Registered no: 06250176

BrightHouse Group Limited

(Formerly BrightHouse Group Plc)

Report and Financial Statements

31 March 2018

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Chairman's statement

"BrightHouse has made good progress in establishing a solid foundation for the future."

Although the last year was one in which BrightHouse faced many challenges, it was also when the business overcame some significant hurdles on its journey back towards growth.

On Friday 2nd February 2018, we announced the successful refinancing of our corporate bond, and also received confirmation of our full authorisation from the Financial Conduct Authority (FCA).

The refinancing saw our bondholders exchanging half of their investment for a majority stake in the company. This effectively halved our corporate debt and extended the maturity of the bond until May 2023 and we are currently negotiating with several parties to secure an additional short term capital facility which is discussed further our Strategic report. I would like to pay tribute to Vision Capital, the previous majority owners of the business, who had stewarded the company for many years and constructively engaged in the refinancing process.

As expected, the FCA confirmed our authorisation immediately after the refinancing was finalised. This followed their announcement on 5th April 2017 that they were "minded to authorise" BrightHouse's business subject to a number of conditions, including our refinancing and the continued adherence to our business plan. Authorisation was a powerful endorsement of the way we operate as a business and our treatment of customers.

Part of our work with the FCA was to undertake a review to identify customers who may have been adversely affected by past business practices. This led to our confirmation in October of a £14.8 million redress scheme. Although this was a difficult time for our business and especially our store colleagues, it was important to our long-term relationship with our customers that we remediated for our past failings and apologised.

In line with our business plan, trading continued to be subdued due to the tighter lending criteria and new affordability processes we introduced in the previous financial year. As expected, this led to a further reduction in both revenue and EBITDA, to £284.7 million and £3.0 million respectively. The reported loss before tax and exceptional items was £29.8 million.

Investment for the future has continued with a tight focus on activities that bring maximum customer benefit. Foremost among these was the launch of our fully transactional website to both new and existing customers. Our new eCommerce capabilities allow, for the first time, customers to choose a product, undertake affordability assessments, ID and credit checks before signing their agreement and arranging delivery. And all from their sofa.

Through the year, a rigorous examination of costs and store performance, when store leases come up for renewal has led to: favourable terms being negotiated in 18 cases; three stores being re-sited to premises with lower overall costs; and two stores closing.

Market demand for our offering remains strong. Without access to the cash to buy vital, everyday products such as washing machines, there are millions of people in the UK who need some form of credit. Our customers are excluded by mainstream leaders by virtue of their income and credit history. This is the space in which we are proud to operate.

External challenges remain, with the recent release of the High Cost Credit consultation paper. However, we have delivered our FY17/18 results in line with the agreed business plan. This is due to the dedication and hard work of our people and I would like to thank them for their commitment to our customers and to BrightHouse.

Henry Staunton
Chairman of BrightHouse TopCo Limited

Strategic Report

Principal activity and review of the business

BrightHouse offers customers access to high-quality branded household goods with affordable weekly payments, professional in-store attention and a comprehensive after sales service via 281 stores across the UK. Products and financial services are wrapped together into a straightforward proposition, which is clearly explained to customers, with insurance and after sales service options available. 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.

All 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 during the financial year focused on:

- Achieving regulatory authorisation through consistent delivery of compliant business practices and constructive engagement with the Financial Conduct Authority (FCA).
- Giving the Group firm financial footings by refinancing or restructuring the £220 million corporate bond.
- Executing our agreed business plan through revenue growth and cost management.

The first two of these were achieved on 2nd February 2018. The FCA confirmed our authorisation once we were able to announce that our bondholders had agreed a refinancing of the Group's £220 million senior secured notes, which had been due to mature in May 2018. The refinancing resulted in our bondholders taking control of the equity in the company in exchange for roughly halving and extending of the corporate bond.

Central to our business plan is the object to return to positive customer growth, improve margins and develop a multi-channel operation. During the year, we launched a fully transactional website that allows both new and existing customers to sign up online without visiting a store. Looking forward, we anticipate making further propositional changes to target adjacent facets of customer demand and further rationalisation of the store network as customers migrate to the online channel.

Cost management is another strategically important aspect of our focus over the year. Active management of lease renewal and lease breaks has led to significantly reduced costs through closures, relocations and renegotiations on both stores and engineering centres.

As we look ahead there are two areas of uncertainty which could impact the business. Firstly the Group is currently seeking a revolving credit facility to address short term funding requirements. We are currently in negotiations with several parties to secure a super senior £35m facility as permitted within our current bond documentation. Further detail can be found in note 1 to the accounts.

Strategic Report

Principal activity and review of the business (continued)

Strategy (continued)

The second uncertainty is in relation to the FCA's publication of an update to their review on the high cost credit market on 31 May 2018. The FCA indicated that they intend to complete further work on whether a price cap would be suitable for the rent to own market, including consulting with companies operating in this market. They have also proposed a restriction on warranty sales at the point of selling the product. We will work with the regulator through the consultation process, and in the meantime we are developing a range of available options to change our customer proposition in response to detailed proposals from the FCA. However, at the date of signing the accounts, we do not know what the FCA's conclusions will be.

Trading Environment

The 2017/18 financial year was a tough trading environment. The enhanced affordability checks required by the FCA and the advance of online shopping continues to require retailers to offer fully transactional websites for their customers who no longer wish to visit stores to purchase products. Our transactional website was launched during the period and has already been successful in recruiting customers without the need for a store visit.

Our new contract, launched in February 2017, continues to be well received by customers who appreciate the flexibility the contract gives them.

Regulatory Environment

Our market continues to be under close supervision by external parties who wish to influence the way we work. We seek to work proactively and constructively with them in order to meet the needs of our customers who have limited alternative credit options.

On 2 February 2018 we became fully authorised by the FCA after first submitting our application in May 2015. On 24 October 2017 we also announced our £14.8 million Redress scheme covering first week refunds owed to customers and payments where customer's circumstances had not been properly assessed.

On 31 May 2018 the FCA issued a consultation paper as part of their High-cost Credit Review. For rent-to-own, this included a suggestion to ban the sale of extended warranties at the point of sale and a proposal to consider the introduction of a price cap from April 2019. We continue to engage constructively with the FCA through the consultation period, which lasts until Autumn 2018.

We await the final decision by the FCA when we will be able to assess the impact on our business model. This is further discussed in note 1 to the notes to the financial statements.

Financial Performance

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

	2018	*2017*	*2018 vs 2017*	
	£000	*£000*	*£000*	*%*
Revenue	284,711	320,121	(35,410)	(11.1)
Gross profit	140,666	162,495	(21,829)	(13.4)
Gross profit margin	49.4%	50.8%		
Net operating expenses before exceptional items	(150,214)	(163,666)	13,452	8.2
EBITdA before exceptional items	3,037	11,717	(8,680)	(74.1)

Revenue

Our revenue decreased by £35.4 million, or 11.1%, to £284.7 million for the year ended 2018 from £320.1 million for the year ended 2017. This decrease was primarily due to the impact of stricter affordability processes and tightened credit criteria, which have impacted significantly on the acceptance and successful conversion of customer applications over the past year.

Strategic Report

Principal activity and review of the business (continued)

Cost of sales

Our cost of sales decreased by £13.6 million, or 8.6%, to £144.0 million (50.6% of revenue) for the year ended 2018 from £157.6 million (49.2% of revenue) for the year ended 2017 which is primarily due to the year-on-year reduction in rental asset depreciation, a decrease in the carrying value of rental assets written off and reduced expenditure on rental asset maintenance.

Gross profit and gross profit margin

Our gross profit decreased by £21.8 million, or 13.4%, to £140.7 million (49.4% of revenue) for the year ended 2018 from £162.5 million for the year ended 2017 (50.8% 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 10.1% for the year ended 2017 to 12.3% for the year ended 2018.

Net operating expenses before exceptional items

Our operating expenses decreased by £13.4 million, or 8.2%, to £150.2 million (52.8% of revenue) for the year ended 2018 from £163.7 million (51.1% of revenue) for the year ended 2017, primarily due to the reduced store base year-on-year.

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 74.1% from £11.7m in 2016/17 to £3.0m in 2017/18. A reconciliation of EBITdA before exceptional items to operating loss is provided below:

	2018	*2017*
	£000	*£000*
BrightHouse Group Limited EBITdA before exceptional items	3,037	11,717
Depreciation of fixtures and equipment and amortisation	(12,585)	(12,685)
Loss on disposal of intangible assets	-	(203)
Exceptional items:		
Impairment of goodwill	-	(74,978)
Historic unaffordable lending	(7,082)	-
Affordability action plan	(940)	(6,275)
Vacant and onerous lease provisions	(1,333)	(3,417)
Loss on disposal and impairment of fixtures and equipment	(334)	(2,590)
Restructuring	(2,029)	(687)
BrightHouse Group Limited reported operating loss	(21,266)	(89,118)

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

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

Principal activity and review of the business (continued)

	2018	*2017*
Customer/Agreement Data		
Total customers (thousands)[(1)]	202.9	232.0
Total Gross Dues for the year (in millions of £)[(2)]	20.6	14.8
Closing Dues base (in millions of £)[(2)]	25.9	26.6
Average number of contracts per customer[(3)]	2.61	2.63
Average revenue per customer per month[(4)]	£127.69	114.71
Stores		
Number of stores	281	283
Contract Portfolio (in millions of £)[(5)]	389.6	403.8

(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 12.5%, from 232,000 as at 31 March 2017 to 202,900 as at 31 March 2018. Customer additions have been impacted by the more demanding regulatory environment and changes made to the application process. Stricter affordability processes and tightened credit criteria have impacted significantly on the Group's acceptance and successful conversion of applications.

