

H&T Group Plc

Preliminary results for the year ended 31 December 2016

H&T Group (“H&T” or the “Group”) is pleased to announce its preliminary results for the year ended 31 December 2016.

John Nichols, chief executive of H&T Group, said:

“The Group has delivered a strong financial result in 2016 with a solid operational performance assisted by a higher gold price. We are particularly pleased with the growth in our loan books and the increasing significance of FX and Buyback.

“High street pawnbroking remains challenging and only those companies that can adapt to the new consumer and regulatory landscape will succeed. We believe that H&T has a robust business model capable of delivering a range of products to our customers in a responsible way. We have demonstrated our ability to develop new revenue streams and are well placed to succeed as the market continues to evolve.”

Financial highlights (£m unless stated)	2016	2015	Change %
Gross profit	54.8	47.5	15.4%
EBITDA	13.1	10.7	22.4%
Profit before tax	9.7	6.8	42.6%
Diluted EPS	20.88p	14.86p	40.5%
Proposed final dividend	5.3p	4.5p	17.8%

Key performance indicators	2016	2015	Change %
Gross pledge book	£41.3m	£39.0m	5.9%
Redemption of annual lending *	83.0%	83.4%	(0.4%)
Retail sales	£30.5m	£29.5m	3.4%
Retail gross margin	36.8%	35.0%	1.8%
Gold purchasing gross margin	26.2%	15.1%	11.1%
Number of stores	181	189	(4.2%)

* This is the actual percentage of lending in each year which was redeemed or renewed, the 2016 figure is an estimate based on recent trend and early performance.

Operational highlights:

- Personal Loans grew with the net loan book increasing 123.8% from £4.2m to £9.4m
- Gross pledge book increased 5.9% to £41.3m (2015: £39.0m)
- Development of larger, lower cost Personal Loans and implementation of a high-street brokerage opportunity
- Buyback volume grew 41.7% from £6.0m to £8.5m as a result of further systems improvements
- FX gross profits increased 92.9% to £2.7m (2015: £1.4m)

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H&T Group Plc

Chairman's Statement

The Group has made good progress in developing its products to address the changing consumer and regulatory environment. The business has strengthened over the last three years to deliver a platform for growth.

The demand for small sum short-term loans remains strong. We have increased the Pawnbroking loan book and the growth in Personal Loans is a particular success. We now need to see evidence that this is a profitable growth strategy.

In addition, the expansion in related services such as FX and Buyback widens our appeal and provides an increasingly significant source of profits. These alternative services also provide a measure of flexibility as market changes take place.

During 2016, the currency volatility in connection with the US election result and Brexit has assisted the gold price, which has improved the margin on sales of scrap gold.

Financial Performance

The Group delivered profit after tax of £7.6m (2015: £5.4m) and diluted earnings per share of 20.88 pence (2015: 14.86 pence). Subject to shareholder approval, a final dividend of 5.3 pence per ordinary share (2015: 4.5 pence) will be paid on 2 June 2017 to those shareholders on the register at the close of business on 5 May 2017. This will bring the full year dividend to 9.2 pence per ordinary share (2015: 8.0 pence).

The Group's financial position is strong with net debt of £5.4m at 31 December 2016 (31 December 2015: £2.1m) and headroom of £15m on its borrowing facilities.

Regulation

The consumer credit activities of the Group are regulated by the Financial Conduct Authority (FCA), from which the Group obtained authorisation on 11 February 2016, with specific rules governing high-cost short-term credit (HCSTC). The FCA implemented an interest rate cap for HCSTC in 2015 and have committed to reviewing the effectiveness of the cap in the first half of 2017.

We have designed our Personal Loans so that all are below the current cap; in reality, the vast majority are significantly lower than the cap. We therefore believe that this review will have a limited impact on our business.

Strategy

We are developing a range of products and services that address customers' need for short-term cash. We have expanded distribution through online, mobile and broker channels. This increased origination has also brought benefits to the store estate. The investments in retail merchandising and inventory have also begun to deliver value and we are further improving the presentation of our business through brand development.

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Chairman's Statement (continued)

Prospects

There is some easing of the competitive environment; the wider economic uncertainty and fall in the value of sterling is supporting the gold price and, as such, demand for our products is strong. The Group is well positioned to take advantage of these conditions with a diverse set of products, developing distribution channels and consumer recognition.

On behalf of the Board and our shareholders, I would like to thank everyone at H&T for their hard work and dedication over the last year.

Peter D McNamara
Chairman

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Chief Executive's Review

INTRODUCTION

The Group has delivered a good operational performance and enjoyed the benefit of a rising gold price. These factors combined increased profit before tax by 42.6% to £9.7m (2015: £6.8m).

