Registered No. 06250176

# BrightHouse Group plc

## (formerly BrightHouse Group Limited)

## Quarterly Report

## for the thirty-nine weeks ended December 28, 2013

**BrightHouse Group plc**
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United Kingdom

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## Operational Highlights for the First Three Quarters 2013

BrightHouse Group plc (the "Company"), the leading provider of rent-to-own products in the United Kingdom, today announces interim results of operations for the thirteen weeks and thirty-nine weeks ended December 28, 2013.

### Key Highlights

- Increased revenue by 12.1% to £245.1 million to the Third Quarter 2013;
- Increased EBITDA by 5.8% to £36.9 million for the First Three Quarters 2013;
- Increased the value of the Contract Portfolio to £589.8 million as of December 28, 2013, compared to £511.9 million as of December 29, 2012;
- Increased LTM like-for-like revenue by 7.5% for the twelve months ended December 28, 2013 compared to 8.0% for the twelve months ended December 29, 2012;
- Opened 7 new stores in the First Three Quarters 2013, gaining access to new geographic areas and bringing the total number of stores across the United Kingdom to 287 as of December 28, 2013;
- Acquired a net 29,600 new customers during the First Three Quarters 2013 reaching a total of 276,400 customers as of December 28, 2013, as a result of an increased demand conversion rate achieved during the period;
- Online applications for the First Three Quarters 2013 increased by 23.8% compared to the First Three Quarters 2012;
- Significant progress in preparation for the transfer of Consumer Credit Regulation to the Financial Conduct Authority on 1 April 2014, including the appointment of a new Director of Compliance;
- Successfully introduced automated telephony solution delivering significant financial and operational efficiencies; and
- Alex Maby has been appointed to the Board position of Chief Financial Officer with effect from December 2, 2013.

Leo McKee, Chief Executive Officer, said:

"We are pleased to report a solid period of peak trading which has seen an increase in our customer base to 276,400. As a result, the contract portfolio has increased by 15% year on year, which together with a material rise in the number of online customer originations, provides a significant opportunity for future growth."

The following table reconciles EBITDA to profit for the period for the Third Quarter 2012 and the Third Quarter 2013, as well as the First Three Quarters 2012 and the First Three Quarters 2013.

| (in thousands of £) | For the Third Quarter 2012 | For the Third Quarter 2013 | For the First Three Quarters 2012 | For the First Three Quarters 2013 |
|---|---|---|---|---|
| Profit for the period | 1,779 | 3,121 | 3,521 | 8,985 |
| Tax charge | 1,437 | 1,194 | 4,993 | 865 |
| Financial income and expenses | 5,508 | 5,846 | 15,843 | 17,043 |
| Depreciation of fixtures and equipment and amortization of software | 3,715 | 3,284 | 9,791 | 9,980 |
| Exceptional EBT bonus award | 715 | – | 715 | – |
| EBITDA | 13,154 | 13,445 | 34,863 | 36,873 |

## Certain Definitions

Definitions of certain terms used in this Quarterly Report and certain financial and operating data can be found below.

"APR" refers to the annual percentage interest rate.

"Company" refers to BrightHouse Group plc.

"Contract Portfolio" refers to, collectively, all the hire purchase agreements existing on any given date. For a detailed explanation of Contract Portfolio as a non-IFRS operating measure, see "Presentation of Financial and Other Data—Presentation of non-IFRS operating measures".

"EBT" refers to the Employee Benefit Trust.

"First Three Quarters 2012" refers to the thirty-nine weeks ended December 29, 2012.

"First Three Quarters 2013" refers to the thirty-nine weeks ended December 28, 2013.

"First Three Quarters Report" refers to this report as of and for the thirty-nine weeks ended December 28, 2013.

"IFRS" refers to International Financial Reporting Standards as adopted by the European Union.

"Indenture" refers to the indenture dated May 9, 2013 relating to the $7^7/_8$% senior secured notes due 2018 issued by the Company.

"Insurance Subsidiaries" refers to, collectively, Caversham Insurance (Malta) Limited, Caversham Insurance Limited and Caversham Insurance (Isle of Man) Limited.

"LTM" refers to any twelve month period as required by the context.

"Notes" refers to the $7^7/_8$ % senior secured notes due 2018 issued by the Company on May 9, 2013.

"Revolving Credit Facility" refers to the agreement among the Company, the guarantors of the Notes, Lloyds TSB Bank plc, as security agent and agent, and the lenders party thereto, dated May 9, 2013, for the provision of a £25.0 million revolving credit facility, as amended from time to time.

"SEC" refers to the U.S. Securities and Exchange Commission.

"Third Quarter 2012" refers to the thirteen weeks ended December 29, 2012.

"Third Quarter 2013" refers to the thirteen weeks ended December 28, 2013.

"sterling", "pound sterling" and "£" refer to the lawful currency of the United Kingdom.

"the period" and "this period" refer to the First Three Quarters 2013 unless the context otherwise requires.

"we", "us", "our", "Group" and other similar terms refer to the Company and its consolidated subsidiaries unless the context otherwise requires or is clear from context.

## Presentation of Financial and Other Data

For purposes of this Quarterly Report we refer to the thirty-nine weeks ended December 28, 2013 as "First Three Quarters 2013", and the thirty-nine weeks ended December 29, 2012 as "First Three Quarters 2012".

### *Consolidated financial statements*

The consolidated financial statements of the Company and its subsidiaries for the thirty-nine weeks ended December 28, 2013 presented in this Quarterly Report have been prepared in accordance with IFRS and in accordance with the accounting policies presented in the offering memorandum relating to the Notes. The consolidated financial statements are unaudited and have been derived from the internal management reporting of the Company. The results of operations for prior periods or interim periods are not necessarily indicative of the results to be expected for the full financial reporting periods or any future reporting periods.

### *Presentation of non-IFRS financial measures*

In this Quarterly Report, we present certain non-IFRS financial measures, including EBITDA and certain related ratios. As used in this Quarterly Report, the following terms have the following meanings:

We define "EBITDA" as profit for the year before financial charges, tax, depreciation of fixtures (but not depreciation of hire purchase assets) and equipment, and amortization of software and exceptional items.

We believe that EBITDA is a useful indicator of our overall financial performance and EBITDA is a useful indicator of our cash generation and our ability to incur and service our indebtedness, and can assist certain investors, securities analysts and other interested parties in evaluating us.