Total Gross Dues

Total Gross Dues increased by 39.2% to £20.6 million for the year ended 2018 from £14.8 million for the year ended 2017. The increase is due to the development of new automated affordability processes, as discussed above, and the change in customer proposition, allowing greater flexibility, shorter terms and choice for the customer.

Strategic Report

Principal activity and review of the business (continued)

Closing Dues base

The Closing Dues base decreased by 2.6% to £25.9 million as of 31 March 2018 from £26.6 million as of 31 March 2017. Although Gross Dues performance has improved, this was adversely impacted by the termination of existing contracts.

Average number of contracts per customer

Average number of contracts per customer decreased to 2.61 as of 31 March 2018 compared to 2.63 as of 31 March 2017. The decrease of this metric is primarily due to extended sign-up policies, adversely impacting application volumes and acceptance and conversion rates as existing customers adapted to the new affordability requirements. Simplification measures have since automated affordability processes and are having a positive impact on application volumes.

Number of stores

The Group closed 2 of its stores across the UK in the year ended 2018, 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 which allowed existing customers to apply for additional products.

Contract Portfolio

The value of our Contract Portfolio as of 31 March 2018 was £389.6 million, representing a decrease of 3.5% compared to £403.8 million as of 31 March 2017. This decrease is due to the introduction of new affordability processes and lending criteria reducing sign-up volumes, as described above.

Principal risks and uncertainties

Risk Strategy

The Group has invested considerable time implementing and beginning to embed its Risk Management Framework and processes. An iterative Risk Management process has been put 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. A separate Risk Committee was introduced to ensure that sufficient risk management policies, processes and controls are in place.

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 strategic in nature, these are determined by the Executive Committee and ratified by the Board. Divisional Risks (level 2) are operational in nature, and impact a specific departments or specialist risk areas such as Financial Crime or Information Security. Level 3 registers relate to projects, and are owner by the relevant Project Sponsor.

The Audit and Risk Committee helps 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 developed and 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.

Strategic Report

Principal risks and uncertainties (continued)

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, most notably Redress and achieving FCA authorisation. The most notable financial risk has been the refinancing of the business to address the £220m senior secured notes due for repayment in May 2018 which was completed in February 2018.

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 in place.
- Ongoing liaison with suppliers and trade creditors to ensure strong relationships.
- Our new £115m bond allows for £35m of additional funding which is allowed to be super senior to the existing debt.
- We have developed a mitigation strategy to remain cash positive if we are unable to acquire an RCF, which is discussed further in note 1 to the financial statements which explains the uncertainties in relation to going concern.

Unaffordable Lending Complaints

Risk: The risk that BrightHouse receives significant numbers of unaffordability complaints following the Redress announcement, and is unable to manage incoming volumes.

Mitigation:

- Experienced complaint handlers on boarded to manage affordability complaint volumes.
- Administration team set up to support complaint handlers.
- First and Second Line monitoring of Complaints process.
- Redress project sponsored by the CRO and supported by a Steering Committee.

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

Strategic Report

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 any impacts from the high cost credit review as the FCA have indicated that they intend to complete further work on whether a price cap would be suitable for the rent to own market. They have also proposed a restriction on warranty sales as at the point of selling the product. At this stage we do not know what the outcomes will be. This is represents a material uncertainty to the business which is discussed further in note 1 to the financial statements which explains the uncertainties in relation to going concern.

Mitigation:

- Compliance function in place which monitor compliance with relevant regulations and report 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 potential impacts of High Cost Credit review
- Redress project sponsored by the CRO and supported by a 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

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, practices 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

Strategic Report

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 overseeing 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: The BrightHouse brand becomes toxic as a result of negative public relations caused by further regulatory investigations (such as Redress and the High Cost Credit Review), and leads to an inability to sell products and services, and compromises growth and profitability.

Mitigation:

- Public Relations team acts both reactively and also 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.

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

Strategic Report

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. BrightHouse is a lifetime member of the Plain English Campaign.

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.

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.

Strategic Report

Corporate responsibility (continued)

Charitable causes

During the year BrightHouse colleagues worked to raise funds for the Group's chosen national charity, the NSPCC. The NSPCC exists to protect children from cruelty, support vulnerable families, campaign for changes to the law and raise awareness about abuse. This year, across the country, BrightHouse colleagues have energetically led or participated in fundraising events.

The Group matches the funds raised by our colleagues, enabling a total contribution of £45,500 to be raised for the NSPCC. Once again, a highlight of the year was a team of BrightHouse colleagues running the 2017 London Marathon for the charity.

In addition, BrightHouse supported 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.

By order of the Board

D Harwood
Secretary
26 July 2018

5 Hercules Way
Leavesden Park
Watford
WD25 7GS

Directors' report

The directors present their report and financial statements for the year ended 31 March 2018. These financial statements have been prepared under the International Financial Reporting Standards as adopted by the European Union.

Results and dividends

The profit for the year after taxation amounted to £6,654,000 (2017 – loss after taxation of £104,959,000). The directors do not recommend the payment of a final dividend (2017 – £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 12. 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 February 2018, the Group successfully completed both its FCA authorisation and refinancing. The new bond, with a maturity in 2023 and without financial covenants, provides security to our capital structure in the period under review.

Short term funding requirements

The five year business plan prepared for the refinancing indicated the requirement for an additional short term capital facility to deliver the plan and address a funding shortfall in November 2018. To address this shortfall, the Directors are currently negotiating with several parties to secure an additional facility. The Group is permitted to obtain such a facility of up to £35m within the current bond documentation. As the bond agreement allows for such a facility to be super senior, the Board is confident that there will be appetite in the market to provide such a credit facility. Furthermore, following completion of due diligence by one of these parties, the Group has now received a credit committee approved indicative term sheet from that party.

The Directors have identified a series of mitigating actions, should an additional facility not be secured. The flexibility in the business operating model means that discretionary items of capital expenditure and the purchase of new items of inventory can be delayed to improve cash flows and mitigate the projected cash shortfall. The Group's contract portfolio represents a highly stable income stream and stands at £384m as at 26 May 2018. As a result of this ability to flex the operating model to manage cash flows, the Directors believe the Group will have sufficient cash available during the period under review, even should no additional facility be secured, but before considering the impact of the High Cost Credit review discussed below.

High Cost Credit Review

On 31 May 2018 the FCA published an update to their review on the high cost credit market. The FCA indicated that they intend to complete further work on whether a price cap would be suitable for the rent to own market, including consulting with companies operating in this market. They have also proposed a restriction on warranty sales at the point of selling the product. We will work with the regulator through the consultation process, and in the meantime we are developing a range of available options to change our customer proposition in response to detailed proposals from the FCA. However, at the date of signing the accounts, we do not know what the FCA's conclusions will be.

Directors' report

Going concern (continued)

Although we cannot predict the outcome of the High Cost Credit review, we have modelled scenarios based on actions taken by the FCA in the payday lending sector and those taken by an overseas regulator in the rent to own sector, along with the expected effect on the proposition we offer customers. These forecasts indicate that the Group would need to secure an additional facility as described above, as well as make changes to its business model, in order to mitigate the effect of the hypothetical scenarios modelled. Whilst the Directors believe that the business proposition can be successfully adapted to be compliant with the future regulatory environment, and commercially viable, clearly there is significant judgement involving customer reaction to any changes in business proposition, which cannot be modelled with certainty.

Considering all the above, the directors believe that the availability of short term funding and the potential impact on the business model of the High Cost Credit review represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Notwithstanding these uncertainties, the Directors expect that an additional facility will be secured and believe that the business model can be successfully adapted to meet future regulatory requirements, and therefore that the business continues to be a going concern. These financial statements have been prepared on a going concern basis and do not contain adjustments that would result if the Group were unable to continue as a going concern.

Directors

The directors who served during the year were those listed below:

H S Paton	
A M Maby	
H E Staunton	(Resigned 2 February 2018)
D J Lamb	(Resigned 2 February 2018)
A J Brown	(Resigned 2 February 2018)
M N B Thompson	(Resigned 2 February 2018)

On 2 February 2018 the non-executive directors of BrightHouse Group Limited transferred to BrightHouse TopCo Limited, the new ultimate controlling party of the group. Within BrightHouse TopCo Limited there continues to be an Audit & Risk Committee and a Remunerations & Nominations Committee

Political and charitable contributions

The Group made charitable contributions of £62,000 (2017 – £255,000) 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 (2017 – £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

Disclosure of information to the auditors

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.

