BrightHouse Group Limited

Directors' report and consolidated financial statements

Registered number 06250176

31 March 2010

Contents

Directors' report

The directors present their annual report and the audited financial statements of BrightHouse Group Limited and its subsidiaries ("BrightHouse" or "Group") for the year ended 31 March 2010

Principal activity

BrightHouse offers customers access to high quality branded household goods on affordable weekly payments via 202 stores across the UK The Group undertakes a demographic risk assessment and affordability check allowing customers with impaired credit records access to goods New customers build an internal credit rating through on time payment allowing them to expand the range of products they have access to Customers sign a hire purchase agreement and pay no deposit Associated insurance products deliver peace of mind through protection from theft and associated damage plus a full service option which also allows the customer to return the goods, cancel agreements and restart a new agreement with their equity protected

Results and dividends

The trading results for the year and financial position of the Group at the end of the year are shown in the attached financial statements and are discussed further in the business review below The directors do not recommend the payment of a final dividend *(2009 £nil)*

Business review

Strategy

The strategy adopted during the period has been to continue to build on our market position This has been done by offering

- High quality desirable branded household goods
- Competitive pricing benchmarked against High Street retailers
- Strong availability of core lines in store
- High standard of customer service in store and in the home
- Effective and consistent promotion of the brand and proposition
- Targeted credit assessments

In addition the Group has continued the new store opening programme The Group has a total of 198 stores at 31 March 2010

BrightHouse's strategy for future growth is through a new store roll out plan, growth within its current stores by attracting new customers, optimising the product range and through operational efficiencies such as service and supply chain improvements, training and employee productivity

Financial performance

Financial performance for the year to 31 March 2010 and the year to 31 March 2009 has been analysed as follows

	2010	2009
	£'000	£'000
Turnover	**197,327**	170,615
Gross profit	**116,218**	101,416
Net operating expenses	**(95,716)**	(81,839)
Operating profit	**20,502**	19,577
Gross profit margin	**58.9%**	59 4%
Profit/(loss) before taxation	2,980	(196)
Profit after taxation	5,299	1,491

Directors' report *(continued)*

Business review *(continued)*

EBITdA

The primary profit measure used by management of the Group is EBITdA before one off items EBITdA before one off items (defined as operating profit before depreciation of fixtures, equipment and vehicles, amortisation and certain one off items) has improved by 16% from £29 4m in 2008/09 to £34 1m in 2009/10 This excludes out of period VAT charges A reconciliation of EBITdA before one off items to operating profit is provided below

	2010	2009
	£'000	£'000
BrightHouse Group Limited EBITdA	**34,092**	29,431
Goodwill amortisation	**(4,336)**	(4,336)
Depreciation of fixtures, equipment and vehicles	**(5,370)**	(4,719)
One off write down of carrying value of stock management system	**-**	(799)
Out of period VAT charges and provisions	**(3,884)**	-
BrightHouse Group Limited reported operating profit	**20,502**	19,577

Key Performance Indicators

Customer numbers

The turnover is driven by the number of customers The strategy outlined above reflects the drive to grow the customer base Customer numbers have grown by 20% up from 145,800 in 2008/09 to 174,800 in 2009/10

Like for like turnover

Analysing revenue by store reveals the strong like for like revenue performance Like for like revenue is up 10 7% in 2009/10, compared with a 13 9% increase in 2008/09 Like for like analysis excludes newly opened stores Stores are included in this measure when the results for two complete financial years are available

New stores

The new store opening programme continued in 2009/10 with 21 stores opening during the year The business intends to maintain its store opening programme at this level for the coming year

Bad debt

BrightHouse seeks to ensure that customers can afford the repayments for goods supplied Where customers face difficulties, stores have a range of options to retain the customer and ultimately ensure they take ownership of the goods Despite the difficult economic conditions, this relationship method has enabled the bad debt charge as a percentage of turnover to be restricted to 7 7% versus 6 8% in the previous year

Gross margin

Gross margin decreased from 59 4% in 2008/09 to 58 9% in 2009/10. BrightHouse has invested in category management and focused upon a limited range of product lines and supplier relationships This has enabled the delivery of excellent value to customers and has meant products were matched to high street prices throughout the year while margins have been protected

Directors' report *(contınued)*

Business review *(contınued)*

Principal risks and uncertainties

The dırectors consıder that BnghtHouse has adopted a thorough nsk management process that ınvolves the formal revıew of all the nsks ıdentıfied below Board commıttees are ın place to monıtor and mıtıgate such nsks

Regulatıon

BnghtHouse operates ın a regulated market and has establıshed processes and polıcıes for ensunng ıts complıance wıth all applıcable legıslatıon and regulatıon Staff partıcıpate ın a programme of traınıng desıgned to ensure that they understand the processes and polıcıes that the dırectors have establıshed

