Registered number: 02569928

KENNET EQUIPMENT LEASING LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

KENNET EQUIPMENT LEASING LIMITED

COMPANY INFORMATION

Directors	A Devenney S M Devoy P Gough A C Lamb M S Suckley S Swift T L Tainty
Company secretary	T L Tainty
Registered number	02569928
Registered office	Kennet House Temple Court Temple Way Coleshill B46 1HH
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor The Colmore Building 20 Colmore Circus Birmingham West Midlands B4 6AT

CONTENTS

GROUP STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

Introduction

The directors present their Strategic report for Kennet Equipment Leasing Limited (Kennet) for the year ended 31 December 2018.

Principal Activities

The principal activity of Kennet is the provision of lease, HP and loan financing. Kennet writes business on its own book and also acts as a broker assigning business to third parties.

Business review and key performance indicators

Kennet has delivered a strong financial performance, ahead of budget, and again increasing year on year new business originations whilst maintaining yields. Profit before tax increased by 12.5%.

Kennet wrote £75.5m of new business in the year (2017: £75.1m), an increase of 0.5%. Originations written on own book fell by 4.8% to £35.5m (2017: 37.3m) whilst the net investment in leases, loans and HP agreements increased to £62.5m (2017: £54.3m). There has been continued investment in both staff and systems to underpin this growth, the average headcount increasing by 10 to 100.

Total consolidated revenue increased to £15.5m (2017: £13.3m), an increase of 16.5% resulting from increases in own book interest income, brokered commission income and ancillary income. Profit before tax was £4.5m (2017: £4.0m), exceeding expectations and reflecting the growth in revenue whilst maintaining yields and control over the company's cost base.

Funding has been provided by the Commerzbank Loan Facility (Coba), secured in 2015 and guaranteed by the European Investment Fund and aimed at providing finance to SME's, block funding facilities and a parent company loan.

Total drawdowns in the year under the Coba Facility amounted to £7.9m (2017: £11.4m). Funded receivables are sold to Kennet Funding Ltd (KFL), a SPV set up to manage this facility. KFL is a 100% subsidiary of Kennet. The net investment in leases and HP agreements in Kennet Funding Ltd at the balance sheet date was £38.0m (2017: £30.2m).

The European Investment Fund served notice that the Facility guarantee would not be renewed after the 29th March 2019 given the failure of the UK Parliament to agree either a deal or an extension to Article 50 in the Brexit negotiations. As a result, the Facility went into run-off in April 2019. Prior to the decision taken by the European Investment Fund, the Facility drawdown period was scheduled to expire in January 2020.

Block funding utilisation decreased to £13.4m (2017: £13.7m). Total blocking facilities available to Kennet were £21.1m.

Principal risks and uncertainties

Availability of Medium Term Debt
The directors continuously review Kennet's funding requirements to ensure there are sufficient funds available to support the planned growth in own book originations.

Funding is currently provided by the Coba facility, a number of block funding facilities and a parent company facility. The Coba facility went into run-off in April 2019.

Future growth will be funded by the continued use of block facilities and new funding lines in the form of termed revolving credit facilities. The Directors are working with existing and new lenders on additional funding lines which will benefit all subsidiaries, including Kennet.

The future growth of Kennet may be restricted should additional funding lines not be agreed, or the blocking lines be withdrawn.

Business Volumes
New business is largely sourced from a network of supporting suppliers. The Directors continuously review existing relationships as well as working to develop new relationships.

The Directors are confident that, with the continued support of existing suppliers together with business to be sourced from new relationships and the continued marketing of the existing customer base, Kennet will be able to achieve its new business targets.

The ongoing Brexit negotiations may create uncertainty in the asset finance market. The Directors consider Kennet to be well placed to deal with this uncertainty given the diverse range of customers and asset types funded, and also having headroom in existing funding facilities.

Exposures and Credit Risk
The Directors review Kennet's exposure to business sectors, equipment type and to individual suppliers and customers. Exposure limits are set for each as appropriate.

Kennet is exposed to credit risk relating to finance lease and HP agreements written on its own book. This risk is managed by applying suitable underwriting policies. The Directors undertake regular reviews of these policies to ensure they remain appropriate to the business. Controls and processes have been implemented to manage receivables falling into arrears.