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and Ernst & Young LLP will therefore continue in office.

By order of the Board

D Harwood
Secretary
26 July 2018

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 period. 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; and
- 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.
- 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 auditors' report

to the members of BrightHouse Group Limited

Opinion

We have audited the financial statements of BrightHouse Group Limited ('the parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Group income statement, Group statement of comprehensive income, the Group and Parent Company statement of financial position, the Group and Parent Company statement of changes in equity, the Group and Parent Company statement of cash flows the related notes 1 to 35, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 31 March 2018 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;

- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union in accordance with the provisions of the Companies Act 2006; and

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, 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 in relation to going concern

We draw attention to note 1 in the financial statements, which indicates the uncertainties relating to the short term funding requirements and the outcome of the Financial Conduct Authority's High Cost Credit consultation announced on 31 May 2018 and the impact this may have on the company's current business model. As stated in note 1, these events or conditions, along with the other matters as set forth in note 1, indicate that material uncertainties exist that may cast doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 16, 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.

Independent auditors' report

to the members of BrightHouse Group Limited

Auditor's responsibilities for the audit of the financial statements

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

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

Use of our report

This report is made solely to the 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.

Ernst & Young LLP

Anup Sodhi (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor

Luton

26/7/18.

Group income statement

for the year ended 31 March 2018

		Year ending 31 March 2018			*Year ending 31 March 2017*		
	Notes	*Before Exceptional items £000*	*Exceptional items £000*	*Total £000*	*Before Exceptional items £000*	*Exceptional items £000*	*Total £000*
Revenue	4	284,711	–	284,711	320,121	–	320,121
Cost of sales		(144,045)	–	(144,045)	(157,626)	–	(157,626)
Gross profit		140,666	–	140,666	162,495	–	162,495
Operating expenses		(150,214)	(11,718)	(161,932)	(163,666)	(87,947)	(251,613)
Operating loss	5	(9,548)	(11,718)	(21,266)	(1,171)	(87,947)	(89,118)
Finance income	8	80	–	80	155	–	155
Finance expense	8	(20,294)	–	(20,294)	(22,204)	–	(22,204)
Release of debt	16	–	45,675	45,675	–	–	–
Profit/(loss) before taxation		(29,762)	33,957	4,195	(23,220)	(87,947)	(111,167)
Tax credit	9	7	2,452	2,459	5,025	1,183	6,208
Profit/(loss) for the year		(29,755)	36,409	6,654	(18,195)	(86,764)	(104,959)

The results shown above all relate to continuing activities.

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

Group statement of comprehensive income

for the year ended 31 March 2018

	2018 £000	*2017 £000*
Profit / (Loss) for the year	6,654	(104,959)
Other comprehensive income for the year net of tax	–	–
Total comprehensive income for the year net of tax	6,654	(104,959)

Group statement of financial position

at 31 March 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Property, plant and equipment	10	112,546	117,029
Intangible assets	11	20,314	18,589
Trade and other receivables	14	11,086	12,579
Deferred tax assets	12	13,164	10,650
		157,110	158,847
Current assets			
Inventories	13	13,498	13,290
Trade and other receivables	14	42,723	36,202
Cash and cash equivalents	15	19,961	77,796
		76,182	127,288
Total assets		233,292	286,135
Current liabilities			
Trade and other payables	17	32,501	42,207
Other provisions	18	13,574	16,307
Current tax payable		802	857
		46,877	59,371
Non-current liabilities			
Financial liabilities	16	115,091	255,268
		115,091	255,268
Total liabilities		161,968	314,639
Net assets / (liabilities)		71,324	(28,504)
Equity attributable to equity holders of the parent			
Share capital	20	1,294	50
Share premium		72,598	552
Capital redemption reserve		57	57
Own shares reserve		–	(296)
Capital contribution reserve		39,274	–
Retained earnings		(41,899)	(28,867)
Total equity		71,324	(28,504)

These financial statements were approved by the board of directors on 26 July 2018 and were signed on its behalf by:

A M Maby
Director

Group statement of changes in equity

at and for the year ended 31 March 2018

	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 2016	50	552	(296)	76,092	57	–	76,455
Loss for the year	–	–	–	(104,959)	–	–	(104,959)
At 31 March 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)	–	–	–
Comprehensive income for the year	–	–	–	6,654	–	–	6,654
At 31 March 2018	1,294	72,598	–	(41,899)	57	39,274	71,324

Group statement of cash flows

for the year ended 31 March 2018

	Notes	*2018* *£000*	*2017* *£000*
Cash flows from operating activities			
Profit / (Loss) for the year		6,654	(104,959)
Adjustments for:			
Sales proceeds from sales of rental assets		2,334	2,530
Depreciation		90,923	104,840
Amortisation of intangible assets		9,030	7,228
Impairment of goodwill		–	74,978
Impairment of fixtures and equipment		334	1,167
Financial income		(80)	(155)
Financial expense		20,294	22,204
Profit on rental assets sold to customers		(1,945)	(1,119)
Rental assets written off as obsolete or not recoverable from defaulting customers		23,764	24,881
Purchase of rental assets		(109,845)	(86,882)
Gain on release of debt	16	(45,675)	–
Loss on disposal of fixtures and equipment		–	1,423
Loss on disposal of intangible assets		–	203
Taxation		(2,459)	(6,208)
Operating cash (outflow) / inflow before changes in working capital		(6,671)	40,131
(Increase) / Decrease in trade and other receivables		(5,083)	18,509
(Increase) / Decrease in inventories		(208)	5,793
Decrease in trade and other payables		(4,730)	(9,191)
(Decrease) / Increase in provisions		(2,822)	13,207
Cash generated from operations		(19,514)	68,449
Tax (paid) / reclaimed		(110)	459
Net cash flow from operating activities		(19,624)	68,908
Cash flows from investing activities			
Interest received		80	67
Purchase of property, plant and equipment		(1,081)	(2,802)
Payments to acquire intangible assets		(10,755)	(12,232)
Net cash out flow from investing activities		(11,756)	(14,967)
Cash flows from financing activities			
Interest paid		(17,324)	(17,514)
Cost of refinancing	16	(8,749)	-
Repayment of term loan	16	(2,845)	–
Issuance of share capital	16	2,463	–
Net cash out flow from financing activities		(26,455)	(17,514)
Net increase in cash and cash equivalents		(57,835)	36,427
Cash and cash equivalents at 1 April		77,796	41,369
Cash and cash equivalents at 31 March	15	19,961	77,796

Notes to the group financial statements

at 31 March 2018

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 2018 were authorised for issue on 26 July 2018 by the board of directors and the balance sheet signed on the board's behalf by Alex Maby. 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.

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

Note 10 has been restated however this has not required an adjustment to any other notes or primary statements

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 2 to 12. 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 February 2018, the Group successfully completed both its FCA authorisation and refinancing. The new bond, with a maturity in 2023 and without financial covenants, provides security to our capital structure in the period under review.

Short term funding requirements

The five year business plan prepared for the refinancing indicated the requirement for an additional short term capital facility to deliver the plan and address a funding shortfall in November 2018. To address this shortfall, the Directors are currently negotiating with several parties to secure an additional facility. The Group is permitted to obtain such a facility of up to £35m within the current bond documentation. As the bond agreement allows for such a facility to be super senior, the Board is confident th*at* there will be appetite in the market to provide such a credit facility. Furthermore, following completion of due diligence by one of these parties, the Group has now received a credit committee approved indicative term sheet from that party.

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

***Going Concern* (Continued)**

The Directors have identified a series of mitigating actions, should an additional facility not be secured. The flexibility in the business operating model means that discretionary items of capital expenditure and the purchase of new items of inventory can be delayed to improve cash flows and mitigate the projected cash shortfall. The Group's contract portfolio represents a highly stable income stream and stands at £384m as at 26 May 2018. As a result of this ability to flex the operating model to manage cash flows, the Directors believe the Group will have sufficient cash available during the period under review, even should no additional facility be secured, but before considering the impact of the High Cost Credit review discussed below.

High Cost Credit Review

On 31 May 2018 the FCA published an update to their review on the high cost credit market. The FCA indicated that they intend to complete further work on whether a price cap would be suitable for the rent to own market, including consulting with companies operating in this market. They have also proposed a restriction on warranty sales at the point of selling the product. We will work with the regulator through the consultation process, and in the meantime we are developing a range of available options to change our customer proposition in response to detailed proposals from the FCA. However, at the date of signing the accounts, we do not know what the FCA's conclusions will be.