All staff must be accredıted to perform functıons that have regulatory ımplıcatıons by attestıng and demonstratıng that they understand the processes and polıcıes that BnghtHouse has establıshed Thıs protects the reputatıon of the Company and staff and ensures customers are managed wıthın the regulatıons

Staff capabılıtıes

A key asset of the Group ıs ıts staff BnghtHouse recognıses that ıt must contınue to attract, retaın and motıvate the best staff wıth the nght capabılıtıes at all levels of the busıness BnghtHouse revıews ıts staff polıcıes regularly and ıs commıtted to ınvestıng ın traınıng, development, successıon plannıng and appropnate financıal ıncentıves for staff

Fınancıng

BnghtHouse manages lıquıdıty nsk vıa strong cash forecastıng processes to ensure suffıcıent funds are avaılable Interest rate and exchange rate nsks are managed by structured Treasury processes

The busıness has a fully drawn Mezzanıne facılıty and an asset backed revolvıng Senıor facılıty both due for repayment at July 2012. BnghtHouse Group financıng ıncludes Senıor and Mezzanıne debt from Landsbankı loaned to BnghtHouse Lımıted and Caversham Fınance Lımıted who are ındırect subsıdıanes of BnghtHouse Group Lımıted

The dırectors belıeve these facılıtıes contaın suffıcıent headroom for the ambıtıons of the busıness and the covenants are appropnate and support growth At the balance sheet date, the total un-drawn amount on these facılıtıes was £5 9m and all covenants have been met

Credıt nsk

BnghtHouse offers customers the abılıty to pay for goods over one to three years based upon ıts bespoke credıt assessment Thıs assessment and the debt management processes are desıgned to prevent ansıng defaults

Economıc nsk

BnghtHouse customers are subject to ımpacts from the macroeconomıc envıronment ıncludıng government spendıng and benefits polıcy BnghtHouse has to adopt a coherent commercıal strategy whıch reflects the ımpact of the macroeconomıc polıcy on ıts customer

Directors' report *(continued)*

Corporate Responsibility

The Company has identified five main areas of corporate responsibility, risk and opportunity as

- Fair treatment of customers and suppliers
- Colleague welfare
- Community involvement
- Ethical trading
- Environmental responsibility

A review process exists to ensure progress continues to be made

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 service to customers that is friendly, flexible and to act in a responsible manner avoiding lending more than a customer can afford Customers build a history of payments and BrightHouse lends against that profile Sales advisors are trained to understand an individual customer's financial capability and the consequential affordability of products Store colleagues are not paid commission on new sales, however store managers do receive incentives based upon profitable lending

Transparency in all our dealings

The Group will ensure clear and consistent communication with all stakeholders and honour its promises BrightHouse is an accredited partner of the Plain English Campaign and is committed to ensuring that all 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 & safety

BrightHouse fully recognises and complies with the duties placed upon it under the Health & 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 The Group adopts the principle of zero tolerance with regard to accident prevention

Learning & 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

Directors' report *(continued)*

Corporate Responsibility *(continued)*

Colleague engagement

BrightHouse wants to listen and learn from its colleagues and this year the business undertook its first employee perception survey The results highlighted both areas of employee satisfaction, and areas for improvement Valued information and views are regularly received from the "Your Voice" employee consultative committee, which includes colleagues from across the organisation

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 works

During the year BrightHouse colleagues worked to raise funds for the business sponsored charities These have been Rays of Sunshine, a charity offering wishes to sick and terminally ill children, and the NSPCC The NSPCC charity exists to protect children from cruelty, support vulnerable families, campaign for changes to the law and raise awareness about abuse Across the country, BrightHouse colleagues have energetically led or participated in fundraising events BrightHouse is a substantial corporate sponsor of these Charities.

Retail Trust

Retail Trust is a national charity, which offers a confidential helpline, financial assistance and other practical help and support It serves employees, former employees (and families) of the UK retail industry BrightHouse is a supporter and active participant in Retail Trust fundraising

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

As part of the Group's normal rent-to-own business process, customers who have taken out the requisite insurance have the right to return products at any time Wherever possible, these products are refurbished to a high standard and re-sold as Quality Refurbished items Products which are beyond economic repair are cannibalised for spare parts The remainder is processed for recycling BrightHouse adopts a similar approach to redundant IT equipment, in order to minimise environmentally unfriendly waste

Directors' report *(continued)*

Corporate Responsibility *(continued)*

Environment-friendly products

The Energy Saving Trust recognises appliances that are energy-efficient 100% of BrightHouse's laundry products achieved this standard

Directors

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

J L McKee
G M O David
A G Wormsley
R A Pym

The board of BrightHouse Group Limited consists of Richard Pym as non-executive chairman, Alister Wormsley, non-executive, as Vision Capital LLP investor director plus Leo McKee and Giles David as executive directors