Our store estate of 181 stores comprises 126 H&T Pawnbrokers stores, 24 Est1897 second-hand jewellery retail stores, and 31 of our new H&T Money brand stores. During the year we have closed eight underperforming stores and expect a small number to close in 2017.

The Group has delivered significant growth in gross profits from the Personal Loans, FX and Buyback products which collectively increased by 59.2% to £7.8m (2015: £4.9m). Despite store closures, gross profits from Pawnbroking were flat and Retail was 8.7% up on 2015. The higher gold price has resulted in increased profits of £6.0m (2015: £2.4m) from Gold Purchasing and Pawnbroking Scrap activities.

The Group has improved the effectiveness of the online channel delivering 133.3% growth in the online Personal Loans with 68.4% of online applications coming through mobile devices. We intend to develop this further during 2017 having established a range of brokers who introduce applications to us.

THE MARKET

The number of high street outlets of our main competitors has reduced by approximately 40% since December 2013, but by only 5% since December 2015 as the industry adjusts to the new trading environment. The favourable gold price in 2016 has helped most operators, including H&T, and there have been no further regulatory restrictions on high-cost short-term credit.

The demand for short-term small-sum loans remains strong and we believe the Group has developed the right products and capabilities to take advantage of market conditions.

OUR STRATEGY

The Group's strategy is to serve a customer base whose access to mainstream credit is limited and for whom small-sum loans can help to address short-term financial challenges. The Group will continue to deliver this strategy by developing a range of lending products, both secured and unsecured, offered in store and online.

The development of a suite of services including Retail, Buyback and FX, improves returns and reduces the Group's exposure to gold price volatility.

We continue to innovate and explore how to interact most effectively with our customers through the development of introducer channels, our online capability and our brand.

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Chief Executive's Review (continued)

REGULATION

The Financial Conduct Authority

The regulation of Consumer Credit moved from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA) on 1 April 2014. The Group obtained authorisation from the FCA on 11 February 2016 and we welcome the higher standards that this change will bring to our sector.

High-cost short-term cost cap

On 1 January 2015, the FCA implemented its cap on the interest rate and charges that apply to High-Cost Short-Term Credit (HCSTC). The FCA has stated that it will review the price cap during the first half of 2017.

We have designed our Personal Loans so that all are below the current cap; in reality, the vast majority are significantly lower than the cap. We therefore believe that this review will have a limited impact on our product.

REVIEW OF OPERATIONS

The Group's total gross profits increased 15.4% to £54.8m (2015: £47.5m) principally as a result of the increase in gold price assisting Pawnbroking Scrap and Gold Purchasing and strong growth in the Personal Loans and Other Services segments.

Pawnbroking

Gross profits from pawnbroking were stable at £28.4m (2015: £28.4m) while the gross pledge book increased to £41.3m (2015: £39.0m). The reduction in yield was the result of a changing business mix to larger loans at a lower interest rate. This shift was expected as the business explores the new "Concession" format to access a new customer base. Notwithstanding the increase in gold values, high street pawnbroking continues to be a challenging market due to lasting competition and reduced gold in circulation. The Group closed eight locations during the year resulting in the loss of £0.1m in pledge book from two of those units through sale to local operators. In addition, the Group acquired £0.1m in pledge book from four competitor locations, relocating the customers to our stores.

The Group continues to invest in expanding the expertise and service in this critical segment through development of the business in Bond Street (London) and more importantly the recruitment of a small team of highly skilled individuals to support the wider business through the Expert Eye system.

The Board believes that while there is still opportunity in Pawnbroking for H&T the market is shrinking and in order to maintain our position we must develop new channels for customer acquisition particularly through brokers and online.

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Chief Executive's Review (continued)

REVIEW OF OPERATIONS (continued)

Pawnbroking summary:

	2016 £'000	2015 £'000	Change %
Year-end net pledge book	40,806	38,293	6.6%
Average net pledge book	39,155	37,404	4.7%
Revenue	28,384	28,437	-0.2%
<i>Risk-adjusted margin¹</i>	72.5%	76.0%	

Notes to table

1- Revenue as a percentage of the average loan book

Retail

Retail sales grew by 3.4% to £30.5m (2015: £29.5m) and gross profits 8.7% to £11.2m (2015: £10.3m).

The Group had two focus areas for the year: improve margins and improve inventory management. Progress has been made on both of these objectives, particularly in H2 2016. During 2016 the store inventory increased by £5.0m as we completed the implementation of the planograms across the store estate.

