

Registered number
07889226

Kuflink Bridging Limited
Annual Report and Financial Statements
For the year ended 30 June 2019

WEDNESDAY



A9YJ9W94

A20

17/02/2021

#106

COMPANIES HOUSE

Kuflink Bridging Limited
Report and accounts
Contents

	Page
Company information	1
Strategic report	2
Directors' report	7
Statement of directors' responsibilities	12
Independent auditor's report	13
Statement of comprehensive income	16
Statement of financial position	17
Statement of changes in equity	18
Statement of cash flows	19
Notes to the financial statements	20

Kuflink Bridging Limited
Company Information

Directors

Tejwant Singh Chattha
Nattalie Jane Weeks

Auditor

Ernst & Young LLP
25 Churchill Place
Canary Wharf
London
E14 5EY

Registered office

21 West Street
Gravesend
Kent
DA11 0BF

Registered number

07889226

Kuflink Bridging Limited Strategic Report

Kuflink Bridging Ltd is pleased to present its strategic report for the year ended 30th June 2019.

Results and Dividends

The Company made a net loss, after tax, of £2.0m in the year to 30 June 2019 (Restated 2018: £2.8m). No dividends were paid (2018: £1.6m) to the Company's parent entity Kuflink Group Plc during the year. The directors do not recommend the payment of a final dividend. The Company is in a negative equity position at the year end and to improve the net assets, the Company raised additional £2.5m of share capital from its parent in June 2020, which was funded by the Kuflink Group Plc's share raise of £2.9m in December 2019. Kuflink Group Plc raised a further £0.8m from existing and new shareholders between September and November 2020. The directors of the Group are in discussions with new investors to broaden the investor base of the Group, but these discussions remain at an early stage of the process.

Principal Activities

In line with Kuflink Group's purpose of Connecting People to Financial Freedom, the principal activity of Kuflink Bridging Ltd continued to be that of providing short term bridge financing facilities to property entrepreneurs in the UK.

The Company works closely with its affiliated companies to achieve its objectives. The Group consists of the parent company, Kuflink Group Plc, and 100% owned subsidiaries Kuflink Ltd, Kuflink Bridging Ltd, Kuflink Security Trustees Ltd and other companies which are dormant. Both Kuflink Ltd and Kuflink Bridging Ltd are authorised and regulated by the FCA.

Kuflink Ltd owns and manages a P2P investment platform and is authorised as an operator of an electronic lending system and to hold client money under CASS 7 rules. As an operator of a P2P platform, the entity acts as a financial intermediary; matching retail investors with borrowers in the property development sector that are seeking capital in the form of short-term bridging finance facilities. For the service of managing the P2P funding platform, Kuflink Ltd receives an agreed income from Kuflink Bridging Ltd.

Kuflink Bridging Ltd is authorised by the FCA to carry out credit broking, debt administration and collection. The loans that are originated by Kuflink Bridging Ltd are then matched to retail investors on the platform and Kuflink Bridging takes a minimum of 5% exposure which both evidences 'skin in the game' and acts as a first loss piece for any impairments on the underlying loan. Any further impairments on the lending would be borne by the retail investors.

Upon entry into an initial facility agreement, a borrower will have provided Kuflink Security Trustees Ltd, with security over land, property, other physical assets or a personal guarantee in the United Kingdom which Kuflink Bridging Ltd deems to be sufficient to accept the risk associated with the facility advanced to that borrower. Where this security is matched to retail investor, the security is held in trust by Kuflink Security Trustees Ltd and using a novation process, part of the risk and reward earned from the underlying security is transferred to the retail investor. The Trustee, Kuflink Security Trustees Ltd, provides its services under this declaration as an unremunerated volunteer.

Contingency Planning

As required by Regulations and being a responsible peer-to-peer platform, Kuflink also monitors its risks and has developed contingency plans for a variety of scenarios. In the event of winding down, Kuflink Ltd would cease accepting new investors or funds, cease advancing new loans or providing new funding on existing loans and suspend the secondary market (that allows investors to buy and sell their investments in Kuflink loans). These and other developments are discussed in the Strategic report under 'New Markets and Products'. The loan portfolio would operate as normal with loans continuing to repay interest and capital, and investors would be able to withdraw funds once these funds become available. We would process repayments through the client money systems, returning funds to investors' accounts/e-wallets on the platform. We would also facilitate withdrawals by lenders from the platform once repayments are credited to their online account/e-wallets.

Kuflink Bridging Limited Strategic Report

Kuflink will attempt to re-finance some loans on the platform to other commercial lenders, in particular Development loans where Kuflink has an ongoing commitment to the borrowers and which platform lenders are unlikely/unable to continue to fund. A decision to no longer accept new business would result in Kuflink ceasing to qualify as an ISA Manager and give rise to a need to inform HMRC and each investor within 30 calendar days of the date Kuflink ceased to qualify, i.e. from the date the wind-down resolution was passed.

The notice to investors would inform them of their right to transfer their ISAs to another manager. If circumstances allow, Kuflink would endeavour to make arrangements with another comparable property backed IF ISA manager, which can offer terms comparable to those of Kuflink to help investors with this process.

Directors disclosures under s172(1)

Continued investment supported by future capital raise is planned in further developing our products and customer experience, underpinned by IT development activities. This will drive future business growth and will provide opportunities for all employees.

