

BrightHouse Limited

Report and Financial Statements

31 March 2011

Directors

J L McKee
G M O David

Secretary

D Harwood

Auditors

Ernst & Young LLP
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Directors' report

The directors present their report and financial statements for the year ended 31 March 2011. These financial statements have been prepared under International Financial Reporting Standards as adopted by the European Union.

Results and dividends

The profit for the year after taxation amounted to £27,158,000 (2010 – £25,017,000). The directors do not recommend the payment of a final dividend (2010 – £nil).

Principal activity and review of the business

BrightHouse offers customers access to high-quality branded household goods on affordable weekly payments via 228 stores across the UK. The Group undertakes a bespoke creditworthiness assessment, incorporating third party data, combined with an affordability check allowing customers with impaired credit records access to goods. New customers build an internal credit rating through on time payment allowing them to expand the range of products they have access to. Customers sign a hire purchase agreement and pay no deposit. Associated insurance products deliver peace of mind through protection from theft and accidental damage plus a full service option which also allows the customer to return the goods, cancel agreements and restart a new agreement with their equity protected.

Strategy

The strategy adopted during the year has been to continue to build on our market position and attract new customers. This has been done by offering:

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

In addition the Group has continued the new store opening programme. 30 new stores were opened in the year to take the total to 228 at year end (21 new stores opened in 2009/10).

Financial performance

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

	2011	2010	2011 vs 2010	
	£000	£000	£000	%
Revenue	227,656	197,327	30,329	15.37
Gross profit	130,129	116,218	13,911	11.97
Net operating expenses	(96,578)	(91,381)	(5,197)	(5.69)
Operating profit	33,551	24,837	8,714	35.08
Gross profit margin	57.2%	58.9%		
Profit before taxation	24,982	19,915	5,067	25.4
Profit after taxation	27,158	25,017	2,141	8.6

Directors' report

Principal activity and review of the business (continued)

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, equipment and vehicles, amortisation and certain one off items) has improved by 16% from £34.1m in 2009/10 to £39.7 in 2010/11. A reconciliation of EBITdA before exceptional items to operating profit is provided below:

	<i>2011</i>	<i>2010</i>
	<i>£000</i>	<i>£000</i>
BrightHouse Limited EBITdA	39,677	34,091
Depreciation of fixtures, equipment and vehicles and amortisation	(8,028)	(5,370)
Exceptional items:		
Out of period indirect tax charges and provisions	1,902	(3,884)
	<u>33,551</u>	<u>24,837</u>
BrightHouse Limited reported operating profit	<u>33,551</u>	<u>24,837</u>

The exceptional items relate to the net settlement of outstanding indirect tax matters.

Key performance indicators

Customer numbers

The revenue is driven by the number of customers. The strategy outlined above reflects the drive to grow the customer base. Customer numbers have grown by 16% up from 174,800 in 2009/10 to 203,600 in 2010/11. Revenue has risen by 15% demonstrating the success of this policy.

Like-for-like revenue

Analysing revenue by store reveals the strong like-for-like revenue performance. Like-for-like revenue is up 9.2% in 2010/11, compared with a 10.7% increase in 2009/10. Like-for-like analysis excludes newly opened stores. Stores are included in this measure when the results for two complete trading years are available.

New stores

The new store opening programme continued in 2010/11 with 30 stores opening during the year (2009/10: 21 stores). Given the opportunity in the UK the business intends to maintain its store opening programme at this level for the coming year.

Bad debt

BrightHouse seeks to ensure that customers can afford the repayments for goods supplied. Where customers face difficulties, stores have a range of options to retain the customer and ultimately ensure they take ownership of the goods. Despite the difficult economic conditions, this relationship method has enabled the bad debt charge as a percentage of turnover to be restricted to 8.1% versus 7.7% in the previous year.

Gross margin

Gross margin decreased from 58.9% in 2009/10 to 57.2% in 2010/11. BrightHouse has invested in category management and focused upon a limited range of product lines and supplier relationships. This has enabled the delivery of excellent value to customers and has meant products were benchmarked to high street prices throughout the year.