EBITDA and similar measures are used by different companies for differing purposes and are often calculated in ways that reflect the circumstances of those companies. You should exercise caution in comparing EBITDA as reported by us to that reported by other companies. EBITDA as presented herein differs from the definition of "Consolidated EBITDA" contained in the Indenture or for purposes of any of our other indebtedness. The information presented as EBITDA is unaudited and has not been prepared in accordance with IFRS or any other accounting standards. In addition, the presentation of these measures is not intended to and does not comply with the reporting requirements of the SEC and will not be subject to review by the SEC; compliance with its requirements would require us to make changes to the presentation of this information.

EBITDA is not a measurement of performance under IFRS and you should not consider EBITDA as an alternative to net income or operating profit or other performance measures determined in accordance with IFRS, or to cash flows from operations, investing activities or financing activities. EBITDA has limitations as an analytical tool, and you should not consider it in isolation.

### *Presentation of non-IFRS operating measures*

This Quarterly Report includes information on our "Contract Portfolio" and other related data. Our Contract Portfolio consists of all of the hire purchase agreements we enter into with our customers. 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 that all contracts are paid in full and not terminated prior to maturity. These payments include, in addition to the expected instalment payments towards the retail price of the product, interest and indirect taxes, payments on the purchase of our insurance and warranty products, namely, the optional service cover and damage liability cover, purchased by our customers. This Quarterly Report also presents information on the performance of our Contract Portfolio. Information relating to the value of our Contract Portfolio and performance of our Contract Portfolio has been produced by Euristix, a specialist analytics and risk management firm, based on the data we provide them. We cannot assure you of the accuracy and completeness of such information, and Euristix does not assume liability for such information.

We present the value of our Contract Portfolio because it represents our best estimate of the undiscounted cash value of the aggregate payments that will come due under our existing hire purchase agreements at certain points in time. The value of our Contract Portfolio is an important supplemental measure by which our board of directors and management assess our performance, as they highlight the cash generation capacity of the assets underlying our business. However, these numbers are not derived from our internal financial systems or management accounts, but are derived from our non-financial operating systems and they have not been audited, reviewed or verified by independent auditors.

The value of the Contract Portfolio and other Contract Portfolio related performance data, as computed by us, may not be comparable to similar metrics used by other companies in our industry. In addition, our computations could differ in the future from the figures included in this Quarterly Report. Furthermore, levels of actual recoveries are uncertain and may vary materially due to several factors. Therefore, none of the value of our Contract Portfolio or any other Contract Portfolio related data included herein should be relied on as indicators of future revenue or performance.

***Rounding adjustments***

Certain numerical figures contained in this Quarterly Report, including financial information and certain operating data, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or within a table may not conform exactly to the total figure given for that column or row or the sum of certain numbers presented as a percentage may not conform exactly to the total percentage given.

**Consolidated Financial Statements**

# Group income statement

**for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

| | Notes | *13 weeks ended December 28, 2013 (unaudited) £000* | *13 weeks ended December 29, 2012 (unaudited) £000* | *39 weeks ended December 28, 2013 (unaudited) £000* | *39 weeks ended December 29, 2012 (unaudited) £000* |
|---|---|---|---|---|---|
| ***Revenue*** | 2 | 83,233 | 75,783 | 245,060 | 218,603 |
| Cost of sales | | (40,046) | (33,278) | (115,501) | (96,152) |
| ***Gross profit*** | | 43,187 | 42,505 | 129,559 | 122,451 |
| Operating expenses | | (33,026) | (33,781) | (102,666) | (98,094) |
| ***Operating profit*** | | 10,161 | 8,724 | 26,893 | 24,357 |
| Other finance income | 3 | 14 | 58 | 38 | 57 |
| Other finance expenses | 3 | (5,860) | (5,566) | (17,081) | (15,900) |
| ***Profit before taxation*** | | 4,315 | 3,216 | 9,850 | 8,514 |
| Tax (charge) / credit | 4 | (1,194) | (1,437) | (865) | (4,993) |
| ***Profit for the period*** | | 3,121 | 1,779 | 8,985 | 3,521 |

The results shown above all relate to continuing activities.

# Group statement of comprehensive income

**for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

| | *13 weeks ended December 28, 2013 (unaudited) £000* | *13 weeks ended December 29, 2012 (unaudited) £000* | *39 weeks ended December 28, 2013 (unaudited) £000* | *39 weeks ended December 29, 2012 (unaudited) £000* |
|---|---|---|---|---|
| ***Profit for the period*** | 3,121 | 1,779 | 8,985 | 3,521 |
| **Other comprehensive income** | | | | |
| **Cash flow hedges:** | | | | |
| Gains / (losses) taken to equity | – | (118) | – | (868) |
| Ineffective portion transferred to income statement | – | – | – | – |
| Tax on cash flow hedges | – | 27 | – | 182 |
| Tax on ineffective portion transferred to income statement | – | – | – | – |
| ***Other comprehensive income for the period net of tax*** | – | (91) | – | (686) |
| ***Total comprehensive income for the period net of tax*** | 3,121 | 1,668 | 8,985 | 2,835 |

# Group statement of financial position

**as of and for the thirty-nine weeks ended December 28, 2013**

| | Notes | December 28, 2013 (unaudited) £000 | December 29, 2012 (unaudited) £000 |
|---|---|---|---|
| ***Non-current assets*** | | | |
| Property, plant and equipment | 5 | 181,776 | 163,524 |
| Intangible assets | 6 | 83,691 | 83,648 |
| Trade and other receivables | 9 | 21,689 | 16,328 |
| Deferred tax assets | 7 | 9,992 | 8,545 |
| | | 297,148 | 272,045 |
| ***Current assets*** | | | |
| Inventories | 8 | 12,365 | 15,040 |
| Trade and other receivables | 9 | 44,517 | 39,062 |
| Current tax receivable | | – | – |
| Cash and cash equivalents | 10 | 13,157 | 10,990 |
| | | 70,039 | 65,092 |
| ***Total assets*** | | 367,187 | 337,137 |
| ***Current liabilities*** | | | |
| Trade and other payables | 11 | 66,394 | 56,361 |
| Financial liabilities | 12 | 124 | 3,163 |
| Current tax payable | | 572 | 931 |
| | | 67,090 | 60,455 |
| ***Non-current liabilities*** | | | |
| Financial liabilities | 12 | 254,420 | 238,712 |
| | | 254,420 | 238,712 |
| ***Total liabilities*** | | 321,510 | 299,167 |
| ***Net assets*** | | 45,677 | 37,970 |
| ***Equity attributable to equity holders of the parent*** | | | |
| Share capital | 13 | 50 | 9 |
| Share premium | | 552 | 6,592 |
| Capital redemption reserve | | 57 | 57 |
| Own shares reserve | | (371) | – |
| Retained earnings | | 45,389 | 31,312 |
| ***Total equity*** | | 45,677 | 37,970 |