Although we cannot predict the outcome of the High Cost Credit review, we have modelled scenarios based on actions taken by the FCA in the payday lending sector and those taken by an overseas regulator in the rent to own sector, along with the expected effect on the proposition we offer customers. These forecasts indicate that the Group would need to secure an additional facility as described above, as well as make changes to its business model, in order to mitigate the effect of the hypothetical scenarios modelled. Whilst the Directors believe that the business proposition can be successfully adapted to be compliant with the future regulatory environment, and commercially viable, clearly there is significant judgement involving customer reaction to any changes in business proposition, which cannot be modelled with certainty.

Considering all the above, the directors believe that the availability of short term funding and the potential impact on the business model of the High Cost Credit review represent material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern. Notwithstanding these uncertainties, the Directors expect that an additional facility will be secured and believe that the business model can be successfully adapted to meet future regulatory requirements, and therefore that the business continues to be a going concern. These financial statements have been prepared on a going concern basis and do not contain adjustments that would result if the Group were unable to continue as a going concern.

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.

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

Property, plant and equipment (continued)

Estimated useful lives:

Rental assets	– equal to the total contract length (1 to 3 years) which may vary from asset to asset
Fixtures, fittings 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.

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 £10,070,000, of which £1,548,000 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.

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

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 principally comprises revenue from the provision of home electronic and domestic appliances, technology products, household furniture and other related products to domestic customers through hire-purchase agreements.

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.

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.

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 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.

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

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.

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 IAS 39 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 and our affordability action plan in relation to customer acceptance policies ahead of FCA authorisation.

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

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.

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.

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

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 15 – Revenue from Contracts with Customers

The new standard provides a single, five–step revenue recognition model, applicable to all sales contracts, which is based upon the principle that revenue is recognised when control of goods or services is transferred to the customer. It replaces all existing revenue recognition guidance under current IFRS and becomes effective for annual periods beginning on or after 1 January 2018.

An initial assessment of the impact of IFRS 15 has been completed and revenue recognition under IFRS 15 is expected to be consistent with current practice, but a more detailed assessment is required on all of our revenue streams.

- 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 is currently considering the impact of IFRS 16 on its consolidated results and financial position. The principles of accounting for lessors remain largely unchanged from IAS17 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.

IFRS 16 is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable lease. Within the income statement, rent expense will be replaced by depreciation and interest expense. The standard will also impact a number of statutory measures such as cash generated from operations, and alternative performance measures used by the Group. The review completed has indicated that this change will not have a significant impact on the profitability of the group however the full impact will not be known until the standard is fully implemented. Note 22 shows the operating leases that we current hold.

- IFRS 9 – Financial Instruments

The application of IFRS 9 may change the measurement and presentation of financial instruments, depending on their contractual cash flows and the business model under which they are held. The impairment requirements will generally result in earlier recognition of credit losses. The Group is currently considering the impact of IFRS 9 on its consolidated results and financial position. The standard becomes effective for period beginning on or after 1 January 2018 and will be adopted by Brighthouse Group Limited in the accounting period beginning 1 April 2018.

As we do not recognise the value of contracts with customers at inception, our loan book is not held on our balance sheet. The group therefore does not expect there to be a significant changes to its income statement as a result of IFRS 9 as the impact of the new credit loss assessments will be low. Trade and other receivables consist mainly of prepayments, which are exempt from the impacts of the standard and the VAT debtor which is considered to carry very low risk

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
• IFRS 17	Insurance contracts	1 January 2021

Notes to the group financial statements

at 31 March 2018

1. Accounting policies (continued)

Accounting estimates and judgements

Certain critical accounting judgements and estimates 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.

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.

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

at 31 March 2018

1. Accounting policies (continued)

Judgements applied in refinancing transaction

As further described in note 16, the group effected a refinancing on 2 February 2018. In reflecting the accounting for this refinancing, the Directors made the following judgements:

- IAS 39 requires that, when debt is renegotiated with the same lender, the substance of the transaction is determined as either an extinguishment of old debt and issue of new, or a modification of the existing debt. The Directors determined that the terms of the old debt issued by BrightHouse Group Limited and those of the new debt issued by BrightHouse FinCo Limited are sufficiently different that this be treated as an extinguishment and new issue. As a result, the gain on extinguishment and related transaction costs has been recognised in group profit or loss for the year
- Part of the old bond extinguished was exchanged for new bonds, issued by a subsidiary of the group BrightHouse FinCo Limited, and part was exchanged for the issue of new equity from BrightHouse TopCo Limited. The Directors considered that the portion of the carrying amount of the old bond extinguished for debt, and the portion extinguished for equity, should be split on the basis of relative fair values. This affects only certain entries to equity in the company.

Customer remediation 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.

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:

	2018	*2017*
	£000	*£000*
BrightHouse Group Limited reported operating loss	(21,266)	(89,118)
Depreciation of fixtures and equipment and amortisation	12,585	12,685
Loss on disposal of intangible assets	-	203
Exceptional items:		
Impairment of goodwill	-	74,978
Historic unaffordable lending	7,082	-
Affordability action plan	940	6,275
Vacant and onerous lease provisions	1,333	3,417
Loss on disposal and impairment of fixtures and equipment	334	2,590
Restructuring	2,029	687
BrightHouse Group Limited EBITdA before exceptional items	3,037	11,717

Notes to the group financial statements

at 31 March 2018

3. Exceptional items

Recognised as part of operating loss

	2018 £000	2017 £000
Impairment of goodwill (note 11)	-	(74,978)
Affordability action plan (note 18)	(940)	(6,275)
Historic unaffordable lending (note 18)	(7,082)	-
Vacant and onerous lease provisions (note 18)	(1,333)	(3,417)
Loss on disposal and impairment of fixtures and equipment (note 10)	(334)	(2,590)
Restructuring (note 18)	(2,029)	(687)
	(11,718)	(87,947)

The costs of our affordability action plan (which includes the costs associated with our Redress scheme) was increased by £940,000 in the year (2017 - £6,275,000). This has been explained in detail in note 18 of these financial statements.

In addition to the announced redress scheme, we also started to receive claims from customers not included within the 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 recognised a provision of £6,340,000 which includes the cost of settlement of any claims together with the estimated expenses to process and agree claims.

The Group's vacant and onerous lease provisions have increased by £1,333,000 in the year (2017 - £4,200,000) and there were no accelerated lease incentives on vacant properties in the year (2017 - £783,000).

There was no loss on disposal from the scrapping of fixtures and equipment in the year (2017 – £1,389,000) or from the writing down of fixtures and equipment (2017 - £34,000). An impairment loss of £598,000 (2017 - £1,167,000) has been recognised in the year on fixtures and equipment associated with the identified unprofitable stores whilst a partial reversal of the prior year impairment of £264,000 (2017 - £nil) has been recognised for stores no longer identified as unprofitable.

Restructuring costs of £2,029,000 were incurred in the year (2017 - £687,000). This has been explained in detail in note 18 of these financial statements.

Recognised below operating loss

Recognised below operating loss was £45,675,000 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 home electronic and domestic appliances, technology products, household furniture and other related products to domestic customers through hire purchase agreements and related insurance and warranty agreements.

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 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.

Notes to the group financial statements

at 31 March 2018

5. Operating loss

This is stated after charging / (crediting):

	2018	*2017*
	£000	*£000*
Depreciation of property, plant and equipment:		
– owned assets	3,555	5,457
– rental assets	87,368	99,383
Impairment of fixtures and equipment	334	1,167
Amortisation of intangible assets	9,030	7,228
Impairment of goodwill	-	74,978
Rental assets written off as obsolete or not recoverable from defaulting customers	23,764	24,881
Net book value of rental assets sold to customers	388	1,411
Loss on disposal of fixtures and equipment	-	1,423
Loss on disposal of intangible assets	-	203
Operating lease rentals payable:		
– property	16,177	17,711
– vehicles	1,918	2,423
– equipment	248	478
Other occupancy costs	16,284	21,737
Cost of inventories recognised as an expense	1,070	1,362
Exchange differences	5	(30)

Operating expenses include auditors' remuneration for audit and non-audit services as follows:

	2018	*2017*
	£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	230	198
Taxation advisory services	202	115
Taxation compliance services	76	58

Notes to the group financial statements

at 31 March 2018

6. Directors' remuneration

	2018	*2017*
	£000	*£000*
Directors' remuneration	1,650	1,616
Pension contributions	42	53
	1,692	1,669

The remuneration of the highest paid director was £849,000 (2017: £864,000), and in addition company pension contributions of £24,000 (2017: £24,000) were made to a money purchase scheme on his behalf.

Retirement benefits are accruing to the following number of directors under:

	2018	*2017*
	No.	*No.*
Money purchase schemes	2	2

See note 24 for the remuneration of key management.

7. Staff costs

	2018	*2017*
	£000	*£000*
Wages and salaries	59,438	64,800
Social security costs	5,654	6,153
Pension contributions	1,443	1,130
	66,535	72,083

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

	2018	*2017*
	No.	*No.*
Customer sales and service	2,234	2,557
Administration	292	270
	2,526	2,827

BrightHouse Group Limited had no employees during the year to 31 March 2018 (2017 – nil).