- (i) we take very seriously our responsibilities to employees for engendering a working environment that is fair and inclusive and take account of the specific needs of individual members of staff
- (ii) we treat our suppliers fairly and aim to be transparent in our dealings with all suppliers
- (iii) we take very seriously our role in society through our engagement in charitable activities through Kuflink Foundation and in ensuring that our environmental impact is minimised
- (iv) we aim at all times to adopt the highest ethical standards in relation to our dealings with customers, partners, suppliers and other external parties with whom we work

Review of the Business

In the year to 30 June 2019, Kuflink achieved growth in terms of loan book and it increased by 78% and interest income which grew by over 41%, despite the challenge of an increasingly competitive bridge lending market and declining margins industry-wide. We are still in the early stages of our journey and although cost of funds increased the Company was still able to achieve a year-on-year growth in net interest income of 4%. Currently the entity's cost base is more than its income, but with the cost cutting program implemented in 2020, the Company expects to be profitable from 2021. During this growth period the Company will require further support from the Group to maintain sufficient working capital and has raised further capital in June 2020. This was in-turn supported by capital raises at the Group as detailed above. Management continues to look to broaden the shareholder base but such conversations remain at early stages.

In the last couple of years, the Company has spent heavily in marketing and promotional activities. This has been done to increase brand awareness. As brand awareness is now increasing, the Company hopes to be able to maintain the current income level. The directors have taken actions in 2020 to reduce costs by claiming government furlough grants, reducing staff numbers to the minimum required by making redundancies, and cutting future marketing spend. The directors expect these measure to improve the operating leverage of the business in the future years and the directors envisage the Company to be operating cash flow positive from 2021.

At the close of the year, we reviewed all non-performing loans in the book and determined that it would be appropriate to impair a small number of loans which have been in arrears. All of these impairments relate to legacy lending, which was wholly funded by the Company, and not novated on to peer-to-peer investors. Despite these impairments, we are actively working with our borrowers to achieve resolution of these non-performing loans and seeking full recovery. At the same time, we adopted a more stringent impairment policy in order to more accurately assess the financial position of the Company at all times. Finally, we continue to invest in the growth of Kuflink Bridging Ltd's capabilities and potential, developing new products and features centered around user experience as well as building resilience in our infrastructure, improving systems, processes and procedures in order to streamline our activities and mitigate risk. These investments have required an increase to our overhead costs, and as a result this and impairment of loans the Company incurred a net loss, after tax, of £2.0m in the year to 30 June 2019 (Restated 2018: £2.8m).

Kuflink Bridging Limited

Strategic Report

Due to losses incurred and the negative net equity position as at year end, the Company's management recommended capital injection post year end. In June 2020, £2.5m of equity capital was raised from the parent Company Kuflink Group Plc which was funded by the Kuflink Group Plc's share raise of £2.9m in December 2019. Kuflink Group Plc raised a further £0.8m from existing and new shareholders between September and November 2020. The directors of the Group are in discussions with new investors to broaden the investor base of the Group, but these discussions remain at an early stage of the process.

Continued Responsible Lending

Risk mitigation is one of Kuflink's key drivers. The directors have noted that the governance and control environment will need significant improvement for a business of Kuflink's size and have identified a number of areas within the business we need to work on to help us achieve our growth plans. We are therefore increasing governance by forming sub-committees to strengthen areas of the business such as Finance, Credit, Collections and Compliance. Remuneration, Nomination and Audit committees were also set up during 2020.

The loan book is increasing, with an average LTV of the loans that were matched to retail investors being below 70% as of 31 May 2020. A number of legacy loans that were wholly funded by the Company were deemed impaired and appropriate provisions were raised during the year. Additionally, personal guarantees worth £2.1m were sought after the balance sheet date from some of the Directors of the business to mitigate further impairment losses in relation to these loans. This was done to protect the equity value within the business as at the year end as some of these loans were expected to be restructured post year end.

During the financial year, Kuflink revisited the default rate definition for the platform. In line with the FCA's default definition, a loan is classed as in default after 180 days of non-repayment of either capital or interest by the borrower. This brought the average default rate for the platform down to 1.20% for the year. However, our Collections Department follow the 30 days of non-repayment by the borrower definition of default. Additionally, the Company continues to co-invest alongside investors, further mitigating the risk exposure to investors by absorbing the first loss on the loans and demonstrating our commitment to originating high-quality loans.

Technology Developments

The Technology Team has grown to cater for the Group's plans for innovation in both the peer-to-peer and bridge lending markets. Following on from last year, the investment into developing and improving our proprietary technology and IT infrastructure has not slowed down.

After the financial year end, the Group began testing a new proprietary Customer Relationship Management System (CRM) and Loan Management System (LMS) for Kuflink Bridging Ltd. These will enable streamlined origination of loans as well as provide better management information, integrated across front end and back end systems, enabling improved control and better management of our loan book.

Awards and Recognition

In 2019, Kuflink won Best Alternative Business Funding Provider at the Business Moneyfacts Awards, was highly commended as P2P lender of the year by Bridging and Commercial, commended as P2P provider of the year at the Moneyfacts Consumer awards and was a runner up for Best P2P Business Lender at the Growth Finance Awards.

Kuflink continues to demonstrate our commitment to the industry and is staying abreast of market changes by being part of several leading industry bodies, such as the UK Crowdfunding Association, ASTL and NACFB.