We are encouraged by the performance in H2 2016 relative to H2 2015 where we have seen an increase in inventory, gross profits and margins. The Group acknowledges the pressure on consumer spending post-Brexit and the challenges presented by the expected increase in inflation. We believe that the value presented by our second-hand offering positions us well among other retailers of luxury goods, while shifting behaviours (as customers seek the best deal) could provide opportunities for H&T.

Personal Loans

Revenue from Personal Loans increased 45.8% to £3.5m (2015: £2.4m) with the year-end net loan book up 123.8% to £9.4m (2015: £4.2m).

The Group believes that Personal Loans is an important opportunity, allowing us to expand our customer base in store, online and through broker channels. Over the past three years we have developed our understanding, systems and infrastructure to deliver what we believe are the most suitable products for our customer base, efficiently delivered using the strengths of our store network and staff. The increase in the monthly average loan book of 80.6% has resulted in an increase in revenues of 45.8%. This is in line with management expectations, both for credit quality and performance.

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Chief Executive's Review (continued)

REVIEW OF OPERATIONS (continued)

Personal Loans (continued)

During 2016, we have also increased the online loan book by 133.3% to £0.7m (2015: £0.3m), implemented a store-based broker product through Cash Converters stores, and launched our larger loan at lower interest rates. We continue to develop our platforms to serve a changing market; in Q4 2015 53.3% of our loan applications originated from a mobile device. This increased to 68.4% in Q4 2016.

Operationally we have relocated our call centre operations to a new purpose-built location and implemented new dialler and customer relationship management systems. The developments to date have been successful and provide a strong foundation for our expansion into this exciting market.

The FCA has announced its review into the high-cost short-term credit (HCSTC) cost cap in 2017. Approximately 80% of the loans issued fell under the definition of HCSTC in 2016; none of our loans were at the interest cap. The H&T personal loan is significantly cheaper than loans offered by our competitors to this market and, while the outcome of the review is unknown, we do not anticipate that it will have a significant impact on our product.

Personal Loans summary:

	2016	2015	Change
	£'000	£'000	%
Year-end net loan book	9,356	4,152	125.3%
Average monthly net loan book	6,348	3,514	80.6%
Interest before impairment	5,849	3,710	57.7%
Impairment	(2,349)	(1,322)	77.7%
Revenue	3,499	2,389	46.5%
<i>Interest yield¹</i>	<i>92.1%</i>	<i>105.6%</i>	
<i>Impairment % of interest</i>	<i>40.2%</i>	<i>35.6%</i>	
<i>Risk-adjusted margin²</i>	<i>55.1%</i>	<i>68.0%</i>	

Notes to table

1 – Interest before impairment as a percentage of average loan book

2 – Revenue as a percentage of average loan book

Pawnbroking Scrap

Gross profits from Pawnbroking Scrap increased to £2.1m (2015: £0.1m) principally due to the increase in the sterling gold price since the EU referendum result.

The average gold price during 2016 was £926 per troy ounce (2015: £759), a 22.1% increase. The gold price directly impacts the revenue received on the sales of scrapped gold.

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Chief Executive's Review (continued)

REVIEW OF OPERATIONS (continued)

Gold Purchasing

Gross profits from Gold Purchasing increased 69.6% to £3.9m (2015: £2.3m) principally as a result of the increase in gold price and the different trends in the gold price through the year versus 2015.

H&T purchase gold to achieve a particular margin and it takes around two months to process items directly to scrap. If the gold price increases during this processing period then our margins are enhanced, if it reduces then our margins are compressed.

During 2015, the gold price fell by 7% from January to December, whereas during the same period in 2016 it increased by 29%. Accordingly, our margins were significantly enhanced in 2016 vs 2015.

We estimate that overall volumes of fine gold purchased fell by 3.2% from 2015 to 2016.

Other Services

The continued improvements both in FX and Buyback increased gross profits from the Other Services segment by 43.6% to £5.6m (2015: £3.9m).

Buyback has been a particular success as part of the "We buy anything" proposition as the value purchased increased to £8.5m (2015: £6.0m). We continue to develop the product through systems development supporting the identification, testing and valuation of items to reduce transaction time and accuracy in store.

This development will be supported through further enhancements in 2017 together with closer integration of online and in-store systems to support the "clicks to bricks" customer acquisition process.

FX continues to grow with sales of currency increasing 86.3% from 2015 as a result of increased customer awareness and the introduction of a wider range of currencies. The volatility in exchange rates as a result of the EU referendum also assisted the 105.0% growth in the value of currency purchased.

PROSPECTS

The Group is evolving into a provider of alternative credit services to serve an increasing customer base. The development in 2016 has been very encouraging and provides a platform for growth into 2017. Current trading is in line with management's expectations for 2017.

I would also like to add my great thanks to those of the chairman, in recognising all of our people whose skills, commitment and enthusiasm continue to drive our success, and who give us confidence in the future.