Notes to the group financial statements

at 31 March 2018

8. Finance income and expense

Recognised in income statement

	2018	*2017*
	£000	*£000*
Interest income	80	67
Unwinding of discount on VAT incurred in advance (note 14)	–	88
Finance income	80	155

	2018	*2017*
	£000	*£000*
Interest expense	20,216	22,204
Discount on VAT incurred in advance (note 14)	78	–
Finance expense	20,294	22,204

Interest expense includes £2,248,000 payable on loans provided from Haig Luxembourg HoldCo (2017: £2,664,000), which was the ultimate parent company until 2 February 2018.

9. Taxation

(a) Tax on ordinary activities

Recognised in the income statement

	2018	*2017*
	£000	*£000*
Current tax:		
Corporation tax charge UK	–	–
Corporation tax charge overseas	62	56
Adjustment in respect of prior years	–	(1,265)
Adjustment in respect overseas tax of prior years	(7)	–
Total current tax	55	(1,209)
Deferred tax:		
Deferred tax credit	(3,916)	(3,420)
Adjustment in respect of prior years	1,402	(1,579)
Total deferred tax credit (note 12)	(2,514)	(4,999)
Total taxation in income statement	(2,459)	(6,208)

Notes to the group financial statements

at 31 March 2018

9. Taxation (continued)

(b) Reconciliation of the total tax (credit) / charge

	*ETR**	*2018*	*ETR*	*2017*
	%	*£000*	*%*	*£000*
Accounting profit / (loss) before tax		4,195		(111,167)
Accounting profit / (loss) before tax by standard rate of corporation tax in the UK of 19% (2017 – 20%)	19.0%	797	20.0%	(22,233)
Non-deductible expenses	231.3%	9,701	(15.9%)	17,731
Non-taxable income	(354.6%)	(14,876)	0.0%	-
Deferred tax rate change	11.0%	461	(0.9%)	1,040
Prior year adjustment - deferred tax	33.4%	1,403	1.4%	(1,579)
Effect of tax rates in different jurisdictions	1.5%	62	(0.1%)	63
Prior year adjustment – corporation tax	–	–	1.1%	(1,265)
Unrelieved tax losses carried forward	–	–	0.0%	35
Prior year adjustment – overseas tax	(0.2%)	(7)	–	–
Total taxation in income statement	(58.6%)	(2,459)	5.6%	(6,208)

* Effective Tax Rate

At the year end date, there are unrecognised deferred tax assets of £2,287,000 (2017 - £nil).

The Finance Act 2016, which was substantively enacted in September 2016, will reduce the main rate of tax from 19% to 17% from 1 April 2020. The deferred tax asset has been calculated at the 17% future rate.

Notes to the group financial statements

at 31 March 2018

10. Property, plant and equipment

	Rental Assets (Restated) £000	*Fixtures, equipment and vehicles £000*	*Total (Restated) £000*
Cost:			
At 1 April 2016	282,157	63,066	345,223
Additions	82,818	2,802	85,620
Disposals	(134,518)	(3,618)	(138,136)
At 1 April 2017	230,457	62,250	292,707
Additions	109,845	1,081	110,926
Disposals	(128,194)	–	(128,194)
At 31 March 2018	212,108	63,331	275,439
Depreciation:			
At 1 April 2016	136,528	47,627	184,155
Depreciation charge for the year	93,931	5,457	99,388
Impairment charge for the year	–	1,167	1,167
Disposals	(106,837)	(2,195)	(109,032)
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 31 March 2018	106,948	55,945	162,893
Net book value:			
At 31 March 2018	105,160	7,386	112,546
At 1 April 2017	106,835	10,194	117,029
At 1 April 2016	145,629	15,439	161,068

Impairment testing

An impairment loss of £598,000 (2017 - £1,167,000) 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 £264,000 (2017 - £nil) 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% (2017 - 25.0%). The impairment has been included in operating exceptional items within the income statement.

Notes to the group financial statements

at 31 March 2018

10. Property, plant and equipment (continued)

The Group has determined that there has been a historical error in the disclosure of rental asset resulting in the non-removal of cost and depreciation on disposals. The error has no net book value effect.

	Original	*Restated*	*Original*	*Restated*
	As of 31 March 2017	*As of 31 March 2017*	*As of 1 April 2016*	*As of 1 April 2016*
	£'000	*£'000*	*£'000*	*£'000*
Cost Carried forward	112,955	230,457	180,795	282,157
Depreciation Carried forward	6,120	123,622	35,166	136,528
Net book value	106,835	106,835	145,629	145,629

Notes to the group financial statements

at 31 March 2018

11. Intangible assets

	Software *£000*	*Goodwill* *£000*	*Total* *£000*
Cost:			
At 1 April 2016	58,612	74,978	133,590
Additions	12,232	–	12,232
Disposals	(727)	–	(727)
At 1 April 2017	70,117	74,978	145,095
Additions	10,755	–	10,755
Disposals	–	–	–
At 31 March 2018	80,872	74,978	155,850
Amortisation:			
At 1 April 2016	44,824	–	44,824
Amortisation charge for the year	7,228	–	7,228
Impairment charge for the year	–	74,978	74,978
Disposals	(524)	–	(524)
At 1 April 2017	51,528	74,978	126,506
Amortisation charge for the year	9,030	–	9,030
Impairment charge for the year	–	–	–
Disposals	–	–	–
At 31 March 2018	60,558	74,978	135,536
Net book value:			
At 31 March 2018	20,314	–	20,314
At 1 April 2017	18,589	–	18,589
At 1 April 2016	13,788	74,978	88,766

Amortisation is charged within operating expenses with the P&L.

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 prior year.

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

at 31 March 2018

12. Deferred tax assets

	2018	*2017*
	£000	*£000*
Assets:		
Tax losses recognised	7,444	3,939
Other property, plant and equipment	5,520	6,579
Capital contributions on lease incentives	200	132
Total tax assets	13,164	10,650

	1 April 2017	*Recognised in income*	*31 March 2018*
	£000	*£000*	*£000*
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	(10,650)	(2,514)	(13,164)

	1 April 2016	*Recognised in income*	*31 March 2017*
	£000	*£000*	*£000*
Tax losses recognised	(658)	(3,281)	(3,939)
Difference between carrying value and tax base of property, plant and equipment	(4,798)	(1,781)	(6,579)
Capital contributions on lease incentives	(195)	63	(132)
Net asset	(5,651)	(4,999)	(10,650)

At the year end date, there are unrecognised deferred tax assets of £2,287,000 (2017 - £nil).

The Finance Act 2016, which was substantively enacted in September 2016, has reduced the main rate of corporation tax to 19% from 1 April 2017 and will reduce it 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 2018 by £1,549,000.

Notes to the group financial statements

at 31 March 2018

13. Inventories

	2018	*2017*
	£000	*£000*
Goods held for resale at cost	13,498	13,290

During the year assets acquired for resale amounting to £109,845,000 (2017 – £82,818,000) 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

	2018	*2017*
	£000	*£000*
Current:		
Trade receivables	1,754	1,182
Amounts owed from ultimate parent undertaking	3,388	–
Other taxes and social security	775	–
Other trade receivables and prepayments	15,561	12,789
Other non-trade receivables	804	769
VAT incurred in advance of recovery from customers	20,441	21,462
	42,723	36,202

	2018	*2017*
	£000	*£000*
Non-current:		
VAT incurred in advance of recovery from customers	10,094	11,847
Other trade receivables and prepayments	992	732
	11,086	12,579

Other non-trade receivables predominantly comprise a deposit paid to Lloyds Bank Plc relating to customs and excise guarantees and amounts due from colleagues.

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 £10,094,000 (2017 – £11,847,000) are receivable after more than one year and have been discounted to determine their fair value (note 21).

Notes to the group financial statements

at 31 March 2018

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 £1,345,000 (2017– £1,335,000) 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:

	2018	*2017*
	£000	*£000*
1-7 days	41	100
8-14 days	78	114
15-45 days	356	393
45-90 days	9	9
	484	616

Movements in bad debt provision

	2018	*2017*
	£000	*£000*
At beginning of year	1,335	1,437
Amounts written off as uncollectable	(17,393)	(16,755)
Increase in bad debt provision	17,403	16,653
At end of year	1,345	1,335

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

	2018	*2017*
	£000	*£000*
Cash and cash equivalents per balance sheet and cash flow statement	19,961	77,796

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £5,495,000 (2017 – £5,974,000). This includes restricted cash of £4,477,000 (2017 - £5,389,000) 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 £1,018,000 (2017 – £585,000) 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

at 31 March 2018

16. Financial liabilities

	2018	2017
	£000	£000
Non-current liabilities:		
Unsecured 10% loan stock issued to related parties (see note 24)	–	37,026
Senior secured notes 2018	–	218,242
Senior secured notes 2023	115,091	–
	115,091	255,268

Terms and debt repayment schedule

Unsecured 10% loan stock

The unsecured 10% loan stock was redeemable on 9 May 2040 and formed part of the investment made in the Group by funds advised by Vision Capital LLP. The unsecured 10% loan stock was subordinated and junior in right of payment to the senior secured notes. The terms of the unsecured loan stock were such that the maturity date could not be prior to the maturity date of the senior secured notes. This loan was waived on 2 February 2018 by Vision Capital LLP when it had a balance of £39,274,000 and appears in the statement of changes in equity.