Political and charitable contributions

The Group made charitable contributions of £77,000 *(2009 £29,000)* during the year Donations to political organisations amounted to £nil during the year *(2009 £320)* The staff and customers of BrightHouse Group Limited have participated in extensive fundraising activities for the sponsored charities (Rays of Sunshine and the NSPCC)

Policy and practice on payment of creditors

It is the policy of BrightHouse to pay its suppliers on a timely basis and in accordance with agreed payment terms The trade creditors of BrightHouse at 31 March 2010 were equivalent to 27 7 days (*2009 26 4 days*) of purchases, based on the average daily amount invoiced by suppliers during the year

Walker Report

On 20 November 2007 David Walker published his 'Guidelines for Disclosure and Transparency in Private equity' (the Walker Report) This report has been prepared in the context of those recommendations

Directors' report *(continued)*

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

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

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

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

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

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

Directors' report *(continued)*

Disclosure of information to auditors

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

Auditors

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

By order of the board

D Harwood

D Harwood
Secretary
25 June 2010

5 Hercules Way
Leavesden Park
Watford
WD25 7GS

Company registered number 06250176

KPMG Audit Plc
Arlington Business Park
Theale
Reading
RG7 4SD
United Kingdom

Independent auditors' report to the members of BrightHouse Group Limited

We have audited the financial statements of BrightHouse Group Limited for the year ended 31 March 2010 set out on pages 13 to 34 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

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

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

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

Independent auditors' report to the members of BrightHouse Group Limited *(continued)*

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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

Simon Baxter (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants

30 June 2010

Consolidated Profit and Loss Account

for the year ended 31 March 2010

	Note	**2010 £'000**	2009 £'000
Turnover		**197,327**	170,615
Cost of sales		**(81,109)**	(69,199)
Gross profit		**116,218**	101,416
Operating expenses		**(95,716)**	(81,839)
Operating profit	*3*	**20,502**	19,577
Interest payable and similar charges	*6*	**(17,522)**	(19,773)
Profit/(loss) on ordinary activities before taxation		**2,980**	(196)
Taxation	*7*	**2,319**	1,687
Profit for the year		**5,299**	1,491

All results relate to continuing operations

The Group had no other recognised gains or losses other than the profit for the year

Consolidated Balance Sheet
at 31 March 2010

	Note	**2010**		2009	
		£'000	**£'000**	£'000	£'000
Fixed assets					
Tangible assets	*8*		**111,237**		91,730
Goodwill	*9*		**74,978**		79,314
			186,215		171,044
Current assets					
Goods for resale	*11*	**5,162**		2,817	
Debtors (amounts due after more than one year £8,685,000 *(2009 £7,767,000)*)	*12*	**40,174**		32,640	
Cash at bank and in hand	*13*	**19,906**		21,448	
		65,242		56,905	
Creditors: amounts falling due within one year	*14*	**(29,529)**		(30,068)	
Net current assets			**35,713**		26,837
Total assets less current liabilities			**221,928**		197,881
Creditors: due after more than one year	*15*		**(207,426)**		(188,666)
Net assets			**14,502**		9,215
Capital and reserves					
Called up share capital	*19*		**65**		65
Share premium	*19*		**6,442**		6,454
Profit and loss account	*19*		**7,995**		2,696
Shareholders' funds			**14,502**		9,215

These financial statements were approved by the board of directors on 25 June 2010 and were signed on its behalf by

G M O David
Director

Company registered number: 6250176

Company Balance Sheet
as at 31 March 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Investments	*10*	**6,645**	6,645
Creditors: amounts falling due within one year	*14*	**(385)**	(259)
Net assets		**6,260**	6,386
Capital and reserves			
Called up share capital	*19*	**65**	65
Share premium	*19*	**6,442**	6,454
Profit and loss account	*19*	**(247)**	(133)
Shareholders' funds		**6,260**	6,386

These financial statements were approved by the board of directors on 25 June 2010 and were signed on its behalf by:

G M O David
Director

Consolidated Cash Flow Statement
for the year ended 31 March 2010

	Note	2010 £'000	2009 £'000
Cash flow from operating activities	*22*	**101,674**	91,986
Returns on investments and servicing of finance	*23*	**(4,815)**	(5,293)
Taxation	*23*	**(645)**	(1,683)
Capital expenditure and financial investment	*23*	**(98,309)**	(87,920)
Cash outflow before management of liquid resources and financing		**(2,095)**	(2,910)
Financing	*23*	**553**	15,862
(Decrease)/increase in cash in the year		**(1,542)**	12,952

Reconciliation of net cash flow to movement in net debt
for the year ended 31 March 2010

	2010 £'000	2009 £'000
(Decrease)/increase in cash in the year	**(1,542)**	12,952
Cash inflow from financing	**(565)**	(15,993)
Accrued interest	**(13,958)**	(13,228)
Movement in net debt in the year	**(16,065)**	(16,269)
Net debt at the start of the year	**(171,455)**	(155,186)
Net debt at the end of the year	**(187,520)**	(171,455)