Loss of Key Personnel
The senior management are key to the group's success. Key management are investors in the group and are tied into incentive schemes linked to volume and profitability which ensures that their objectives are in line with those of the group's investors.

This report was approved by the board on 20th June 2019 and signed on its behalf.

S Swift
Director

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

Principal activity

The principal activity of Kennet is the provision of lease, HP and loan financing. Kennet writes business on its own book and also acts as a broker assigning business to third parties.

Results and dividends

The profit for the year, after taxation, amounted to £3,663k *(2017 - £3,254k)*.

No dividends were paid during the year ended 31 December 2018 (*2017: £Nil*).

Directors

The directors who served during the year were:

A Devenney
S M Devoy
P Gough
A C Lamb
M S Suckley
S Swift
T L Tainty

Directors' responsibilities statement

The directors are responsible for preparing the Group strategic report, the Directors' report and the consolidated financial statements in accordance with applicable law and regulations.

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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the Company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- 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 the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and the Group 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 Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

Going concern

The directors have prepared detailed Group cash flow forecasts extending to December 2023 that demonstrate that the Group has sufficient funding in place. The directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Matters covered in the strategic report

The business review and key performance indicators, and the principal risks and uncertainties, are included in the Strategic report.

Disclosure of information to auditor

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Post balance sheet events

There have been no significant events affecting the Group since the year end.

This report was approved by the board on 20th June 2019 and signed on its behalf.

S Swift
Director

Grant Thornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENNET EQUIPMENT LEASING LIMITED

Opinion

We have audited the financial statements of Kennet Equipment Leasing Limited (the 'parent Company') and its subsidiary (the 'Group') for the year ended 31 December 2018, which comprise the consolidated Statement of comprehensive income, the consolidated and Company Statements of financial position, the consolidated Statement of cash flows, the consolidated and Company Statement of changes in equity 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 United Kingdom Accounting Standards, including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' (United Kingdom Generally Accepted Accounting Practice).

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 December 2018 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to 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.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Strategic report and the Directors 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 Group 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 Group strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

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 Group strategic report or the Directors' report.

Matters on which we are required to report by exception

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

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

GrantThornton

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENNET EQUIPMENT LEASING LIMITED (CONTINUED)

Responsibilities of directors for the financial statements

As explained more fully in the Directors' responsibilities statement on page 3, 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 financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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.

Grant Thornton UK LLP

David Munton BSc (Hons) FCA
Senior statutory auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham

21 June 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 £000	Restated (note 2) 2017 £000
Turnover	4	**15,490**	*13,288*
Cost of sales		**(1,118)**	*(998)*
Gross profit		**14,372**	*12,290*
Administrative expenses		**(8,013)**	*(6,925)*
Operating profit	5	**6,359**	*5,365*
Interest receivable and similar income	9	**13**	*1*
Interest payable and similar charges	10	**(1,840)**	*(1,337)*
Profit before taxation		**4,532**	*4,029*
Tax on profit	11	**(869)**	*(775)*
Total comprehensive income for the year		**3,663**	*3,254*

There were no recognised gains and losses for 2018 or 2017 other than those included in the Consolidated statement of comprehensive income.

The notes on pages 15 to 32 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note		2018 £000		2017 £000
Fixed assets					
Tangible assets	13		**106**		*228*
			106		*228*
Current assets					
Debtors: amounts falling due after more than one year	15	**37,281**		*29,856*	
Debtors: amounts falling due within one year	15	**26,324**		*25,967*	
Cash at bank and in hand	16	**5,178**		*2,727*	
		68,783		*58,550*	
Creditors: amounts falling due within one year	17	**(26,723)**		*(16,327)*	
Net current assets			**42,060**		*42,223*
Total assets less current liabilities			**42,166**		*42,451*
Creditors: amounts falling due after more than one year	18		**(24,738)**		*(28,686)*
Net assets			**17,428**		*13,765*
Capital and reserves					
Called up share capital	23		**1**		*1*
Profit and loss account	22		**17,427**		*13,764*
			17,428		*13,765*

The financial statements were approved and authorised for issue by the board and were signed on its behalf on

20 June 2019

S M Devoy
Director

The notes on pages 15 to 32 form part of these financial statements.

