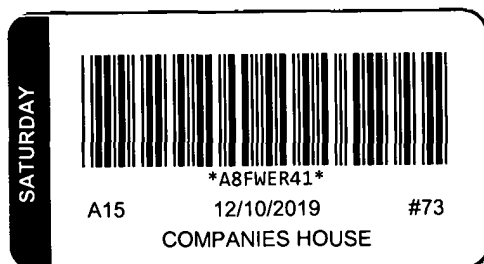


Annual Report & Financial Statements

for year ended 31 May 2019



ipm
PLC



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Company Information

For the year ended 31 May 2019

Non-Executive Directors

J D Newman (Chairman)
R Russell
J P Telling

Directors

R I Smith (Chief Executive Officer)
J M A Roberts (Chief Financial Officer)
E J Rimmer (Chief Operating Officer)

Company Secretary

J Bodey

Registered Office

St James House
The Square
Lower Bristol Road
Bath
BA2 3BH

Registered Number

05845866 (England and Wales)

Independent Auditors

Moore Stephens, Bath

Nominated Advisor and Broker

Cenkos Securities plc, London

Principal Solicitors

Simmons & Simmons, Bristol

Financial Public Relations

Walbrook PR Ltd, London

Registrars

Neville Registrars Ltd, Halesowen

Principal Bankers

NatWest plc, London

1pm plc ordinary shares are listed on the Alternative Investment Market of the London Stock Exchange.

Helping the UK economy to grow by providing finance to businesses



Hard Asset Finance

Funding for construction, agricultural plant, haulage and more



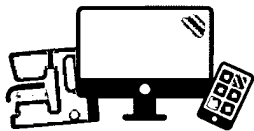
Vehicle Finance

Wide range of Commercial Vehicle, Car and Fleet Management solutions



Business Loan Finance

Secured and unsecured loans supported by business credit worthiness and/or an asset used as collateral



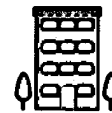
Soft Asset Finance

Business critical funding for a range of industries with no asset restriction



Invoice Finance

Invoice Discounting and Factoring with the option of Bad Debt Protection

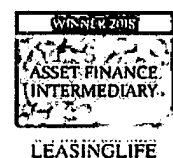


Property Loans

First and Second Charge Loans, Bridging Loans & Buy-to-Let Mortgages

How we're doing as a group

- Providing over £140m of funding to UK businesses at 31st May 2019
- 189 employees across 6 UK sites
- Originated over £160m of funding deals during the year
- Revenue over £30m
- A strengthened balance sheet with shareholder equity over £50m
- Increasing dividend payments including a maiden interim dividend
- Award Winning
 - Winner of Leasing Life SME Champion 2018
 - Highly Commended for the use of technology for service excellence at the Leasing World Service Excellence Awards
 - Highly Commended in the UK and SME Finance Provider of the Year category at the International Asset Finance Network Awards



A business transformed

May 2013



1
Site



11
Staff



£3.1m
Revenue



£0.8m
Profit Before Tax

May 2019



6
Sites



189
Staff



£31.8m
Revenue



£7.9m
Profit Before Tax

1pm
PLC

Ian Smith (CEO)
joins the Group

February 2014



Bradgate joins the Group

March 2016

James Roberts (CFO)
joins the Group

May 2017

Ed Rimmer (COO)
joins the Group

June 2017



Car Finance 2U
joins the Group

December 2017

Senior Management team
hires completed:

**Heads of Asset, Loans, Vehicles,
and Invoice Finance divisions,
Heads of Risk and IT functions**

2019



Academy Leasing
joins the Group

August 2015



Intelligent Loans joins the Group

March 2017



Gener8 Finance joins the Group

June 2017



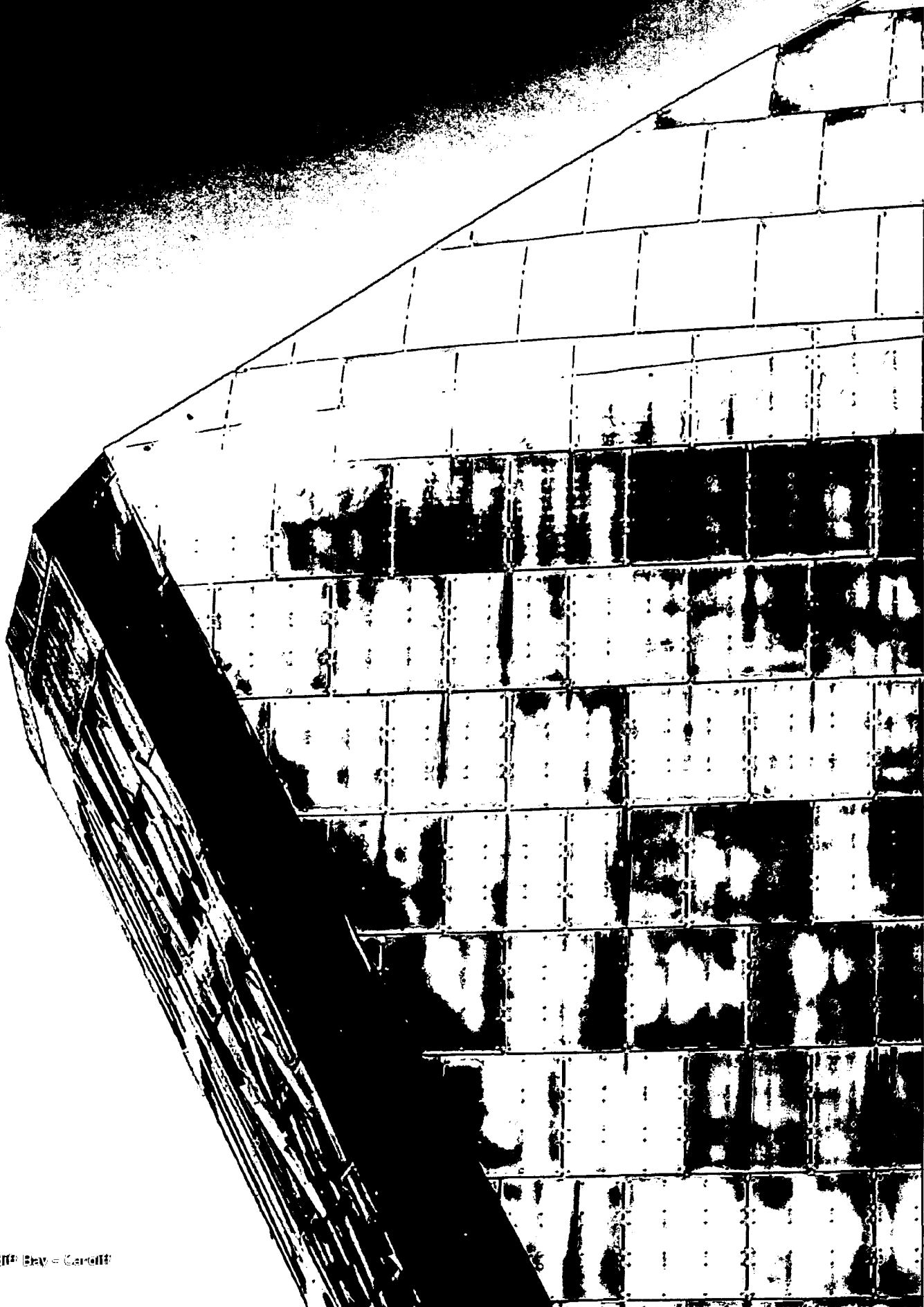
Positive Cashflow joins the Group

July 2017

British Business Bank
provide £35m facility

March 2018

Chairman's Statement





Chairman's Statement

For the year ended 31 May 2019

Performance and dividend

On behalf of the Board of Directors, I am pleased to report that our business has delivered another year of robust performance and growth. The Group's revenue was £31.8m (2018: £30.0m) an increase of 6% and Group profit before tax and exceptional items was £8.1m (2018: £7.8m), an increase of 4%.

Fully diluted earnings per share, taking account of shares issued relating to the successful achievement of acquisition earn-out targets, were 6.61p (2018: 6.46p), an increase of 2%.

At 31 May 2019 the Group's net assets stood at £53.8m (2018: £47.7m), an increase of 13% and the return on net tangible assets (excluding goodwill) was 24% (2018: 32%).

The financial year was a period of development for the Group with the businesses acquired as part of the Group's "buy and build" strategy focusing on operational performance and delivering organic growth. The achievement of earn-out targets has demonstrated the success of the strategy and the continuing commitment of the management teams.

As announced on 26 July 2018, the Board had reviewed its dividend policy and the outcome was the introduction of an enhanced and progressive policy. The first step was taken with the Board's recommendation of a dividend of 0.65p per share for the year ended 31 May 2018, which was an increase of approximately 30% over the previous year. This policy also included for the first time an interim dividend and a payment of 0.28p was paid to shareholders on 1 May 2019. The Board are now recommending, subject to shareholder approval, a final dividend of 0.56p per share which will be payable on 12 December 2019 to shareholders who are on the Company's register of members on 1 November 2019. This total dividend of 0.84p is an increase of 29% over the previous year.

Our strategy

The Group Strategic Report sets out in detail progress against our goals and objectives. The focus of our strategy is for our Group to be a well-diversified and risk-mitigated alternative finance provider, recognised as having a comprehensive range of business finance products to offer to an expanding base of UK customers.

The balancing and management of risk is an important responsibility for the Board at all times but particularly so where there exists considerable economic and political uncertainty. A key aspect of the successful delivery of our strategy is the Group's business model which positions the Group both as a first-line funder and as a broker. We are confident that this flexibility within our business model ensures that the Group can balance its risk exposure in a prudent manner, while maintaining competitive levels of customer service.

The successful pursuit of our "buy and build" strategy over the last three years has delivered significant growth in our business. In considering the opportunities for further development from this enlarged platform, the Board has decided to extend the Group's investment in people and our business infrastructure. This will include a rebranding project that will give the Group a single identification across its core business product lines.

These developments will involve additional costs but represent an investment that will support further and sustainable growth. This is referred to in more detail in the Chief Executive Officer's Review.

Governance and culture

Our business operates in a regulated environment and a key responsibility for the Board is to ensure that strong and effective governance operates throughout the Group. Our Head of Governance and Compliance, Jennifer Bodey, who has extensive regulatory experience and is now also our Company Secretary, has continued our programme to enhance our independent compliance department.

The Board has four sub-committees, namely Audit, Remuneration, Nominations, and Governance and Risk, with membership comprising either of only, or a majority of, non-executive directors. The committees meet on a regular basis and their effectiveness in meeting their responsibilities is assessed annually by the Board.

There is a clear emphasis within the Group on maintaining a corporate culture that adheres to our core values of being "trusted, flexible, fair and personal". These values underpin everything that we do in our business and are key in ensuring responsible attitudes and behaviours are foremost in every member of our team.

Chairman's Statement (continued)

For the year ended 31 May 2019

Our people

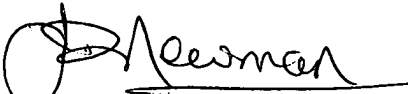
Our expectations for the year under review were high and were dependent on the continued success of acquired businesses. The achievement of those expectations as evidenced by the Group's results, reflects the quality and dedication of the people within our Group. On behalf of the Board, I wish to record our thanks and appreciation for their hard work and commitment.

Outlook

The economic and political uncertainties we are experiencing are casting a shadow over UK business generally. In these conditions, we will continue to be prudent in our lending and ensure that our impairment provisions are adequate and continue to be increased in these more uncertain times.

The investment in people and the business infrastructure I have referred to carries with it additional costs and will constrain our profit growth in the current year. However, these costs are largely exceptional or non-recurring and are essential in securing our planned strategic growth and increased shareholder value over the next five years.

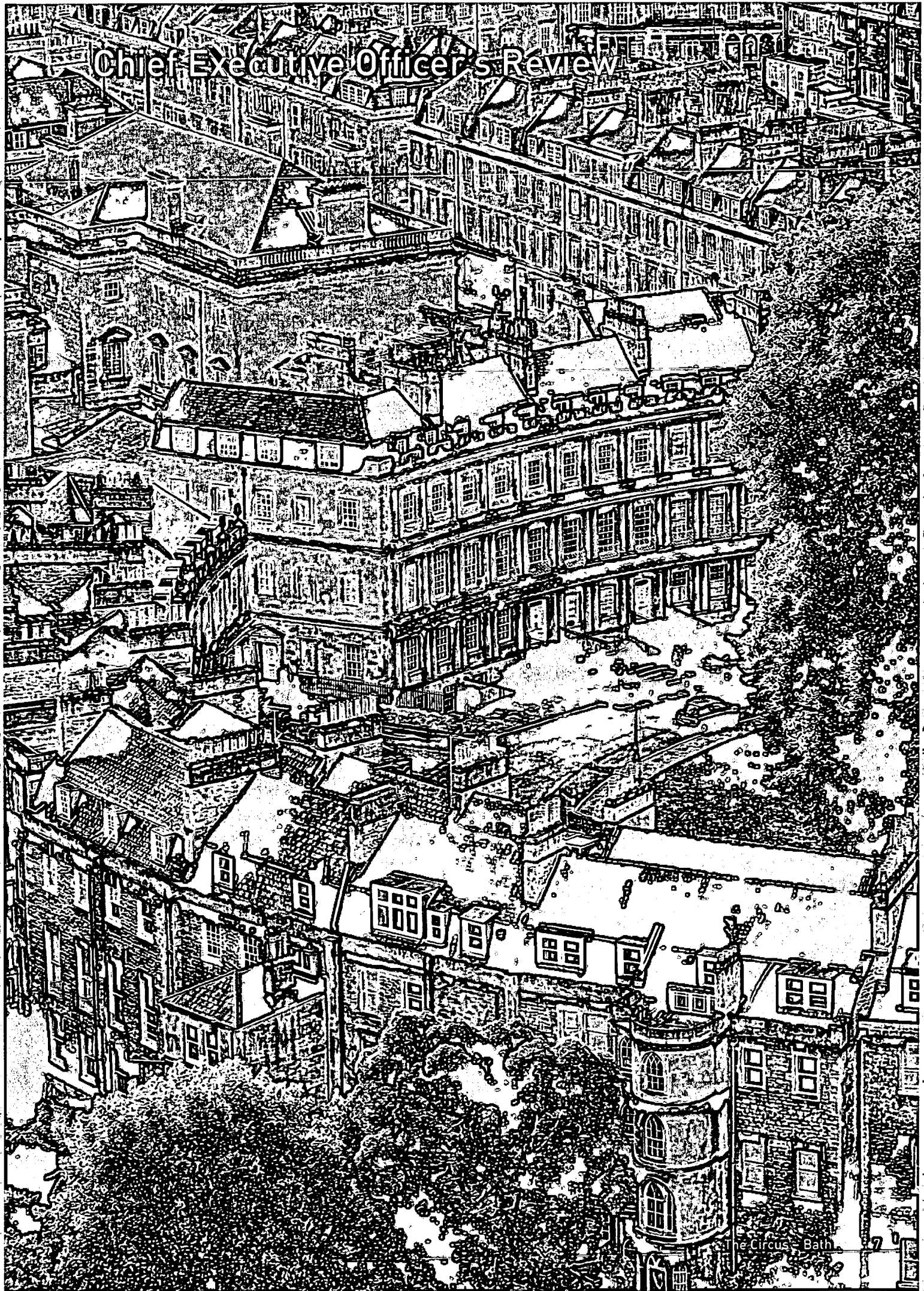
The level of new business generation remains satisfactory and our range of financial products provides flexible sources of financing options for our customers. We are fortunate in having an excellent management team and the support of colleagues at every level who share the Board's vision and determination to achieve our strategic objectives this year and beyond.