Principal Risks and Uncertainties

Kuflink's credit risk has continued to evolve, and the business now has instituted further layers of due diligence prior to lending which will allow risk to be mitigated at an earlier stage. Some of the Directors of the Company have provided security in the form of personal guarantees on some of its legacy loans due to them being highly leveraged (Note 33).

Kuflink Bridging Limited

Strategic Report

Financial Risk Management

Given the operations of the Company described above, the Company's key financial risks include the credit risk associated with borrower default arising from the loan portfolio and the liquidity risk associated with having insufficient capital available to meet the Company's obligations to its finance providers.

The Company has limited financial exposure to currency risk or interest rate risk as the loan notes issued and loans made to borrowers by the Company are in sterling at fixed rates of interest.

During this and the last year the Company made impairment provision amounting to £3.3m (£2.9m of which was incorporated in the 2018 restated numbers), these were due to legacy loans. The risk appetite for these types of loans has now changed and as such, these types of loans will not get approved when they come through to our underwriting team.

The liquidity risk described above is managed by aligning the maturity profiles for the repayment of capital and interest to the Company's debt providers with the repayment profile of loans made to borrowers to ensure that the loan portfolio provides adequate liquidity to meet the Company's commitments to its debt providers. This cash flow profile is monitored by management on an active basis throughout the year. More detailed information on the alignment of the maturity profile is included in the note 2 of the financial statement on page 27. Management look to manage any liquidity mismatches through encouraging investor re-termining on the platform and raising additional capital in the short term.

Other Risks

From an operational perspective, the key risk relates to the potential for non-compliance with the regulations issued by the Financial Conduct Authority that could lead to the Company being subject to a fine or a ban on trading activities. This is managed through regular review of, and ongoing improvements in the Company's compliance framework by Senior management.

The Company will continue to keep risk management at the top of its agenda. Risk management framework is evolved on a regular basis and managed by providing clear risk policy & training.

Brexit

The Company faces some Brexit-related uncertainties. Principally, this relates to the health of the UK property market from adverse effects from the exit from the European Union and second order impact from a sharp reduction in UK economic activity. The Company continues to monitor the health of the market and keeps these risks in mind when extending new loans and managing its existing loan portfolio.

Coronavirus Disease 2019 ("COVID-19")

Management is considering the potential economic impact to the Company of the recent global COVID-19 outbreak. A majority of our employees are currently operating successfully from remote locations, on the advice of local government. IT and communications resources available to the directors have ensured that all staff can continue to work effectively and keep in regular contact with colleagues and clients, and as a result disruption has been kept to a minimum. We have however seen an increase in borrower enquiries due to other lenders in the sector stalling on new and further advances. As we have seen reduced investment on the P2P platform, the Company has sourced low interest investments from the investors who are related parties to fund these loans.

As part of its going concern review, the directors have assessed the potential impact of a slowdown in levels of revenue and cashflow and has taken steps to absorb most of the impact on the profitability. Management have also taken steps to mitigate any risk in liquidity by applying for the Covid-19 Government furlough scheme, applying for the Bounce Back Loan Scheme (BBSL) loan, matching payment holidays between borrowers and investors and trimming down on non-critical cost relating to marketing and staff cost.

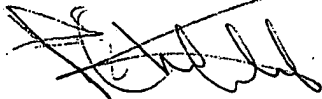
Kuflink Bridging Limited

Strategic Report

We have stress tested future cash flow forecasts to evaluate the impact of plausible downside scenarios. These include scenarios that reflect current market conditions and a short-term property market dislocation. Additionally, we've run scenarios with slower growth and profitability assumptions to assess our funding requirements. At the time of approving the financial statements, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of the approval of the balance sheet. In the near term, the Group will rely on financial support from its parent Kuflink Group Plc. In June 2020 £2.5m of equity capital was raised from the parent Company Kuflink Group Plc which was funded by the Kuflink Group Plc's share raise of £2.9m in December 2019. Kuflink Group Plc raised a further £0.8m from existing and new shareholders between September and November 2020. The directors of the Group are in discussions with new investors to broaden the investor base of the Group, but these discussions remain at an early stage of the process.

Thus, the directors continue to adopt the going concern basis of accounting in preparing the financial statements. However, the Company does face a number of material uncertainties in relation to going concern which are discussed within the Directors' Report on page 7.

This report was approved by the board on 15 February 2021 and signed on its behalf by:



Tejwant Singh Chattha
Director

Kuflink Bridging Limited

Registered number:

07889226

Directors' Report

The directors present their report and the financial statements of Kuflink Bridging Limited ('the Company') for the year ended 30 June 2019.

Future developments

The directors expect that the Company will continue to grow. The expected future developments for the medium term in the business are discussed in the strategic report.

Going concern

Companies are required to adopt the going concern basis of accounting, except in circumstances where the Directors determine at the date of approval of the financial statements either that they intend to liquidate the entity or to cease trading, or have no realistic alternative to liquidation or cessation of operations.

The Board has assessed the appropriateness of the going concern basis of accounting when preparing the financial statements in accordance with accounting standards and guidance from the Financial Reporting Council ('FRC'). As part of that assessment, the Directors have considered whether there are any material uncertainties relating to events or conditions (other than those with a remote probability of occurring) that may cast significant doubt upon the continuing use of the going concern basis of accounting in future periods, and the associated requirements to disclose these.