# Group statement in changes of equity

**as of and for the thirty-nine weeks ended December 28, 2013**

| | Share capital (unaudited) £000 | Share premium (unaudited) £000 | Hedging reserve (unaudited) £000 | Own shares (unaudited) £000 | Retained earnings (unaudited) £000 | Capital redemption reserve (unaudited) £000 | Total Equity (unaudited) £000 |
|---|---|---|---|---|---|---|---|
| As of April 1, 2012 | 13 | 6,437 | (1,357) | – | 29,119 | 52 | 34,264 |
| Profit for the period | – | – | – | – | 3,521 | – | 3,521 |
| Other comprehensive income | – | – | (686) | – | – | – | (686) |
| Issue / purchase of shares | 1 | 155 | – | – | – | – | 156 |
| Sales of treasury shares | – | – | – | – | 715 | – | 715 |
| Cancelled shares | (5) | – | – | – | – | 5 | – |
| As of December 29, 2012 | 9 | 6,592 | (2,043) | – | 33,355 | 57 | 37,970 |
| As of April 1, 2013 | 9 | 6,592 | – | (286) | 35,502 | 57 | 41,874 |
| Profit for the period | – | – | – | – | 8,985 | – | 8,985 |
| Issue / purchase of shares | 41 | (6,040) | – | (85) | 5,999 | – | (85) |
| Equity dividends paid | – | – | – | – | (5,097) | – | (5,097) |
| As of December 28, 2013 | 50 | 552 | – | (371) | 45,389 | 57 | 45,677 |

# Group statement of cash flows

### as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013

| | Notes | *13 weeks ended December 28, 2013 (unaudited)* £000 | *13 weeks ended December 29, 2012 (unaudited)* £000 | *39 weeks ended December 28, 2013 (unaudited)* £000 | *39 weeks ended December 29, 2012 (unaudited)* £000 |
|---|---|---|---|---|---|
| ***Cash flows from operating activities*** | | | | | |
| Profit for the period | | 3,121 | 1,779 | 8,985 | 3,521 |
| Adjustments for: | | | | | |
| Sales proceeds from sales of rental assets | | 734 | 685 | 2,207 | 1,970 |
| Depreciation | | 30,333 | 26,934 | 88,820 | 77,244 |
| Amortisation of intangible assets | | 1,264 | 1,537 | 3,780 | 3,931 |
| Financial income | | (14) | (58) | (38) | (57) |
| Financial expense | | 5,860 | 5,566 | 17,081 | 15,900 |
| Profit on rental assets sold to customers | | (328) | (219) | (976) | (908) |
| Rental assets written off as obsolete or not recoverable from defaulting customers | | 6,473 | 4,369 | 16,353 | 12,758 |
| Purchase of rental assets | | (50,489) | (47,050) | (125,559) | (112,681) |
| Taxation | | 1,194 | 1,437 | 865 | 4,993 |
| ***Operating cash inflow before changes in working capital*** | | (1,852) | (5,020) | 11,518 | 6,671 |
| Increase in trade and other receivables | | (9,817) | (6,599) | (7,368) | (12,088) |
| Decrease / (increase) in inventories | | 6,912 | (1,752) | (3,500) | (3,401) |
| Increase in trade and other payables | | 10,351 | 10,637 | 8,769 | 19,694 |
| ***Cash generated from operations*** | | 5,594 | (2,734) | 9,419 | 10,876 |
| Tax received / (paid) | | 249 | 2,534 | (901) | (498) |
| ***Net cash flow from operating activities*** | | 5,843 | (200) | 8,518 | 10,378 |
| ***Cash flows from investing activities*** | | | | | |
| Interest received | | 14 | 4 | 38 | 13 |
| Purchase of property, plant and equipment | | (482) | (2,977) | (3,380) | (7,336) |
| Payments to acquire intangible assets | | (1,326) | (400) | (4,445) | (2,689) |
| ***Net cash from investing activities*** | | (1,794) | (3,373) | (7,787) | (10,012) |
| ***Cash flows from financing activities*** | | | | | |
| New RCF senior loan | | 500 | 16,000 | 8,000 | 12,000 |
| Repayment of revolving credit facility senior loan | | – | (300) | (70,513) | (300) |
| Repayment of unsecured loan stock | | – | (6,792) | (128,800) | (6,792) |
| Interest paid | | (9,167) | (1,323) | (12,681) | (3,734) |
| Loan arrangement fees / financing costs | | (181) | – | (9,272) | – |
| Issue of senior secured notes | | – | – | 220,000 | – |
| (Purchase) / proceeds of shares | | (100) | 156 | (84) | 156 |
| Equity dividends paid | | – | – | (5,097) | – |
| Proceeds from sale of shares by EBT | | | 715 | – | 715 |
| ***Net cash flow from financing activities*** | | (8,948) | 8,456 | 1,553 | 2,045 |
| ***Net (decrease) / increase in cash and cash equivalents*** | | (4,899) | 4,883 | 2,284 | 2,411 |
| Cash and cash equivalents at the beginning of the period | | 18,056 | 6,107 | 10,873 | 8,579 |
| Cash and cash equivalents at the end of the period | 10 | 13,157 | 10,990 | 13,157 | 10,990 |

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 1. Accounting policies and basis of preparation

This Quarterly report contains condensed consolidated financial information of BrightHouse Group plc for the thirteen weeks ended December 28, 2013 and the thirty-nine weeks ended December 28, 2013. The unaudited Quarterly financial information has been prepared using consistent accounting policies, presentation, and method of computation to those applied in the latest annual financial statements of BrightHouse Group plc for the year ended March 31, 2013. This financial information should be read in conjunction with the consolidated financial statements of BrightHouse Group plc for the year ended March 31, 2013.

***Basis of preparation***

The consolidated financial statements of BrightHouse Group plc 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 IFRS"). The financial statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

The financial information contained in this interim statement does not constitute statutory accounts as defined by Section 435 of the Companies Act 2006.

## 2. Revenue

Revenue comprises revenue from the provision of home electronic and domestic appliances, household furniture and other related products to domestic customers through hire purchase agreements and related service insurance agreements. Customers entering into our hire purchase agreements from September 2, 2013 are entitled to return assets at any time with no further payments falling due and with no penalties incurred. Prior to September 2, 2013, the automatic right of return was not provided within the hire purchase agreement, however, the majority of customers also entered into an additional optional insurance arrangement which gave them this benefit. On this basis the transactions are treated as being operating lease in nature and the directors believe that at the inception of the lease there are no minimum future lease payments as the goods can be returned at any time.

