asset.

##### Liquidity risk

The objective of the Company's liquidity risk management is to ensure sufficient cash resources and the availability of funding as required by maintaining a balance between continuity of funding and flexibility through cash pooling and shareholder funding. The Company holds financial assets either for which there is a liquid market or which are expected to generate cash inflows that are available to meet liquidity needs. The assets of the Company are held as investments in the subsidiaries.

As at 31 March 2019 the Company has net liabilities of £67,324 resulting from the historical loan refinancing structure entered into across the BrightHouse group of companies.

Further information around the refinancing of the current capital structure within BrightHouse Group Limited is disclosed in note 16 of the financial statements.

The Company monitors its liquidity risk on an ongoing basis by undertaking rigorous cash flow forecasting procedures. This monitoring includes financial ratios to assess headroom on bank facilities and takes into account the accessibility of cash and cash equivalents.

The following table details the remaining contractual maturity for the Group's non-derivative interest bearing undiscounted financial liabilities (comprises both capital and interest).

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 31. Financial instruments (continued)

#### At 31 March 2019

	<i>6 months or less</i>
	£ £000
Amounts due to group undertakings	206,695
Revolving credit facility	10,700
Trade and other payables	8
	<u>217,403</u>

#### At 31 March 2018

	<i>6 months or less</i>
	£ £000
Amounts due to group undertakings	195,900
Revolving credit facility	–
Trade and other payables	17,391
	<u>213,291</u>

#### Interest rate risk

The Company manages its interest rate risk through a combination of cash pooling, shareholder funding and borrowing at a mix of both fixed and variable rates. Management regularly monitors movements in interest rates to determine the most advantageous debt profile for the Company. Whilst the fixed rate interest bearing debt is not exposed to cash flow interest rate risk, the floating rate borrowings expose the Company to cash flow risk as costs increase if market rates rise. At the year end 95% of the Company's borrowings (2018: 100%) were at fixed rates.

The following table illustrates the sensitivity of the net result for the year and equity to a possible change in interest rates of +/-1%, with effect from the beginning of the year. This analysis assumes that all other variables remain constant. These changes are considered to be reasonably possible based on observation of current market conditions.

The calculations are based on the Company's financial instruments held at each balance sheet date. All other variables are held constant.

	<i>2019</i>		<i>2018</i>	
	<i>£000</i>		<i>£000</i>	
	<i>+1%</i>	<i>-1%</i>	<i>+1%</i>	<i>-1%</i>
Net result for the year	43	(29)	–	–

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 31. Financial instruments (continued)

#### Fair value compared to carrying value

	Carrying amount		Fair value	
	2019 £000	2018 £000	2019 £000	2018 £000
<b>Financial assets</b>				
Cash and cash equivalents	–	94	–	94
Trade and other receivables	7,853	3,788	7,853	3,788
<b>Financial liabilities</b>				
<i>Amortised cost</i>				
<i>Interest bearing loans and borrowings</i>				
Fixed rate borrowings	206,695	195,900	206,695	195,900
Variable rate borrowings	10,399	–	10,399	–
Trade and other payables	8	17,391	8	17,391

### 32. Capital and reserves

	No.	2019 £000	No.	2018 £000
<i>Authorised, allotted, called up and fully paid</i>				
A Ordinary shares of £0.001 each	1,291,642,507	1,294	1,291,642,507	1,294

#### Nature and purpose of reserves

##### Share capital

Share capital comprises the nominal value of the Company's Ordinary shares as stated above.

##### Share premium

The share premium reserve is the premium paid on the Company's ordinary shares.

##### Capital redemption reserve

The capital reserve includes the nominal value of shares brought back by the company.

##### Capital contribution reserve

The reserve includes amounts given to the group from the its shareholders.

##### Own shares reserves

The own shares reserve includes the nominal value of shares held by the employee benefit trust.

## Notes to the company financial statements (continued)

for the year ended 31 March 2019

### 33. Related party transactions

Until 2 February 2018, Vision Capital Partners VI B L.P. (VCP VI B), a Scottish Limited Partnership acting through Haig Luxembourg HoldCo S.a.r.l. (Haig Luxembourg HoldCo), a company incorporated in Luxembourg, were related parties by virtue of the fact that from 18 July 2007 to 2 February 2018, they controlled the majority of the share capital of BrightHouse Group Limited, the largest group of which the Company was a member and for which financial statements were drawn up. The directors therefore consider VCP VI B and Haig Luxembourg HoldCo S.a.r.l. to be related parties. Vision Capital LLP is also considered a related party by virtue of the fact that it is the investment adviser to the general partner of VCP VI B. After the refinancing on 2 February 2018 we no longer consider VCP VI B, Haig Luxembourg HoldCo S.a.r.l. or Vision Capital LLP to be related parties. On that date we recognised Apollo Global Management Llc., a company incorporated in the United States, as a related party due to it being the ultimate beneficial owner of significant shareholding of BrightHouse TopCo Limited, the largest group of which the Company was a member and for which financial statements were drawn up. The refinancing undertaken during the year included transactions with related parties. See Note 16 for further details.

During the year, the Company entered into the following transactions with related parties:

#### 2019

	<i>Management fee income / (charge) £000</i>	<i>Interest charge £000</i>	<i>Amounts owed (to) / from related parties £000</i>
Ultimate parent	—	—	3,388
Subsidiaries	12,052	10,794	(202,876)
	<u>12,052</u>	<u>10,794</u>	<u>(199,488)</u>

Amounts owed to subsidiaries predominantly relate to the £127,562,000 (2018 - £115,091,000) loan from BrightHouse FinCo Limited related to the refinancing of the Group on 2 February 2018 along with interest payments made on behalf of the Company by Caversham Finance Limited.

#### 2018

	<i>Management fee income / (charge) £000</i>	<i>Interest charge £000</i>	<i>Amounts owed (to) / from related parties £000</i>
Ultimate parent	—	—	3,388
Haig Luxembourg HoldCo	—	2,248	—
Vision Capital LLP	(81)	—	—
Subsidiaries	—	—	(212,960)
	<u>(81)</u>	<u>2,248</u>	<u>(209,572)</u>

Amounts owed to subsidiaries predominantly relate to interest payments made on behalf of the Company by Caversham Finance Limited.

## **Notes to the company financial statements** (continued)

**for the year ended 31 March 2019**

### **34. Ultimate parent undertaking and controlling party**

Until 2 February 2018 Haig Luxembourg HoldCo was the ultimate parent company of BrightHouse Group Limited. From that date the ultimate parent company of BrightHouse Group Limited was BrightHouse TopCo Limited which is the parent company of the largest group in which the results of the Company are consolidated. BrightHouse Group Limited is the parent company of the smallest group whose registered address is 5 Hercules Way, Leavesden, Watford, WD25 7GS. The group financial statements of this Group are available to the public and may be obtained from the registered office.

The Company's immediate parent company is BrightHouse MidCo Limited, a company registered in Jersey. The ultimate controlling party is BrightHouse TopCo Limited, a Jersey registered business whose registered office is 3<sup>rd</sup> Floor, 44 Esplanade, St. Helier, Jersey, JE4 9WG.