Directors' report

Principal risks and uncertainties

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

Regulation

BrightHouse operates in a regulated market and has established processes and policies for ensuring its compliance with all applicable legislation and regulation. Staff participate in a programme of training designed to ensure that they understand the processes and policies that the directors have established.

Staff capabilities

A key asset of the Group is its staff. BrightHouse recognises that it must continue to attract, retain and motivate the best staff with the right capabilities at all levels of the business. BrightHouse reviews its staff policies regularly and is committed to investing in training, development, succession planning and appropriate financial incentives for staff.

Financing

The Group manages liquidity risk via strong cash forecasting processes to ensure sufficient funds are available. Interest rate and exchange rate risks are managed by structured Treasury processes.

The business has a fully drawn Mezzanine facility and an asset backed revolving Senior facility both due for repayment at July 2012. The directors believe the current facilities contain sufficient head room for the ambitions of the business and the covenants are appropriate and support growth. At the year end, the total un-drawn amount on these facilities was £14.9m and all covenants have been met.

Credit risk

BrightHouse offers customers the ability to pay for goods over one to three years based upon its bespoke credit assessment. This assessment and the debt management processes are designed to prevent rising defaults.

Economic risk

BrightHouse customers are subject to impacts from the macroeconomic environment including government spending and benefits policy. BrightHouse has to adopt a coherent commercial strategy which reflects the impact of the macroeconomic policy on its customer.

Corporate responsibility

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

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

A review process exists to ensure progress continues to be made.

Fair treatment of customers and suppliers

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

Directors' report

Corporate responsibility (continued)

Responsible lender

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

The Group undertakes a bespoke creditworthiness assessment, incorporating third party data, combined with an affordability check allowing customers with impaired credit records access to goods. New customers build an internal credit rating through on time payment allowing them to expand the range of products they have access to.

Transparency in all our dealings

The Group aims to achieve clear and consistent communication with all stakeholders and honour its promises. BrightHouse is an accredited partner of the Plain English Campaign and is committed to ensuring that documents use language that is simple and understandable for customers.

Colleague welfare

BrightHouse aspires to become a recognised "employer of choice" within their 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. The Group adopts the principle of zero tolerance with regard to accident prevention.

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

Community involvement

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

Directors' report

Corporate responsibility (continued)

Charitable causes

During the year BrightHouse colleagues worked to raise funds for the business sponsored charity the NSPCC. The NSPCC charity exists to protect children from cruelty, support vulnerable families, campaign for changes to the law and raise awareness about abuse. Across the country, BrightHouse colleagues have energetically led or participated in fundraising events. BrightHouse has also supported Credit Action, Retail Trust and Sports Aid.

Retail trust

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

Ethical trading

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

Environmental responsibility

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

Packaging recycling

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

Product refurbishment

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

Environment-friendly products

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

Financial instruments

The Group's financial risk management objectives and policies are discussed in note 19 to these financial statements.

Directors' report

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 Business Review section of the Directors' Report on pages 2 to 3. The principal risks and uncertainties on page 4 includes the Group's objectives, policies and processes for managing regulation; its staff; its financial, credit and economic risk.

The directors have an expectation that the Group shall be able to operate within the level of its current facilities, details of which are included in notes 15 and 19 of the financial statements. Accordingly, they continue to adopt the going concern basis in preparing the group financial statements.

Directors

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

J L McKee
G M O David

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

Political and charitable contributions

The group made charitable contributions of £207,000 (2010 – £77,000) during the year. Donations to political organisations amounted to £nil during the year (2010 – £nil). The staff and customers of BrightHouse Limited have participated in extensive fundraising activities for the sponsored charity (the NSPCC).

Policy and practice on payment of creditors

It is the policy of BrightHouse to pay its suppliers on a timely basis and in accordance with agreed payment terms. The trade creditors of BrightHouse at 31 March 2011 were equivalent to 28.1 days (2010 – 27.7 days) of purchases, based on the average daily amount invoiced by suppliers during the year.

Walker report

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

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.

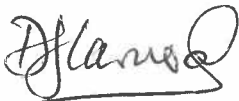
Directors' report

Auditors

Following a retender process, KPMG Audit Plc resigned as auditors on 16 November 2010 and Ernst & Young LLP was appointed in their place.