## 3. Finance income and expenses

Recognised in income statement

| | *13 weeks ended December 28, 2013 (unaudited) £000* | *13 weeks ended December 29, 2012 (unaudited) £000* | *39 weeks ended December 28, 2013 (unaudited) £000* | *39 weeks ended December 29, 2012 (unaudited) £000* |
|---|---|---|---|---|
| Interest income | 14 | 4 | 38 | 13 |
| Unwinding of discounting of trade receivables due after more than 1 year | – | – | – | 2 |
| Fair value gains on forward foreign exchange contracts | – | 54 | – | 42 |
| Finance income | 14 | 58 | 38 | 57 |

| | *13 weeks ended December 28, 2013 (unaudited) £000* | *13 weeks ended December 29, 2012 (unaudited) £000* | *39 weeks ended December 28, 2013 (unaudited) £000* | *39 weeks ended December 29, 2012 (unaudited) £000* |
|---|---|---|---|---|
| Interest expense | 5,676 | 5,516 | 16,462 | 15,900 |
| Unwinding of discounting of trade receivables due after more than 1 year | 152 | 50 | 315 | – |
| Fair value losses on forward foreign exchange contracts | 32 | – | 304 | – |
| Finance expenses | 5,860 | 5,566 | 17,081 | 15,900 |

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 4. Income tax

Income tax on profit on ordinary activities
Recognised in the income statement

| | *13 weeks ended December 28, 2013 (unaudited) £000* | *13 weeks ended December 29, 2012 (unaudited) £000* | *39 weeks ended December 28, 2013 (unaudited) £000* | *39 weeks ended December 29, 2012 (unaudited) £000* |
|---|---|---|---|---|
| *Current tax:* | | | | |
| Corporation tax charge overseas | 6 | 174 | 320 | 444 |
| Total current income tax | 6 | 174 | 320 | 444 |
| *Deferred tax:* | | | | |
| Deferred tax charge | 1,188 | 1,263 | 545 | 4,549 |
| Total deferred tax charge | 1,188 | 1,263 | 545 | 4,549 |
| Total income taxation in income statement | 1,194 | 1,437 | 865 | 4,993 |

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 5. Property, plant and equipment

| | *Rental assets (unaudited) £000* | *Fixtures, equipment and vehicles (unaudited) £000* | *Total (unaudited) £000* |
|---|---|---|---|
| Cost: | | | |
| As of April 1, 2012 | 158,853 | 37,687 | 196,540 |
| Additions | 112,681 | 7,336 | 120,017 |
| Disposals | (76,940) | – | (76,940) |
| As of December 29, 2012 | 194,594 | 45,023 | 239,617 |
| As of April 1, 2013 | 196,849 | 47,440 | 244,289 |
| Additions | 125,559 | 3,380 | 128,939 |
| Disposals | (88,018) | – | (88,018) |
| As of December 28, 2013 | 234,390 | 50,820 | 285,210 |
| Depreciation: | | | |
| As of April 1, 2012 | 44,409 | 17,560 | 61,969 |
| Depreciation charge for the period | 71,385 | 5,859 | 77,244 |
| Disposals | (63,120) | – | (63,120) |
| As of December 29, 2012 | 52,674 | 23,419 | 76,093 |
| As of April 1, 2013 | 59,481 | 25,567 | 85,048 |
| Depreciation charge for the period | 82,620 | 6,200 | 88,820 |
| Disposals | (70,434) | – | (70,434) |
| As of December 28, 2013 | 71,667 | 31,767 | 103,434 |
| Net book value: | | | |
| As of December 28, 2013 | 162,723 | 19,053 | 181,776 |
| As of April 1, 2013 | 137,368 | 21,873 | 159,241 |
| As of December 29, 2012 | 141,920 | 21,604 | 163,524 |
| As of April 1, 2012 | 114,444 | 20,127 | 134,571 |

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 6. Intangible assets

| | *Software (unaudited) £000* | *Goodwill (unaudited) £000* | *Total (unaudited) £000* |
|---|---|---|---|
| Cost: | | | |
| As of April 1, 2012 | 33,153 | 74,978 | 108,131 |
| Additions | 2,690 | – | 2,690 |
| As of December 29, 2012 | 35,843 | 74,978 | 110,821 |
| As of April 1, 2013 | 36,437 | 74,978 | 111,415 |
| Additions | 4,445 | – | 4,445 |
| As of December 28, 2013 | 40,882 | 74,978 | 115,860 |
| Amortisation: | | | |
| As of April 1, 2012 | 23,241 | – | 23,241 |
| Amortisation charge for the period | 3,932 | – | 3,932 |
| As of December 29, 2012 | 27,173 | – | 27,173 |
| As of April 1, 2013 | 28,389 | – | 28,389 |
| Amortisation charge for the period | 3,780 | – | 3,780 |
| As of December 28, 2013 | 32,169 | – | 32,169 |
| Net book value: | | | |
| As of December 28, 2013 | 8,713 | 74,978 | 83,691 |
| As of April 1, 2013 | 8,048 | 74,978 | 83,026 |
| As of December 29, 2012 | 8,670 | 74,978 | 83,648 |
| As of April 1, 2012 | 9,912 | 74,978 | 84,890 |

**Impairment testing**

Goodwill arose from the acquisition of BrightHouse Limited and has been allocated to the Group's one cash generating unit (CGU) of retail sales, hire-purchase agreements and associated premiums for insurance and warranty contracts. The recoverable amount of the CGU is determined based on a value in use calculation using cash flow projections from financial budgets approved by the board covering a five year period.

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 7. Deferred tax assets

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Assets: | | |
| Tax losses recognised | 3,886 | – |
| Interest rate swap | – | 610 |
| Foreign forward exchange contracts | 29 | 48 |
| Unrealised profit on intercompany trading | 1,203 | 4,367 |
| Other property, plant and equipment | 4,470 | 3,053 |
| Capital contributions on lease incentives | 404 | 467 |
| Total tax assets | 9,992 | 8,545 |

## 8. Inventories

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Goods held for resale at cost | 12,365 | 15,040 |

During the period assets acquired for resale amounting to £125,559,000 (2012 – £112,681,000) 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.