KENNET EQUIPMENT LEASING LIMITED
REGISTERED NUMBER:02569928

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Note		2018 £000		2017 £000
Fixed assets					
Tangible assets	13		**106**		*228*
			106		*228*
Current assets					
Debtors: amounts falling due after more than one year	15	**37,409**		*29,855*	
Debtors: amounts falling due within one year	15	**26,766**		*26,368*	
Cash at bank and in hand	16	**4,307**		*2,311*	
		68,482		*58,534*	
Creditors: amounts falling due within one year	17	**(26,427)**		*(16,314)*	
Net current assets			**42,055**		*42,220*
Total assets less current liabilities			**42,161**		*42,448*
Creditors: amounts falling due after more than one year	18		**(24,738)**		*(28,686)*
Net assets			**17,423**		*13,762*
Capital and reserves					
Called up share capital	23		**1**		*1*
Profit and loss account	22		**17,422**		*13,761*
			17,423		*13,762*

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements. The COmpany made a profit of £3,663k (2017: £3,253k).

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
20 June 2019

S M Devoy
Director

The notes on pages 15 to 32 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2018	1	13,764	13,765
Comprehensive income for the year			
Profit for the year	-	3,663	3,663
Total comprehensive income for the year	-	3,663	3,663
At 31 December 2018	1	17,427	17,428

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2017	1	10,510	10,511
Comprehensive income for the year			
Profit for the year	-	3,254	3,254
Total comprehensive income for the year	-	3,254	3,254
At 31 December 2017	1	13,764	13,765

The notes on pages 15 to 32 form part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2018	1	13,761	13,762
Comprehensive income for the year			
Profit for the year	-	3,661	3,661
Total comprehensive income for the year	-	3,661	3,661
At 31 December 2018	1	17,422	17,423

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Profit and loss account	Total equity
	£000	£000	£000
At 1 January 2017	1	10,508	10,509
Comprehensive income for the year			
Profit for the year	-	3,253	3,253
Total comprehensive income for the year	-	3,253	3,253
At 31 December 2017	1	13,761	13,762

The notes on pages 15 to 32 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
Cash flows from operating activities		
Profit for the financial year	3,663	3,254
Adjustments for:		
Depreciation of tangible assets	84	78
Loss on disposal of tangible assets	101	-
Interest charged	1,839	1,337
Interest credited	(13)	(1)
Taxation charged	869	775
(Increase) in debtors	(7,821)	(17,017)
Increase in creditors	349	27
Corporation tax (paid)	(818)	(682)
Net cash generated from operating activities	(1,747)	(12,229)
Cash flows from investing activities		
Purchase of tangible fixed assets	(64)	(153)
Interest received	13	1
Net cash from investing activities	(51)	(152)
Cash flows from financing activities		
New bank loans	5,358	8,031
Other new loans	730	6,280
Repayment of/new finance leases	-	(7)
Interest paid	(1,839)	(1,337)
Net cash used in financing activities	4,249	12,967
Net increase in cash and cash equivalents	2,451	586

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 £000	2017 £000
Cash and cash equivalents at beginning of year	**2,727**	*2,141*
Cash and cash equivalents at the end of year	**5,178**	*2,727*
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	**5,178**	*2,727*
	5,178	*2,727*

The notes on pages 15 to 32 form part of these financial statements.

1. General information

Kennet Equipment Leasing Limited is a private company limited by shares incorporated in England and Wales. Its registered office is located at Kennet House, Temple Court, Temple Way, Coleshill, B46 1HH.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires Group management to exercise judgment in applying the Group's accounting policies (see note 3).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own Statement of comprehensive income in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of this company and its subsidiary ("the Group") as if they formed a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the Statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the Consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Changes in accounting treatment

During the year the directors reconsidered the classification of certain expenses. Following an assessment of a number of variable direct costs, previously included within Administrative Expenses, these have been reclassified as Cost of Sales. These totalled £1,118,000 in the current year (2017: £998,000). This change in treatment aligns the presentation with other members of the group.