John G Nichols

H&T Group Plc

Chief Executive

H&T Group plc

Finance Director's Review

FINANCIAL RESULTS

For the year ended 31 December 2016 gross profit increased 15.4% from £47.5m to £54.8m driven by the higher gold price improving revenues from Pawnbroking Scrap and Gold Purchasing together with the growth in the Personal Loans and Other Services segments.

Total direct and administrative expenses increased by 11.8% from £39.9m to £44.6m, principally as a result of investment in staff to support business volumes and new initiatives. The Board considers the continued investment in people and systems to be vital in repositioning the business to take advantage of the market conditions.

Finance costs were largely in line with 2015 at £0.5m (2015: £0.7m).

Profit before tax increased by £2.9m to £9.7m, up 42.6% from £6.8m in 2015.

CASH FLOW

The Group generated positive cash flow from operating activities of £1.3m (2015: £11.2m). Working capital movements led to an outflow of £9.8m (2015: £2.2m inflow), which was principally a result of the £8.1m growth in the Pawnbroking and Personal Loans loan books.

BALANCE SHEET

As at 31 December 2016, the Group had net assets of £98.8m (2015: £94.1m) with year-end net debt of £5.4m (2015: £2.1m) delivering an increase in gearing to 5.5% (2015: 2.2%).

On 12 February 2016, the Group refinanced the existing facility with Lloyds Bank plc allowing for maximum borrowings of £30.0m, subject to covenants, at a margin of between 1.75% and 2.75% above LIBOR. At year end £15.0m was drawn on the facility and the Group was well within the covenants with a net debt to EBITDA ratio of 0.40x and interest to EBITDA ratio of 38.71x (see note 7 for the definition of EBITDA). The new facility has a termination date of 30 April 2020.

The combination of low gearing and a secure long term credit facility provides the Group with the ability to make selective investments in the future while maintaining appropriate headroom.

Investments and disposals

During the year, the Group completed the acquisition of four pawnbroking loan books for a total consideration of £0.1m and disposed of two for a total consideration of £0.1m.

Impairment

The Group performs an annual review of the expected earnings of each acquired store and considers whether the associated goodwill and other property, plant and equipment are impaired. There was no impairment charge during 2016 (2015: £nil/none).

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Finance Director's Review (continued)

Share Price and EPS

At 31 December 2016, the share price was 259.75p (2015: 197.0p) and market capitalisation was £95.5m (2015: £72.6m). Basic earnings per share were 20.94p (2015: 14.88p), diluted earnings per share were 20.88p (2015: 14.86p).

Stephen A Fenerty
Finance Director

H&T Group plc

Group statement of comprehensive income For the year ended 31 December 2016

		2016	2015
	Note	£'000	£'000
Continuing operations:			
Revenue	2	94,223	89,244
Cost of sales		<u>(39,453)</u>	<u>(41,782)</u>
Gross profit	2	54,770	47,462
Other direct expenses		(32,247)	(31,968)
Administrative expenses		<u>(12,325)</u>	<u>(7,976)</u>
Operating profit		10,198	7,518
Investment revenues		1	1
Finance costs	3	<u>(479)</u>	<u>(679)</u>
Profit before taxation		9,720	6,840
Tax charge on profit	4	<u>(2,138)</u>	<u>(1,462)</u>
Profit for the financial year and total comprehensive income		<u>7,582</u>	<u>5,378</u>
		<u><u>7,582</u></u>	<u><u>5,378</u></u>
		2016	2015
Earnings per share		Pence	Pence
Basic	5	<u>20.94</u>	<u>14.88</u>
Diluted	5	<u>20.88</u>	<u>14.86</u>

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Group statement of changes in equity For the year ended 31 December 2016

	Share capital £'000	Share premium account £'000	Employee Benefit Trust shares reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2015	1,843	25,409	(35)	63,646	90,863
Profit for the financial year	-	-	-	5,378	5,378
Total income for the financial year	-	-	-	5,378	5,378
Share option movement	-	-	-	104	104
Dividends paid	-	-	-	(2,285)	(2,285)
At 31 December 2015	<u>1,843</u>	<u>25,409</u>	<u>(35)</u>	<u>66,843</u>	<u>94,060</u>
At 1 January 2016	1,843	25,409	(35)	66,843	94,060
Profit for the financial year	-	-	-	7,582	7,582
Total income for the financial year	-	-	-	7,582	7,582
Issue of share capital	9	345	-	-	354
Share option movement	-	-	-	(40)	(40)
Dividends paid	-	-	-	(3,109)	(3,109)
At 31 December 2016	<u>1,852</u>	<u>25,754</u>	<u>(35)</u>	<u>71,276</u>	<u>98,847</u>