A material uncertainty is one relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern and that may, therefore, indicate that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The below assessment analyses the uncertainties facing Kuflink Bridging Limited.

In performing this assessment, the Directors have considered all available information about the future, the realistic possible outcomes of events and changes in conditions and the realistic possible responses to such events and conditions that would be available to the Directors.

These assessments are significantly more difficult currently given the uncertainties about the impact of COVID-19, the extent and duration of social distancing and other measures and their impact on the economy.

The accounts have been prepared on a going concern basis. While the Company reports a £605k of negative net asset position as at the year end, the going concern basis is supported by further capital raises of £2.5m post year end and continued financial support from its immediate parent entity.

The following sub-headings detail the material issues and uncertainties that the Directors have considered in assessing the going concern assumption of the Company.

Raising Capital

An inherent risk of a growing business is that it may not be able to raise sufficient capital to meet its business plan and, at worst, to continue to operate. This risk has been exacerbated by the current COVID-19 crisis and its impact on the domestic and global economies and investor bases. If the Company cannot obtain further capital either from (i) its existing shareholders or (ii) from third parties, it would potentially need to cease trading.

As well as assessing the Company's capital requirements on a base case scenario, the Board has also considered the risks to the base case assessment and reviewed both upside and downside scenarios.

(i) The support of our existing investors

For the Directors of the Company to reach a view that the Company will be able to meet its capital needs it is critical that the Directors have confidence that the existing equity investors will support the business. The Board has made enquiries and assessed the likelihood of such support being forthcoming and concluded that there are a number of reasons why the Directors should place reliance on that support:

Kuflink Bridging Limited

Registered number:

07889226

Directors' Report

- The parent, Kuflink Group Plc have been a significant investor in the Company since 2015 and have invested £7.1 m of equity demonstrating their commitment to the Group and its strategy.
- £0.93m of this amount was invested by the Group in June 2019 by way of a debt for equity swap.
- A further £2.5m of this amount was invested by the Group in June 2020.

These investments were supported by share issuance by the Group to existing and new shareholders.

The Directors acknowledge the risks involved in placing reliance on undertakings for future investment. However, the Board has made enquiries of the Group's ability to fulfil their undertakings to the Company and is satisfied they have that ability.

(ii) Widening the investor base

Although it is unclear when investor markets will normalise, the Group believes it will be in a strong position to secure further equity investment from a wider investment base when that happens. This is as:

- the financial crisis has impacted the availability of liquidity in the markets in which the Company operates and we see this as a growth opportunity.
- Kuflink Bridging Limited does not have a large stock of loans impacted by the sudden economic downturn. This allows the Company to focus on its new lending without being distracted by back book issues. This puts the Company in a position to be able to grow its loan book when demand does increase.
- Kuflink have developed a CRM system which manages the workflow from enquiries to loan origination and Loan management system (LMS) which automate various manual processes in the loan database including interest calculation. Both these systems have increased the efficiency and effectiveness of loan origination and management processes.

The Group's Board and the CEO in particular continue to investigate further opportunities to raise equity in a targeted way and early discussions have taken place with a number of potential investors that may lead to the investment of further equity capital in the near future but these remain at an early stage of the process.

The Directors acknowledge the risks involved in placing reliance on the receipt of future equity and the future actions of the Company should additional equity not be received, and these have also been evaluated by the Directors.

Consideration of going concern arising from our capital position

As a result, the Board has concluded that, although the Group has secured the promise of further equity from its existing and new investors, and that management has a plan to manage its capital needs by controlling new lending volumes and has taken steps to reduce its cost base, there remains material uncertainty regarding (i) its ability to complete any proposed equity raises from existing investors and (ii) also as regards Kuflink Group Plc's ability to source further additional equity from a widened investor base.

Specifically, future equity capital is not guaranteed, and the Company is still at risk that the required capital may not be obtained. Should future equity raises be unsuccessful the Directors will need to consider all necessary actions and the impact those actions could have on the Company's ability to continue as a going concern and on its investors and shareholders.

COVID-19

As part of its going concern review, the Directors have assessed the potential impact of a slowdown in levels of revenue and cashflow and have taken steps to absorb most of that impact on the Group's operations.

At the time of approving the financial statements, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months from the date of approval of the balance sheet. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements. As well as impacting the Company's ability to source equity capital, as discussed above, COVID-19 has the potential to impact Kuflink in a number of ways but principally in the following areas:

Kuflink Bridging Limited

Registered number:

07889226

Directors' Report

Operational logistics

A majority of our employees are currently operating successfully from remote locations. IT and communications resources available to the Directors have ensured that all staff can continue to work effectively and keep in regular contact with colleagues and clients, and as a result disruption has been kept to a minimum. The operational resilience of Kuflink's IT systems has been tested in real time and found to be robust and reliable and the Company is confident that it can continue to operate remotely for the foreseeable future.