John Newman
Chairman

25 September 2019

Chief Executive Officer's Review





Chief Executive Officer's Review

For the year ended 31 May 2019

Introduction

The 1pm group is a multi-product, speciality finance business providing funding for UK SMEs as a lender and arranging funding for both UK SMEs and consumers as a broker. This 'hybrid' lending and broking model enables the Group to optimally manage credit risk, capital allocation, revenues and customer service through changing market and economic conditions.

The Group comprises four product divisions, namely Asset Finance, Vehicle Finance, Loan Finance and Invoice Finance, supported by group functions, namely Risk, Compliance, Finance, IT, Human Resources and Marketing. The financial results for the Group for the year ended 31 May 2019 consolidate the results of the parent company, 1pm plc, plus each of the trading entities that form the product divisions and group functions.

Following a period of sustained organic and inorganic growth during the recent "buy and build" phase of the Group's successful strategic expansion, the financial year ended 31 May 2019 saw a focus on organic growth and a series of operational initiatives designed to enhance performance and to begin the transition of the business from a series of individual companies towards a more integrated Group. Given that focus, I am delighted to report further year-on-year organic growth in deal origination, revenue, profit before tax and fully diluted earnings per share, as well as notable progress in the Group's capabilities and operational performance.

This has been achieved as a result of the commitment, hard work and sense of purpose consistently shown by all colleagues in the Group. It is a privilege to lead a talented management team and such an enthusiastic group of colleagues, now comprising 189 personnel. I congratulate and extend my thanks to all fellow employees for delivering this performance.

Sustainable, robust business model

In addition to the hybrid commercial model of being a lender and a broker, which is important in mitigating risk, the 1pm group is operated on sound principles designed for the development of a sustainable, robust business, with Spread, Security and Margin all core to our operating policies.

Spread is maintained in all our lending activities, across new business introduction channels, asset types and categories, lending products, geography, deal size and deal quality. The Group's lending portfolios comprise multiple 'small-ticket' lease, loan and invoice finance arrangements, with no major concentrations. Equally, spread and diversity are maintained in respect of our own borrowing and funding facilities, which are sourced from a range of wholesale funding providers.

Security is always taken, ranging from company debentures, charges on property and assets, title to assets and, for lower-value lending, personal guarantees from directors and proprietors. Where receivables become impaired, the Group has a strong track record of recovering value through its security, in particular, following up on personal guarantees, which has proven to be a successful recovery instrument for 'small-ticket' low-value exposures.

Margin is maintained through appropriate risk pricing for the type of lending entered into and a relentless drive to gradually reduce the cost of borrowing as the Group scales-up. The blended net interest margin achieved in the year to 31 May 2019 was approximately 12% (2018: 13%). Competitive pressures increased during the year, but the Board's policy is not to reduce prices or relax credit rules in order to chase top-line growth, but rather to maintain interest rates charged and credit quality. Furthermore, interest rates charged are fixed for the lending term and interest rates incurred on borrowings drawn are equally fixed. The Group matches the term of borrowings drawn to the term of lending provided.

These core operating policies are supported by human underwriting as opposed to fully automated algorithms for credit decisions. Whilst an essential element of the Group's development is the deployment of greater digital capability, for example to assist with underwriting processes, credit decisions are taken by people. This is considered essential for the lending market in which the Group operates.

The final core principle is our cautious approach to provisioning. The net write off rate (the gross value of receivables written-off less recoveries) in the year to 31 May 2019 was approximately 1% of the averaged gross lending portfolio, a similar level to 2018 and previous years. The stock of provisions carried in the balance sheet at 31 May 2019 was, however, 1.9% (2018: 1.5%) of the net lending portfolio at year-end, hence approximately

twice the write-off rate historically experienced. Provisions continue to be gradually increased during this period of economic uncertainty.

The board is confident that these factors – the lending and broking model, the focus on Spread, Security and Margin, fixed interest and matched term borrowing, human underwriting and a cautious approach to growth and provisioning – all combine to form a sustainable, robust business, delivering strong financial results. This confidence underpins the Group's progressive dividend policy. The details of the proposed dividend are set out in the Chairman's Report.

Market positioning and new business origination

The recent expansion strategy was designed and implemented to deliberately position the Group as a provider of all the main finance products that smaller UK SMEs require, namely funding for expansion in the form of assets and vehicles, loans and invoice finance facilities, the latter often replacing the traditional and formerly common-place bank overdraft. For those SME borrowers, the funding required is often for business-critical assets without which a small business would not function and, as such, repayments tend to be prioritised, leading generally to a higher level of 'borrower resilience' in this sector than might otherwise be expected.

The Group's market positioning as a multi-product provider of business-critical finance for UK SMEs has therefore proven effective and, despite the continuing effect of uncertainty from the UK's current macro-political and economic situation, demand has been steadily increasing. New business origination in the year to 31 May 2019 amounted to £161.0m, a like for like increase of 13% over the previous financial year.

Of this origination, given the flexibility afforded by the hybrid lending and broking model and prevailing market conditions, 35% was funded on balance sheet and 65% was broked-on, compared with 44% and 56% respectively in the prior year. The Group's policy is to not carry residual balance sheet risk in respect of light commercial vehicles and cars and so 100% of all finance deals originated for such assets are broked-on. Excluding vehicle finance origination, 53% of new business was funded on balance sheet and 47% broked-on, compared with 60% and 40% respectively in the prior year illustrating the 'hybrid' operating model in action.

An operational synergy arising from being a multi-product provider is the opportunity to originate deals from cross selling among the various trading entities in the Group. Cross selling has progressed steadily during the year and approximately £4.8m of deals originated and written during the year were internally generated.

Financial results

Total revenue for the year to 31 May 2019 was £31.8m, a purely organic increase of 6% year-on year. Revenue comprises, firstly, interest and other income (such as facility fees, document fees and asset assurance income) of £25.4m from own-book lending (2018: £24.8m), an increase of 2% and, secondly, commission income of £6.4m from broking activities (2018: £5.2m), an increase of 23%. Interest and other income from lending therefore accounts for 80% and commission income from broking accounts for 20% of total revenues.

The business enjoys good visibility of future revenue in that 'unearned income' (i.e. future revenue from own-book deals already written on the Group's balance sheet) as at 31 May 2019 amounted to £17.6m, which represents approximately 50% of market guidance for total revenue in the current financial year ending 31 May 2020.

The Group's profit before tax and exceptional items for the year ended 31 May 2019 was £8.1m (2018: £7.8m), an increase of 4%. Profit before tax was £7.9m (2018: £7.9m), and profit after tax was £6.4m (2018: £6.4m). At 31 May 2019, consolidated net assets stood at £53.8m (2018: £47.7m), an increase of 13%. The return on capital employed was therefore 12% (2018: 13%) and the return on net tangible assets (excluding goodwill held in the balance sheet) was 24% (2018: 32%).

As at 31 May 2019, there were 87,596,428 shares in issue (2018: 86,207,540). The increase during the year consisted of 1,388,888 shares issued in relation to earn-out arrangements for previous acquisitions. Given this issue of shares, earnings per share were 7.30p (2018: 7.57p), and on a fully diluted basis were 6.61p (2018: 6.46p).

Chief Executive Officer's Review (continued)

For the year ended 31 May 2019

Lending portfolio performance

As at 31 May 2019, the lending portfolio, stated gross of unearned interest income, was £141.7m compared with £143.9m in the prior year, the marginal decrease reflecting the increased proportion of new deal origination brokered during the year.

During the year the Group recovered £0.7m from previously fully written-off impaired receivables and incurred £1.3m of new write-offs, resulting in net write-offs in the year of £0.6m, representing 0.5% of the year-end portfolio and 1.9% of revenue (2018: £1.4m, representing 1.0% of the year-end portfolio and 4.6% of revenue).

At year-end, the Group's balance sheet included £2.4m of bad debt provision, representing 1.9% of the year-end net portfolio (2018: £1.8m, representing 1.5% of the year-end portfolio). The additional provision charged during the year amounted to £0.2m, with a £0.4m restatement to the prior year reflecting the adoption of IFRS 9.

Borrowing facilities

The Group continues to be supported by a range of wholesale funding facility providers and high net worth individual debt providers, the vast majority of whom either renewed or increased facilities during the year. Aggregate borrowing facilities as at 31 May 2019 were £167.1m, an increase of 2% over the prior year. The blended cost of borrowing was maintained at approximately 4%. Facilities in place provide sufficient headroom for the Group's current requirements. Future organic growth plans are being supported by an active initiative that will optimise the range of borrowing facilities in respect of quantum, term, cost and flexibility of use that will match the Group's multi-product offering and spread of lending.

Transitional progress

As set out in more detail in the Chief Operating Officer's report, the year to 31 May 2019 was one of substantial progress in the on-going transition from a collection of individual companies assembled in the buy-and-build phase of expansion, towards a more integrated group. Central to this transition has been the evolution of the four customer and operations focused product divisions, Asset Finance, Vehicle Finance, Loan Finance and Invoice Finance, supported by the development of the core business functions of Risk, Finance, Compliance, Human Resources, IT and Marketing.

The evolution of the product divisions has coincided with a number of the acquired entities reaching the end of their earn-out periods and successfully achieving their targets, each validating the initial decision to acquire. Reaching the end of earn-out periods has provided and continues to provide opportunities for promotion and management succession, further integration and alignment. The Asset Finance division, for example, which previously comprised three sites, now comprises two and is being reorganised into origination channels, namely broker-introduced business, vendor-introduced (sales-aid) business and direct origination.

Successful integration into a group also creates the right conditions and impetus for re-positioning the business in its chosen markets. The Group's marketing efforts in the current financial year will include a project to rebrand the business into a single, nationally recognised business and operational integration will include further IT improvements, systems developments and digital capability enhancements under the "Platform1" project, both at the customer interface and in back-office processing.

Culture, compliance and governance

The Group's stated purpose; "to grow together" and our core values; "flexible, fair, trusted and personal" form the basis of a distinct emerging culture, which continues to develop as we transition and mature. The business is customer outcome-led and sets its compliance and governance standards for all its lending and broking activities by reference to the principles and guidelines of the Financial Conduct Authority and the codes of conduct of relevant industry bodies. Further details are set out in the Group Culture and Governance Report.

Strategic development

The success of Phase 1 of the Group's recent expansion, underpinned by the financial results delivered and the transitional changes now in progress, have given us the platform to set out our plans for Phase 2 of our strategic growth through to the year 2024, the details of which are set out in the Strategic Review. The next phase of organic growth will consist of adhering to the core principles and policies that form the foundations of our sustainable, robust business model and then adding scale to each of our product divisions in order to deliver further growth in profits and returns.

Planned investment

Laying the foundations for further strategic growth requires investment. This includes leadership, management capabilities and experience. During the year ended 31 May 2019, investment was made in senior management positions, including leadership of certain of the Group's product divisions and core group functions and, as a consequence, a full year's worth of related employment costs will be incurred in the current financial year. In addition, the Board has agreed to make further investments in sales and new business personnel and, as noted, to reorganise its Asset Finance division operations and to rationalise the Group into a single, nationally recognised brand. The Group will also continue the upgrading of its IT and communications systems to deliver online offerings, improve processing times and make its infrastructure more robust, enabling it to deliver future growth.

Additional costs will therefore be incurred in the financial year ending 31 May 2020, some of which are non-recurring, but the benefits will be derived in ensuing years. The Group's sound funding position supports the investment required to deliver the growth plan and enables these actions to be taken.