The amount above includes £nil (2017: £10,386,000) of accrued interest.

Senior secured notes 2018 and Senior secured notes 2023

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 £3,705,625 which was issued to all bondholders in exchange for the accrued interest on the existing bond. After adjustments for deminus payments in cash of 286,331, 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 £2,463,230.

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 £1,252,893.

Notes to the group financial statements

at 31 March 2018

16. Financial liabilities (continued)

Accounting for this transaction under the relevant accounting standards lead to the following adjustments to these accounts;

	Debit	*Credit*
Balance sheet		
Senior secured notes 2018	220,000,000	
Accrued interest	3,705,627	
Senior secured notes 2023		115,091,000
Cash		286,331
Share capital		1,252,893
Share premium		72,046,297
Retained earnings	19,399,190	
Profit and Loss		
Accounting gain on bond release		58,895,294
Early consent fee	4,467,000	

In addition to the transaction entries above there were fees incurred in connection with the transaction. £8,749,000 was expensed to the profit and loss in this period and £3,387,789 was attributed to the issued share capital of BrightHouse TopCo Limited and appears in these accounts as an intercompany debtor.

Changes in liabilities arising from financing activities

	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
Cashflow	–	(17,324)	–	(17,324)
Repayment of loan	–	(2,846)	–	(2,846)
Refinancing (See note 16)	–	(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.

Notes to the group financial statements

at 31 March 2018

16. Financial liabilities (continued)

	Unsecured 10% loan stock £000	Senior secured notes 2018 £000	Total £000
At 1 April 2016	34,362	216,650	251,012
Interest charge	2,664	17,324	19,988
Cashflow	–	(17,324)	(17,324)
Other	–	1,592	1,592
At 31 March 2017	37,026	218,242	255,268

The "Other" movement reflects the amortisation of the refinancing costs.

17. Trade and other payables

	2018 *£000*	*2017* *£000*
Trade payables	8,793	13,759
Other taxes and social security	2,420	733
Other non-trade payables	329	405
Accrued expenses	19,328	20,705
Accrued interest	1,631	6,605
	32,501	42,207

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

Notes to the group financial statements

at 31 March 2018

18. Other provisions

	Dilapidation provision	*Affordability Action Plan*	*Historic Unaffordable Lending*	*Restructuring*	*Onerous lease provision*	*Total provision*
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
As of 1 April 2016	–	3,100	–	–	–	3,100
Reclassified from trade and other payables	1,003	–	–	–	–	1,003
Charged to the income statement	3,492	6,275	–	687	4,200	14,654
Released during the period	(468)	–	–	–	–	(468)
Utilised during the period	(220)	(1,129)	–	(533)	(100)	(1,982)
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 31 March 2018	3,317	815	6,340	140	2,962	13,574

<u>Dilapidation provision</u>

The brought forward dilapidation provision was reclassified in the prior year from trade and other payables.

During the year we have incurred costs of £572,000 on properties that we have chosen to upgrade in order to reduce our future dilapidation charges which has reduced our liability and we have transferred £72,000 of the provision to the onerous lease provision. We have charged £313,000 and released £159,000 to the income statement in the year in respect of properties where our assessment of the liability had changed.

<u>Affordability Action Plan</u>

On 24 October 2017 we announced our Redress Scheme, reviewed by the FCA, and began repaying monies to our customers. We increased the provision by £940,000 during the year, in line with our best estimate of the likely cost of the scheme. We calculated that £6,508,000 was owed to customers, of which £5,741,000 has been paid during the year. Costs incurred in operating the scheme during the year were £2,630,000 which includes buying back customers' debt from third parties and communicating with customers. We expect to incur a further £98,000 of costs in the future to complete the scheme, all of which have been fully provided for.

<u>Historic Unaffordable Lending</u>

In addition to the announced redress scheme, during the financial year we also started to receive claims from customers not included within the scheme which we are required to investigate and, if it is found that the correct procedures have not been followed, reimburse them accordingly.

During the year we have incurred £742,000 to investigate and settle these claims including £167,000 to settle claims and £575,000 of associated administration costs. The increase in provision of £7,082,000 represents the Group's best estimate of the likely future cost.

Notes to the group financial statements

at 31 March 2018

18. Other provisions (continued)

The current provision recognised is based upon an estimation of future claims, payout rates using historic 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. The cost could differ from the Group's estimates and the assumptions underpinning them, and could result in a further provision being required.

The current trend indicates that most of the future volume will be generated by claims management companies rather than directly from customers and our analysis shows that currently a case received through a Claims Management Company costs £107 per claim received to settle, from which they need to collect their fee from the customer.

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.

	Actuals to 31 March 2018	Anticipated future	Sensitivity
Average payout amount per claim received from claims management company	£107	£108	£10 = £74k
Future volume of claims from claims management companies	2,813	5,364	1,000 claims = £340k
Administration cost per claim closed	£1,093	£666	£10 = £122k
Rate of claims sent to Financial Ombudsman Service	3%	7%	1% = £72k

Restructuring

During the year we continued to work towards the 5 year plan created in January 2017. The actions of this plan extend out to 2023. The plan consisted of actions which would either lower our cost base or generate additional future income for the business. The items during the year included; redundancies of £769,000 for store closures, LDC closures, head office reorganisation and bonus' payable of achieving key milestones within the plan of £1,060,000.

Onerous lease provision

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

On 31 January 2017 the Group announced plans to close 29 stores across the UK, as part of a business-wide cost reduction programme, aligned to a new business strategy. The closures took place throughout March 2017. Stores were selected based on their commercial performance with details of property leases and the ability to transfer customers to nearby stores also taken into account. Customers of the impacted stores were automatically transferred to another local BrightHouse store.

Consequently an onerous lease provision of £2,980,000 was charged for the vacated stores of which £100,000 was utilised in the prior year. During the year our lease liability for 15 of the stores ended, with the remaining 14 stores either being sublet or still marketed at the end of the year. 2 additional stores were closed and surrendered during the year and it was announced that 1 of our distribution centres would be closed after the year end. This all resulted in £1,910,000 of the provision being utilised during the year and we have increased the provision by £220,000 which represents our latest view of the costs required to settle our lease commitments.

A separate onerous contract provision was recognised for those leasehold properties where there is 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 £633,000 was utilised and we increased the provision by £1,113,000.

Notes to the group financial statements

at 31 March 2018

19. Employee benefits

Pension schemes

Defined contribution

In the financial year total contributions in respect of defined contribution schemes were £1,442,000 (2017 – £1,130,000).

20. Capital and reserves

Authorised, allotted, called up and fully paid	*No.*	*2018 £000*	*No.*	*2017 £000*
A Ordinary shares of £0.001 each	1,291,642,507	1,294	4,340,000	4
Ordinary shares of £0.001 each	-	-	152,500	–
B Ordinary shares of £0.01 each	–	–	200,000	2
C Ordinary shares of £0.01 each	–	–	75,000	1
D Ordinary shares of £0.01 each	–	–	62,500	1
E Ordinary shares of £0.01 each	–	–	62,500	1
F Ordinary shares of £500 each	–	–	1	1
G Ordinary shares of £0.001 each	–	–	107,499	–
H Ordinary shares of £500 each	–	–	1	1
A Preferred shares of £0.0000001 each	–	–	6,725,639	–
B Preferred shares of £0.0000001 each	–	–	86,583,475	–
Deferred shares of £0.0000001 each	–	–	6,993,992,053	–
C Preferred shares of £1.00 each	–	–	40,500	41

Between 14 November 2017 and 20 November 2017 management and the Employee Benefit Trust transferred all of their ordinary shares and preference shares (the "Management Shares") back to the company for £nil consideration. On 2 February 2018, the Company cancelled the Management Shares, consolidated all its remaining share capital into 38,749,275 A Ordinary Shares, and issued a further 1,252,893,232 A Ordinary Shares at par to its parent.

The A ordinary shares carries voting rights exercisable in proportion to the number of shares held by each member. Any income and capital distributed by the company shall be appointed amongst the A ordinary Shareholders in proportion to the number of A ordinary shares held by them respectively.