Business performance

We have seen an increase in borrower enquiries due to other lenders in the sector stalling on new and further advances. As at December 2020 loan pipe line has more than £22.2m of loans ready to complete with Solicitors, a further £21m of loans are in enquiries stage of which £3.9m have been instructed for valuations and the possibility that some will turn to new originations. As we have seen reduced investment on the P2P platform, the Company has issued loan notes on its own balance sheet to fund these loans. Net Investment on the platform turned positive in May post the lock down phase in the UK. As the Company is still firmly in its growth stages, with no specific historical data, it is difficult to gauge the impact COVID-19 will have on trading levels. However, the Company is predicting a reduction in new business origination over its pre-COVID-19 forecasts in 2020 and 2021. Underpinning revised forecasts are the following assumptions:

- many lenders in the market have reduced their new business origination;
- the need for new bridging facilities tends to increase during a financial crisis;
- Kuflink Bridging Limited continue to see increasing levels of applications for its products but the completion of these loans will be dependent on obtaining acceptable valuations and some of those may be lower than customers' expectations;
- post lockdown the market is likely to remain subdued; however, the Company expects to see continuing increased business levels as demand gradually returns.

The points above suggest that whilst we expect to see a reduction in the addressable market versus pre-COVID-19 activity levels, the Board believe that Kuflink should have broader access to this reduced market due to a decrease in competition. Considering the lower demand, the directors have decided to reduce the overall cost base of the entity through staff redundancies in FY20 and reducing overall marketing budgets for FY21 and beyond through negotiation with suppliers. The Directors expect these measures will reduce the Group's wages and salaries cost by c46% from existing run rates and cut marketing spend by c92%. The Directors expect these measures will deliver positive operating cashflow for the Group over the forecast horizon. Staffing levels continue to be monitored by the Directors to ensure optimal business performance.

Platform investments

Kuflink sources additional funding for its lending activities from investments made by Retail and HNW (High Net Worth) individuals on its P2P platform. Investors can either choose to invest explicitly in an exposure backed by land with planning, freehold or long leasehold property, physical assets such as high value vehicles or personal guarantees (Select Invest) or choose to be diversified by investing in a pool of underlying loans backed by land with planning, freehold or long leasehold property, physical assets such as high value vehicles or personal guarantees (Auto-Invest). Management undertake a legal process to novate a portion of the beneficial interest of these loans to the investors on the platform.

We have noted a reduced appetite to lend on the platform by investors when compared to pre- COVID levels. This somewhat improved as we moved to the first post lock down phase of the pandemic but remained at subdued levels. Management expects this to continue during 2021 and this reduced run rate has been incorporated into our forecasts in the near term. Cost cutting measures implemented which include staff redundancies will counteract the sluggishness in investors' willingness to invest due to COVID-19.

We have implemented managed withdrawals for Investors as described below to facilitate the management of liquidity and capital within the Group. We regularly review the level of investment made on the platform by both existing & new investors and monitor the impact of this on the Company's cashflow plans.

Kuflink Bridging Limited**Registered number:**

07889226

Directors' Report**Consideration of going concern arising from our operational position**

While the outlook for 2021 and beyond is uncertain due to the impact of COVID- 19, we believe the longer-term outlook is positive for the UK property market and our business and we expect to benefit from a recovery. Our emergency pandemic plan has been implemented and working practices changed to ensure operational continuity. We have also put in place mitigation plans in 2020, removing non-critical costs from the business, announcing staff redundancies and receiving government support through the furlough scheme and the Bounce Back Loan Scheme (BBLS). In addition, we have implemented a 'managed' process for withdrawals from Auto Invest. As underlying loans are novated to investors through a P2P arrangement, other than for the Company stake of a minimum 5%, the investors assume the risk of delays in repayments. P2P arrangements for investors in Auto Invest products are generally for a fixed term of 1, 3 or 5 years, and we are repaying them on a managed basis, by delaying their withdrawal requests. As repayments come in, and new investments are received, we've been able to process withdrawals on this basis. Kuflink manages the liquidity (Note 2, page 27) and duration risk of the pooled investments whereas such risks are not present for investors that explicitly select their investment exposure via the platform as their duration of investment matches that of the underlying property backed loan.

In reaching the conclusion that the going concern basis is appropriate, we have stress tested future cash flow forecasts to evaluate the impact of plausible downside scenarios. These include scenarios that reflect current market conditions and a short-term property market dislocation. Additionally, we've run scenarios with slower growth and profitability assumptions to assess our funding requirements. However, there remains a material uncertainty as regards our ability to execute our business plans, which includes individual and collective assumptions relating to new product launches, lending volumes and continued traction with platform investors. Under the scenarios, the Directors are fully aware of the challenges ahead and the need for equity into the business going forwards. The Directors have concluded that the Group needs further liquidity supported by capital raise which were effected post year end and that the going concern basis remains appropriate.

Value added tax

Kuflink Bridging Limited's income is derived from the loans it generates and the income is deemed exempt for VAT purposes. Kuflink Bridging Limited charges Management fees to Kuflink Limited (an affiliate company) for services rendered. In a recent review of the structure of the Group it came to light that the inter-company fee may fall under taxable supply for VAT purposes. Since this Kuflink has sought and received an external expert's guidance and concluded that companies within the Group should have been registered for VAT. Had a VAT group registration been in place, then the VAT liability would have been insignificant. However, as this was not the case during the period, a VAT liability arose and we have estimated what that amount might be.