Summary

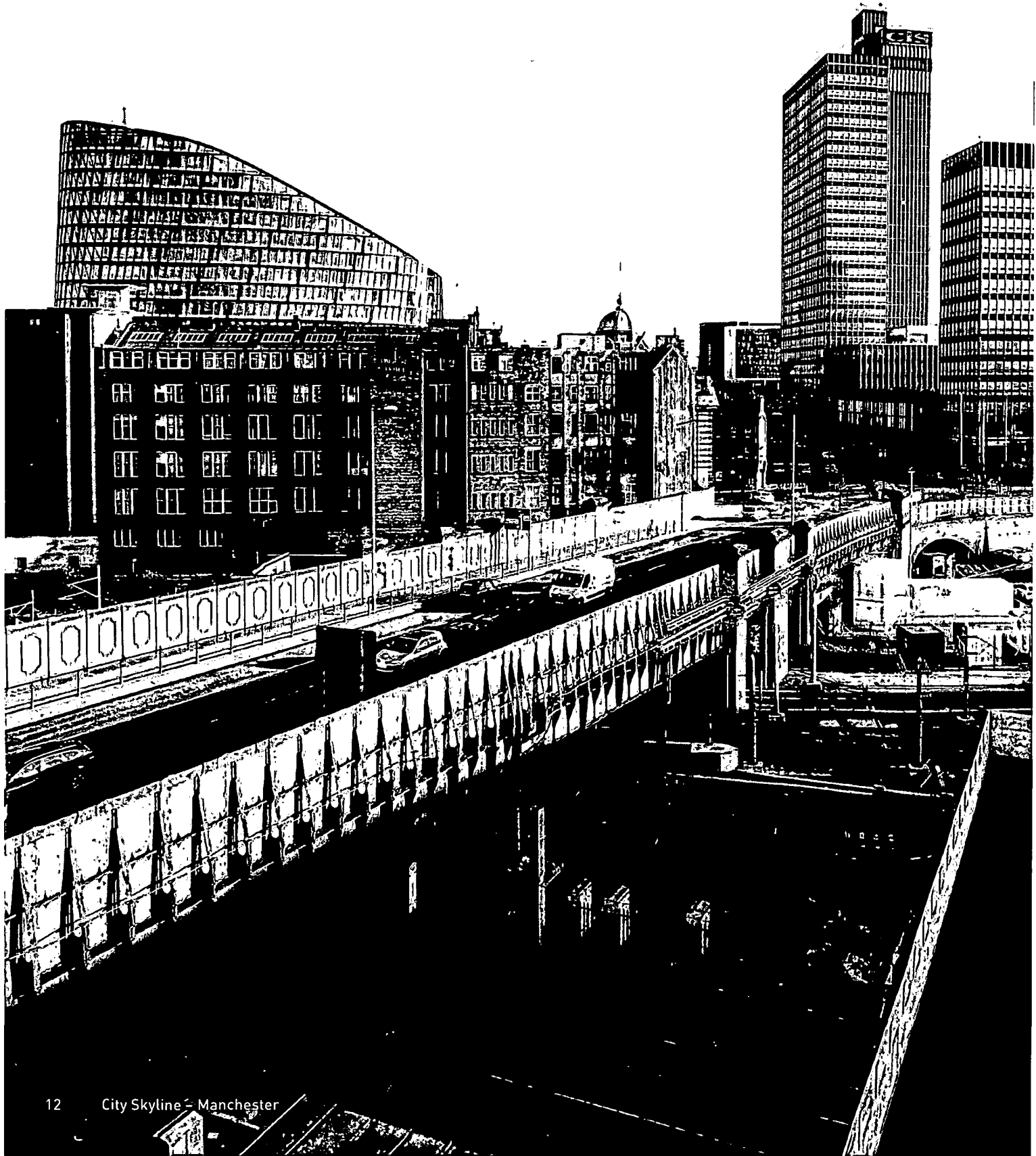
The results for the year ended 31 May 2019 demonstrate the strength of our market position and multi-product offering, together with a sustainable, robust operating model, risk and provisioning policies. In current uncertain business conditions, the Group is delighted to report year-on-year growth in new business origination, revenue and underlying profits. Following a successful strategic buy-and-build phase in recent years, the year ended 31 May 2019 was one of organic growth and operational transition with the foundations being laid for the next phase of expansion through to 2024. We look forward with confidence to further developing the Group and to building value for our shareholders.



Ian Smith
Chief Executive Officer

25 September 2019

Chief Operating Officer's Review





Chief Operating Officer's Review

For the year ended 31 May 2019

Introduction

During the year, a significant amount of focus has been placed on strengthening and improving the business. A number of key appointments were made with new talent acquired by the Group and processes and procedures reviewed and updated to ensure we are operating as effectively and efficiently as possible given the competitive marketplace. We have reorganised the structure of the Group with the divisional and functional structure put in place, as mentioned in the Chief Executive Officer's review. Progress has also been made with "Xsell", our internal cross selling initiative across the Group; during the year we saw 678 leads originated, 110 of which converted into actual business with £4.8m of advances. We have also made the commitment to rebrand the business later this year, which will see the six existing trading names brought together under one common and new brand.

Operating Board team

The senior team has changed somewhat over the last 12 months and has been significantly strengthened. Lorraine Neyland joined at the start of 2019 as Head of Risk after spending over 25 years with the Lloyds Banking Group. She now has responsibility for end-to-end risk management, encompassing front end credit decisions and back end recoveries, and also managing the team of underwriters and credit controllers across the Group. We also secured the services of Carol Roberts to Head up the Asset Finance division. Carol is a well-known and well-respected industry figure, with over 40 years market experience which has already helped to strengthen the division with new talent recruited. A new role, Head of IT was created, with David Jones joining the Group. David has over 30 years' experience in IT including developing and overseeing the IT infrastructure of an AIM listed 'buy and build' Financial Services firm. A number of internal promotions have also been made to implement the required management structure in order to deliver our refreshed five-year strategy that we set out at the start of this calendar year.

Earn-outs and successions

During the year, the earn out targets at Bradgate Business Finance and Positive Cashflow Finance were achieved. There are now only two other active schemes remaining across the Group from the acquired businesses, both of which are scheduled to complete at the end of May 2020. Linked to these schemes is the requirement to ensure we have suitable succession plans in place should management choose to exit the business, and this area has been a key area of focus over the last 12 months. We have therefore implemented suitable plans to ensure risks are mitigated as much as possible and suitable investment is put into the key people we want to retain and develop. Succession planning is a key ongoing agenda item across the Group and will continue to be in order to ensure we are managing this area effectively.

Product division development

The decision to re-organise our internal structure saw a move away from a collection of individual businesses headed by an individual MD to a divisional and functional structure, with each leader sitting on the Operational Board. We now have four divisions; Asset Finance, Loan Finance, Invoice Finance and Vehicle Finance and 6 business functions; Marketing, Risk, Human Resources, Compliance, Finance and IT. This provides us with clear accountability for performance and the opportunity to develop best practice and efficiencies over a wider spectrum, with an integrated management team working more closely together.

Risk and collections

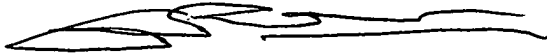
In addition to strengthening this area through the recruitment of a new Head of Risk, the processes, procedures and policies have been updated to better align with our long-term strategy. This will ensure the business is better positioned to withstand any economic downturn, but importantly we still retain a flexible approach to doing business.

Chief Operating Officer's Review (continued)

For the year ended 31 May 2019

Marketing

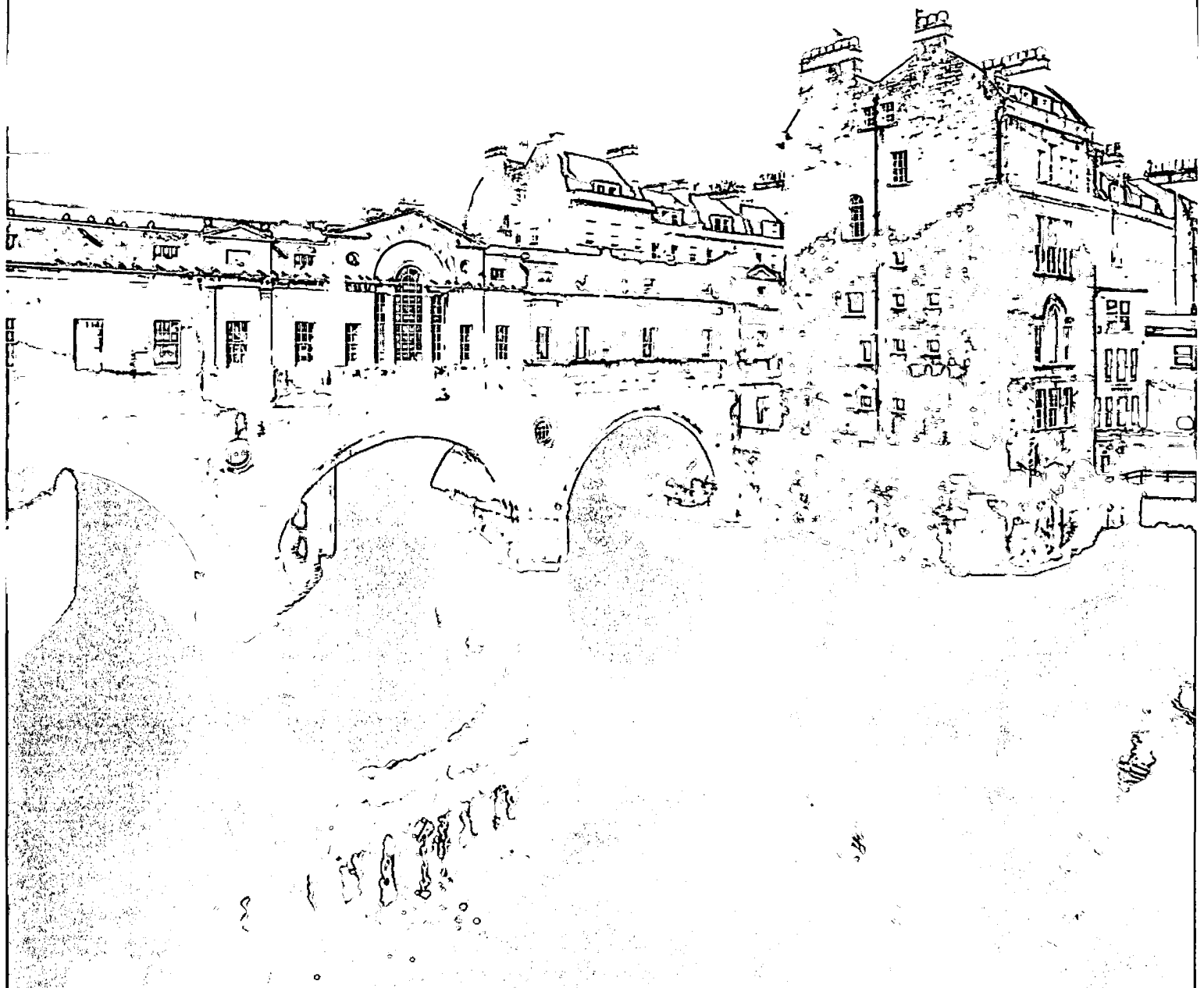
The planned rebrand of the business is an exciting initiative that will see the Group operating under one name from late 2019. This will allow us to take one proposition to market, and remove any historic views held and possible confusion around what each of the different existing brands stand for. It will also enable the cross selling of our different products across our c20,000 strong customer base to progress more efficiently. Once the rebrand is complete, we can then accelerate the development of our digital strategy, a key strategic objective within our five-year plan.



Ed Rimmer
Chief Operating Officer

25 September 2019

Group Strategic Report



Group Strategic Report

For the year ended 31 May 2019

Strategic Objectives

The strategic objectives set out in Phase 1 of the Group's buy-and-build expansion devised in 2014 were as follows:

- to build scale through operating a model of distributed entities
- to develop a multi-channel, multi-product offering for business lending to SMEs
- to deploy a 'hybrid' model of being both a funder and a broker
- to be appropriately geared with cost-effective wholesale funding facilities
- to strictly adhere to cautious underwriting and robust credit control procedures
- to be 'digitally capable'

These strategic objectives are complete with the exception of the 'Platform1' digital capability and systems integration project, which is on-going. The achievement of these objectives has delivered the transformation of 1pm from a single-product company relying on broker-introduced business, to a well-diversified and risk-mitigated alternative finance provider, with multiple introducer channels and now providing the full range of finance products that smaller UK SMEs require.

During the financial year ended 31 May 2019, plans were specified for Phase 2 of the Group's strategic growth for the period through to the financial year ended 31 May 2024. In the next phase of development, the Group's overall goal is to build on the market position attained, adding scale in each of its product divisions in order to become the non-bank, speciality finance provider of choice for UK SME lending. To achieve this goal, the Group's strategic objectives now are to:

- Continue to add scale through both organic growth and carefully selected acquisitions with a view to building a lending portfolio of approximately £350m by 2024.
- Continue to reduce the cost of borrowing through optimising the size, term, cost and mix of funding facilities
- Increase the amount of new business origination funded on balance sheet while maintaining the flexibility to act as a broker to other lenders
- Invest in marketing, branding, business intelligence, innovation and systems to further enhance our digital capability and the use of 'FinTech'
- Invest in key hires, training and succession
- Exploit the leverage available to the Group from its multi-product offering, cross selling and operational synergies
- In due course, consider new products and additional territories for further expansion.

The Board is pleased with early progress in delivering these objectives and comments on each as follows:

Adding scale:

The Board has agreed to invest in additional sales personnel in each division and to organise the Asset Finance and Loans divisions by introduction channel with a view to increasing organic new business origination for all its products. In addition, as the sectors in which the Group operates continue to be fragmented, there are opportunities to add scale through carefully selected acquisitions. The Board will continue to evaluate such opportunities with a focus, at present, on smaller strategic 'bolt-on' acquisitions that would ideally be funded from cash resources and applicable debt facilities.

Optimising borrowing facilities:

The Group's raw material is cash to lend and its cash management objective is to maintain a strong capital base to support its current operations and planned growth whilst continuing to reduce the cost of capital in order to provide increasing returns for shareholders. The total borrowing facilities now in place provide the headroom the Group requires to meet organic growth targets for the foreseeable future. The Group operates a centralised

Treasury function and a policy of sourcing different funding instruments appropriate to each of the financial products it provides, as follows:

- In respect of Asset Finance, the Group is continuing to increase its block discount facilities and to pursue complementary credit instruments that will reduce the overall cost of borrowing.
- In respect of Loans, the Group utilises block discount facilities and a Secured Loan Note facility, comprising loans from high net worth individuals.
- In respect of Invoice Finance, the Group utilises a 'back-to-back' bank facility for lending against customers' receivables.