## 9. Trade and other receivables

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Current: | | |
| Trade receivables due from customers and suppliers | 3,011 | 2,277 |
| Other trade receivables and prepayments | 11,280 | 12,108 |
| Other non-trade receivables | 1,748 | 614 |
| VAT incurred in advance of recovery from customers | 28,478 | 24,063 |
| | 44,517 | 39,062 |

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Non current: | | |
| VAT incurred in advance of recovery from customers | 21,689 | 16,328 |

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 are recovered from customers over the full length of these agreements or from HMRC on customer default.

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 9. Trade and other receivables (continued)

Within trade receivables £21,689,000 (2012 – £16,328,000) is receivable after more than one year and has been discounted to determine its fair value. All trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables (customer accounts) were found to be impaired and a bad debt provision of £1,310,000 (2012 – £1,008,000) has been recorded accordingly.

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

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| 1-7 days | 123 | 100 |
| 8-14 days | 117 | 81 |
| 15-45 days | 318 | 113 |
| 46-90 days | 8 | 6 |
| | 566 | 300 |

Movements in bad debt provision

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| At April 1, 2013 and April 1, 2012 | 856 | 822 |
| Amounts written off as uncollectable | (8,872) | (5,948) |
| Increase in bad debt provision | 9,326 | 6,134 |
| At end of period | 1,310 | 1,008 |

The movement in the bad debt provision consists of individually insignificant balances.

## 10. Cash and cash equivalents

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Cash and cash equivalents per balance sheet and cash flow statement | 13,157 | 10,990 |

Cash and cash equivalents comprise cash at bank and in hand. Included within cash and cash equivalents is restricted cash of £9,982,000 (2012 – £1,716,000). This includes restricted cash of £8,932,000 (2012 - £666,000) which represents cash at bank held by entities who supply insurance related services within the Group which is restricted due to certain regulatory and solvency requirements. This also includes restricted cash of £1,050,000 (2012 – £1,050,000) which represents cash held by the Group on behalf of customers.

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

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 11. Trade and other payables

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Trade payables | 29,470 | 22,489 |
| Other taxes and social security | 11,175 | 6,331 |
| Other non-trade payables | 437 | 1,053 |
| Accrued expenses | 25,312 | 26,488 |
| | 66,394 | 56,361 |

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The directors consider that the carrying amount of trade and other payables approximates to their fair value.

## 12. Financial liabilities

| | *December 28, 2013 (unaudited) £000* | *December 29, 2012 (unaudited) £000* |
|---|---|---|
| Current liabilities: | | |
| Interest rate swaps | – | 2,653 |
| Foreign currency forward contracts | 124 | 210 |
| Revolving credit facility senior loan | – | 300 |
| | 124 | 3,163 |
| Non-current liabilities: | | |
| Revolving credit facility senior loan | 10,909 | 88,422 |
| Unsecured 10% loan stock issued to related parties | 28,348 | 150,290 |
| Senior secured notes | 215,163 | – |
| | 254,420 | 238,712 |

As of December 28, 2013, the revolving credit facility senior loan includes a drawdown of £12.0 million, accrued interest of £65,000, less fees incurred on the new debt facility of £1,156,000. The senior secured notes include an issue of £220 million, accrued interest of £2,106,000, less fees incurred on the new debt facility of £6,943,000. These fees are amortised over the term of the facilities.

### Terms and debt repayment schedule

The unsecured 10% loan stock is redeemable on May 9, 2040 and forms part of the investment made in the Group by funds advised by Vision Capital LLP. The unsecured 10% loan stock is subordinated and junior in right of payment to the revolving credit facility senior loan and the senior secured notes. The amount above includes £1,708,000 (2012: £6,728,000) of accrued interest. The Group repaid £128,800,000 unsecured 10% loan stock on May 9, 2013. The terms of the unsecured loan stock are such that the maturity date cannot be prior to the maturity date of the revolving credit facility senior loan and the senior secured notes.

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 12. Financial liabilities (continued)

On November 10, 2011 the Group entered into a revolving credit facility senior loan with Lloyds TSB Bank Plc, GE Corporate Finance Bank SAS and Ares Capital Europe Limited. This amounted to a total facility of £101.7 million. The facility was secured against the assets of the Group and was repayable in two stages. The Lloyds TSB Bank Plc and GE Corporate Finance Bank SAS elements amounted to £60 million. £0.3 million was repayable on November 8, 2012 and £0.3 million repayable on November 8, 2013. The remaining facility of £59.4 million was repayable on November 8, 2014. The Ares Capital Europe Limited facility amounted to £40 million and was repayable on November 8, 2016.

On May 9, 2013 the Group repaid the revolving credit facility senior loan with Lloyds TSB Bank Plc, GE Corporate Finance Bank SAS and Ares Capital Europe Limited. On the same date, the Group entered into a revolving credit facility senior loan with Lloyds TSB Bank Plc, and GE Corporate Finance Bank SAS. This amounted to a total facility of £25 million and is secured against the assets of the Group. This facility is repayable on November 9, 2017. There is a first priority fixed security and floating charge over the assets of the Group in favour of Lloyds TSB Bank Plc, acting as security agent.

On May 9, 2013 the Group issued £220 million Senior Secured Notes due May 15, 2018. Interest is fixed at 7.875% and payable on May 15 and November 15 every year to the date of expiry. These notes are pari passu with the revolving credit facility senior loan issued on May 9, 2013, however, in the event of enforcement of the collateral and certain distressed disposals, holders of the notes will receive proceeds from the enforcement of the collateral only after the revolving credit facility senior loan lenders have been repaid.

As of December 28, 2013 the Group had undrawn committed facilities available to it of £12.5 million (2012 – £7.6 million), in respect of which all conditions precedent had been met and all covenants complied with.

## 13. Share capital

| | *December 28, 2013 (unaudited)* | | *December 29, 2012 (unaudited)* | |
|---|---|---|---|---|
| *Allotted, called up and fully paid* | *No.* | *£000* | *No.* | *£000* |
| A Ordinary shares of £0.001 each | – | – | 5,790,720 | 5 |
| Ordinary shares of £0.01 each | – | – | 215,465 | 2 |
| B Ordinary shares of £0.01 each | – | – | 299,066 | 3 |
| C Ordinary shares of £0.01 each | – | – | 190,907 | 2 |
| D Ordinary shares of £0.01 each | – | – | 79,921 | 1 |
| E Ordinary shares of £0.01 each | – | – | 79,921 | 1 |
| A Ordinary shares of £0.001 each | 4,350,000 | 4 | – | – |
| Ordinary shares of £0.001 each | 117,500 | – | – | – |
| B Ordinary shares of £0.01 each | 200,000 | 2 | – | – |
| C Ordinary shares of £0.01 each | 100,000 | 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 | – | – | – |
| 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 | 4,743,992,053 | – | – | – |
| C Preferred shares of £1.00 each | 40,500 | 41 | – | – |

# Notes to Group financial statements

**as of and for the thirteen weeks and thirty-nine weeks ended December 28, 2013**

## 13. Share capital (continued)

On November 22, 2012, new Articles of Association were adopted by the Company which resulted in the sub-division and re-designation of the existing share capital into new classes of both Ordinary and Preferred Shares as set out below.