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Group balance sheet As at 31 December 2016

	31 December 2016 £'000	31 December 2015 £'000
Non-current assets		
Goodwill	17,676	17,707
Other intangible assets	527	752
Property, plant and equipment	6,874	8,137
Deferred tax assets	682	542
	<hr/>	<hr/>
	25,759	27,139
Current assets		
Inventories	29,792	24,802
Trade and other receivables	59,058	50,893
Other current assets	848	646
Cash and cash equivalents	9,608	10,923
	<hr/>	<hr/>
	99,306	87,264
Total assets	<hr/>	<hr/>
	125,065	114,403
Current liabilities		
Trade and other payables	(8,887)	(5,482)
Current tax liabilities	(1,119)	(645)
	<hr/>	<hr/>
	(10,006)	(6,127)
Net current assets	<hr/>	<hr/>
	89,300	81,137
Non-current liabilities		
Borrowings	(14,715)	(12,911)
Provisions	(1,497)	(1,305)
	<hr/>	<hr/>
	(16,212)	(14,216)
Total liabilities	<hr/>	<hr/>
	(26,218)	(20,343)
Net assets	<hr/>	<hr/>
	98,847	94,060
Equity		
Share capital	1,852	1,843
Share premium account	25,754	25,409
Employee Benefit Trust shares reserve	(35)	(35)
Retained earnings	71,276	66,843
	<hr/>	<hr/>
Total equity attributable to equity holder:	<hr/>	<hr/>
	98,847	94,060

H&T Group plc

Group cash flow statement For the year ended 31 December 2016

	Note	2016 £'000	2015 £'000
Net cash generated from operating activities	6	1,315	11,209
Investing activities			
Interest received		1	1
Proceeds on disposal of property, plant and equipment		66	-
Proceeds on disposal of trade and assets of businesses		82	-
Purchases of property, plant and equipment		(1,918)	(1,207)
Acquisition of trade and assets of businesses		(106)	(120)
Net cash used in investing activities		(1,875)	(1,326)
Financing activities			
Dividends paid		(3,109)	(2,285)
Increase/(Decrease) in borrowings		2,000	(3,000)
Decrease in Bank overdraft		-	(1,925)
Issue of shares		354	-
Net cash used in financing activities		(755)	(7,210)
Net increase in cash and cash equivalents		(1,315)	2,673
Cash and cash equivalents at beginning of the year		10,923	8,250
Cash and cash equivalents at end of the year		9,608	10,923

H&T Group plc

Notes to the preliminary announcement For the year ended 31 December 2016

1. Finance information and basis of preparation

The financial information has been abridged from the audited financial statements for the year ended 31 December 2016.

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2016 or 2015, but is derived from those accounts. Statutory accounts for 2015 have been delivered to the Registrar of Companies and those for 2016 will be filed with the Registrar in due course. The auditors have reported on those accounts: their reports were unqualified, did not draw attention to any matters by way of emphasis and did not contain statements under s498 (2) or (3) Companies Act 2006 or equivalent preceding legislation. Accounting policies have been consistently applied throughout 2015 and 2016.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with International Financial Reporting Standards (as adopted for use in the EU) ('IFRS'), this announcement does not itself contain sufficient information to comply with IFRS. The Group will be publishing full financial statements that comply with IFRS in April 2017.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services and interest income provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Pawnbroking, or Pawn Service Charge (PSC), comprises interest on pledge book loans, plus auction profit and loss, less any auction commissions payable and less surplus payable to the customer. Interest receivable on loans is recognised as interest accrues by reference to the principal outstanding and the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount;

Retail comprises revenue from retail jewellery sales, with inventory sourced from unredeemed pawn loans, newly purchased inventory and inventory refurbished from the Group's gold purchasing operation. All revenue is recognised at the point of sale;

Pawnbroking Scrap and Gold Purchasing comprises proceeds from gold scrap sales and is recognised on full receipt of sale proceeds;

Personal Loans comprises income from the Group's unsecured lending activities. Interest receivable on unsecured loans is recognised in revenue on an accruals basis less provision for loans not expected to be repaid. Personal Loans are subject to bad debt risk which is reflected in the interest rate applied; and

Other Services comprise revenues from third party cheque cashing, foreign exchange income, Buyback, prepaid card and other income. The commission receivable on cheque cashing is recognised at the time of the transaction. Buyback revenue is recognised at the point of sale of the item back to the customer. Foreign exchange income represents the commission when selling or buying foreign currencies and is recognised at the point of sale. Any other revenues are recognised on an accruals basis.