In each case, security is provided to each lender in the form of an assignment of the underlying lease, loan or invoice receivables. As the Group only provides funds to UK SMEs, it neither operates in, nor has significant exposure to, currencies other than sterling.

As at 31 May 2019, the Group's gearing ratio was 3.4 times its net tangible assets (2018: 4.8 times) and 1.7 times its net assets (2018: 2.0 times). This is considered appropriate for the nature of business undertaken by the Group and is comfortably within the most stringent own book funding covenants of 5.5 times net tangible assets or 3.0 times net assets. The Group is not subject to any external regulatory capital requirements.

Increase own-book lending whilst maintaining flexibility from broking:

Lending on the Group's balance sheet is more profitable than broking over the term of a lease, loan or invoice finance facility. With increasing scale and the headroom in the Group's funding facilities, more new business origination is being funded on balance sheet and will continue to increase, provided market conditions allow our pricing, margin and credit quality to be maintained. It continues to be the Group's policy to broke-on consumer finance deals, such as for bridging, and second charge property loans and for all vehicle financing.

Investing in operational capability:

The Group has two key projects in progress, the first to increase marketing activities and to rebrand each of the Group's trading entities under one nationally recognised name and the second to enhance digital capability under a continuation of the Platform1 IT and Systems project. Progress on both projects is in line with management expectations as to timing and costs.

Investing in key hires, training and succession:

The Board is pleased with the addition of skills, capabilities and experience through key hires at Operating Board level and has progressed, and is progressing, succession plans at certain of the Group's subsidiary undertakings where acquisition earn-out arrangements have come to a successful conclusion.

Exploiting leverage and synergies:

Related to the completion of earn-out arrangements and reorganisation by introducer channel and group functions, progress has been made in delivering synergies from integrating operations, such as the reduction of three sites to two in the Asset Finance division and the operation of the Risk function, including Underwriting, Recoveries and Collections, on a group-wide basis. New business origination from cross selling continues to increase with a mix of both customer-facing and office-based personnel identifying cross selling opportunities for follow-up.

New products and territories:

As the Group is in the early stages of its Phase 2 strategic plan, new products and territories for further expansion are not yet under consideration, although the Group has obtained appropriate regulatory permissions for broking certain additional consumer finance products to augment its organic growth aspirations.

Group Strategic Report (continued)

For the year ended 31 May 2019

Key performance indicators:

The Board and senior management regularly review and monitor key metrics in assessing the performance of the Group. Some of these key metrics to help gauge the Group's meaningful progress are detailed below.

Revenue – increased 6% to £31.8m (prior year £30.0m)
Profit Before Tax and Exceptional Items – increased 4% to £8.1m (prior year £7.8m)
Diluted Earnings Per Share – increased 2% to 6.61p (prior year 6.46p)
New Business Origination – increased 13% to £161m (prior year £143m)
Number of 'live' accounts – increased 9% to 21,100 (prior year 19,300)
Funding interest rate – reduced to a blended rate of 3.9% (prior year 4.1%)

Principal risks and uncertainties:

'Principal risks' are defined as a risk or a combination of risks that, given the Group's current position, could seriously affect the performance, future prospects or reputation of the Group. These risks could potentially materially threaten the business model, performance, solvency or liquidity, or prevent the delivery of the strategic objectives. The Board has overall responsibility for ensuring that risk is appropriately managed across the Group and, through the Risk Committee, has established the Group's appetite to risk, approved its structure, methodologies, policies, and management roles and responsibilities.

As well as regular external reviews and audits from the Group's statutory auditors and the quarterly audits from its various funding partners, the Group has numerous internal checks and balances. Initial responsibility rests with the Operating Board which manages the business divisions and functions with line managers responsible for identifying and managing risks arising in their business areas. This is augmented by the Group's central and independent compliance and finance functions with responsibility for reporting to the Board. The Group has a Head of Risk who reviews all significant Group credit exposures and a Head of Compliance and Governance who reviews all significant Group operating risks and adherence to regulatory requirements.

The key risks identified and which the Board has reasonable expectation are appropriately mitigated are:

Credit Risk – the risk of default, potential write off, disruption to cash flow and increased recovery costs on a debt that is either not repaid individually or if there is a wider market deterioration. This is mitigated by the Group adopting prescribed lending policies and adhering to strict credit and underwriting criteria specifically tailored to each business area. The Group also has the ability to 'broke-on' business rather than write it on its own book. As such, any market deterioration impact can be reduced by broking-on prospective deals.

Funding Risk – the risk of the Group not being able to meet its current and future financial obligations over time, specifically that funding is not available to meet the Group's growth targets. The Group has funding facilities across block discounting, the Secured Loan Note programme and back-to-back invoice finance facilities, aggregating to £167m with ample headroom to meet its growth targets for the foreseeable future. The Board is also actively engaged in securing additional facilities to enable it to exploit any further future business opportunities.

Acquisition Risk – the risk that the Group's acquisition programme does not deliver value, overstretches resource beyond its capacity or has failed to identify problems within the acquired businesses. The Group has paid appropriate consideration for its acquired businesses with post synergy price-to-earnings multiples expected to be in the range 5.5 to 6.5 times. It has also spent considerable time and effort, and will continue to do so, to bolster its central resources and infrastructure to assist in integrating and generating synergies from the acquisitions. Finally, the Group has conducted thorough and detailed internal and external due diligence on all acquisitions, ensured appropriate warranties, indemnities and lock-in periods are included in the purchase agreements and has purchased well-established businesses with successful and respected management teams.

Regulatory Risk – the risk of legal or regulatory action resulting in fines, penalties and sanctions that could arise from the Group's failure to identify and adhere to regulatory requirements in the UK. In addition, there is the risk that new or enhanced regulations could adversely impact the Group. The Group has appointed a Head of Governance and Compliance, who reports to the Board and who manages a well-established and independent compliance department with appropriate resources and access to external advisors. The department looks both internally at the Group ensuring its practices are appropriate and externally at future developments to ensure the Group is prepared to adopt any changes in regulation as and when they arise.

Future Strategy

The Group intends to maintain its focus on lending to UK SMEs, providing all the key finance products they require, whilst broking-on consumer business to other lenders. In pursuing organic growth, the Group will aim to secure further cost-effective wholesale borrowing facilities and will focus on driving other economies of scale and integration benefits from the enlarged scope of its operations and entities.

The alternative finance sector generally and in particular, the leasing, loans and invoice finance segments in the UK, are fragmented which presents opportunities for further acquisition activity. The Board will continue to consider such opportunities as they arise.

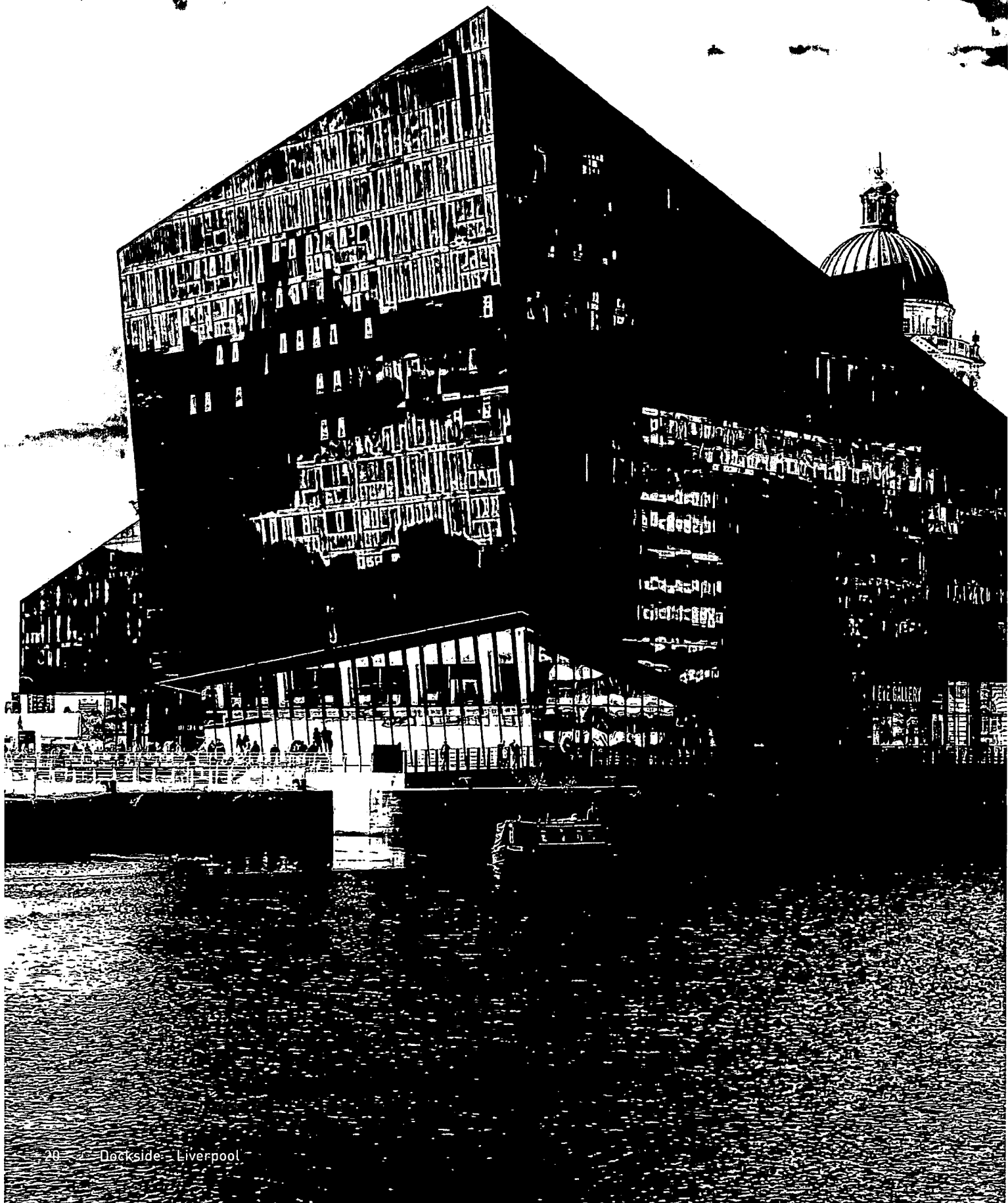
Summary

The Board remains confident in maintaining its commitment to provide a range of finance solutions to support the UK SME sector and in its pursuit of controlled organic and strategic growth in order to deliver increased shareholder value.


Ian Smith
Chief Executive Officer

25 September 2019

Group Culture and Governance Report





Group Culture and Governance Report

For the year ended 31 May 2019

In consultation with colleagues throughout the Group, we have defined our overarching purpose as a business which is "to grow together" and identified the values by which we aspire to operate on a daily basis, which are to be "trusted, flexible, fair and personal", thereby ensuring we are a customer outcome led business.

There are five "pillars" which underpin our values, and which set the operational standards by which we put our values into practice. These are described as;

- Our people are our greatest asset
- Our customers are at the centre of everything we do
- Integrity is everything to us
- We know that time is money, so we get things done
- We choose the personal touch

In order to monitor and measure how we put these standards into practice, which we refer to as "living our culture", we have implemented a culture alignment and management process, which consists of four key elements, namely;

- A remuneration and incentives structure for customer-facing colleagues that includes an element of deferred commission, earned against achievement and evidence of the cultural behaviours we aspire to demonstrate
- A bi-annual appraisal process for all colleagues which includes assessment and evidence of 'living our culture'
- A culture communication, implementation and feedback loop with representation from all sites
- Annual site-based focus groups and an annual survey for 360 degree feedback for management from colleagues

Our purpose, values, culture pillars and monitoring process together constitute our 'culture map' which sits alongside our governance processes. Our governance structure includes the 1pm plc Board, together with the board committees referred to in the Chairman's Statement, the Operating Board, chaired by the Chief Operating Officer and constituting the Heads of the product divisions and group functions, which in turn is supported by local management teams and site-based employees.

In relation to our people, the Group currently has 189 employees. Although not required by law to disclose "people statistics", in line with best practice, the Group discloses the following data on the diversity of its employees;

- We have 101 full time equivalent employees compared to 91 a year ago, all of which is organic growth. This represents a 11% increase in headcount.
- During the year to 31 May 2019, the voluntary staff turnover rate was 16.1% compared to 18.6% in the prior year
- The current gender ratio is 60% women and 40% men, showing there is a small change towards more women working for 1pm plc compared to a year ago
- 52% of our employees are in the age group category between 16-30, with a 17% increase from this time last year, including 3 new apprentice hires
- Gender pay for employees in the upper quartile by value is 50% to men and 50% to women, in comparison to last year of 68% value to men and 32% value to women
- The gender pay for employees in the lower quartile by value is a value distribution of 44% to men and 56% to women, in comparison to last year of 61% value to men and 39% value to women
- During the year to 31 May 2019 we invested 15.4% more into professional training and external coaching for our staff in comparison to the previous year.