A 'worst-case' provision for VAT liabilities of £92,588 and £87,773 as at 30 June 2019 and 30 June 2018 was raised with the resulting impact recorded within Other Income. The provision has been calculated based on the output VAT relevant to the inter-company charges, which is expected to be the maximum amount payable excluding any penalties or penal interest that may be imposed by HMRC. This provisional VAT liability has also not been reduced for any Input VAT claimable, as at this point in time the Company has not derived the correct input VAT amount.

HMRC can levy penalties and interest for late VAT registration, but management believe HMRC will not impose such penalties as the VAT registration application was lodged, as soon as practically possible, after the Company became aware of the situation.

HMRC have contacted the Company and confirmed Group VAT registration effective from 17 March 2020 and VAT liability will be insignificant from that date. The Company is calculating VAT liability due up to this date and will pay the liability outstanding in due course.

Kuflink Bridging Limited**Registered number:**

07889226

Directors' Report**Prior Year Adjustments**

During the year the Company re-assessed the way in which its chosen accounting policies were being applied in practice. The re-assessment was undertaken in comparison to prevailing Generally Accepted Accounting Practice ("GAAP") and consideration was given to how such GAAP had been evolving over time. The result of the review was that a number of accounting policies were not appropriately adhered to, and the application of other previously extant policies was amended. Given this outcome, we have restated our prior year comparatives for the year to June 2018 to reflect these revised policies and practices.

In summary, the key areas of revision relate to better reflecting the risks and rewards of ownership of the loans that are sourced from the platform and the accounting for income and expenses on an Effective Interest Rate method; providing for deemed impaired loans, providing for a 'worst-case' scenario of VAT liabilities, better assessing the rationale supporting the capitalisation of intangible assets and appropriately disclosing related party transactions.

More detail is provided in Note 32 to the financial statements.

Directors

The following persons served as directors of the Company during the year and up to the date of this report:

Tejwant Singh Chattha

Steven Frederick Moody

(Resigned 18 September 2018)

Nattalie Jane Weeks

Directors' Indemnities

Directors' and officers' insurance cover has been established for all Directors to provide a cover upto £2m for their reasonable actions on behalf of the Company. A deed was executed indemnifying each of the Directors of the Company and/or its subsidiaries as a supplement to the Directors' and officers' insurance cover. The indemnities, which constitute a qualifying third-party indemnity provision as defined by section 234 of the Companies Act 2006, were in force during the 2019 financial year and remain in force for all current and past Directors of the Company.

Kuflink Bridging Limited**Registered number:**

07889226

Directors' Report**Statement of Directors' Responsibilities**

The directors are responsible for preparing the annual report and 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 (UK Accounting Standards FRS102). Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- 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. 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.

Disclosure of information to the auditor

Each person who was a director at the time this report was approved confirms that:

- so far as he is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Following discussions between Ernst & Young LLP and the Board, Ernst & Young LLP intend to resign following the completion of their audit of these financial statements. The Board are considering their options to replace them; will finalise that process in the near future and will present a new auditor for approval at the next AGM.

This report was approved by the board on 15 February 2021 and signed on its behalf by:



Tejwant Singh Chattha
Director

Kuflink Bridging Limited
Independent auditor's report
to the members of Kuflink Bridging Limited

Qualified Opinion

We have audited the financial statements of Kuflink Bridging Limited ("the Company") for the year ended 30 June 2019 which comprise the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 33, 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 (United Kingdom Generally Accepted Accounting Practice) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland".

In our opinion, except for the possible effects of the matters highlighted in the Basis for Qualified Opinion section of our report, the financial statements:

- give a true and fair view of the Company's affairs as at 30 June 2019 and of its loss 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 Qualified Opinion

Note 19 to the financial statements outlines the basis on which the Directors have provided for VAT liabilities on a 'worst case' basis for the periods ended 30 June 2019 and 30 June 2018 which are recorded within 'Creditors: amounts falling due within one year' in the Statement of Financial Position at £92,588 and £87,773 respectively, with the resulting impact recorded within 'Other Income' in the Statement of Comprehensive Income. The assumptions made by the Directors in assessing the provision are outlined in that note.

Management were unable to produce a detailed analysis to correctly reflect the accounting treatment for VAT in the financial statements for the years ended 30 June 2019 and 30 June 2018. As a result, we were unable to obtain sufficient appropriate audit evidence to determine whether any adjustments to VAT liabilities and its related other income, were necessary. In addition, were any adjustment to the VAT liabilities or related other income balance to be required, the directors' report would also need to be amended.

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 below. We are independent of the Company in accordance with the ethical requirements in the UK that are relevant to our audit of the financial statements, 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 qualified opinion.

Material uncertainty related to going concern

We draw attention to the Directors' Report on page 7 and Note 1 to the financial statements which outline the Directors' assessment of the Company's ability to continue as a going concern. The Company is historically loss making and its revenue streams have been further impacted by COVID-19.

As a result, there is a risk that the Company will not be able to execute its business plan, which could adversely impact its ability to generate both profits and operating free cashflow. The Directors identify that the Company will need to raise additional capital to fund its ongoing operations and to enact its growth plans. Specifically, the Board has concluded that, although Kuflink has secured the promise of further equity from its existing investors, and that management has a plan to manage its capital requirements by controlling new lending volumes and managing down its cost base, there remain material uncertainties regarding its ability to:

- complete the promised equity raises from existing investors
- source further additional equity from a widened investor base
- execute its business plans, which includes individual and collective assumptions relating to future product development/launches, maintaining current lending volumes and continued traction with platform investors.