2.4 Going concern

The directors have prepared detailed Group forecasts extending to December 2023 that demonstrate that the Group has sufficient funding in place. The directors therefore have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2. Accounting policies (continued)

2.5 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes.

The turnover shown in the profit and loss account represents the value of commissions receivable earned on broker deals and the contribution from the provision of finance during the year on own book arrangements, exclusive of Value Added Tax.

Commissions receivable are recognised when the lease is signed by the relevant parties and the company has fulfilled all of its contractual obligations.

Interest under finance leases and hire purchase contracts is allocated to accounting periods so as to give a constant periodic rate of return over the life of the agreement.

2.6 Intangible assets

Intangible fixed assets are stated at cost less amortisation. Amortisation is provided at rates calculated to write off the cost of the intangible fixed asset, less their estimated residual value, over their expected useful lives.

The estimated useful lives range as follows:

Customer database	-	12 months straight line

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Fixtures and fittings	- 2 - 4 years straight line
Office equipment	- 2 - 4 years straight line
Computer equipment	- 2 - 4 years straight line

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Consolidated statement of comprehensive income.

2. Accounting policies (continued)

2.8 Operating leases: the Group as lessee

Rentals under operating leases are charged to the Consolidated statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period of the lease.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 Finance costs

Finance costs are charged to the Consolidated statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.14 Leased assets: the Group as lessor

Finance is provided to third parties by way of finance lease and hire purchase contracts. The amount receivable under these agreements is included in debtors. Profit is recognised on an actuarial basis so as to give a constant periodic rate of return over the life of the agreement.

Where debtors are subject to a funding agreement, separate presentation is used as the Company retains significant benefits and risks relating to those debts.

2. Accounting policies (continued)

2.15 Leased assets: the Group as lessee

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible fixed assets. Assets acquired by finance lease are depreciated over the shorter of the lease term and their useful lives. Assets acquired by hire purchase are depreciated over their useful lives. Finance leases are those where substantially all of the benefits and risks of ownership are assumed by the Company. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods.

2.16 Financial instruments

The Group only enters into basic financial instruments transactions that result in the recognition of financial assets and liabilities like trade and other accounts receivable and payable and loans from banks and other third parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade payables or receivables, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration, expected to be paid or received.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the Consolidated statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of recoverable amount, which is an approximation of the amount that the Group would receive for the asset if it were to be sold at the reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

2. Accounting policies (continued)

2.17 Pensions

Defined contribution pension plan

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations.

The contributions are recognised as an expense in the Consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the Statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

2.18 Interest income

Interest income is recognised in the Consolidated statement of comprehensive income using the effective interest method.

2.19 Borrowing costs

All borrowing costs are recognised in the Consolidated statement of comprehensive income in the year in which they are incurred.

2.20 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Consolidated statement of comprehensive income, except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company and the Group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Statement of financial position date.

The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires the directors to make judgments, estimates and assumptions that effect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these assumptions.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting policies are recognised in the year in which the policy is revised and in any future period affected.

All significant judgments, estimates and assumptions made during the year have been considered for significance.

The following estimates have the most significant impact on the financial statements:

(a) Debtor Provisions

Management consider the age of the debtor compared to the credit terms made available together with other relevant factors which may prevent full payment, and include provisions accordingly.

b) Claw-back provision

The extent to which funders could request a payment back of commission received by the Group as a result of default or early termination of a deal. The provision is estimated with reference to the historical experience of claw-backs.

4. Turnover

The whole of the turnover is attributable to the principle activities of the Group.

All turnover arose within the United Kingdom.

5. Operating profit

The operating profit is stated after charging:

	2018 £000	*2017 £000*
Depreciation of tangible fixed assets	**84**	*78*
Defined contribution pension scheme	**44**	*27*

6. Auditor's remuneration

	2018 £000	2017 £000
Fees payable to the Group's auditor and its associates for the audit of the Group's annual accounts	28	27
Total audit services	28	27
Taxation compliance services	6	6
All other services	-	1
Total non audit services	6	7

7. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Wages and salaries	4,328	4,226	4,328	4,226
Social security costs	484	480	484	480
Cost of defined contribution scheme	44	27	44	27
	4,856	4,733	4,856	4,733

The average monthly number of employees, including the directors, during the year was as follows:

	2018 No.	2017 No.
Sales	54	48
Management and administration	46	42
	100	90

All staff are employed by Kennet Equipment Leasing Limited.