Group Culture and Governance Report (continued)

For the year ended 31 May 2019

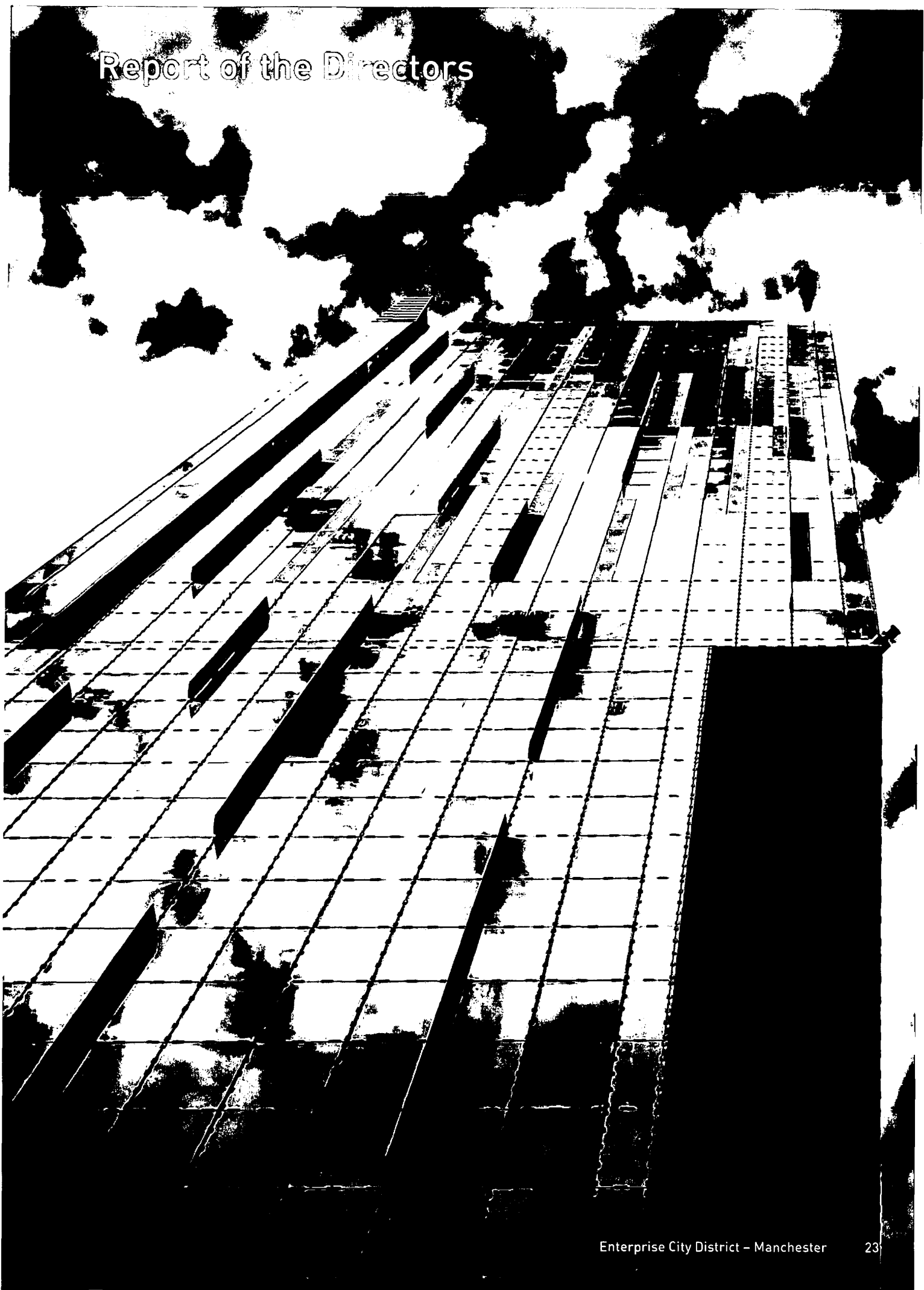
Our culture and governance processes ensure the Group is well-placed to implement and be compliant with the Senior Managers Certification Regime to come into effect on 9 December 2019. Furthermore, although only approximately 26% of the finance deals written or arranged by the Group are directly regulated consumer finance agreements, the Group aspires to undertake all its activities to the same high consumer finance standard.

A handwritten signature in black ink that reads 'Jennifer Bodey'.

Jennifer Bodey
Head of Compliance and Governance

25 September 2019

Report of the Directors





Report of the Directors

For the year ended 31 May 2019

The directors present their report with the financial statements of the Company and the Group for the year ended 31 May 2019.

Principal activity

The principal activity of the Group in the year under review was that of providing financial services to UK businesses and consumers.

Dividends

Subject to shareholder approval at the Group's Annual General Meeting on 6 November 2019, the Board is recommending a final dividend of 0.56p per ordinary share for the year ended 31 May 2019.

Events since end of the year

Information relating to events since the end of the year is given in the notes to the financial statements.

Directors

The directors shown below have held office during the whole of the period from 1 June 2018 to the date of this report unless otherwise stated.

J D Newman	Non-Executive Chairman
R I Smith	Chief Executive Officer
J M A Roberts	Chief Financial Officer
E J Rimmer	Chief Operating Officer
J P Telling	Non-Executive Director
R Russell	Non-Executive Director

On 1 June 2018 M F Nolan stepped down as a director of 1pm plc and its associated subsidiaries.

The directors' interests in the shares of 1pm plc, all of which were beneficial interests, at 31 May 2019 are as follows:

	Ordinary shares of £0.10 each 2019	Ordinary shares of £0.10 each 2018
R Russell	10,557,224	10,557,224
R Smith	97,667	97,667
J Telling	172,166	172,166
J Newman	127,166	127,166
E Rimmer	33,000	33,000
J Roberts	22,000	22,000

Directors' insurance and indemnities

Throughout the year the Group has maintained Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its officers. The Directors consider the level of cover appropriate for the business and will remain in place for the foreseeable future.

Financial instruments

The Group's financial instruments comprise cash and liquid resources, including receivables and payables that are also financial instruments that arise directly from operations. The main purpose of the financial instruments is to fund the Group's operations. As a matter of policy, the Group does not trade in financial instruments, nor does it enter into any derivative transactions. Further details on financial instruments are given in Note 29 to these financial statements.

Significant shareholders

The following parties held greater than 3% of the issued share capital of 1pm plc as at 31 May 2019:

	Number of shares	% of issued share capital
Lombard Odier Asset Management (Europe) Limited	19,691,352	22.48%
Sapia Partners LLP	13,518,070	15.43%
R Russell	10,557,224	12.05%
Hargreaves Lansdown	8,344,463	9.53%
Interactive Investor Trading Limited	4,616,816	5.27%

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with IFRS as adopted by the European Union and applicable law. The financial statements must, in accordance with IFRS as adopted by the European Union, present fairly the financial position and performance of the Company; such references in the UK Companies Act 2006 to such financial statements giving a true and fair view are references to their achieving a fair presentation. Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditors are unaware, and each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

Auditors

The auditors, Moore Stephens, will be proposed for re-appointment at the forthcoming Annual General Meeting.

ON BEHALF OF THE BOARD:

James Roberts
Chief Financial Officer



25 September 2019

Report of the Independent Auditor to the Members of 1pm plc

Opinion

We have audited the financial statements of 1pm plc (the “parent company”) and its subsidiaries (the “Group”) for the year ended 31 May 2019 which comprise the Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated and Company Statements of Financial Position, Consolidated and Company Statements of Changes in Equity, Consolidated and Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the state of the Group’s and of the parent Company’s affairs as at 31 May 2019 and of the Group’s profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor’s responsibilities for the audit of the financial statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC’s Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in which the ISAs (UK) require us to report to you where:

- the directors’ use of the going concern basis of accounting in the preparation of the financial statements is not appropriate, or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group’s or the parent Company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement whether or not due to fraud we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit, and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Area of focus	Work performed to address this risk	Conclusion of findings
<p>Recoverability of trade receivables and valuation of the expected credit loss provision</p> <p>The financial statements include net trade receivables of £121.6 million, which represents 77% of the Group's total assets. The credit loss provision is £2.4m.</p> <p>We have assessed this area as being of significant risk to the audit due to the significance of these amounts in deriving the Group's results and because of the nature of the new IFRS 9 requirements for provisioning, which is an estimate that involves judgements and assumptions.</p>	<p>In assessing the valuation of trade receivables, we performed the following procedures</p> <ul style="list-style-type: none"> - We tested after balance sheet date cash receipts for a sample of receivables. - We reviewed leases and loans in arrears to consider the adequacy of provisions in place and where payment plans have been entered whether they are being adhered to. - We assessed the appropriateness of the methodology applied to determine the expected credit loss provision with reference to the requirements of IFRS 9. - We have tested the mathematical accuracy of the credit risk provision model and corroborated back to underlying data and supporting documentation. - We have compared historical default rates experienced to the loss rate applied within the credit loss provision model and found them to be in agreement. - We considered the adequacy of the disclosures made in the financial statements including the Group's accounting policy over provisioning and the transitional disclosures on initial application. 	<p>We have no matters to communicate in respect of the recoverability of trade receivables or credit loss provisioning.</p>
<p>Revenue recognition and the IT operating systems</p> <p>The IT operating systems used by the Group are central to the integrity of the allocation of income to the appropriate accounting period using the effective interest rate method</p>	<p>In assessing revenue recognition, we performed the following procedures</p> <ul style="list-style-type: none"> - We tested that a sample of new contracts were being entered into the system appropriately and revenue recognised appropriately. - We reperformed a sample of calculations to test that the lease system was correctly allocating interest to the correct periods. - We considered the adequacy of the disclosures made in the financial statements including the Group's accounting policy over revenue to test that these are consistent with both the conclusions from the audit testing performed as well as in line with IFRS. 	<p>We have no matters to communicate in respect of revenue recognition.</p>

Report of the Independent Auditor to the Members of 1pm plc (continued)

Our application of materiality

In planning and performing our audit we were influenced by our application of materiality. We set certain quantitative measures and thresholds for materiality, which together with other, qualitative, considerations, helped us to determine the scope of our audit and the nature, timing and extent of the procedures performed. Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £380,000 and £128,000 for the parent company. The principal determinant in this assessment was profit before tax, which we consider to be the most relevant benchmark as a key metric for the directors, investors and users of the 1pm plc financial statements. Our materiality represents 5% of this number.

We have agreed with the Audit Committee that we shall report to them any misstatements in excess of £19,000 that we identify through the course of our audit, together with any qualitative matters that warrant reporting.

An overview of the scope of the audit

The scope of the audit for the financial statements has been determined by our application of our materiality to the financial statements in association to the risks of the Group when determining the level of work to be performed. All audit work was performed directly by the audit engagement team with work performed to a statutory audit scope for all trading entities within the Group.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Report of the Independent Auditor to the Members of 1pm plc (continued)

Use of our report

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



M Powell (Senior Statutory Auditor)
for and on behalf of Moore Stephens
Chartered Accountant & Statutory Auditor
30 Gay Street
Bath
BA1 2PA

25 September 2019

Consolidated Income Statement

For the year ended 31 May 2019

	Notes	2019 £'000	2018 £'000
CONTINUING OPERATIONS			
Revenue	3	31,814	30,013
Cost of sales		(10,271)	(10,118)
GROSS PROFIT		21,543	19,895
Administrative expenses		(13,292)	(11,979)
Exceptional items	11	(221)	254
Share-based payments	27	(3)	(204)
OPERATING PROFIT		8,027	7,966
Finance costs	5	(218)	(179)
Finance income	5	67	63
PROFIT BEFORE INCOME TAX	6	7,876	7,850
Adjusted earnings before interest, tax, exceptional items and share-based payments			
Adjusted earnings before interest, tax, exceptional items and share-based payments		8,100	7,800
Exceptional items		(221)	254
Share-based payments		(3)	(204)
PROFIT BEFORE INCOME TAX		7,876	7,850
Income tax	7	(1,524)	(1,448)
PROFIT FOR THE YEAR		6,352	6,402
Profit attributable to:			
Owners of the parent		6,352	6,402
Earnings per share expressed in pence per share			
Basic	10	7.30	7.57
Diluted		6.61	6.46

The notes form part of these financial statements

Consolidated Statement of Comprehensive Income

For the year ended 31 May 2019

Notes	2019 £'000	2018 £'000
PROFIT FOR THE YEAR	6,352	6,402
OTHER COMPREHENSIVE INCOME	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	6,352	6,402
Total comprehensive income attributable to: Owners of the parent	6,352	6,402

The notes form part of these financial statements

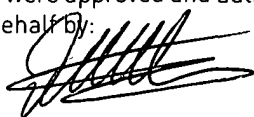
Consolidated Statement of Financial Position

31 May 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
NON-CURRENT ASSETS			
Goodwill	12	27,847	27,847
Intangible assets	13	493	465
Property, plant and equipment	14	1,418	1,612
Trade and other receivables	17	50,710	50,096
Deferred tax	24	945	568
		81,413	80,588
CURRENT ASSETS			
Inventories	16	-	365
Trade and other receivables	17	74,432	75,577
Cash and cash equivalents	18	1,851	2,070
		76,283	78,012
TOTAL ASSETS		157,696	158,600
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	19	8,760	8,621
Share premium	20	25,134	24,721
Employee shares	20	298	295
Treasury shares	20	(300)	(300)
Retained earnings	20	19,888	14,342
TOTAL EQUITY		53,780	47,679
LIABILITIES			
NON-CURRENT LIABILITIES			
Trade and other payables	21	29,805	33,256
Financial liabilities - borrowings	22	469	1,603
Provisions	23	801	1,903
		31,075	36,762
CURRENT LIABILITIES			
Trade and other payables	21	67,563	69,398
Financial liabilities - borrowings	22	3,278	2,625
Tax payable		1,309	918
Provisions	23	691	1,218
		72,841	74,159
TOTAL LIABILITIES		103,916	110,921
TOTAL EQUITY AND LIABILITIES		157,696	158,600

The financial statements were approved and authorised for issue by the Board of Directors on 25 September 2019 and were signed on its behalf by:

J M A Roberts
Chief Financial Officer



The notes form part of these financial statements

Company Statement of Financial Position

31 May 2019

	Notes	2019 £'000	2018 £'000
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	13	330	290
Property, plant and equipment		8	-
Investments	15	20,530	20,530
		20,868	20,820
CURRENT ASSETS			
Trade and other receivables	17	18,388	13,846
Cash and cash equivalents	18	10	249
		18,398	14,095
TOTAL ASSETS		39,266	34,915
EQUITY			
SHAREHOLDERS' EQUITY			
Called up share capital	19	8,760	8,621
Share premium	20	25,134	24,721
Employee shares	20	298	295
Treasury shares	20	(300)	(300)
Retained Earnings		-	-
TOTAL EQUITY		33,892	33,337
LIABILITIES			
NON-CURRENT LIABILITIES			
Borrowings	22	-	27
Provisions	23	-	532
Deferred Tax	24	111	-
		111	559
CURRENT LIABILITIES			
Trade and other payables	21	5,032	381
Borrowings	22	-	106
Provisions	23	231	532
		5,263	1,019
TOTAL LIABILITIES		5,374	1,578
TOTAL EQUITY AND LIABILITIES		39,266	34,915
Company profit for the financial year		806	419

The financial statements were approved and authorised for issue by the Board of Directors on 25 September 2019 and were signed on its behalf by:

J M A Roberts
Chief Financial Officer



The notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 31 May 2019

	Called up Share Capital £'000	Retained Earnings £'000	Share Premium £'000	Treasury Shares £'000	Employee Shares £'000	Total Equity £'000
Balance at 1 June 2017	5,494	8,755	14,170	-	91	28,510
Total comprehensive income	-	6,402	-	-	-	6,402
Transactions with owners						
Cost of treasury shares	-	-	-	(300)	-	(300)
Dividends (Note 9)	-	(419)	-	-	-	(419)
Issue of share capital	3,127	-	10,551	-	-	13,678
Value of employee services	-	-	-	-	204	204
Balance at 31 May 2018	8,621	14,738	24,721	(300)	295	48,075
Restated – IFRS 9 adoption (Note 30)	-	(396)	-	-	-	(396)
Total	8,621	14,342	24,721	(300)	295	47,679
Total comprehensive income	-	6,352	-	-	-	6,352
Transactions with owners						
Cost of treasury shares	-	-	-	-	-	-
Dividends (Note 9)	-	(806)	-	-	-	(806)
Issue of share capital	139	-	413	-	-	552
Value of employee services	-	-	-	-	3	3
Balance at 31 May 2019	8,760	19,888	25,134	(300)	298	53,780

The notes form part of these financial statements

Company Statement of Changes in Equity

For the year ended 31 May 2019

	Called up Share Capital £'000	Retained Earnings £'000	Share Premium £'000	Treasury Shares £'000	Employee Shares £'000	Total Equity £'000
Balance at 1 June 2017	5,494	-	14,170	-	91	19,755
Total comprehensive income	-	419	-	-	-	419
Transactions with owners						
Cost of treasury shares	-	-	-	(300)	-	(300)
Dividends (Note 9)	-	(419)	-	-	-	(419)
Issue of share capital	3,127	-	10,551	-	-	13,678
Value of employee services	-	-	-	-	204	204
Balance at 31 May 2018	8,621	-	24,721	(300)	295	33,337
Total comprehensive income	-	806	-	-	-	806
Transactions with owners						
Cost of treasury shares	-	-	-	-	-	-
Dividends (Note 9)	-	(806)	-	-	-	(806)
Issue of share capital	139	-	413	-	-	552
Value of employee services	-	-	-	-	3	3
Balance at 31 May 2019	8,760	-	25,134	(300)	298	33,892

The notes form part of these financial statements

Consolidated Statement of Cash Flows

For the year ended 31 May 2019

	Notes	2019 £'000	2018 £'000
Cash generated from operations			
Profit before tax		7,876	7,850
Depreciation & amortisation charges		778	571
Finance costs		218	179
Finance income		(67)	(63)
(Gain) on disposal of property plant & equipment		-	(30)
Decrease/(Increase) in inventory		365	(230)
Decrease in trade and other receivables		531	2,854
(Decrease) in trade and other payables		(5,286)	(9,854)
Movement in non-cash items		(1,131)	(453)
		3,284	824
Cash flows from operating activities			
Interest paid	5	(218)	(179)
Tax paid		(1,510)	(1,612)
Net cash from operating activities		1,556	(967)
Cash flows from investing activities			
Acquisition of subsidiaries		-	(9,879)
Purchase of software, property, plant & equipment		(778)	(1,034)
Proceeds from sales of fixed assets		-	278
Contingent consideration paid		(533)	-
Interest received	5	67	63
Net cash from investing activities		(1,244)	(10,572)
Cash flows from financing activities			
Loan repayments in year		(1,237)	(1,001)
Loans issued in year		756	300
Purchase of own shares in EBT		-	(300)
Proceeds from issue of share capital		-	13,040
Transaction costs related to share issue		-	(853)
Equity dividends paid		(806)	(419)
Net cash from financing activities		(1,287)	10,767
(Decrease)/increase in cash and cash equivalents		(975)	(772)
Cash and cash equivalents at beginning of year			
	28	1,306	2,078
Cash and cash equivalents at end of year			
	28	331	1,306

The notes form part of these financial statements

Company Statement of Cash Flows

For the year ended 31 May 2019

Notes	2019 £'000	2018 £'000
Cash generated from operations		
Profit before tax	920	419
Dividend income	(806)	(419)
Depreciation & amortisation charges	106	28
Finance costs	69	-
(Increase) in trade and other receivables	(4,542)	(10,616)
(Decrease) in trade and other payables	4,651	(307)
Movement in other non-cash items	(67)	(453)
	331	(11,348)
Cash flows from operating activities		
Interest paid	(69)	-
Net cash from operating activities	262	(11,348)
Cash flows from investing activities		
Purchase of fixed asset investments	(8)	-
Purchase of software, property, plant & equipment	(144)	(318)
Contingent consideration paid	(216)	-
Dividends received	806	419
Net cash from investing activities	438	101
Cash flows from financing activities		
Purchase of own shares in EBT	-	(300)
Proceeds from issue of share capital	-	13,040
Transaction costs related to share issue	-	(853)
Loan repayments in period	(133)	-
Equity dividends paid	(806)	(419)
Net cash from financing activities	(939)	11,468
(Decrease)/increase in cash and cash equivalents	(239)	221
Cash and cash equivalents at beginning of year	28	249
Cash and cash equivalents at end of year	28	249

The notes form part of these financial statements

Notes to the Consolidated Financial Statements

For the year ended 31 May 2019

1. STATUTORY INFORMATION

1pm plc is a UK domiciled public company, registered in England and Wales. The Company's registered number and registered office address can be found on page 1.

2. ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention.

The key judgements made by management in applying the Group's accounting policies that have the most significant effect on these financial statements are in relation to the financed assets, specifically valuation and recognition. Management have selected suitable accounting policies for income recognition (see below) and have made specific provisions against bad debts.

Due to the nature of the Group's trading the directors do not have any concerns over the key assumptions concerning the future and do not consider there to be any key sources of estimation uncertainty. The Group is cash generative as evidenced by the Statement of Consolidated Cash Flows and has ample headroom in its funding facilities. As such, the directors are confident that the Group will continue to operate as a going concern.

The functional currency of the parent and subsidiaries is sterling. The presentational currency of the Group is denominated in pounds sterling. The figures have been rounded to the nearest one thousand pounds.

Acquisition of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the business and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- Deferred tax assets or liabilities, and assets or liabilities related to employee benefits arrangements are recognised and measured in accordance with IAS 12 Income Taxes and IAS 19 respectively
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace the share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date.

Goodwill is measured as the aggregate sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) in excess of the net of the amounts of the identifiable assets acquired and the liabilities assumed at the acquisition date. If, after reassessment, the net of the amounts of the identifiable assets acquired and liabilities assumed at the date of acquisition exceeds the aggregate sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from contingent consideration arrangements, the contingent consideration is measured at its fair value at the date of acquisition and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period', which cannot exceed one year from the acquisition date, about facts and circumstances that existed at the acquisition date.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

2. ACCOUNTING POLICIES (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss being recognised in profit or loss.

Changes in accounting policies and standards – New standards, amendments and interpretations not yet adopted

IFRS 16, 'Leases' addresses the recognition of leases on the balance sheet. The standard is effective for accounting periods beginning on or after 1 January 2019. The standard will eliminate the classification of leases as either operating or finance leases and result in operating leases being treated as finance leases. This will result in previously recognised operating leases being treated as property, plant and equipment and a finance lease creditor. The issue of the standard will increase the value of property, plant and equipment and the finance lease liability on the balance sheet, but the adoption of this standard will not have a material impact on the profit of the Group.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company (1pm plc) and entities controlled by the Company (its subsidiaries) prepared to 31 May each year. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Principal activity and nature of operations

The principal activity in the year under review was that of providing financial products and services to UK businesses.

Revenue recognition

Assets leased to customers on finance leases are recognised in the Consolidated Statement of Financial Position at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. Lease income on operating leases is recognised over the term of the lease on a straight-line basis.

Loans are recognised when cash is advanced to borrowers. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Loan interest is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of the loans.

Invoice finance facilities are recognised when cash is advanced to clients. Interest is allocated to accounting periods so as to reflect a constant periodic rate of return on the Company's net investment outstanding in respect of those facilities.

Document, administration and facility fees and secondary rentals are charged and recognised in the period to which they relate.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

A cash generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that it may be impaired. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

2. ACCOUNTING POLICIES (continued)

The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

On disposal of the relevant cash generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Property, plant and equipment

Depreciation is provided at the following annual rates in order to write off each asset over its estimated useful life.

Short leasehold	- in accordance with the property lease
Improvements to property	- 20% on cost and in accordance with the property lease
Assets held for rental	- at varying rates on cost
Fixtures and fittings	- 33% on cost and 25% on cost respectively
Motor vehicles	- 25% on cost
Computer equipment	- 25% on cost and 25% on reducing balance

All property, plant and equipment are shown at cost less subsequent depreciation and impairment, if any.

Intangible assets

Amortisation is provided at the following annual rates in order to write off each asset over its estimated useful life, which are considered to be finite.

Computer software	- 25% on cost
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Inventories

Inventories are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow-moving items.

Taxation

Current taxes are based on the results shown in the financial statements and are calculated according to local tax rules, using tax rates enacted or substantially enacted by the Statement of Financial Position date.

Deferred tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised, however, if they arise from the initial recognition of goodwill, and deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the Statement of Financial Position date and are expected to apply when the related deferred income tax asset is realised, or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associated and joint arrangements, except for deferred income tax liability where the reversal of the temporary difference is not in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

2. ACCOUNTING POLICIES (continued)

taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balance on a net basis.

Impairment of financial assets

For periods before the year ended 31 May 2019 the Company applied the impairment requirements of IAS 37.

Under the requirements of IAS 37, financial assets are carried at amortised cost. The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. Impaired losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

These annual results are the first to be reported under the new IFRS 9 'Financial Instruments' accounting standard which has replaced the previous IAS 37 'Financial Instruments: Recognition and measurement'. Under IFRS 9, which the Group adopted from 1 June 2018, the credit loss provision is measured and recognised in accordance with the expected credit loss ("ECL") model. This has resulted in an opening balance restatement, as well as a higher charge to comprehensive income for 2018 than would have occurred under IAS 37.

The IFRS 9 impairment model introduces a three-stage approach:

- Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses (that is, expected losses arising from the risk of default in the next 12 months) are recognised.
- Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition but are not credit impaired. For these assets' lifetime ECLs (that is, expected losses arising from the risk of default over the life of the financial instrument) are recognised.
- Stage 3 consists of financial assets that are credit impaired, which is when one or more events that have a detrimental impact on the estimated future cash flows of the financial assets have occurred. For these assets, lifetime ECLs are also recognised.

The introduction of IFRS 9 has not significantly impacted the Company's accounting as it does not have any complex financial instruments or material credit risks. The Company uses its historical experience, external indicators and forward-looking information to calculate expected credit losses. For detail on the impact of IFRS 9 refer to Note 30.

Funding payables and cost of sales

Finance received from funding providers is classified as payables in the Consolidated Statement of Financial Position. Payments to the funding providers contain a capital element which reduces the payable and an interest charge is debited to the cost of sales using the sum of digits method. Due to the relatively short term of the funding payables the directors are satisfied that this method of apportioning interest is not materially different to the effective interest method.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2. ACCOUNTING POLICIES (continued)

Financial instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as either financial assets, financial liabilities, or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Employee benefits

(a) Pension obligations:

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Termination benefits:

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) Profit-sharing and bonus plans:

The Group recognises a liability and an expense for profit-sharing and bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

Own shares

Own shares consist of treasury shares and shares held within an employee benefit trust. The Company has an employee benefit trust for the granting of shares to applicable employees. Own shares are recognised at cost as a deduction from equity shareholders' funds. Subsequent consideration received for the sale of such shares is also recognised in equity, with any difference between the sale proceeds and the original cost being taken to retained earnings. No gain or loss is recognised in the financial statements on transactions in treasury shares.

Share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Company. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example, an entity's share price);
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period);
- Including the impact of any non-vesting conditions (for example, the requirement for employees to save or hold shares for a specific period of time).

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the service and non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

2. ACCOUNTING POLICIES (continued)

In addition, in some circumstances, employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as capital contribution. The fair value of employee services received, measured by reference to grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

The social security contributions payable in connection with the grant of the share options are considered an integral part of the grant itself, and the charge will be treated as a cash-settled transaction.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and highly liquid interest-bearing securities with maturities of three months or less.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income and expense that have been shown separately due to the significance of their nature or amount.

Critical Estimates

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

The following are the key areas that involved a higher degree of judgement or complexity which may be more likely to be materially adjusted due to the use of assumptions which turn out to be incorrect.

(a) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment by applying growth assumptions and assessing the future cash flows which are expected to arise from the continuing operation. All other assets are tested for impairment where there are indicators of impairment. Actual outcomes could vary significantly from these estimates.