Before the transactions above, 'A Ordinary Shares' were controlled by VCP VI B. 'B Ordinary Shares', 'C Ordinary Shares', 'D Ordinary Shares', 'E Ordinary Shares', 'F Ordinary Shares', 'G Ordinary Shares' and 'Ordinary Shares' were controlled by management ('Management Shares'). 'A Preferred Shares' were controlled by VCP VI B, 'B Preferred Shares' were controlled by VCP VI B and management and 'Deferred Shares' were controlled by the Employee Benefit Trust. Dividends were distributed first to A Preferred Shares until the maximum hurdle rate, described in the Articles of Association, had been met. Remaining dividend amounts were then distributed to B Preferred Shares until the maximum hurdle rate had been met. Deferred Shares received no dividend distribution. All other classes of share were treated equally for any remaining distribution. For voting, each class of share held in aggregate, the % of votes as follows: A Ordinary: 75%, B Ordinary: 5%, C Ordinary 5%, D Ordinary 5%, E Ordinary 5% and F Ordinary 5%. All other classes of share held no voting rights.

In the event of a sale of the business, realisation proceeds were allocated in the following order. To the extent that the hurdle rate exceeds any previous return of capital A Preferred Shares received proceeds first. Next to the extent that the hurdle rate exceeds any previous return of capital B Preferred Shares received proceeds. Deferred Shares received a maximum of 1p on a sale of the business. Finally any remaining proceeds were distributed equally between the remaining share classes. However, in certain circumstances described in the Articles, participation of Management Shares in the proceeds may increase.

Notes to the group financial statements

at 31 March 2018

20. Capital and reserves (continued)

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. For further details of this transaction please see note 16.

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:

	2018	*2017*
	£000	*£000*
Debt (i)	(115,091)	(255,268)
Cash and cash equivalents	19,961	77,796
Net debt	(95,130)	(177,472)
Equity (ii)	71,324	(28,504)
Net debt to equity ratio	(133%)	(623%)

(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

at 31 March 2018

21. Financial instruments (continued)

Categories of financial instruments

	2018	*2017*
	£000	*£000*
Financial assets		
Carried at amortised cost:		
Cash and cash equivalents	19,961	77,796
Trade and other receivables	53,809	48,781
	73,770	126,577
Financial liabilities		
Carried at amortised cost:		
Borrowings	115,091	255,268
Trade and other payables	30,081	41,474
	145,172	296,742

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 9 May 2013, £220m senior secured notes were issued by BrightHouse Group Limited, which were released on 2 February 2018. Further details of this transaction are disclosed in note 16. The new senior secured notes 2023 were issued as a value of £115,091,000. There are no covenants associated to the senior secured notes. Further information around the refinancing the current capital structure within BrightHouse Group Limited is disclosed in note 1 of the financial statements.

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.

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

Notes to the group financial statements

at 31 March 2018

21. Financial instruments (continued)

At 31 March 2018

	6 months or less £000	*6 -12 months £000*	*1 - 2 years £000*	*Over 2 years £000*	*Total £000*
Unsecured 10% loan stock	–	–	–	–	–
Senior secured notes	2,964	5,179	10,358	151,344	169,845
Trade and other payables	30,081	–	–	–	30,081
	33,045	5,430	11,525	160,059	210,059

At 31 March 2017

	6 months or less £000	*6 -12 months £000*	*1 - 2 years £000*	*Over 2 years £000*	*Total £000*
Unsecured 10% loan stock	–	–	–	98,627	98,627
Senior secured notes	8,663	8,663	228,663	–	245,989
Trade and other payables	41,474	–	–	–	41,474
	50,137	8,663	228,663	98,627	386,090

There are no open foreign currency forward exchange contracts at the year end (2017 – nil).

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. This risk is not applicable at the year end as 100% of the Group's borrowings (2017: 100%) are at fixed rates.

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 (2017 – nil).

Fair value

Derivative financial instruments

As at 31 March 2018 and 31 March 2017 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 0.09% (2017: 0.2%) based on the government bond yield curve.

Notes to the group financial statements

at 31 March 2018

21. Financial instruments (continued)

Fair value compared to carrying value

	Carrying amount		Fair value	
	2018	*2017*	*2018*	*2017*
	£000	*£000*	*£000*	*£000*
Financial assets				
Cash and cash equivalents	19,961	77,796	19,961	77,796
Trade and other receivables	53,809	48,781	53,809	48,781
Financial liabilities				
Amortised cost				
Interest bearing loans and borrowings				
Fixed rate borrowings	115,091	255,268	115,091	205,555
Trade and other payables	30,081	41,474	30,081	41,474

22. Other financial commitments

The Group as a lessee

Non-cancellable operating lease rentals are payable as follows:

		2018		*2017*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Less than one year	14,762	2,085	16,706	2,662
Between two and five years	37,991	1,502	49,692	3,293
More than five years	9,460	–	14,840	–
	62,213	3,587	81,238	5,955

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 £18,343,000 was recognised as an expense in the income statement in respect of operating leases (2017 – £20,612,000).

23. Capital commitments

There were no capital commitments at the end of the financial year (2017 – £nil).

Notes to the group financial statements

at 31 March 2018

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 accounts 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 accounts 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:

2018

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

2017

	Management charge £000	*Interest charge £000*	*Amounts owed to related parties £000*
Haig Luxembourg Holdco	–	2,671	34,362
Vision Capital LLP	96	–	–

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 year all the shares held by management were returned to the company at £nil consideration.

Notes to the group financial statements

at 31 March 2018

24. Related party transactions (continued)

Remuneration of key management

The compensation of key management personnel (including the directors) is as follows:

	2018	*2017*
	£000	*£000*
Key management remuneration	3,860	2,869
Company contributions to money purchase pension plans	86	101
	3,946	2,970

Company statement of financial position

at 31 March 2018

	Notes	2018 £000	2017 £000
Non-current assets			
Investments	27	141,925	141,925
Deferred tax assets		803	302
		142,728	142,227
Current assets			
Trade and other receivables	28	3,788	1,048
Cash and cash equivalents	29	94	95
		3,882	1,143
Total assets		146,610	143,370
Current liabilities			
Trade and other payables	30	17,391	74,977
Financial liabilities	31	195,900	–
		213,291	74,977
Non-current liabilities			
Financial liabilities	31	–	255,268
		–	255,268
Total liabilities		213,291	330,245
Net liabilities		(66,681)	(186,875)
Equity attributable to equity holders of the parent			
Share capital	33	1,294	50
Share premium		72,598	552
Capital redemption reserve		57	57
Own shares reserve		–	(296)
Capital contribution reserve		39,274	–
Retained earnings		(179,904)	(187,238)
Total equity		(66,681)	(186,875)

The directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and have not presented a profit and loss account for the Company alone. The Company made a profit of £27,020,000 in the year (2017 – loss of £125,075,000).

These financial statements were approved by the board of directors on 26 July 2018 and were signed on its behalf by:

A M Maby
Director

Company statement of changes in equity

at and for the year ended 31 March 2018

	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 2016	50	552	(296)	(62,163)	57	–	(61,800)
Loss for the year	–	–	–	(125,075)	–	–	(125,075)
At 31 March 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	–	(179,913)	57	39,274	(66,681)

Company statement of cash flows

for the year ended 31 March 2018

	Notes	2018 £000	2017 £000
Cash flows from operating activities			
Profit / (Loss) for the year		27,020	(125,075)
Adjustments for:			
Financial expense		20,109	22,191
Impairment of investment		–	102,719
Taxation		(501)	(302)
Refinancing debt written off	16	(45,675)	–
Operating cash outflow before changes in working capital		953	(467)
Decrease / (Increase) in trade and other receivables		(2,740)	(1,042)
Increase in trade and other payables		28,241	19,101
Net cash inflow from operating activities		26,454	17,592
Cash flows from financing activities			
Interest paid		(17,324)	(17,502)
Issuance of share capital	16	2,463	–
Cost of refinancing	16	(8,749)	
Settlement of senior secured notes	16	(2,845)	–
Net cash outflow from financing activities		(26,455)	(17,502)
Net (decrease) / increase in cash and cash equivalents		(1)	90
Cash and cash equivalents at 1 April		95	5
Cash and cash equivalents at 31 March	29	94	95

Notes to the company financial statements

at 31 March 2018

26. Accounting policies - company

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 2018 were authorised for issue on 26 July 2018 by the board of directors and the balance sheet signed on the board's behalf by Alex Maby. 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.

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

Going concern

As at 31 March 2018 the Company has net liabilities of £66,681,000 resulting from the historical loan refinancing structure entered into across the BrightHouse group of companies.

Further information around the short term funding requirements of the group and the impact of the FCA's High Cost Credit review paper on BrightHouse Group Limited 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

at 31 March 2018

26. 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

at 31 March 2018

26. 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

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

27. Investments

	Investments
	£000
Cost:	
At 1 April 2016	244,644
Additions	–
At 1 April 2017	244,644
Additions	–
At 31 March 2018	244,644
Impairment:	
At 1 April 2016	–
Impairment charge for the year	102,719
At 1 April 2017	102,719
Impairment charge for the year	–
At 31 March 2018	102,719
Net book value:	
At 31 March 2018	141,925
At 1 April 2017	141,925

The Group performed its annual impairment test as at 31 March 2018.