In accordance with section 485 of the Companies Act 2006, a resolution is to be proposed at the Annual General Meeting for reappointment of Ernst & Young LLP as auditors.

By order of the Board



D Harwood
Secretary
17 June 2011

5 Hercules Way
Leavesden Park
Watford
WD25 7GS

Statement of directors' responsibilities

The directors are responsible for preparing the group and parent company financial statements in accordance with applicable law and regulations.

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of 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:

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

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

Independent auditors' report

to the members of BrightHouse Limited

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BRIGHTHOUSE LIMITED

We have audited the financial statements of BrightHouse Limited for the year ended 31 March 2011 which comprise the Group Income Statement, the Group and Parent Company Statements of Financial Position, the Group Statement of Comprehensive Income, the Group Statement of Changes in Equity, the Group Statement of Cash Flow and the related notes 1 to 37. 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.

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.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the directors' report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2011 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 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report

to the members of BrightHouse Limited

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept 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.



Andrew Clewer (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Luton

17 June 2011

Group income statement

for the year ended 31 March 2011

	<i>Notes</i>	<i>2011</i> £000	<i>2010</i> £000
Revenue	3	227,656	197,327
Cost of sales	4	(97,527)	(81,109)
Gross profit		<u>130,129</u>	<u>116,218</u>
Operating expenses		(96,578)	(91,381)
Operating profit	4	33,551	24,837
Other financial income	7	1,130	2,029
Other financial expenses	7	(9,699)	(6,951)
Profit before taxation		<u>24,982</u>	<u>19,915</u>
Tax credit	8	2,176	5,102
Profit for the year		<u><u>27,158</u></u>	<u><u>25,017</u></u>

The results shown above all relate to continuing activities.

Group statement of comprehensive income

for the year ended 31 March 2011

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

Group statement of financial position

at 31 March 2011

	Notes	2011 £000	2010 £000
Non-current assets			
Property, plant and equipment	9	123,107	101,244
Intangible assets	10	11,192	9,993
Trade and other receivables	13	12,020	8,685
Deferred tax assets	11	14,268	11,788
		160,587	131,710
Current assets			
Inventories	12	7,498	5,162
Trade and other receivables	13	72,260	64,335
Financial assets	13	–	221
Cash and cash equivalents	14	6,873	19,906
		86,631	89,624
Total assets		247,218	221,334
Current liabilities			
Trade and other payables	16	35,133	28,990
Financial liabilities	15	2,039	526
Current tax payable		508	1,254
		37,680	30,770
Non-current liabilities			
Financial liabilities	15	66,214	74,336
Deferred tax liabilities	11	–	62
		66,214	74,398
Total liabilities		103,894	105,168
Net assets		143,324	116,166
Equity attributable to equity holders of the parent			
Share capital	18	15,000	15,000
Other reserve		(15,421)	(15,421)
Retained earnings		143,745	116,587
Total equity		143,324	116,166

These financial statements were approved by the board of directors on 17 June 2011 and were signed on its behalf by:



G M O David
Director

Group statement of changes in equity

for the year ended 31 March 2011

	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Other reserve £000</i>	<i>Total equity £000</i>
At 1 April 2009	15,000	91,570	(15,421)	91,149
Total comprehensive income for the year	–	25,017	–	25,017
At 1 April 2010	15,000	116,587	(15,421)	116,166
Total comprehensive income for the year	–	27,158	–	27,158
At 31 March 2011	15,000	143,745	(15,421)	143,324