(b) Expected credit losses

The Group assesses its best estimate for the expected credit losses (ECL) provision at each reporting date, using trends from actual historical data as well as from forward-looking information. Significant judgement is required in assessing performance, especially with delinquencies and default rates on those products in the performing category, as any changes in rates could impact the provision materially.

3. SEGMENTAL REPORTING

The Group has one business segment to which all revenue, expenditure, assets and liabilities relate. At present this is how information is reported to senior management. The directors regularly review the appropriateness of operating as one business segment for statutory purposes. In future, the Group may report four distinct business units – Asset Finance, Loan Finance, Invoice Finance and Vehicle Finance.

4. EMPLOYEES AND DIRECTORS

	2019 £'000	2018 £'000
Wages and salaries	7,702	5,433
Social security costs	883	603
Other pension costs	223	137
	8,808	6,173

The average number of employees during the year was as follows:

	2019 £'000	2018 £'000
Management	22	29
Operational	167	141
	189	170

	2019 £'000	2018 £'000
Directors' remuneration	759	953
Directors' pension contributions to money purchase schemes	-	52

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	2	2
The number of directors who exercised share options during the year was as follows:		
Exercised share options	0	0
The number of directors who received share options during the year was as follows:		
Long term incentive schemes	0	4

The directors' aggregate emoluments in respect of qualifying services were:

					2019 £'000	2018 £'000
	Salary	Bonus	Pension	Benefits	Total	Total
R I Smith	200	-	-	16	216	298
J M A Roberts	150	-	-	16	166	186
E J Rimmer	175	-	-	16	191	210
J D Newman	33	-	-	-	33	33
R Russell	24	-	-	-	24	24
J P Telling	26	-	-	-	26	26
M F Nolan	95	-	-	8	103	176
Total	703	-	-	56	759	953

The potential value of conditional share options are: R I Smith £51k (2018 - £73k), J M A Roberts £15k (2018 - £36k) and E J Rimmer £30k (2018 - £48k).

The key management personnel are the directors and therefore disclosure is the same.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

5. NET FINANCE COSTS

	2019 £'000	2018 £'000
Finance income:		
Bank account interest	67	63
Finance costs:		
Bank loan interest	93	35
Other interest payable	125	144
	218	179
Net finance costs	151	116

6. PROFIT BEFORE INCOME TAX

The profit before income tax is stated after charging:

	2019 £'000	2018 £'000
Depreciation – owned assets	610	503
Amortisation – computer software	168	68
Net bad debt charge	553	1,513
Funding facility interest charges	4,457	4,031
Introducer commissions	3,767	3,383
Fees payable to the Company's auditor for audit of Company's subsidiaries	70	77
Fees payable to the Company's auditor for the Company's annual accounts	13	13

7. INCOME TAX

Analysis of tax expense

	2019 £'000	2018 £'000
Current tax	1,901	1,587
Deferred tax	(377)	(139)
Total tax expense in Consolidated Income Statement	1,524	1,448

Factors affecting the tax expense

The tax assessed for the year is higher (2018 – lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	2019 £'000	2018 £'000
Profit before income tax	7,876	7,850
Profit multiplied by the standard rate of corporation tax in the UK of 19% (2018 – 19%)	1,496	1,492
Effects of:		
Permanent tax differences	28	(44)
Tax expense	1,524	1,448

Corporation tax is calculated at 19.3% (2018: 18.4%) of the estimated assessable profit for the year.

7. INCOME TAX (continued)

The main rate of corporation tax was 19% from 1 June 2018 to 31 May 2019. The rate remains at 19% for the financial year beginning 1 April 2019. The corporation tax main rate will reduce to 17% for the fiscal year beginning 1 April 2020.

8. PROFIT OF PARENT COMPANY

As permitted by Section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the parent company is not presented as part of these financial statements. The parent company's profit after tax for the financial year was £0.8m (2018: £0.4m).

9. DIVIDENDS

	2019 £'000	2018 £'000
Ordinary shares of £0.10 each		
Final	561	419
Interim	245	–
Total	806	419

The Company paid a final dividend of £560,348 being 0.65p per Ordinary £0.10 share relating to the financial year ending 31 May 2018. For the year ending 31 May 2019, the Company paid a maiden interim dividend of £245,269 being 0.28p per Ordinary £0.10 share and, subject to shareholder approval at the Company's Annual General Meeting on 6 November 2019, the directors are recommending the payment of a final dividend of £498,318 (equivalent to 0.56p per share). Taken together, the interim and this recommended final dividend would equate to total dividends in relation to the year ending 31 May 2019 of £743,587 (equivalent to 0.84p per share).

10. EARNINGS PER SHARE

Earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year. For diluted earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential ordinary shares.

2019

	Earnings £'000	Weighted average number of shares	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	6,352	87,048,483	7.30
Effect of dilutive securities			
Options and contingent consideration	–	9,009,945	(0.68)
Diluted EPS			
Adjusted earnings	6,352	96,058,428	6.61

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

10. EARNINGS PER SHARE (continued)

2018

	Earnings £'000	Weighted average number of shares	Per-share amount pence
Basic EPS			
Earnings attributable to ordinary shareholders	6,402	84,600,672	7.57
Effect of dilutive securities			
Options and contingent consideration	-	14,485,055	(1.11)
Diluted EPS			
Adjusted earnings	6,402	99,085,727	6.46

11. EXCEPTIONAL ITEMS

During the year the Group incurred the following exceptional items:

	2019 £'000	2018 £'000
Restructuring	341	(439)
Acquisition costs	-	185
Other	(120)	-
	221	(254)

The exceptional restructuring items relate to events in the Asset Finance division with management reshaping the administrative operations to take advantage of Group synergies. This has resulted in redundancy costs of £0.3m. The other exceptional costs include a release of deferred consideration, rebranding and strategic initiatives.

12. GOODWILL

Group	£'000
COST	
At 1 June 2018 and 31 May 2019	27,847
NET BOOK VALUE	
At 31 May 2019	27,847
At 31 May 2018	27,847

Goodwill is required to be monitored at the "operating segment" level. As management consider there is only one operating segment, all goodwill has been allocated to one cash generating unit ("CGU"). The recoverable amount of the CGU has been determined based on a value-in-use calculation. This calculation uses pre-tax cash flow projections covering an appropriate period. Cashflows beyond a three-year period are extrapolated using a constant growth rate consistent with current market conditions and recent historic growth. The risk-adjusted cash flows are discounted using a researched pre-tax discount rate of 11%.

13. INTANGIBLE ASSETS

2019

	Group Computer software £'000	Company Computer software £'000
COST		
At 1 June 2018	548	318
Additions	196	144
At 31 May 2019	744	462
AMORTISATION		
At 1 June 2018	83	28
Charge for year	168	104
At 31 May 2019	251	132
NET BOOK VALUE		
At 31 May 2019	493	330
At 31 May 2018	465	290

2018

	Group Computer software £'000	Company Computer software £'000
COST		
At 1 June 2017	99	–
Additions	449	318
At 31 May 2018	548	318
AMORTISATION		
At 1 June 2017	15	–
Charge for the year	68	28
At 31 May 2018	83	28
NET BOOK VALUE		
At 31 May 2018	465	290
At 31 May 2017	84	–

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

14. PROPERTY, PLANT AND EQUIPMENT

Group 2019

	Short leasehold £'000	Improvements to property £'000	Assets held for rental £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
COST							
At 1 June 2018	139	189	2,240	334	1,073	–	3,975
Additions	2	–	487	22	71	–	582
Disposals	–	(2)	(407)	(5)	(7)	–	(421)
At 31 May 2019	141	187	2,320	351	1,137	–	4,136
DEPRECIATION							
At 1 June 2018	38	181	1,009	288	847	–	2,363
Charge for year	15	3	454	19	119	–	610
Disposals	–	–	(244)	(5)	(6)	–	(255)
At 31 May 2019	53	184	1,219	302	960	–	2,718
NET BOOK VALUE							
At 31 May 2019	88	3	1,101	49	177	–	1,418
At 31 May 2018	101	8	1,231	46	226	–	1,612

Group 2018

	Short leasehold £'000	Improvements to property £'000	Assets held for rental £'000	Fixtures and fittings £'000	Computer equipment £'000	Motor vehicles £'000	Total £'000
COST							
At 1 June 2017	117	189	2,251	183	788	11	3,539
Additions	5	–	460	26	94	–	585
Disposals	–	–	(471)	–	–	(11)	(482)
Transfer on acquisition	17	–	–	–	191	–	333
At 31 May 2018	139	189	2,240	334	1,073	–	3,975
DEPRECIATION							
At 1 June 2017	14	180	912	145	538	6	1,795
Charge for year	9	1	325	31	137	–	503
Disposals	–	–	(228)	–	–	(6)	(234)
Transfer on acquisition	15	–	–	112	172	–	299
At 31 May 2018	38	181	1,009	288	847	–	2,363
NET BOOK VALUE							
At 31 May 2018	101	8	1,231	46	226	–	1,612
At 31 May 2017	103	9	1,339	38	250	5	1,744

15. INVESTMENTS

	Shares in Group undertakings £'000
COST	
At 1 June 2018 and 31 May 2019	20,530
NET BOOK VALUE	
At 31 May 2019	20,530
At 31 May 2018	20,530

The Group has directly, or indirectly through other 100% owned subsidiaries in the Group, made investments in the following:

	Investment	Principal activity	Place of incorporation	Proportion of voting equity 2019	Proportion of voting equity 2018
1pm (UK) Limited	Direct	Asset finance	England	100	100
Academy Leasing Limited	Indirect	Asset finance	England	100	100
Bradgate Business Finance Limited	Direct	Asset finance	England	100	100
Intelligent Financing Limited	Direct	Loan finance	Wales	100	100
Bell Finance Limited	Indirect	Asset finance	England	100	100
Gener8 Finance (Holdings) Limited	Indirect	Holding company	England	100	100
Positive Cashflow (Holdings) Limited	Indirect	Holding company	England	100	100
Gener8 Finance Limited	Indirect	Invoice finance	England	100	100
Positive Cashflow Finance Limited	Indirect	Invoice finance	England	100	100
Car Finance 2U Limited	Indirect	Vehicle finance	England	100	100
MH Holdings Limited	Direct	Holding company	England	100	100
Onepm Commercial Finance Ltd	Indirect	Holding company	England	100	100
Speakertone Limited	Indirect	Holding company	England	100	100

Car Finance 2U Limited is 100% held through Academy Leasing Limited ("Academy"). Academy is held through Speakertone Limited which is held through MH Holdings Limited ("MHHL"). MHHL is 100% held by 1pm plc. 1pm plc also holds 100% of Onepm Commercial Finance Limited ("OCFL"). OCFL owns 100% of both Gener8 Finance (Holdings) Limited and Positive Cashflow (Holdings) Limited which, in turn hold 100% of Gener8 Finance Limited and Positive Cashflow Finance Limited respectively.

In order to simplify the Group structure, shortly after the year end Speakertone Limited, MH Holdings Limited, Gener8 Finance (Holdings) Limited and Positive Cashflow (Holdings) Limited were dissolved.

16. INVENTORIES

	Group	
	2019 £'000	2018 £'000
Stocks – assets held for resale	–	365

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

17. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2019 £'000	Restated 2018 £'000	2019 £'000	2018 £'000
Current:				
Trade receivables	70,935	72,305	-	-
Amounts owed by Group undertakings	-	-	18,321	13,779
Other receivables	1,954	2,205	-	-
VAT	-	-	-	24
Prepayments and accrued income	1,543	1,067	67	43
	74,432	75,577	18,388	13,846
Non-current:				
Trade receivables (note i)	50,710	50,096	-	-
	50,710	50,096	-	-
Aggregate amounts	125,142	125,673	18,388	13,846

Trade receivables represent finance lease, loan and invoice finance receivables stated net of unearned income and allowance for doubtful debts, as follows:

	2019 £'000	Restated 2018 £'000
Gross receivables from finance leases, loans and invoice finance	141,662	143,903
Unearned future finance income on finance leases, loans and invoice finance	(17,603)	(19,281)
Unimpaired trade receivables, net of unearned income	124,059	124,622

Of the above gross receivables, £86.9m relates to finance leases (2018: £89.8m) and £15.3m relates to the unearned future income on finance leases (2018: £16.0m).

	2019 £'000	Restated 2018 £'000
Unimpaired trade receivables, net of unearned income	124,059	124,622
Allowance for doubtful debts	(2,414)	(2,221)
Net receivables from finance leases, loans and invoice finance	121,645	122,401

The average credit period on leases and loans is 38 months. Interest is charged on trade receivables for lease, hire purchase, loan and invoice finance deals and varies by agreement.

Of the trade receivables balance at the end of the year, no one customer represents more than 0.5% of the total balance outstanding.

17. TRADE AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debts

	2019 £'000	Restated 2018 £'000
Opening balance	2,221	1,215
Increase in provision	193	610
Adoption of IFRS 9	–	396
	2,414	2,221

The allowance for doubtful debts in 2018 has been restated from £1.8m to £2.2m representing a one-off IFRS 9 adjustment of £0.4m (see Note 30).

Operating lease receivables

The Group has the following future minimum lease receivables under non-cancellable operating leases:

	2019 £'000	2018 £'000
Within 1 year	377	648
More than 1 year but less than 5 years	601	761
	978	1,409

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Bank accounts	1,851	2,070	10	249
	1,851	2,070	10	249

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

19. CALLED UP SHARE CAPITAL

The Articles of Association of the Company state that there is an unlimited authorised Ordinary share capital. Each Ordinary share carries the entitlement to one vote.

On 23 October 2018 the Company issued 1,388,888 Ordinary shares at 30 pence per share to the vendors of Positive Cashflow (Holdings) Limited pursuant to the Share Purchase Agreement.