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Notes to the preliminary announcement For the year ended 31 December 2016

1. Finance information and basis of preparation (continued)

Revenue recognition (continued)

The Group recognises interest income arising on secured and unsecured lending within trading revenue rather than investment revenue on the basis that this represents most accurately the business activities of the Group.

The Group recognises revenue and bad debt expenses (both impairments and movements on allowance accounts) on pawnbroking, personal loans and other financial services on a portfolio approach. The Group considers that the bad debts arising on the loans and receivables balances are a function of the revenue earned due to the nature of the activities, and accordingly records the net amount of interest or commissions due and bad debt expenses within revenue.

Inventories provisioning

Where necessary provision is made for obsolete, slow moving and damaged inventory or inventory shrinkage. The provision for obsolete, slow moving and damaged inventory represents the difference between the cost of the inventory and its market value. The inventory shrinkage provision is based on an estimate of the inventory missing at the reporting date using historical shrinkage experience.

Impairment of goodwill and other intangibles

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The review is conducted annually, in the final quarter of the year. The impairment review is conducted at the level of each cash generating unit, which for acquisitions represents the specific store or stores acquired.

There was no impairment loss recorded in the current year (2015: £nil). The principal assumptions applied by management in arriving at the value in use of each cash generating unit are as follows:

1. The Group prepares cash flow forecasts over a five year period for each cash generating unit. The year one cash flows are derived from the most recent financial budget and a forecast growth rate applied for years 2 to 5. A constant gold price of £950 per troy ounce is assumed. A perpetuity is then calculated for periods thereafter.
2. The Group has discounted the cash flows at a pre-tax, risk adjusted rate of 9%.

While the impairment review has been conducted based on the best available estimates at the impairment review date, the Group notes that actual events may vary from management expectation.

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Notes to the preliminary announcement (continued) For the year ended 31 December 2016

2. Operating segments

Business segments

For reporting purposes, the Group is currently organised into six segments – Pawnbroking, Gold purchasing, Retail, Pawnbroking Scrap, Personal Loans and Other services.

The principal activities by segment are as follows:

Pawnbroking:

Pawnbroking is a loan secured against a collateral (the pledge). In the case of the Group, over 99% of the collateral against which amounts are lent comprises precious metals (predominantly gold), diamonds and watches. The pawnbroking contract is a six-month credit agreement bearing a monthly interest rate of between 1.99% and 10.00%. The contract is governed by the terms of the Consumer Credit Act 2008 (previously the Consumer Credit Act 2002). If the customer does not redeem the goods by repaying the secured loan before the end of the contract, the Group is required to dispose of the goods either through public auctions if the value of the pledge is over £75 (disposal proceeds being reported in this segment) or, if the value of the pledge is £75 or under, through public auctions or the Retail or Pawnbroking Scrap activities of the Group.

Gold Purchasing:

Jewellery is bought direct from customers through all of the Group's stores. The transaction is simple with the store agreeing a price with the customer and purchasing the goods for cash on the spot. Gold Purchasing revenues comprise proceeds from scrap sales on goods sourced from the Group's purchasing operations.

Retail:

The Group's retail proposition is primarily gold and jewellery and the majority of the retail sales are forfeited items from the pawnbroking pledge book or refurbished items from the Group's gold purchasing operations. The retail offering is complemented with a small amount of new or second-hand jewellery purchased from third parties by the Group.

Pawnbroking Scrap:

Pawnbroking Scrap comprises all other proceeds from gold scrap sales other than those reported within Gold Purchasing. The items are either damaged beyond repair, are slow moving or surplus to the Group's requirements, and are smelted and sold at the current gold spot price less a small commission.

Personal Loans:

Personal Loans comprises income from the Group's unsecured lending activities. Interest receivable on unsecured loans is recognised in revenue on an accruals basis less provision for loans not expected to be repaid. Personal Loans are subject to bad debt risk which is reflected in the interest rate applied.

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

2. Operating segments (continued)

Other Services:

This segment comprises:

- Third Party Cheque Encashment which is the provision of cash in exchange for a cheque payable to our customer for a commission fee based on the face value of the cheque.
- Buyback which is a service where items are purchased from customers, typically high-end electronics, and may be bought back up to 31 days later for a fee.
- The Foreign Exchange currency service where the Group earns a commission when selling or buying foreign currencies.
- Western Union commission earned on the Group's money transfer service.
- The Prepaid debit card product where the Group earns a commission when selling the card or when the customer is topping up their card.

Cheque Cashing is subject to bad debt risk which is reflected in the commissions and fees applied.

Further details on each activity are included in the Chief Executive's Review.