Analysis of net debt
as at 31 March 2010

	At beginning of the year £'000	Cash flow £'000	Other non cash changes £'000	At end of the year £'000
Cash	21,448	(1,542)	-	19,906
Debt due within one year	(4,237)	-	4,237	-
Debt due after one year	(188,666)	(565)	(18,195)	(207,426)
Total	**(171,455)**	**(2,107)**	**(13,958)**	**(187,520)**

Notes to the consolidated financial statements

1 Significant accounting policies

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

Basis of preparation

The consolidated financial statements of BrightHouse Group Limited and its subsidiaries ("the Group") are approved by the directors and prepared in accordance with UK Generally Accepted Accounting Practice ("UK GAAP") and under the historical accounting rules

BrightHouse Group Limited is incorporated and domiciled in Great Britain The registered address of BrightHouse Group Limited is 5 Hercules Way, Leavesden, Watford, WD25 7GS

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2010 The acquisition method of accounting has been adopted Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

The financial statements are prepared on a going concern basis which the directors believe to be appropriate for the reasons set out below

The BrightHouse Limited Group meets its operational financing requirements by utilising a senior loan facility of £45m and a mezzanine loan facility of £30m These facilities include a number of covenants and the directors have prepared Group trading and cashflow forecasts that take into account reasonably possible changes in trading performance which demonstrate that the Group is able to operate within its current facilities and that current covenants will not be breached over a period of at least 12 months from the date of approval of these financial statements

The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the financial statements The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate

Intercompany transactions, balances and unrealised gains 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

Under section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account

Goodwill

Purchased goodwill representing the excess of the fair value of the consideration given over the separable net assets acquired is capitalised and is amortised on a straight line basis over its estimated useful economic life of 20 years

Investments

In the Company's financial statements investments in subsidiary undertakings are stated at cost

Notes to the consolidated financial statements *(continued)*

1 Significant accounting policies *(continued)*

Foreign currency

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

Tangible fixed assets and depreciation

Depreciation is charged to write off the cost, less any residual value, of tangible fixed assets to the profit and loss account on a straight-line basis over the estimated useful lives

Estimated useful lives

Rental assets	-	equal to the total contract length which may vary from asset to asset
Fixtures, equipment and vehicles (including capitalised software)	-	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 to or disposals of assets pro rated in the year of purchase or disposal

Only direct costs of relevant employees are capitalised as part of systems development costs Such assets are not depreciated until they are brought into use by the Group

Goods for resale

Goods for resale 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 and bringing them to their initial location Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution

Assets acquired for resale are initially recorded within goods for resale on the basis that such assets are available for sale When assets are issued to stores in advance of being hired to customers pursuant to hire and hire-purchase agreements, those assets are then re-categorised as rental assets within tangible fixed assets and depreciated in accordance with the policies set out above

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market

A proportion of the cash and cash equivalents held by the Group's insurance subsidiaries is restricted due to regulatory and solvency requirements

Notes to the consolidated financial statements *(continued)*

1 Significant accounting policies *(continued)*

Impairment

The carrying amount of the Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment If any such indication exists, the asset's recoverable amount is estimated An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount Impairment losses are recognised in the profit and loss account

Financial instruments

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges

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 Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability

Employee benefits

Defined contribution pension plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account as incurred

Equity participation plan

With effect from July 2007, certain directors and employees of the Group were invited to participate in an equity participation plan which allowed them to purchase shares at market value in BrightHouse Group Limited The directors have assessed the terms of the scheme and determined that it is an equity settled scheme in accordance with FRS20 Any compensation expense is recorded based on the fair value at grant date and recognised over the appropriate vesting period Any compensation expense is recognised as an employee expense with a corresponding increase in equity As fair value was equal to market value on grant date, no expense has been recognised

Own shares held by ESOP trust

Transactions of the Company sponsored ESOP trust are treated as being those of the Company and are therefore reflected in the Company's financial statements In particular, the trust's purchase and sale of shares in the Company are debited and credited to equity respectively

Insurance claims

Contracts covering customers against break-down 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 to be 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

Notes to the consolidated financial statements *(continued)*

1 Significant accounting policies *(continued)*

Revenue recognition

Revenue principally comprises revenue from the provision of home electronic and domestic appliances, household furniture and other related products to domestic customers through hire and hire-purchase agreements The Group also derives significant revenues from premiums related to the provision of insurance against breakdown of rented and retailed televisions, domestic appliances and household furniture rented under hire-purchase agreements and sold to customers

Goods are hired to customers pursuant to hire-purchase agreements, often in conjunction with service insurance agreements, which provide for weekly and monthly terms with non-refundable payments Under hire-purchase agreements, the customer has the right to acquire title through a purchase option after payment of all required weekly and monthly payments The majority of customers elect to sign separate service agreements which amongst other benefits enable those customers to return hired goods at any time, without penalty, provided that the goods have been maintained in good condition and all weekly payments that have fallen due have been settled