Group statement of cash flows

for the year ended 31 March 2011

	<i>2011</i>	<i>2010</i>
<i>Notes</i>	<i>£000</i>	<i>£000</i>
<i>Cash flows from operating activities</i>		
Profit for the year	27,158	25,017
Adjustments for:		
Depreciation	76,317	63,420
Amortisation of intangible assets	3,418	2,342
Financial income	(1,130)	(2,029)
Financial expense	9,699	6,951
Net book value of rental assets sold to customers	2,814	2,227
Rental assets written off as obsolete or not recoverable from defaulting customers	13,409	10,795
Taxation	(2,176)	(5,102)
	<u>129,509</u>	<u>103,621</u>
<i>Operating cash inflow before changes in working capital</i>		
Increase in trade and other receivables	(9,991)	(2,999)
Increase in inventories	(2,336)	(2,345)
Increase in trade and other payables	5,921	4,254
	<u>123,103</u>	<u>102,531</u>
<i>Cash generated from operations</i>		
Interest paid	(7,335)	(5,993)
Tax paid	(1,112)	(646)
	<u>114,656</u>	<u>95,892</u>
<i>Net cash flow from operating activities</i>		
<i>Cash flows from investing activities</i>		
Interest received	83	33
Purchase of property, plant and equipment	(9,850)	(4,608)
Purchase of rental assets	(104,553)	(85,667)
Payments to acquire intangible assets	(4,617)	(8,016)
	<u>(118,937)</u>	<u>(98,258)</u>
<i>Net cash from investing activities</i>		
<i>Cash flows from financing activities</i>		
Senior loan proceeds net of repayments	(9,015)	565
Proceeds from new finance lease and hire purchase contracts	700	–
Repayment of finance lease and hire purchase contracts	(437)	–
	<u>(8,752)</u>	<u>565</u>
<i>Net cash flow from financing activities</i>		
<i>Net decrease in cash and cash equivalents</i>	<u>(13,033)</u>	<u>(1,801)</u>
Cash and cash equivalents at 1 April	19,906	21,707
Cash and cash equivalents at 31 March	14 6,873	19,906

Notes to the group financial statements

at 31 March 2011

1. Accounting policies

General information

BrightHouse Limited is a limited company ("company") incorporated in the United Kingdom under the Companies Act 2006 (registration number 06073794). The Company is domiciled in the United Kingdom and its registered address is 5 Hercules Way, Leavesden, Watford, WD25 7GS.

Authorisation of financial statements and statement of compliance with IFRS.

The financial statements of BrightHouse Limited and its subsidiaries for the year ended 31 March 2011 were authorised for issue on 17 June 2011 by the board of directors and the balance sheet signed on the board's behalf by David Harwood. 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 these parts of the Companies Act 2006 applicable to Companies reporting under IFRS.

Basis of preparation

The consolidated financial statements of BrightHouse Limited and its subsidiaries ("the Group") are approved by the directors and prepared in accordance with International Financial Reporting Standards as adopted for use in the European Union ("EU") ("Adopted IFRSs"). 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.

Judgements and estimates made by the directors, in the application of these accounting policies that have significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 22.

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. In assessing control, potential voting rights that are currently exercisable are taken into account. 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.

Acquisitions from entities under common control

Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The amount recognised as equity in the consolidated accounts following the combination is determined by adding to the issued equity of the acquired entity the equity instruments issued to effect the combination and any cash paid for the acquisition. Any difference between the cash and equity issued to effect the combination and the share capital, premium of the acquired entity is credited to an other reserve.

Notes to the group financial statements

at 31 March 2011

1. Accounting policies (continued)

Foreign currencies

The Group financial statements are presented in pounds sterling and in round thousands, 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 to the income statement on a straight-line basis over the estimated useful lives of each part of an item.

Estimated useful lives:

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

Residual values and useful economic lives are reviewed annually. Property, plant and equipment, including rental assets, are assessed for impairment annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Where an impairment review is deemed necessary it is performed in accordance with the policies set out below.

Depreciation is charged on all additions to or disposals of assets pro rated in the year of purchase or disposal.

Finance leases

Assets held under finance leases are capitalised at the inception of the lease, with a corresponding liability being recognised for the lower of fair value of the leased asset and the minimum lease payments. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Intangible assets

Intangible assets comprise software that is separable and not integral to hardware platforms. Software is stated at cost less accumulated amortisation and impairment losses. Externally acquired computer software is capitalised and amortised on a straight-line basis over its useful economic life of 3 to 7 years. Costs relating to development of software for internal use are capitalised once the recognition criteria are met. When the software is available for its intended use, these costs are amortised over the estimated useful life of the software.

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