These matters may cast significant doubt on the Company's ability to continue as a going concern and, along with other matters related to the longer-term position of the entity, are explained in the Directors' Report on page 7 and in

Kuflink Bridging Limited
Independent auditor's report
to the members of Kuflink Bridging Limited

Note 1 to the financial statements. Our opinion is not modified in respect of these matters.

We undertook the following procedures to address these issues:

- The audit engagement partner and senior manager increased their time directing and supervising the audit procedures on going concern and also increased their time and involvement in performing the audit procedures on going concern.
- We confirmed our understanding of management's going concern assessment process.
- We evaluated the Company's financial forecasts for the next 12 months and future periods, as well as the most recent liquidity and capital assessments. We evaluated the appropriateness of the forecast and assessments and whether they have appropriately considered the impacts arising from COVID-19.
- We confirmed the opening position in the Kuflink Group forecast agreed to the audited balances.
- We reviewed the results of management's stress testing to assess the reasonableness of the economic assumptions used in management's forecasts.
- We evaluated management's plans for future actions in relation to its going concern assessment by inspecting Board minutes, performing a downside sensitivity analysis to determine the implications should management be unable to carry out such plans and reviewed events occurring subsequent to the balance sheet and up to the date of the auditor's report for evidence of management's intent and ability to carry out such plans.
- We also assessed the disclosures in the Annual Report & Accounts relating to going concern, including the material uncertainties, to ensure they were in compliance with FRS102.

Emphasis of Matter

We draw attention to the Company Balance Sheet shown on pages 17 and Note 1 of the financial statements highlighting the basis on which this statement has been prepared. The Balance Sheet highlights that as at the period end, the Company was in a net liability position. This position was remediated with a capital injection of £2.5million that occurred in June 2020.

Our opinion is not modified in respect of this matter.

Other information

The other information comprises the information included in the report and financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

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.

As described in the Basis for Qualified Opinion section of our report, we were unable to satisfy ourselves concerning the VAT liabilities of £92,588 and £87,773 as at 30 June 2019 and 30 June 2018, respectively, with the resulting impact in other income. We have concluded that where the other information refers to VAT liabilities or related other income balance, it may be materially misstated for the same reason.

Opinions on other matters prescribed by the Companies Act 2006

Except for the possible effects of the matter described in the Basis for Qualified Opinion section of our report, 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.

Kuflink Bridging Limited
Independent auditor's report
to the members of Kuflink Bridging Limited

Matters on which we are required to report by exception

Except for the matter described in the Basis for Qualified Opinion section of our report, in the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Arising solely from the limitation on the scope of our work relating to VAT, referred to above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and
- we were unable to determine whether adequate accounting records have been kept.

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:

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities set out on page 12, 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 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 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.

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.



Peter Wallace (Senior statutory auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor,
London
Date: 15 February 2021

Kuflink Bridging Limited
Statement of Comprehensive Income
for the year ended 30 June 2019

	Notes	2019 £	2018 (Restated) £
Interest Income	3	3,987,867	2,828,621
Interest Expense and Charges	4	(2,128,128)	(1,036,017)
Net Interest Income		<u>1,859,739</u>	<u>1,792,604</u>
Other Income	5	216,425	510,679
Direct Expenses	6	(891,686)	(2,529,879)
Administrative expenses	7	(3,226,002)	(2,594,203)
Operating loss	8	<u>(2,041,524)</u>	<u>(2,820,799)</u>
Loss on ordinary activities before taxation		<u>(2,041,524)</u>	<u>(2,820,799)</u>
Tax credit/(charge)	11	-	54,168
Loss for the financial year		<u>(2,041,524)</u>	<u>(2,766,631)</u>
Other comprehensive income		-	-
Total comprehensive loss for the year		<u>(2,041,524)</u>	<u>(2,766,631)</u>

The statement of comprehensive income has been prepared on the basis that all operations are continuing operations.

The notes to the accounts on pages 20 to 45 form an integral part of the financial statements.

Kuflink Bridging Limited
Statement of Financial Position
as at 30 June 2019

Registered
number
07889226

	Notes	2019 £	2018 (Restated) £
Non-currents assets			
Intangible assets	12	56,097	-
Fixed assets	13	145,485	165,682
Investments	15	-	1
Loans held at amortised cost falling due after more than one year	16	1,235,296	5,444,967
		<u>1,436,878</u>	<u>5,610,650</u>
Current assets			
Other current assets	14	570,999	-
Loans held at amortised cost	16	28,410,347	11,153,414
Debtors	17	1,387,255	1,142,467
Cash at bank and in hand		1,075,515	722,640
		<u>31,444,116</u>	<u>13,018,521</u>
Creditors: amounts falling due within one year			
Financial liabilities held at amortised cost	18	(28,894,034)	(13,646,608)
Creditors	19	(652,802)	(635,967)
		<u>(29,546,836)</u>	<u>(14,282,575)</u>
Net current assets/(liabilities)		<u>1,897,280</u>	<u>(1,264,054)</u>
Total assets less current liabilities		<u>3,334,158</u>	<u>4,346,596</u>
Creditors: Financial liabilities held at amortised cost falling due after more than one year			
	18	(3,938,962)	(3,839,876)
Net (liabilities)/assets		<u>(604,804)</u>	<u>506,720</u>
Capital and reserves			
Called up share capital	21	2,170	1,571
Share premium	22	3,368,377	2,438,976
Profit and loss account	23	(3,975,351)	(1,933,827)
Total shareholder's funds		<u>(604,804)</u>	<u>506,720</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 15 February 2021 by


Tejwant Singh Chattha
Director

The notes to the accounts on pages 20 to 45 form an integral part of the financial statements.