On this basis transactions are classified as operating leases at the inception of the hire purchase agreement as the majority of the risk 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

The Group accounts for its revenue on an accruals basis for all domestic hire-purchase and service insurance 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 An appropriate provision is made against these 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

Expenses

Operating lease payments

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense and are spread on a straight-line basis over the lease to the first break point

Interest payable and similar charges

Interest payable and similar charges comprise interest payable, interest receivable and foreign exchange gains and losses that are recognised in the income statement Interest income and interest payable is recognised in the profit and loss account as it accrues

Taxation

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

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

Notes to the consolidated financial statements *(continued)*

2 Segmental information

The directors consider that the Group has only one class of business being the sale of goods and services to third party customers The directors consider that there is only one geographical segment being the United Kingdom All revenues are earned from third party customers in the United Kingdom and the United Kingdom as a whole dictates the level of geographical risk and return facing BrightHouse

3 Operating profit

Operating profit has been arrived at after charging

	2010	2009
	£'000	£'000
Depreciation of rental equipment	**60,392**	51,488
Rental assets written off as obsolete or not recoverable from defaulting customers	**10,795**	8,852
Depreciation of other tangible fixed assets	**5,370**	4,719
Amortisation of goodwill	**4,336**	4,336
Net book value of rental assets sold to customers	**2,245**	2,490
Loss on disposal of fixed assets	**-**	799
Hire of other assets – operating leases		
- Property	**10,009**	9,287
- Vehicles	**740**	1,312
- Equipment	**343**	95

Auditors' remuneration	**2010** **£'000**	2009 £'000
Audit of these financial statements	**17**	22
Amounts receivable by auditors and their associates in respect of		
The audit of the Company's subsidiaries pursuant to legislation	**135**	174
Other audit services	**18**	80
Other services relating to taxation	**-**	2

Auditors' remuneration was borne by another Company within the Group

Notes to the consolidated financial statements *(continued)*

4 Staff numbers and costs

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

Group	2010	2009
	Number of employees	
Customer sales and service	**1,678**	1,469
Administration	**147**	127
	1,825	1,596

The aggregate payroll costs of these persons were as follows

Group	2010 £'000	2009 £'000
Wages and salaries	**40,270**	34,939
Social security costs	**3,791**	3,432
Pension contributions	**402**	342
	44,463	38,713

The Company did not employ any staff in the year *(2009 nil)*

5 Directors' emoluments

Group	2010 £'000	2009 £'000
Directors' emoluments	**1,161**	1,070
Pension contributions	**38**	35
	1,199	1,105

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £692,933 *(2009 £614,813)* and Company pension contributions of £25,600 *(2009 £24,000)* were made to a money purchase scheme on his behalf

Notes to the consolidated financial statements *(continued)*

5 Directors' emoluments *(continued)*

Retirement benefits are accruing to the following number of directors under

	2010 Number	2009 Number
Money purchase schemes	2	2

6 Net Interest payable and similar charges

	2010 £'000	2009 £'000
Interest income	33	272
Interest on unsecured loan stock payable to related parties (see note 24)	(12,292)	(10,878)
Other interest expense	(5,263)	(9,167)
	(17,522)	(19,773)

7 Taxation on profit on ordinary activities

	2010 £'000	2009 £'000
UK corporation tax		
Current tax on profit for the year	570	210
Adjustment in respect of prior year	484	(690)
Overseas corporation tax		
Current tax on income for the year	401	(571)
Total current year tax charge/(credit)	1,455	(1,051)
Deferred tax - original and reversal of timing differences	(3,774)	(1,543)
Deferred tax - adjustments in respect of prior year	-	907
Total taxation	(2,319)	(1,687)

The adjustment in respect of prior years mainly relates to the benefit of securing Group relief arrangements post prior year end and other adjustments to the tax provision arising from additional analysis of the Group's tax position

Notes to the consolidated financial statements *(continued)*

7 Taxation *(continued)*

Factors affecting the tax charge for the current year

The current tax charge for the year is higher *(2009 higher)* than the standard rate of corporation tax in the UK of 28% *(2009 28%)* The differences are explained below

	2010	2009
	£'000	£'000
Profit/(loss) on ordinary activities before taxation	**2,980**	(196)
Current UK corporation tax rate of 28%	**834**	(55)
Effect of		
Non-deductible expenses	**1,001**	107
Non-deductible amortisation of goodwill	**1,214**	1,214
Non-deductible interest expense	**3,442**	457
Taxable intercompany profits eliminated on consolidation	**1,935**	1,029
Capital allowances for year less than depreciation	**948**	514
Effect of tax rates in different jurisdictions	**(1,471)**	(3,556)
Adjustments in respect of prior years	**483**	(690)
Other temporary timing differences	**2,203**	-
Group relief	**(9,134)**	(71)
Current tax charge/(credit) for the year	**1,455**	(1,051)