The issued Ordinary share capital of the Company is as follows:

	No. of shares No.	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 June 2018	86,207,540	8,621	24,721	33,342
Shares issued	1,388,888	139	413	552
At 31 May 2019	87,596,428	8,760	25,134	33,894
	No. of shares No.	Ordinary shares £'000	Share premium £'000	Total £'000
At 1 June 2017	54,940,215	5,494	14,170	19,664
Shares issued	31,267,325	3,127	10,551	13,678
At 31 May 2018	86,207,540	8,621	24,721	33,342

20. RESERVES

The movements in share capital and reserves are shown in the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity.

21. TRADE AND OTHER PAYABLES

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current:				
Trade payables	64,666	67,109	–	–
Amounts owed to Group undertakings	–	–	4,218	–
Social security and other taxes	276	234	61	–
Other payables	1,756	1,560	230	381
VAT	865	495	523	–
	67,563	69,398	5,032	381
	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Non-current:				
Trade payables	29,805	33,256	–	–
	29,805	33,256	–	–
Aggregate amounts	97,368	102,654	5,032	381

Trade payables wholly represent funding payables, which are secured on the value of the underlying finance leases, loan agreements and invoice finance advances.

Trade payables comprises commercial loans, invoice finance "back-to-back" funding facilities and numerous funding "blocks" that are repaid by monthly instalments. The length of the repayment term at inception varies from 12 to 60 months and interest rates from 2.5% to 7.5% (2018: 2.5% to 8.8%).

22. FINANCIAL LIABILITIES – BORROWINGS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Current borrowings at amortised cost				
Bank overdrafts	1,520	764	–	–
Other loans	1,758	1,861	–	106
	3,278	2,625	–	106
Non-current borrowings at amortised cost				
Other loans	469	1,603	–	27

Other loans comprise Loan Notes payable to the vendors of Positive Cashflow Finance Ltd, Car Finance 2U Ltd, a bank loan held by Positive Cashflow Finance Ltd and a loan payable to UK Private Healthcare Ltd (see Note 25).

23. PROVISIONS

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Provisions	1,492	3,121	231	1,064
	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Analysed as follows:				
Current	691	1,218	231	532
Non-current	801	1,903	–	532
	1,492	3,121	231	1,064

Provisions comprise contingent acquisition costs recognised on the acquisition of Intelligent Financing Limited, Positive Cashflow (Holdings) Limited and Car Finance 2U Limited.

Movement in provisions

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Balance brought forward	3,121	4,033	1,064	4,033
Additional provisions arising from acquisitions	–	2,056	–	–
Provisions settled	(1,269)	(2,311)	(583)	(2,312)
Release to profit and loss	(360)	(657)	(250)	(657)
Balance carried forward	1,492	3,121	231	1,064

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

24. DEFERRED TAX

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Balance at 1 June	568	411	–	–
Non-current assets timing differences	377	139	(111)	–
Transferred on acquisition	–	18	–	–
Balance carried forward	945	568	(111)	–

A deferred tax asset has been recognised on all deductible temporary differences, unused tax losses and unused tax credits.

The deferred tax included within the Consolidated Statement of Financial Position relates to non-current asset timing differences and is included in non-current assets.

The utilisation of the deferred tax asset is dependent upon future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences. Based on the Group's financial projections the directors are satisfied that there is sufficient evidence to recognise the deferred tax asset in full.

25. TRANSACTIONS WITH DIRECTORS

R Russell, a director of the Group, is also a director and 25% shareholder of UK Private Healthcare Ltd ('UKPHL'). At the year end, a total of £600,000 was outstanding (2018: £600,000) in the form of a loan and is included in current liabilities. Interest is charged at 4% (2018: 4%) and the loan is repayable with 3 months' notice. Interest paid in the year was £24,000 (2018: £18,863).

26. EVENTS AFTER THE REPORTING PERIOD

Dividends

Subject to shareholder approval at the Group's Annual General Meeting on 6 November 2019, the Board is recommending the payment of a dividend of £498,318 (equivalent to 0.56p per share).

27. SHARE-BASED PAYMENT TRANSACTIONS

The Group seeks to facilitate equity ownership by employees principally through schemes which encourage and assist the purchase of the Company's shares.

The Group currently operates two share option plans the Long-Term Incentive Plan ("LTIP") and the Employee Share Option Plan ("ESOP"). The LTIP replaced the previous Executive Share Option Scheme ("ESOS") on 5 June 2018. All awarded options in all each scheme are forfeited (in most circumstances) if the employee leaves the Group before the options vest.

LTIP

Under the LTIP, 7,900,000 options were granted, exercisable at nil cost, but subject to service-based and market-based performance conditions. Under the service-based performance condition, options granted will vest only on the option holders' completion of three years of employment service from the date of the granting of the option, namely 5 June 2020. Under the market-based performance condition, no granted options vest at a quoted share price of 60p per share or less and all granted options vest at a quoted share price of 110p or more. The number of granted options that vest in the range of 60p to 110p is proportionate to the increase in share price over the vesting period. The service-based performance condition takes precedence over the market-based condition. The LTIP contains certain other rules in respect of share price volatility and measurement during the three-year vesting period.

27. SHARE-BASED PAYMENT TRANSACTIONS (continued)

As at 31 May 2019, 5,658,333 of the granted options had been awarded, subject to the above conditions, to the directors and certain senior managers. Details of the LTIP options awarded during the prior year and the assumptions used to determine the fair value for the accounting charge are as follows:

Grant Date	Number of options outstanding	Share price on grant date £	Vesting Date	Expiry Date	Expiry Period (years)	Volatility %	Risk Free interest rate %	Dividend Yield %	Weighted average fair value per option £	Total P&L charge over vesting period £'000
05/07/17	5,658,333	0.43	05/07/20	05/07/21	4	35.0	0.34	1.2	0.0828	470

Should all the 7,900,000 options eventually be awarded, the total P&L charge over the vesting period would increase from £470,000 to £654,000. The LTIP was valued using the Monte Carlo share price model, which allows the share price movements to be tested to the required level of intricacy to factor in the performance conditions attached to the scheme. The model was run over 20,000 iterations and a mean option value calculated from the range of outcomes.

ESOP

Under the ESOP, options granted vest over a period of three years with no other performance conditions. At 31 May 2019 zero (2018: 151,502) options were granted, had vested and were exercisable as at that date.

ESOS

Under the ESOS, options granted vest over a period of two years with no other performance conditions. At 31 May 2019 60,653 (2018: 261,625) options were granted, had vested and were exercisable at 31 May 2019. At the vesting date these shares had a market value of 51p with an exercise price of 61p per share. During the year 200,972 options lapsed and no further options were issued.

28. CASH AND CASH EQUIVALENTS

The amounts disclosed on the Consolidated Statements of Cash Flows in respect of cash and cash equivalents are in respect of amounts in the Consolidated Statement of Financial Position:

Year ended 31 May 2019

	Group		Company	
	2019 £'000	2018 £'000	2019 £'000	2018 £'000
Cash and cash equivalents	1,851	2,070	10	249
Bank overdrafts	(1,520)	(764)	-	-
	331	1,306	10	249

Year ended 31 May 2018

Cash and cash equivalents	2,070	2,078	249	28
Bank overdrafts	(764)	-	-	-
	1,306	2,078	249	28

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

29. FINANCIAL INSTRUMENTS

The Group's financial instruments comprise cash and liquid resources, including receivables and payables that are also financial instruments that arise directly from operations. The main purpose of the financial instruments is to fund the Group's operations. As a matter of policy, the Group does not trade in financial instruments, nor does it enter into any derivative transactions. The operations of the Group have principally been financed to date through the funds raised from the placing of shares on the Alternative Investment Market, block funding payables, secured loans notes and back-back facilities for providing invoice finance. The Group has a corporate overdraft facility in place with the Group's principal bankers totalling £1.0m (2018: £1.0m). This facility is available for the parent company and each of its asset, loan and vehicle subsidiaries. At the year end this facility was £0.2m overdrawn (2018: £0.0m) across these applicable entities. The Invoice Finance entities within the Group operate in a different manner with their back-to-back facilities which net together and account for £1.3m (2018: £1.2m) of the total year-end overdraft balance.

The Group's main objectives for the management of capital are to ensure there is sufficient cash available to be able to provide finance to customers and to be able to pay debts as they fall due. The Group is not subject to any externally imposed capital requirements from these finance providers. Working capital requirements are constantly monitored including the interest rates from the key providers of finance. The main risks to the Group, and the policies adopted by the directors to minimise the effects on the Group are as follows:

Credit risk – The directors believe that credit risk is limited due to lending being spread over a large number of borrowers. No individual receivable poses a significant risk. Group debt collection procedures are continually assessed and robustly undertaken.

Interest rate and liquidity risk – All of the Group's cash balances and short-term deposits are held in such a way that an optimal balance of access to working capital and a competitive rate of interest is achieved. If market interest rates had been higher or lower with all other variables held constant, post-tax profits would not be materially affected.

Categories of financial instruments

	2019 £'000	2018 £'000
Financial assets		
Cash and bank balances	1,851	2,070
Net trade receivables	121,645	122,401
Financial liabilities		
Net trade payables and borrowings	98,218	104,593
Contingent consideration	1,492	3,121

Liquidity and interest risk table

	Within 1 year £'000	More than 1 year but less than 2 years £'000	More than 2 years but less than 5 years £'000	Total £'000	Net Carrying Value £'000
2019					
Gross trade payables	64,666	28,927	3,490	97,083	94,471
Borrowings	2,026	1,846	618	4,490	3,747
2018					
Gross trade payables	70,464	16,932	20,719	108,115	100,365
Borrowings	2,687	1,730	39	4,456	4,228

Gross trade payables includes future expected interest over the life of the creditor.

30. CREDIT RISK PROVISION

Under IFRS 9, impairment provisions are now recognised on the inception of any lending based on the probability of expected default and the typical loss arising on defaults, in effect the recognition of impairment on client receivables through an expected loss model. This differs from the previous treatment under IAS 37 which followed an incurred loss model with specific provisions only being reflected when there was 'objective evidence of impairment'.

The adoption of the new standard has meant that results for the financial year ended 31 May 2018 have been restated to enable a like-for-like prior year comparison.

As at 31 May 2018, the Group reported bad debt impairment provisions of £1.8m. The IFRS 9 restatement increases the provision held on the balance sheet as at 31 May 2018 by £0.4m to £2.2m.

Restated Provision for Bad Debt	£'000
Opening Bad Debt Provision at 31 May 2018	1,825
IFRS 9 opening balance restatement	396
Restated Bad Debt Provision as at 31 May 2018	2,221
Additional provision	193
Bad Debt Provision as at 31 May 2019	2,414

The Group considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information, especially incorporating the following indicators; internal credit ratings, external credit ratings, actual or expected significant changes in the borrower's circumstances or their related business, financial and economic conditions. In addition to this, macroeconomic forecasts such as changes in interest rates, GDP and inflation, Brexit forecasts and the Financial Leasing Association forecasts are incorporated as part of the internal rating model.

The provision for Stage 1, the performing category, is based on the ECLs associated with the probability of default on the agreement in the next 12 months, unless there has been a significant increase in credit risk of the lease or loan since origination. The Group assumes there has been a significant increase in credit risk if outstanding amounts on the agreement exceed 30 days, in line with the presumption in IFRS 9.

The Group defines a default as an agreement which has payments owing greater than 90 days, all agreements in this category fall into Stage 2, whereby a lifetime ECL is recognised.

A non-performing agreement is an agreement which is credit impaired and has been passed over to the Group's legal department. These agreements typically have a trigger event which has detrimentally affected future cash flows. For these assets, a lifetime ECL is recognised.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. Where an asset has been written off, the Company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, they are recognised in profit or loss.

The initial stage of the ECL calculation is done by looking at the probability of default ("PD") multiplied by the Loss Given Default ("LGD"). The PD and LGD are calculated by looking at historical default and write off data. The Company grouped the data into "buckets" that are most reflective of the groups credit risk areas, namely; soft assets, hard assets, loans and invoice finance. These were then further analysed by industry so as to isolate and measure any industry specific risks.

Notes to the Consolidated Financial Statements (continued)

For the year ended 31 May 2019

30. CREDIT RISK PROVISION (continued)

A summary of the assumptions underpinning the Company's expected credit loss model is as follows

Category	Group definition of category	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows.	12 month expected losses
Underperforming	Losses for which there is an increase in credit risk. An increase in credit risk is where outstanding amounts on the agreement exceed 30 days.	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 90 days overdue, and there is a significant increase in credit risk.	Lifetime expected losses

The Group allocates into each Stage using an internal risk rating and assesses credit losses on a collective basis.

At 31 May 2019	ECL rate	Basis for recognition of ECL provision	Credit loss provision £'000
Performing	1%	12-month ECL	660
Underperforming	6%	Lifetime ECL	287
Non-performing	20%	Lifetime ECL	1,467
Total			2,414

At 31 May 2018	ECL rate	Basis for recognition of ECL provision	Credit loss provision £'000
Performing	1 %	12 month ECL	1,235
Underperforming	6%	Lifetime ECL	190
Non-performing	23%	Lifetime ECL	796
Total			2,221

The percentages applied above are based on the Group's historical performance as well as the internal and forward-looking information detailed above. The Group's assets are characterised by multiple, small deals which are secured by assets, personal guarantees and debentures. Historically the Group's internal credit and legal departments recover approximately 67% to 75% of all non-performing agreements, therefore accurately reflecting the ECLs above.

31. OPERATING LEASE ARRANGEMENTS

The Group as lessee

At the year end the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Within 1 year £'000	2-5 years £000	More than 5 years £'000
As at 31 May 2019	294	347	-
As at 31 May 2018	281	483	-

The Group recognised as expense in the period the following lease payments:

	2019 £'000	2018 £'000
Operating lease rentals	328	280

Operating lease payments represent rentals payable by the Group for office properties. Leases are negotiated for an average term of 5 years and rentals are fixed for an average of 5 years with an offer to extend thereafter at the prevailing market rate.





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