8. Directors' remuneration

	2018 £000	2017 £000
Directors' emoluments	890	849
Company contributions to defined contribution pension schemes	44	3
	934	852

During the year retirement benefits were accruing to 4 directors *(2017 - 4)* in respect of defined contribution pension schemes.

The highest paid director received remuneration of £276,000 *(2017 - £281,000)*.

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £833 *(2017 - £467)*.

9. Interest receivable and similar income

	2018 £000	2017 £000
Other interest receivable	13	1

10. Interest payable and similar expenses

	2018 £000	2017 £000
Bank interest payable	946	676
Other loan interest payable	638	462
Interest payable to group undertakings	256	199
	1,840	1,337

11. Taxation

	2018 £000	2017 £000
Corporation tax		
Current tax on profits for the year	884	772
Adjustments in respect of previous periods	-	(7)
Total current tax	884	765
Deferred tax		
Origination and reversal of timing differences	(14)	16
Adjustment in respect of prior periods	(1)	(6)
Total deferred tax	(15)	10
Taxation on profit on ordinary activities	869	775

Factors affecting tax charge for the year

The tax assessed for the year is higher than *(2017 - the same as)* the standard rate of corporation tax in the UK of 19.00% *(2017 - 19.25%)*. The differences are explained below:

	2018 £000	2017 £000
Profit on ordinary activities before tax	4,532	4,029
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017: 19.25%)	861	775
Effects of:		
Expenses not deductible for tax purposes	8	15
Adjustments to tax charge in respect of prior periods	-	(7)
Adjustment in respect of prior period: deferred tax	(1)	(6)
Adjust closing deferred tax to average rate of 19.00%	6	5
Adjust opening deferred tax to average rate of 19.00%	(5)	(7)
Total tax charge for the year	869	775

11. Taxation (continued)

Factors that may affect future tax charges

A reduction in the UK Corporation Tax rate from 20% to 19% (effective from 1 April 2017 until 31 March 2020) was substantively enacted in October 2015 and received Royal Assent on 18 November 2015. A further reduction to 17% (effective from 1 April 2020) received Royal Assent on 15 September 2016. These reductions may reduce the company's future tax charge.

12. Intangible assets

Group and Company

	Customer Database £000
Cost	
At 1 January 2018	100
At 31 December 2018	100
Amortisation	
At 1 January 2018	100
At 31 December 2018	100
Net book value	
At 31 December 2018	-
At 31 December 2017	-

13. Tangible fixed assets

Group and Company

	Fixtures and fittings £000	Office equipment £000	Computer equipment £000	Total £000
Cost				
At 1 January 2018	43	106	401	550
Additions	11	9	44	64
Disposals	-	-	(101)	(101)
At 31 December 2018	54	115	344	513
Depreciation				
At 1 January 2018	30	88	205	323
Charge for the year on owned assets	6	12	66	84
At 31 December 2018	36	100	271	407
Net book value				
At 31 December 2018	18	15	73	106
At 31 December 2017	*13*	*19*	*196*	*228*

14. Fixed Asset Investments

The Company owns 100% of the ordinary share capital of Kennet Funding Limited, a company registered in England and Wales. The cost and net book value of the investment was £1 at 31 December 2017 and 31 December 2018.

15. Debtors

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Due after more than one year				
Finance lease and hire purchase debtors	37,281	29,856	14,733	8,987
Amounts owed by group undertakings	-	-	22,676	20,868
	37,281	29,856	37,409	29,855

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Due within one year				
Trade debtors	690	779	690	779
Amounts owed by group undertakings	-	-	15,333	9,340
Other debtors	375	612	587	613
Finance lease and hire purchase debtors	25,207	24,485	9,748	15,303
Other taxes recoverable	-	54	356	296
Deferred taxation	52	37	52	37
	26,324	25,967	26,766	26,368

An impairment provision totaling £1,361,041 (*2017: £858,576*) against trade debtors, finance lease and hire purchase contracts was recognised at year end. Impairment losses of £1,166,468 (*2017: £560,814*) were recorded in the profit and loss in the year.