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

2. Operating segments (continued)

Segment information about these businesses is presented below:

2016 Revenue	Pawnbroking £'000	Gold Purchasing £'000	Retail £'000	Pawnbroking Scrap £'000	Personal Loans £'000	Other Services £'000	For the year ended 2016 £'000
External sales	28,384	15,021	30,549	11,136	3,499	5,634	94,223
Total revenue	28,384	15,021	30,549	11,136	3,499	5,634	94,223
Segment result – gross profit	28,384	3,941	11,228	2,084	3,499	5,634	54,770
Other direct expenses							(32,247)
Administrative expenses							(12,325)
Operating profit							10,198
Investment revenues							1
Finance costs							(479)
Profit before taxation							9,720
Tax charge on profit							(2,138)
Profit for the financial year and total comprehensive income							7,582
2015 Revenue	Pawnbroking £'000	Gold Purchasing £'000	Retail £'000	Pawnbroking Scrap £'000	Personal Loans £'000	Other Services £'000	For the year ended 2015 £'000
External sales	28,437	15,260	29,543	9,718	2,389	3,897	89,244
Total revenue	28,437	15,260	29,543	9,718	2,389	3,897	89,244
Segment result – gross profit	28,437	2,297	10,326	116	2,389	3,897	47,462
Other direct expenses							(31,968)
Administrative expenses							(7,976)
Operating profit							7,518
Investment revenues							1
Finance costs							(679)
Profit before taxation							6,840
Tax charge on profit							(1,462)
Profit for the financial year and total comprehensive income							5,378

Gross profit is stated after charging bad debt expenses and the direct costs of inventory items sold or scrapped in the period. Other operating expenses of the stores are included in other direct expenses. The Group is unable to meaningfully allocate the other direct expenses of operating the stores between segments as the activities are conducted from the same stores, utilising the same assets and staff. The Group is also unable to meaningfully allocate Group administrative expenses, or financing costs or income between the segments. Accordingly, the Group is unable to meaningfully disclose an allocation of items included in the consolidated statement of comprehensive income below gross profit, which represents the reported segment results. The Group does not apply any inter-segment charges when items are transferred between the Pawnbroking activity and the Retail or Pawnbroking Scrap activities.

H&T Group plc

Notes to the preliminary announcement (continued)

For the year ended 31 December 2016

2. Operating segments (continued)

	Pawn- broking 2016 £'000	Gold Purchasing 2016 £'000	Retail 2016 £'000	Pawn- broking Scrap 2016 £'000	Personal Loans 2016 £'000	Other Services 2016 £'000	Unallocated assets/ (liabilities) 2016 £'000	For the year ended 2016 £'000
2016								
Other information								
Capital additions (*)								1,768
Depreciation and amortisation (*)								2,940
Balance sheet								
Assets								
Segment assets	47,301	1,005	29,066	570	9,375	-		87,317
Unallocated corporate assets							33,040	33,040
Consolidated total assets								125,065
Liabilities								
Segment liabilities	-	-	(649)	-	-	(260)		(909)
Unallocated corporate liabilities							(25,309)	(25,309)
Consolidated total liabilities								(26,218)
	Pawn- broking 2015 £'000	Gold Purchasing 2015 £'000	Retail 2015 £'000	Pawn- broking Scrap 2015 £'000	Personal Loans 2015 £'000	Other Services 2015 £'000	Unallocated assets/ (liabilities) 2015 £'000	For the year ended 2015 £'000
2015								
Other information								
Capital additions (*)							1,173	1,173
Depreciation and amortisation (*)							3,218	3,218
Balance sheet								
Assets								
Segment assets	44,548	406	24,811	231	4,152	-		74,148
Unallocated corporate assets							35,864	35,864
Consolidated total assets								114,403
Liabilities								
Segment liabilities	-	-	(634)	-	-	(215)		(849)
Unallocated corporate liabilities							(19,494)	(19,494)
Consolidated total liabilities								(20,343)

(*) The Group cannot meaningfully allocate this information by segment due to the fact that all the segments operate from the same stores and the assets in use are common to all segments.

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

2. Operating segments (continued)

Geographical segments

The Group's revenue from external customers by geographical location are detailed below:

	2016 £'000	2015 £'000
United Kingdom	93,487	88,808
Other	736	436
	<u>94,223</u>	<u>89,244</u>

The Group's non-current assets are located entirely in the United Kingdom. Accordingly, no further geographical segments analysis is presented.