'A Ordinary Shares' are 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' are controlled by management ('Management Shares'). 'A Preferred Shares' are controlled by VCP VI B, 'B Preferred Shares' are controlled by VCP VI B and management and 'Deferred Shares' are controlled by the Employee Benefit Trust. Dividends are distributed first to A Preferred Shares until the maximum hurdle rate, described in the Articles of Association, has been met. Remaining dividend amounts are then distributed to B Preferred Shares until the maximum hurdle rate has been met. Deferred Shares receive no dividend distribution. All other classes of share are treated equally for any remaining distribution. For voting, each class of share holds 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 hold no voting rights. In the event of a sale of the business, realisation proceeds are allocated in the following order. To the extent that the hurdle rate exceeds any previous return of capital A Preferred Shares receive proceeds first. Next to the extent that the hurdle rate exceeds any previous return of capital B Preferred Shares receive proceeds. Deferred Shares receive a maximum of 1p on a sale of the business. Finally any remaining proceeds are distributed equally between the remaining share classes. However, in certain circumstances described in the Articles, participation of Management Shares in the proceeds may increase.

On April 17, 2013 two new classes of share were created. The H share is controlled by management and has 5% voting rights. Following the creation of this class of share the E Shares, controlled by the EBT lost voting rights. C Preferred shares are controlled by both VCP VI B and management and have no voting rights. The H Shares have the same economic rights as the Ordinary Shares and the C Preferred Shares only entitle the holders to an aggregate of £20.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

*The following discussion and analysis is intended to assist in providing an understanding of our financial condition, changes in financial condition and results of operations and should be read together with our consolidated financial statements as of and for the thirty-nine weeks ended December 28, 2013 and the accompanying notes included elsewhere in this Quarterly Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to these differences include, but are not limited to, those discussed below in "—Forward Looking Statements".*

### Forward-Looking Statements

This Quarterly Report includes "forward-looking statements" within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Quarterly Report, including, without limitation, those regarding our intentions, beliefs or current expectations concerning, among other things: our future financial conditions, financial performance, performance of our Contract Portfolio, results of operations and liquidity; our strategy, plans, objectives, prospects, growth, goals and targets; future developments in the markets in which we participate or are seeking to participate; and anticipated regulatory changes in the industry in which we operate. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "aim", "anticipate", "believe", "continue", "could", "estimate", "expect", "forecast", "guidance", "intend", "may", "plan", "project", "should" or "will" or, in each case, their negative, or other variations or comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual financial condition, results of operations and cash flows, and the development of the industry, the macroeconomic environment and the regulatory landscape in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Quarterly Report. In addition, even if our financial condition, results of operations and cash flows, and the development of the industry and regions in which we operate, are consistent with the forward-looking statements contained in this Quarterly Report, those results or developments may not be indicative of results or developments in subsequent periods.

Any forward-looking statements are only made as of the date of this Quarterly Report and, except as required by law or the rules and regulations of any stock exchange on which the Notes are listed, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Quarterly Report.

### Overview

We are the leading player in the rent-to-own market in the United Kingdom measured by revenue, total customers and number of stores. We offer an integrated retail, credit and service proposition targeted at low income and credit impaired consumers who have limited access to traditional financing alternatives. We conduct our operations from our 287 stores which are located across the United Kingdom. Our product offering consists of a well-balanced mix of quality new and refurbished household goods, including essential and aspirational products, from four main categories: (i) televisions and audio products; (ii) domestic appliances, including washers, fridges and cookers; (iii) furniture, including sofas, dining sets and beds; and (iv) consumer technology, including mobile devices, gaming consoles and computers. Each product category includes a choice of leading brands from name-brand manufacturers, as well as entry level products and quality refurbished products, across a wide range of price points, which are carefully selected to appeal to our target customers.

On September 2, 2013, we launched our simplified "Single Price Agreement" pricing structure. Included within the retail price of the product is a package of benefits incorporating delivery and installation and 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, and a repair or like-for-like replacement in the event of loss through accidental damage, fire or theft. The retail prices of our products have been uplifted to reflect the additional benefits included.

We offer our products on an affordable payment schedule. This enables customers to have the items they want and need while spreading the cost over a number of years. Once a customer has selected a product, we conduct a bespoke credit verification process and enter into a hire purchase agreement, providing, primarily, weekly instalment payments and no initial deposit. Ownership of the product passes to the customer upon full payment under the hire purchase agreement. The representative APR offered in our hire purchase agreements is 64.7%. The actual rate offered to individual customers is currently in the range 64.7% – 79.9% based upon the customer's individual credit score and the product taken. Included within the credit agreement, we provide the customers, for no additional cost, the right of return and cancellation at any time, typically without penalty, and the ability to take a payment holiday if needed.

As a result, customers benefit from a package which provides them with peace of mind by providing a full repair service and also providing them with the flexibility to return the product and terminate the hire purchase at any time should their preferences or circumstances change.

Prior to September 2, 2013, our APR was 29.9%. Additional covers, including optional service cover and damage liability cover, were offered alongside the hire purchase agreement, and provided unlimited maintenance of the product during the life of the hire purchase agreement, and cover for loss through accidental damage, fire and theft, respectively. Both covers can be cancelled by the customer with seven days' notice. Agreements in effect prior to September 2 2013 are unaffected by the introduction of the Singe Price Agreement; the contracts and covers will continue with no change to their terms and conditions.

**Key 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.

| | **As of and for the thirty-nine weeks ended December 29, 2012** | **As of and for the thirty-nine weeks ended December 28, 2013** |
|---|---|---|
| **Summary Statistical and Operating Data** | | |
| **Customer Data** | | |
| Total customers (thousands)(1) | 244.0 | 276.4 |
| Average number of contracts per customer(2) | 2.82 | 2.77 |
| **Stores** | | |
| Number of stores | 277 | 287 |
| LTM like-for-like revenue growth (%)(3) | 8.0 | 7.5 |
| **Contract Portfolio** (in millions of £)(4) | 511.9 | 589.8 |

(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) 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.