Intercompany balances are unsecured and subject to interest at 4.0% over 1 month LIBOR (2017: 4.0% over 1 month LIBOR). Balances due from Kennet Funding Limited are repayable in line with the finance lease debtors held in Kennet Funding Limited (see note 17). All other intercompany balances are repayable on demand.

16. Cash and cash equivalents

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Cash at bank and in hand	5,178	2,727	4,307	2,311

17. Creditors: Amounts falling due within one year

	Group 2018 £000	*Group 2017 £000*	**Company 2018 £000**	*Company 2017 £000*
Bank loans	**11,627**	*7,248*	**11,627**	*7,248*
Other loans	**5,834**	*5,855*	**5,834**	*5,855*
Trade creditors	**450**	*473*	**450**	*473*
Amounts owed to group undertakings	**5,625**	-	**5,625**	-
Corporation tax	**441**	*377*	**440**	*376*
Other taxation and social security	**435**	*163*	**150**	*163*
Other creditors	**210**	*261*	**208**	*258*
Accruals and deferred income	**2,101**	*1,950*	**2,093**	*1,941*
	26,723	*16,327*	**26,427**	*16,314*

Intercompany balances are unsecured, held on 18 month rolling terms and subject to interest at 4.0% over 1 month LIBOR (*2017:* 4.0% over 1 month LIBOR).

Other loans comprise an amount of £13,376,847 (2017: £13,723,046) which has been advanced by funding providers under block discounting arrangements which is secured over specific finance debts. Each block of funding is subject to individual terms and interest rates. The terms on the block discounting arrangements range from 23 to 41 months. Interest rates range from 4.4% to 5.25%.

Bank loans comprise an amount of £28,821,448 (2017: £23,441,188) which has been advanced by Commerzbank in relation to the sale of receivables to Kennet Funding Limited. This is secured by a fixed and floating charge over the investment in the share capital of Kennet Funding Limited and in the equipment funded in the receivables assigned to Kennet Funding Limited. The European Investment Fund served notice that the Facility guarantee would not be renewed after the 29th March 2019 given the failure of the UK Parliament to agree either a deal or an extension to Article 50 in the Brexit negotiations. As a result, the Facility went into run-off in April 2019. Prior to the decision taken by the European Investment Fund, the Facility drawdown period was scheduled to expire in January 2020. Interest is charged at either 3% over 1 month LIBOR or a fixed rate of 4.07%.

Obligations under finance leases and hire purchase contracts are secured on the assets to which they relate.

18. Creditors: Amounts falling due after more than one year

	Group 2018 £000	*Group 2017 £000*	**Company 2018 £000**	*Company 2017 £000*
Bank loans	**17,195**	*16,193*	**17,195**	*16,193*
Other loans	**7,543**	*7,868*	**7,543**	*7,868*
Amounts owed to group undertakings	**-**	*4,625*	**-**	*4,625*
	24,738	*28,686*	**24,738**	*28,686*

All amounts falling due after more than one year are due for repayment within five years.

19. Loans

The bank and other loans are repayable as follows:

	Group 2018 £000	*Group 2017 £000*	**Company 2018 £000**	*Company 2017 £000*
Amounts falling due within one year				
Bank loans	**11,627**	*7,248*	**11,627**	*7,248*
Other loans	**5,834**	*5,855*	**5,834**	*5,855*
	17,461	*13,103*	**17,461**	*13,103*
Amounts falling due 1-5 years				
Bank loans	**17,195**	*16,193*	**17,195**	*16,193*
Other loans	**7,543**	*7,868*	**7,543**	*7,868*
	24,738	*24,061*	**24,738**	*24,061*

20. Financial instruments

	Group 2018 £000	Group 2017 £000	Company 2018 £000	Company 2017 £000
Financial assets				
Cash and cash equivalents	**5,178**	*2,727*	**4,307**	*2,311*
Financial assets measured at amortised cost	**63,553**	*55,731*	**63,768**	*55,889*
	68,731	*58,458*	**68,075**	*58,200*
Financial liabilities				
Financial liabilities measured at amortised cost	**(50,585)**	*(51,868)*	**(50,574)**	*(44,461)*

Financial assets measured at amortised cost comprise finance lease and hire purchase contract debtors, trade debtors, other debtors and amounts owed by group undertakings.