3. Finance costs

	2016 £'000	2015 £'000
Interest on bank loans	348	524
Other interest	1	2
Amortisation of debt issue costs	130	153
	<u>479</u>	<u>679</u>

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

4. Tax charge on profit

(a) Tax on profit on ordinary activities

	2016	2015
	£'000	£'000
Current tax		
United Kingdom corporation tax charge at 20% (2015: 20.3%) based on the profit for the year	2,143	1,549
Adjustments in respect of prior years	191	(72)
	<hr/>	<hr/>
Total current tax	2,334	1,477
	<hr/>	<hr/>
Deferred tax		
Timing differences, origination and reversal	(278)	21
Adjustments in respect of prior years	12	(36)
Effects of change in tax rate	70	-
	<hr/>	<hr/>
Total deferred tax	(196)	(15)
	<hr/>	<hr/>
Tax charge on profit	<u>2,138</u>	<u>1,462</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is higher than that resulting from applying a blended standard rate of corporation tax in the UK of 20% (2015: 20.3%). The differences are explained below:

	2016	2015
	£'000	£'000
Profit before taxation	<u>9,720</u>	<u>6,840</u>
	<hr/>	<hr/>
Tax charge on profit at standard rate	1,944	1,389
Effects of:		
Disallowed expenses and non-taxable income	(29)	(49)
Non-qualifying depreciation	-	117
Effect of change in tax rate	70	-
Movement in short-term timing differences	(50)	113
Adjustments to tax charge in respect of previous periods	203	(108)
	<hr/>	<hr/>
Tax charge on profit	<u>2,138</u>	<u>1,462</u>

In addition to the amount charged to the income statement and in accordance with IAS 12, the excess of current and deferred tax over and above the relative related cumulative remuneration expense under IFRS 2 has been recognised directly in equity. This amounted to a charge to equity in the current period of £56,000 (2015: £nil).

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

5. Earnings Per Share

Basic earnings per share is calculated by dividing the profit for the year attributable to equity shareholders by the weighted average number of ordinary shares in issue during the year.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. With respect to the Group these represent share options and conditional shares granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year.

Reconciliations of the earnings per ordinary share and weighted average number of shares used in the calculations are set out below:

	Year ended 31 December 2016			Year ended 31 December 2015		
	Earnings £'000	Weighted average number of shares	Per-share amount pence	Earnings £'000	Weighted average number of shares	Per-share amount pence
Earnings per share: basic	7,582	36,212,688	20.94	5,379	36,154,799	14.88
Effect of dilutive securities						
Options and conditional shares	-	101,947	(0.06)	-	34,805	(0.02)
Earnings per share: diluted	<u>7,582</u>	<u>36,314,635</u>	<u>20.88</u>	<u>5,379</u>	<u>36,189,604</u>	<u>14.86</u>

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

6. Notes to the Cash Flow Statement

	2016	2015
	£'000	£'000
Profit for the financial year	7,582	5,378
Adjustments for:		
Investment revenues	(1)	(1)
Finance costs	479	679
Movement in provisions	192	(216)
Tax expense – Group statement of comprehensive income	2,138	1,462
Depreciation of property, plant and equipment	2,686	2,897
Amortisation of intangible assets	254	321
Share-based payment expense	16	104
Loss on disposal of property, plant and equipment	265	75
	<hr/>	<hr/>
Operating cash flows before movements in working capital	13,611	10,699
(Increase)/Decrease in inventories	(4,991)	4,469
Increase in other current assets	(202)	(417)
Increase in receivables	(8,154)	(1,367)
Increase/(Decrease) in payables	3,585	(507)
	<hr/>	<hr/>
Cash generated from operations	3,849	12,877
Income taxes paid	(1,860)	(1,160)
Debt restructuring costs	(325)	-
Interest paid	(349)	(508)
	<hr/>	<hr/>
Net cash generated from operating activities	<u>1,315</u>	<u>11,209</u>

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with a maturity of three months or less.

H&T Group plc

Notes to the preliminary announcement (continued) For the year ended 31 December 2016

7. Earnings before interest, tax, depreciation and amortisation ("EBITDA")

EBITDA

EBITDA is defined as earnings before interest, taxation, depreciation and amortisation. It is calculated by adding back depreciation and amortisation to the operating profit as follows:

	2016	2015
	£'000	£'000
Operating profit	10,198	7,518
Depreciation and amortisation	2,940	3,218
	<hr/>	<hr/>
EBITDA	<u>13,138</u>	<u>10,736</u>

The Board consider EBITDA to be a key performance measure as the Group borrowing facility includes a number of loan covenants based on it.

8. Events after the balance sheet date

In January 2017, malware was discovered on the H&T corporate network. The actions taken to remediate resulted in some disruption to store operations for approximately four weeks, particularly new Personal Loan business. The Group has engaged specialists to review and improve its cyber security framework to mitigate the ever-present risk of cyber-crime. The impact of the incident is immaterial to the Group's financial position and there is no evidence to suggest any loss of sensitive data or financial data.