(3) LTM like-for-like revenue refers to revenue generated by our stores in any given twelve-month period excluding revenues generated by new stores opened within the twelve-month period under review and the immediately preceding twelve-month period. Therefore, stores are included in this measure only when the results for two complete trading years are available. LTM like-for-like revenue growth is the increase in revenues generated by our stores in any given twelve-month period compared to the revenues generated by such stores in the previous twelve-month period presented as a percentage of such previous twelve-month period revenues. LTM like-for-like revenues are impacted by the growth in our business and trading volumes as well as the maturity profile of our store network. The number of new stores that have completed two trading years and are included in the calculation of LTM like-for-like revenues has an impact on the growth rate as these stores generally increase revenues at a faster rate.

(4) 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, payments on the purchase of our previously offered insurance options, namely, the optional service cover and damage liability cover purchased by these customers.

***Total customers***

In the First Three Quarters, 2013, the number of customers increased by 29,600 compared to an increase of 16,800 in the First Three Quarters 2012. The total customer base increased by 13.3% to 276,400 as at 28 December 2013 (29 Dec-12: 244,000). This increase in the total number of customers is principally attributable to an enlarged store base, an improvement in operational conversion of demand originated online and concluded in-store, as well as the success of our "Introduce a Friend" promotion. The strong performance in the period has given a firm platform for future sales.

***Average number of contracts per customer***

Average number of contracts per customer decreased to 2.77 as of December 28, 2013 compared to 2.82 as of December 29, 2012. The decrease of this metric is primarily due to the increased rate of customer growth in First Three Quarters 2013, and our policy to gradually test the creditworthiness of new customers before entering into multiple contracts with them.

***Number of stores***

We opened 7 new stores in the First Three Quarters 2013, compared to 24 new stores opened in the First Three Quarters 2012. As of December 29, 2012, we had a total of 277 stores, and as of December 28, 2013, we had a total of 287 stores. Improvements in our infrastructure, in-store processes and on-line application procedures have enhanced our ability to convert leads in-store. Our strategy to expand the customer base is to enhance customer service and demand conversion within the existing estate, to improve our E-Commerce capabilities and to launch new stores only where significant opportunities to enhance population coverage exist. Online applications for the First Three Quarters 2013 increased by 23.8% compared to the First Three Quarters 2012.

***LTM like-for-like revenue***

LTM like-for-like revenue for the twelve months ended December 28, 2013 increased by 7.5% compared to an increase of 8.0% for the twelve months ended December 29, 2012.

***Contract Portfolio***

The value of our Contract Portfolio as of December 28, 2013 was £589.8 million, representing an increase of 15.2% compared to £511.9 million as of December 29, 2012. Higher levels of demand conversion allowed for increased lending and necessitated increased investment in hire purchase asset purchases.

**Discussion and Analysis of Our Consolidated Results of Operations**

***Results of operations for the First Three Quarters 2013 compared with the results of operations for the First Three Quarters 2012***

The following table sets forth certain information with respect to our consolidated results of operations for the First Three Quarters 2012 and the First Three Quarters 2013, respectively, which have been derived from our unaudited consolidated financial statements included elsewhere herein, as well as the period on period changes (expressed in absolute terms and percentages) for the period under review.

| (in thousands of £) | For the Third Quarter 2012 | For the Third Quarter 2013 | For the First Three Quarters 2012 | For the First Three Quarters 2013 |
|---|---|---|---|---|
| | (unaudited) | | (unaudited) | |
| **Revenue** | 75,783 | **83,233** | 218,603 | **245,060** |
| Cost of sales | (33,278) | (40,046) | (96,152) | (115,501) |
| **Gross Profit** | 42,505 | **43,187** | 122,451 | **129,559** |
| Operating expenses | (33,781) | (33,026) | (98,094) | (102,666) |
| **Operating profit** | 8,724 | **10,161** | 24,357 | **26,893** |
| Finance income | 58 | 14 | 57 | 38 |
| Finance expenses | (5,566) | (5,860) | (15,900) | (17,081) |
| **Profit before taxation** | 3,216 | **4,315** | 8,514 | **9,850** |
| Tax (charge)/credit | (1,437) | (1,194) | (4,993) | (865) |
| **Profit for the period** | 1,779 | **3,121** | 3,521 | **8,985** |
| **Other comprehensive income** | | | | |
| **Cash flow hedges** | | | | |
| Gains/(losses) taken to equity | (118) | – | (868) | – |
| Ineffective portion transferred to income statement | – | – | – | – |
| Tax on cash flow hedges | 27 | – | 182 | – |
| Tax on ineffective portion transferred to income statement | – | – | – | – |
| **Other comprehensive income for the year net of tax** | (91) | – | (686) | – |
| **Total comprehensive income for the year net of tax** | 1,688 | **3,121** | 2,835 | **8,985** |

***Revenue***

Our revenue increased by £26.5 million, or 12.1%, to £245.1 million for the First Three Quarters 2013 from £218.6 million for the First Three Quarters 2012. This increase was primarily due to an increase in instalment payments under our hire purchase agreements and increased income from our insurance products primarily attributable to a 13.3% (year-on-year) increase in customer numbers.

***Cost of sales***

Our cost of sales increased by £19.3 million, or 20.1%, to £115.5 million (47.1% of revenue) for the First Three Quarters 2013 from £96.2 million (44.0% of revenue) for the First Three Quarters 2012. This increase was primarily due to increased rental asset depreciation (up from £71.3 million (32.6% of revenue) to £82.6 million (33.7% of revenue) driven by increased revenues. Cost of debt increased from £17.6 million (8.1% of revenue) to £23.7 million (9.7% of revenue).

In the First Three Quarters 2013, we increased the number of our customers by 12.0%. This increase in customers is the primary factor in the increase in cost of debt in the same period. There is a higher risk profile and associated cost of debt for the average customer when newly signed as opposed to the average established customer. The proportion of new customers within the base has risen as a result of the increased rate of growth in the First Three Quarters 2013, and therefore the overall cost of debt has also increased.

*Gross profit and gross profit margin*

Our gross profit increased by £7.1 million, or 5.8%, to £129.6 million (52.9% of revenues) for the First Three Quarters 2013 from £122.5 million for the First Three Quarters 2012. Our gross profit margin (expressed as a percentage of revenue "Gross Profit Margin Percentage") decreased by 3.1% for the First Three Quarters 2013 from 56.0% for the First Three Quarters 2012.

The 3.1% decrease in the Gross Profit Margin Percentage was due to the result of three elements; increased cost of debt, increased spend on maintenance of the asset fleet and reduced retail margins resulting from a shift in mix towards technology product categories.