Notes to the consolidated financial statements *(continued)*

8 Tangible fixed assets

Group

Cost	Rental assets £'000	Fixtures, equipment & vehicles £'000	Total £'000
Balance at beginning of year	84,517	21,342	105,859
Additions	85,685	12,624	98,309
Disposals	(59,362)	-	(59,362)
Balance at 31 March 2010	**110,840**	**33,966**	**144,806**
Depreciation			
Balance at beginning of year	8,160	5,969	14,129
Depreciation charge for the year	60,392	5,370	65,762
Disposals	(46,322)	-	(46,322)
Balance at 31 March 2010	**22,230**	**11,339**	**33,569**
Net book value			
At 31 March 2010	**88,610**	**22,627**	**111,237**
At 31 March 2009	76,357	15,373	91,730

9 Goodwill

Group	**Goodwill £'000**
Cost	
At beginning of year and end of year	**86,721**
Amortisation	
At beginning of year	7,407
Charge for year	4,336
At end of year	**11,743**
Net book value	
At 31 March 2010	**74,978**
At 31 March 2009	79,314

Goodwill arising from the acquisition of BrightHouse Limited and its subsidiary undertakings is amortised on a straight line basis over 20 years as this is the period over which the value of the underlying business acquired is expected to exceed the value of its identifiable net assets Following an assessment of the carrying value of goodwill, management are satisfied that there is no indication of impairment

Notes to the consolidated financial statements *(continued)*

10 Fixed asset investments

Company

	2010	2009
	£'000	£'000
Cost and net book value		
At beginning of year and at end of year	**6,645**	6,645

The businesses set out below are those that in the opinion of the directors significantly affected the Company's results and net assets during the year (* denotes held indirectly through subsidiary)

	Country of incorporation	Principal activity	Percentage of ordinary shares held
BrightHouse Holdings Limited	England	Holding Company	100
BrightHouse Limited*	England	Holding Company	100
Caversham Finance Limited*	England	Rental of domestic equipment	100
Caversham Insurance Limited*	Guernsey	Insurance	100
Caversham Insurance (Isle of Man) Limited*	Isle of Man	Insurance	100
Caversham Insurance (Malta) Limited*	Malta	Insurance	100
Caversham Holdings (Malta) Limited *	Malta	Holding Company	100
Caversham Trading Limited*	England	Rental of domestic equipment	100

Following an assessment of the carrying value of investments, management are satisfied that there is no indication of impairment

11 Goods for resale

Group

	2010	2009
	£'000	£'000
Goods held for resale at cost	**5,162**	2,817

Notes to the consolidated financial statements *(continued)*

12 Debtors

Group

	2010	2009
	£'000	£'000
Amounts falling due within one year		
Trade debtors	**12,982**	10,855
Other debtors	**1,183**	1,364
Deferred tax asset	**11,373**	7,599
Prepayments and accrued income	**5,951**	5,055
	31,489	24,873
Amounts falling due after more than one year		
Trade debtors	**8,685**	7,767
	40,174	32,640

Trade receivables primarily comprise VAT recoverable which is paid on the of the full value of assets acquired by customers under hire and hire-purchase agreements when the contracts commence and are recovered from customers over the full length of these agreements or from HMRC on customer default

	2010	2009
	£'000	£'000
Group deferred tax		
At beginning of year	**7,599**	6,963
Credit to the profit and loss for the year	**3,774**	636
At end of year	**11,373**	7,599

The elements of deferred taxation are as follows

	2010	2009
	£'000	£000
Difference between accumulated depreciation and amortisation and capital allowances	**2,362**	395
Unrealised profit on intercompany trading	**9,011**	7,204
Deferred tax asset	**11,373**	7,599

Notes to the consolidated financial statements *(continued)*

13 Cash at bank and in hand

Included within cash at bank and in hand is restricted cash of £666,000 *(2009 £666,000)* The restricted cash represented cash at bank held by entities who supply insurance related services within the Group which is restricted due to regulatory and solvency requirements

14 Creditors: amounts falling due within one year

Group

	2010	2009
	£'000	£'000
Unsecured 15% loan stock issued to related parties (see note 25)	**-**	4,237
Trade creditors	**8,275**	10,828
Corporation tax	**1,251**	441
Other taxes and social security	**8,748**	3,319
Other creditors	**374**	362
Interest rate swap	**-**	1,250
Accruals and deferred income	**10,881**	9,631
	29,529	30,068

Company

	2010	2009
	£'000	£'000
Amounts due to Group undertakings	**385**	259

The 15% unsecured loan stock has been recorded as a creditor due after more than one year in the current year but recognised as a current liability in the prior year as an amendment to the early redemption clause was agreed post prior year end