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% (2017 - 25.0%) and cash flows beyond the five year budget are extrapolated using a 2% growth rate (2017 - 2%) that is the long term growth rate for the UK.

No impairment loss has been recognised in the current year (2017 - £102,719,000).

Notes to the company financial statements
at 31 March 2018

27. Investments (continued)

	Country of incorporation	*Principal activity*	*Shares*	*Percentage of shares held %*
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 (Malta) Limited*	Malta	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 the Jersey has its registered office at 44, Esplanade, St. Helier. Subsidiaries incorporated in Malta have their registered office at Development House, Floriana. Subsidiaries incorporated in England have their registered office at 5 Hercules Way, Leavesden.

28. Trade and other receivables

	2018 *£000*	*2017* *£000*
Current:		
Other trade receivables and prepayments	–	648
Amounts due from group undertakings	3,388	–
Other non-trade receivables	400	400
	3,788	1,048

29. Cash and cash equivalents

	2018 *£000*	*2017* *£000*
Cash and cash equivalents per balance sheet and cash flow statement	94	95

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

Notes to the company financial statements

at 31 March 2018

30. Trade and other payables

	2018	*2017*
	£000	*£000*
Amounts due to group undertakings	17,060	68,330
Accrued expenses	278	42
Accrued senior secured notes interest	–	6,605
Other taxes and social security	53	–
	17,391	74,977

31. Financial liabilities

	2018	*2017*
	£000	*£000*
Current liabilities:		
Amounts due to group undertakings	195,900	-
	195,900	-
Non-current liabilities:		
Unsecured 10% loan stock issued to related parties (see note 24)	–	37,026
Senior secured notes	–	218,242
	–	255,268

The senior secured notes include an issue of £nil (2017 - £220 million), less fees incurred on the debt facility of £nil. (2017 - £1,758,000). These fees are amortised over the term of the facilities.

Terms and debt repayment schedule

The unsecured 10% loan stock was redeemable on 9 May 2040 and formed part of the investment made in the Group by funds advised by Vision Capital LLP. The unsecured 10% loan stock was subordinated and junior in right of payment to the senior secured notes. The terms of the unsecured loan stock were such that the maturity date could not be prior to the maturity date of the senior secured notes. This loan was waived on 2 February 2018 by Vision Capital LLP.

The amount above includes £nil (2017: £10,386,000) of accrued interest.

As part of the refinancing on 2 February 2018, the £220 million bond was converted into a £115 million bond in a subsidiary company and 97% of the shares of the group. See note 16

Notes to the company financial statements

at 31 March 2018

31. Financial liabilities

Changes in liabilities arising from financing activities

	Unsecured 10% loan stock £000	Senior secured notes 2018 £000	Total £000
At 1 April 2016	34,362	216,650	251,012
Interest charge	2,664	17,324	19,988
Cashflow	–	(17,324)	(17,324)
Other	–	1,592	1,592
At 31 March 2017	37,026	218,242	255,268

The "Other" movement reflects the amortisation of the refinancing costs.

	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
Cashflow	–	(17,324)	–	(17,324)
Settled	–	(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
At 31 March 2018	–	–	195,900	195,900

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

Notes to the company financial statements

at 31 March 2018

32. Financial instruments

Capital management

The capital structure of the Company consists of debt, which includes borrowings disclosed in note 31, 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:

	2018	*2017*
	£000	*£000*
Debt (i)	(195,900)	(255,268)
Cash and cash equivalents	94	95
Net debt	(195,806)	(255,173)
Equity (ii)	(66,681)	(186,875)
Net debt to equity ratio	294%	137%

(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.

Categories of financial instruments

	2018	*2017*
	£000	*£000*
Financial assets		
Carried at amortised cost:		
Cash and cash equivalents	94	95
Trade and other receivables	3,788	1,048
	3,882	1,143

	2018	*2017*
	£000	*£000*
Financial liabilities		
Carried at amortised cost:		
Borrowings	195,900	255,268
Trade and other payables	17,391	74,977
	213,291	330,245

Notes to the company financial statements

at 31 March 2018

32. Financial instruments (continued)

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 2018 the Company has net liabilities of £66,681,000 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).

At 31 March 2018

	6 months or less	*6-12 months*	*1-2 years*	*Over 2 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Amounts due to group undertakings	195,900	–	–	–	195,900
Unsecured 10% loan stock	–	–	–	–	–
Senior secured notes	–	–	–	–	–
Trade and other payables	17,391	–	–	–	17,391
	213,291	–	–	–	213,291

At 31 March 2017

	6 months or less	*6-12 months*	*1-2 years*	*Over 2 years*	*Total*
	£000	*£000*	*£000*	*£000*	*£000*
Unsecured 10% loan stock	–	–	–	98,627	98,627
Senior secured notes	8,663	8,663	228,663	–	245,989
Trade and other payables	74,977	–	–	–	74,977
	83,640	8,663	228,663	98,627	419,593

Notes to the company financial statements

at 31 March 2018

32. Financial instruments (continued)

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. This risk is not applicable at the year end as the Company no longer has any borrowings (2017: 100% were at fixed rates)

Fair value compared to carrying value

	Carrying amount		Fair value	
	2018	*2017*	*2018*	*2017*
	£000	*£000*	*£000*	*£000*
Financial assets				
Cash and cash equivalents	94	95	94	95
Trade and other receivables	3,788	1,048	3,788	1,048
Financial liabilities				
Amortised cost				
Interest bearing loans and borrowings				
Fixed rate borrowings	195,900	255,268	195,900	205,555
Trade and other payables	17,391	74,977	17,391	74,977

Reconciliation of net debt

33. Capital and reserves

Authorised, allotted, called up and fully paid	*No.*	*2018 £000*	*No.*	*2017 £000*
A Ordinary shares of £0.001 each	1,291,642,507	1,294	4,340,000	4
Ordinary shares of £0.001 each	-	-	152,500	–
B Ordinary shares of £0.01 each	–	–	200,000	2
C Ordinary shares of £0.01 each	–	–	75,000	1
D Ordinary shares of £0.01 each	–	–	62,500	1
E Ordinary shares of £0.01 each	–	–	62,500	1
F Ordinary shares of £500 each	–	–	1	1
G Ordinary shares of £0.001 each	–	–	107,499	–
H Ordinary shares of £500 each	–	–	1	1
A Preferred shares of £0.0000001 each	–	–	6,725,639	–
B Preferred shares of £0.0000001 each	–	–	86,583,475	–
Deferred shares of £0.0000001 each	–	–	6,993,992,053	–
C Preferred shares of £1.00 each	–	–	40,500	41

Notes to the company financial statements

at 31 March 2018

33. Capital and reserves (continued)

Between 14 November 2017 and 20 November 2017 management and the Employee Benefit Trust transferred all of their ordinary shares and preference shares (the "Management Shares") back to the company for £nil consideration. On 2 February 2018, the Company cancelled the Management Shares, consolidated all its remaining share capital into 38,749,275 A Ordinary Shares, and issued a further 1,252,893,232 A Ordinary Shares at par to its parent.

The A ordinary shares carries voting rights exercisable in proportion to the number of shares held by each member. Any income and capital distributed by the company shall be appointed amongst the A ordinary Shareholders in proportion to the number of A ordinary shares held by them respectively.

Before the transactions above, 'A Ordinary Shares' were controlled by VCP VI B. 'B Ordinary Shares', 'C Ordinary Shares', 'D Ordinary Shares', 'E Ordinary Shares', 'F Ordinary Shares', 'G Ordinary Shares' and 'Ordinary Shares' were controlled by management ('Management Shares'). 'A Preferred Shares' were controlled by VCP VI B, 'B Preferred Shares' were controlled by VCP VI B and management and 'Deferred Shares' were controlled by the Employee Benefit Trust. Dividends were distributed first to A Preferred Shares until the maximum hurdle rate, described in the Articles of Association, had been met. Remaining dividend amounts were then distributed to B Preferred Shares until the maximum hurdle rate had been met. Deferred Shares received no dividend distribution. All other classes of share were treated equally for any remaining distribution. For voting, each class of share held in aggregate, the % of votes as follows: A Ordinary: 75%, B Ordinary: 5%, C Ordinary 5%, D Ordinary 5%, E Ordinary 5% and F Ordinary 5%. All other classes of share held no voting rights.

In the event of a sale of the business, realisation proceeds were allocated in the following order. To the extent that the hurdle rate exceeds any previous return of capital A Preferred Shares received proceeds first. Next to the extent that the hurdle rate exceeds any previous return of capital B Preferred Shares received proceeds. Deferred Shares received a maximum of 1p on a sale of the business. Finally any remaining proceeds were distributed equally between the remaining share classes. However, in certain circumstances described in the Articles, participation of Management Shares in the proceeds may increase.

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. For further details of this transaction please see note 16.

Own shares reserves

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