*Operating expenses*

Our operating expenses increased by £4.6 million, or 4.7%, to £102.7 million (41.9% of revenues) for the First Three Quarters 2013 from £98.1 million (44.9% of revenues) for the First Three Quarters 2012. The increase was mainly due to increased staff costs to support increased sales and customer numbers and an increase in costs resulting from an enlarged store base.

*Operating profit*

Our operating profit increased by £2.5 million, or 10.4%, to £26.9 million for the First Three Quarters 2013 from £24.4 million for the First Three Quarters 2012. This increase was primarily due to the factors described above. Our operating profit margin (expressed as a percentage of revenue) decreased to 11.0% for the First Three Quarters 2013 from 11.1% for the First Three Quarters 2012 due to the factors discussed above within the costs of sales analysis.

*Finance expenses (net)*

Our net finance expenses increased by £1.2 million, or 7.6%, to £17.0 million for the First Three Quarters 2013 from £15.8 million for the First Three Quarters 2012. This increase was primarily due to an increase in forward foreign exchange losses, increased costs of discounting the VAT receivable due after more than 1 year, as well as increased interest costs resulting from the May 2013 refinancing.

*Tax (charge)/credits*

Our tax charges of £5.0 million for the First Three Quarters 2012 decreased by £4.1 million to a tax charge of £0.9 million for the First Three Quarters 2013. This decrease in tax charges was primarily due to the release of deferred tax relating to a change in the structure of a group company, which unwound a tax acceleration, and the recognition of previously unrecognised tax losses. Our effective tax rate for the First Three Quarters 2013 was 8.8% compared to 58.6% for the First Three Quarters 2012.

*Profit for the period*

Our profit for the period increased by £5.5 million, or 155.2%, to £9.0 million for the First Three Quarters 2013 from £3.5 million for the First Three Quarters 2012 as a result of the factors described above.

**Cash Flows**

| **(in thousands of £)** | **For the Third Quarter 2012** | **For the Third Quarter 2013** | **For the First Three Quarters 2012** | **For the First Three Quarters 2013** |
|---|---|---|---|---|
| Cash and cash equivalents at beginning of period | 6,107 | 18,056 | 8,579 | 10,873 |
| Net cash flow from operating activities | (200) | 5,843 | 10,378 | 8,518 |
| Net cash from investing activities | (3,373) | (1,794) | (10,012) | (7,787) |
| Net cash flow from financing activities | 8,456 | (8,948) | 2,045 | 1,553 |
| Net Increase / (decrease) in cash and cash equivalents | 4,883 | (4,899) | 2,411 | 2,284 |
| **Cash and cash equivalents at end of period** | **10,990** | **13,157** | **10,990** | **13,157** |

***Net cash flow from operating activities***

*First Three Quarters 2013 compared to First Three Quarters 2012*

Net cash flow from operating activities decreased by £1.9 million to an inflow of £8.5 million for the First Three Quarters 2013 from an inflow of £10.4 million for the First Three Quarters 2012, primarily as a result of increased purchases of hire purchase assets to support the growth in customer numbers and a larger Contract Portfolio, offset by a more efficient stock holding as the Group focuses on more in-demand product.

***Net cash flow from investing activities***

*First Three Quarters 2013 compared to First Three Quarters 2012*

Net cash used in investing activities decreased by £2.2m to an outflow of £10.0 million for the First Three Quarters 2013 compared to an outflow of £7.8 million for the First Three Quarters 2012. This has been analysed in the Capital Expenditures section.

***Net cash flow from financing activities***

*First Three Quarters 2013 compared to First Three Quarters 2012*

Net cash used in financing activities decreased to an inflow of £1.5 million for the First Three Quarters 2013 from an inflow of £2.0 million for the First Three Quarters 2012. The higher interest payments made and equity dividends paid in the First Three Quarters 2013 were offset by the impact of the May 2013 refinancing.

***Restricted cash***

We are required by regulation to maintain cash reserves at our Insurance Subsidiaries relating to our insurance operations. In addition, we hold cash received as a result of voluntary overpayments by customers (generally for the purpose of application towards future payments) in segregated accounts. As of December 28, 2013 our total restricted cash was £10.0 million compared to £1.7 million as of December 29, 2012, principally due to an increase in solvency requirements following the recent bond issue.

**Capital Expenditures**

Our capital expenditures (excluding purchase of hire purchase assets) are primarily comprised of new store fit-out expenditures, investments in our information technology systems and maintenance capital expenditure relating to refurbishment of existing stores and service centres. The following table sets out our capital expenditures for the First Three Quarters 2012 and the First Three Quarters 2013:

| **(in millions of £)** | **For the Third Quarter 2012** | **For the Third Quarter 2013** | **For the First Three Quarters 2012** | **For the First Three Quarters 2013** |
|---|---|---|---|---|
| Capital expenditure on new stores(1) | 2.8 | 0.2 | 5.5 | 1.2 |
| Capital expenditure on information technology hardware | 0.1 | 0.3 | 0.5 | 0.7 |
| Capital expenditure on software development(2) | 0.4 | 1.3 | 2.7 | 4.4 |
| Others(3) | 0.1 | – | 1.3 | 1.5 |
| **Total capital expenditure** | **3.4** | **1.8** | **10.0** | **7.8** |

(1) Includes expenditure relating to fittings, equipment and display stock.

(2) Includes expenditure relating to the development of infrastructure designed to permit changes to our pricing structure, including the ability to implement a variable APR.

(3) Primarily includes maintenance capital expenditure relating to our stores and service centres, including refurbishment, new signage and similar improvements.

Total capital expenditure of £7.8 million in the First Three Quarters 2013 decreased with the corresponding result for the First Three Quarters 2012. We opened 7 new stores in the First Three Quarters 2013, compared to 24 new stores in the First Three Quarters 2012. We increased investment in the existing store portfolio in the First Three Quarters 2013 compared to the First Three Quarters 2012.

**Off-Balance Sheet Arrangements**

We do not currently have any off-balance sheet financing arrangements other than operating leases for stores, vehicles and office equipment. As of December 28, 2013, the value of our Contract Portfolio, which is unrecognized and maintained off-balance sheet until instalment payments are due, was £589.8 million. This was supported by hire purchase assets, recognized on our balance sheet, underpinning our Contract Portfolio, having a net book value of £162.7 million as of December 28, 2013.

## Key Contacts and Calendar

### *Key Contacts*

David Harwood – Company Secretary

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### *Finance Calendar*

Details of future results releases will be made available on our website.