Notes to the consolidated financial statements *(continued)*

15 Creditors: amounts falling due after more than one year

Group	2010 £'000	2009 £'000
Senior loan facility	**39,219**	38,363
Mezzanine loan facility	**35,117**	33,741
Unsecured 10% loan stock issued to related parties (see note 25)	**128,218**	116,562
Unsecured 15% loan stock issued to related parties (see note 25)	**4,872**	-
	207,426	188,666

Terms and debt repayment schedule

The unsecured 10% loan stock is redeemable on 18 July 2036 and forms part of the investment made in the Group by funds advised by Vision Capital LLP (see note 25 Related Parties) The unsecured loan stock can be redeemed at an earlier date by either party, at which time the stock and any accrued and unpaid interest will become payable The amount above includes £8,431,000 of accrued interest

The terms of the unsecured loan stock are such that the lender must give 12 months notice of proposed early redemption unless the following conditions apply

- if the ownership of the Group has changed, or
- if the Group fails to pay amounts due under the senior or mezzanine loan facility agreements of BrightHouse Limited and Caversham Finance Limited, or
- if more than 6 months have passed since the Group has fully settled either the senior or mezzanine loan facilities of BrightHouse Limited and Caversham Finance Limited

The unsecured 15% loan stock was issued on 10 October 2008 for a period of 29 years and forms part of the investment made in the Group by funds advised by Vision Capital LLP (see note 25 Related Parties) This period may be extended or reduced at the discretion of the stock holder The amount above includes £323,000 of accrued interest

Since the end of the year, the parties to the unsecured loan stock agreement have agreed to amend the terms of the loan such that the holder must now give 12 months notice of proposed early redemption unless the following conditions apply

- If the ownership of the Group has changed, or
- if the Group fails to pay amounts due under the senior or mezzanine loan agreements of BrightHouse Limited and Caversham Finance Limited, or
- if more than 6 months have passed since the Group has fully settled either the senior or mezzanine loans of BrightHouse Limited and Caversham Finance Limited

The Group has a financing agreement with Landsbanki Islands HF This agreement provides a senior facility of £45m and mezzanine facility of £35 1m (£30m initial facility and £5 1m rolled up interest), both secured by the assets of the Group These loans are repayable in July 2012 The senior loan carries interest at Libor + 6% The mezzanine loan carries interest at Libor + 4% (Cash) + 5 5% (PIK)

As at 31 March 2010 the Group had un-drawn committed facilities available to it of £5 9m in respect of which all conditions precedent had been met and all covenants complied with

Notes to the consolidated financial statements *(continued)*

16 Employee benefits

Equity settled share-based payments

With effect from July 2007, certain directors and employees of the Group were invited to participate in an equity participation plan in which allowed them to purchase shares at market value in BrightHouse Group Limited The directors have assessed the terms of the scheme and determined that it is an equity settled scheme in accordance with FRS20 The shares were sold to the participants at market value and the directors have assessed that the fair value of the shares on the date of purchase to be equal to the market value and accordingly, no compensation expense has been recorded

Participants are obliged to hold their shares until such time as they are required to sell their shares as set out in the scheme agreement

17 Pension scheme

Defined contribution scheme

In the year to 31 March 2010, total contributions were £402,000 *(2009 £342,000)* There were no accrued contributions at the year end *(2009 £nil)*

18 Contingent liabilities

VAT

The Group makes a mixture of exempt and taxable supplies and uses a partial exemption method to calculate the amount of recoverable VAT incurred on costs which relate to taxable supplies In July 2004, HMRC issued a partial exemption special method override notice which, if accepted without challenge, would have the effect of increasing annual irrecoverable VAT Following the reorganisation of the Group's operations on 3 April 2006, the Group's partial exemption method has been revised and HMRC is currently challenging internal pricing arrangements within the Group The directors are seeking advice in respect of the partial exemption arrangements to ensure the Group is in a robust and sustainable position and has undertaken all necessary steps to ensure, as much as practicable, that the current structure operates as intended Negotiations with HMRC to resolve this matter remain ongoing and, as at the date of approval of these accounts, the discussions are not sufficiently advanced to be able to determine the likely outcome or the potential impact

Cross guarantee

There is a first priority fixed and floating cross guarantee over the assets of the Group in favour of Landsbanki Islands HF

Notes to the consolidated financial statements *(continued)*

19 Capital and reserves

Reconciliation of movement in capital and reserves

Group	Share capital £'000	Share premium £'000	Profit and loss account £'000	Total Group equity £'000
Balance at beginning of year	65	6,454	2,696	9,215
Profit for the year	-	-	5,299	5,299
Purchase of own shares	-	(12)	-	(12)
Balance at 31 March 2010	**65**	**6,442**	**7,995**	**14,502**

Company	Share Capital £'000	Share premium £'000	Profit and loss account £'000	Total company equity £'000
Balance at beginning of year	65	6,454	(133)	6,386
Loss for the year	-	-	(114)	(114)
Purchase of own shares	-	(12)	-	(12)
Balance at 31 March 2010	**65**	**6,442**	**(247)**	**6,260**