Financial liabilities measured at amortised cost comprise bank and other loans, trade and other creditors, accruals, obligations under finance lease and hire purchase contracts and amounts owed to group undertakings.

21. Deferred taxation

Group

	2018 £000
At beginning of year	37
Credited to the profit or loss	15
At end of year	**52**

Company

	2018 £000
At beginning of year	37
Credited to the profit or loss	15
At end of year	**52**

The deferred tax asset is made up as follows:

	Group 2018 £000	*Group 2017 £000*	Company 2018 £000	*Company 2017 £000*
Accelerated capital allowances	31	*9*	31	*9*
Short term timing differences	21	*28*	21	*28*
	52	*37*	52	*37*

22. Reserves

Profit and loss account

The profit and loss account includes all current and prior years retained profits and losses after the payment of dividends.

23. Share capital

	2018 £000	*2017 £000*
Allotted, called up and fully paid		
1,000 *(2017 - 1,000)* A Ordinary shares of £1 each	1	*1*
100 *(2017 - 100)* B Ordinary shares of £1 each	-	*-*
100 *(2017 - 100)* C Ordinary shares of £1 each	-	*-*
	1	*1*

The "A", "B" and "C" ordinary shares rank pari passu in all respects except that dividends shall be declared separately on each class of share.

24. Contingent liabilities

Kennet have entered into agreements with Northridge Finance (NF), a division of Bank of Ireland UK, whereby the profit, net of NF's funding costs, and capital risk is shared equally between the parties.

The assets and liabilities are managed by NF, and are recorded in full on the NF balance sheet. The exposure to potential losses is not recorded on the Company's balance sheet as any provision would be immaterial. The Company's share of the portfolio funded under this Agreement is £0.6m (2017: £0.3m). Total Company capital losses realised in 2018 were £Nil (2017: £Nil) and the Directors do not expect a material increase in the historic loss rates.

25. Pension commitments

The Group operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Group in an independently administered fund. The pension cost charge represents contributions payable by the Group to the fund and amounted to £43,927 (*2017: £26,716*). Contributions totaling £526 (*2017: £Nil*) were payable to the fund at the year end.

26. Commitments under operating leases

At 31 December 2018 the Group and the Company had future minimum lease payments under non-cancellable operating leases as follows:

	Group 2018 £000	*Group 2017 £000*	Company 2018 £000	*Company 2017 £000*
Not later than 1 year	81	*115*	81	*115*
Later than 1 year and not later than 5 years	85	*166*	85	*166*
	166	*281*	166	*281*

27. Related party transactions

Rent of £35,000 (*2017: £35,000*) was paid to Mr S Swift (current director of the Company) and Mrs M J Swift (former director of the Company), who own one of the freehold properties from which the Company operates.

Rent of £81,812 (*2017: £81,812*) was paid to the company's self administered pension scheme.

Mr A Lamb (current director of KEL) entered into a number of agreements with Northridge Finance, the aggregate capital balance outstanding on these agreements as at 31 December was £49,626 (2017: £35,630). Please refer to note 24 for details of the arrangement between Northridge Finance and Kennet Equipment Leasing Limited.

Hurley Inns Limited, a business of which Mr S Swift (a current director of the Company) is a director, has entered into a number of agreements with KEL. The aggregate balance outstanding on these agreements at 31 December 2018 was £16,324 (2017: £2,893).

The Company has taken advantage of the exemption available in section 33 of FRS 102 'Related Party Disclosures' to not disclose transactions with other wholly owned subsidiaries in the Group.

28. Controlling party

The immediate parent company is STAR Asset Finance Limited, a company incorporated in Guernsey. Copies of the STAR Asset Finance Limited accounts are available from 15th Floor, 33 Cavendish Square, London, W1G 0PW.

The ultimate controlling party is STAR Finance Partnership LP which is owned by a number of partners, none of which hold a majority holding and as such do not require disclosure.