The share premium account is used to record amounts received in excess of the nominal value of shares on issue of new shares

The shares purchased during the current financial year are held by an employee share trust for distribution to certain employees and directors as part of the employee participation plan

Share capital

	2010 £'000	2009 £'000
Allotted, called up and fully paid		
5,790,720 A Ordinary shares of £0 01 each	**58**	58
865,280 Ordinary shares of £0 01 each	**8**	8

Shares are allocated between the two share classes when fully paid 'A Ordinary shares' are controlled by VCP VI B (see note 25 Related parties) and 'Ordinary shares' are controlled by management. The two classes of shares are treated equally for voting and dividends In the event of sale of the business (subject to certain rules described in the Articles of Association) the participation of the management in the proceeds could be increased by converting a number of A Ordinary shares into 'Deferred shares' 'Deferred shares' receive a nominal amount of 1 pence for all 'Deferred shares'

Notes to the consolidated financial statements *(continued)*

20 Reconciliation of movement in shareholders' funds

	Group		Company	
	2010	2009	**2010**	2009
	£000	£000	**£000**	£000
Profit/(loss) for the financial year	**5,299**	1,491	**(114)**	(128)
Retained profit/(loss)	**5,299**	1,491	**(114)**	(128)
Consideration paid for the purchase of own shares	**(12)**	(131)	**(12)**	(131)
Net addition to /(reduction in) shareholders' funds	**5,287**	1,360	**(126)**	(259)
Opening shareholders' funds	**9,215**	7,855	**6,386**	6,645
Closing shareholders' funds	**14,502**	9,215	**6,260**	6,386

21 Operating leases

The Group as a lessee

Annual commitments under non-cancellable operating leases are as follows

	2010		2009	
	Land and buildings	**Other**	Land and buildings	Other
	£'000	**£'000**	£'000	£'000
Less than one year	**580**	**277**	271	90
Between two and five years	**3,376**	**1,611**	3,267	1,436
More than five years	**8,005**	**-**	6,224	-
	11,961	**1,888**	9,762	1,526

During the year £11,092,000 *(2009 £10,694,000)* was recognised as an expense in the profit and loss account in respect of operating leases

The Group as a lessor

When customers enter into rental agreements the majority also enter into an additional optional insurance arrangement which entitles them to return assets with no further payments falling due and with no penalties incurred On this basis the transactions are treated as being an operating lease 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

Notes to the consolidated financial statements *(continued)*

22 Reconciliation of operating profit to operating cash flows

	2010 £'000	2009 £'000
Operating profit	**20,502**	19,577
Depreciation	**65,762**	56,205
Amortisation of goodwill	**4,336**	4,336
Net book value of rental asset disposals	**13,040**	11,342
Loss on disposal of fixed assets	**-**	799
(Increase)/decrease in goods for resale	**(2,345)**	957
Increase in debtors	**(3,760)**	(3,738)
Increase in creditors and provisions	**4,139**	2,508
Net cash inflow from operating activities	**101,674**	91,986

23 Analysis of cash flows

	2010 £'000	2009 £'000
Returns on investments and servicing of finance		
Net interest paid	**(4,815)**	(5,293)
Net cash outflow for returns on investments and servicing of finance	**(4,815)**	(5,293)
Taxation	**(645)**	(1,683)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(98,309)**	(87,920)
Net cash outflow for capital expenditure and financial investment	**(98,309)**	(87,920)
Financing		
Purchase of own shares	**(12)**	(131)
New loans	**565**	15,993
Net cash inflow from financing	**553**	15,862

Notes to the consolidated financial statements *(continued)*

24 Capital commitments

There were no capital commitments at the end of the year and consequently no provision has been made *(2009 £nil)*

25 Related parties

Identity of related parties

Vision Capital Partners VI B LP (VCP VI B), a Scottish Limited Partnership acting through Haig Luxembourg HoldCo S a r l , (Haig Luxembourg HoldCo) a Company incorporated in Luxembourg, are related parties by virtue of the fact that since 18 July 2007 they controlled the majority of the share capital of BrightHouse Group Limited, the largest Group of which the Company is a member and for which accounts are 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 VCP VI B

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

	Interest accrued £'000	Amounts owed to related parties £'000
Haig Luxembourg HoldCo	8,754	133,039
R Pym (Chairman)	3	51
	8,757	**133,090**

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 year the Group paid £992,000 to First Quench Retailing Limited (ultimately controlled VCP VI B) for losses surrendered as Group relief *(2009 £560,000)*

26 Ultimate parent Company and parent Company of larger Group

Haig Luxembourg HoldCo is the ultimate parent Company BrightHouse Group Limited heads the largest Group in which the results of the Company are consolidated The ultimate controlling party is Vision Capital Partners VI B LP (VCP VI B), a Scottish Limited Partnership