Kuflink Bridging Limited
Statement of Changes in Equity
for the year ended 30 June 2019

	Share capital	Share premium	Profit and loss account (Restated)	Total
	£	£	£	£
At 1 July 2017	1,571	2,438,976	2,432,804	4,873,351
Loss for the financial year	-	-	(2,766,631)	(2,766,631)
Dividends			(1,600,000)	(1,600,000)
At 30 June 2018	<u>1,571</u>	<u>2,438,976</u>	<u>(1,933,827)</u>	<u>506,720</u>
 At 1 July 2018	 1,571	 2,438,976	 (1,933,827)	 506,720
Total comprehensive loss for the financial year	-	-	(2,041,524)	(2,041,524)
Shares issued	599	929,401		930,000
At 30 June 2019	<u>2,170</u>	<u>3,368,377</u>	<u>(3,975,351)</u>	<u>(604,804)</u>

The notes to the accounts on pages 20 to 45 form an integral part of the financial statements.

Kuflink Bridging Limited
Statement of Cash Flows
for the year ended 30 June 2019

	2019	2018
	£	(Restated) £
Operating activities		
Loss for the financial year/period	(2,041,524)	(2,820,799)
Adjustments for:		
Interest receivable	-	(151)
Interest payable	-	605
Depreciation	63,442	52,779
Decrease in loans held at amortised cost		
Additions	(31,760,205)	(26,484,315)
Repayments	17,872,461	17,888,296
Write off and impairments	840,482	2,505,789
(Increase)/decrease in debtors	(244,788)	775,492
Increase in funding	15,346,512	9,124,458
Increase in other current assets	(570,999)	-
Increase in creditors	946,835	474,908
	<u>452,216</u>	<u>1,517,062</u>
Interest received	-	52
Interest paid	-	(605)
Corporation tax paid	-	(42,216)
Cash used in operating activities	<u>452,216</u>	<u>1,474,293</u>
Investing activities		
Payments to acquire intangible assets	(56,097)	-
Payments to acquire tangible fixed assets	(43,245)	(35,187)
Payments to acquire investments	-	(1)
Proceeds from sale of investments	1	-
Cash used in investing activities	<u>(99,341)</u>	<u>(35,188)</u>
Financing activities		
Equity dividends paid	-	(1,600,000)
Cash generated by financing activities	<u>-</u>	<u>(1,600,000)</u>
Net (decrease)/increase in cash and cash equivalents		
Cash used in operating activities	452,216	1,474,293
Cash used in investing activities	(99,341)	(35,188)
Cash generated by financing activities	-	(1,600,000)
Net cash generated/(used)	<u>352,875</u>	<u>(160,895)</u>
Cash and cash equivalents at start of the period	<u>722,640</u>	<u>883,535</u>
Cash and cash equivalents at end of the period	<u>1,075,515</u>	<u>722,640</u>
Cash and cash equivalents comprise:		
Cash at bank	1,075,515	722,640

The notes to the accounts on pages 20 to 45 form an integral part of the financial statements.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

1 Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis and under the historical cost convention in accordance with Financial Reporting Standard 102, The Financial Reporting Standard applicable in the UK and Republic of Ireland ('FRS 102') and the Companies Act 2006.

Going concern

The Directors performed an assessment of the Company's current financial position and future forecasts and concluded that preparing these financial statements under the going concern basis remains appropriate. In performing this assessment, the Directors considered all available information about the future, the realistically possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them. Specifically, even though COVID-19 is having an impact on our business, we believe the medium to longer-term outlook is positive for the UK property market and we are well positioned to benefit from that recovery. Our emergency pandemic plan has been implemented and working practices changed to ensure operational continuity. We have also put in place mitigation plans, removing non-critical costs from the business which include staff redundancies and receiving government support through the furlough scheme and BBLS funding. In addition, we have implemented a 'managed' process for withdrawals from Auto Invest products. As underlying loans are novated to the investors through a P2P arrangement in Kuflink Ltd, the investors assume the risk of delays in repayments that are in excess of the Company's stake of a minimum of 5%. P2P arrangements for investors in Auto Invest products are generally for a fixed term of 1, 3 or 5 years, and we are paying them on a managed basis, by delaying their withdrawal requests. As repayments come in, and new investments are received, we've been able to process withdrawals on that basis. Kuflink manages the liquidity and duration risk of the pooled investments whereas these are not present for investors that explicitly select their investment exposure via the platform.

In reaching the conclusion that the going concern basis is appropriate, we have stress tested future cash flow forecasts to evaluate the impact of plausible downside scenarios and the net liability position of the Company. These include scenarios that reflect current market conditions and updated short term UK property market dislocation.

Our core scenario shows the Group would be making far improved bottom line numbers year on year going forward and expected to be profitable by 2022. This is based on a scenario of moderate growth. The Group have increased its equity capital by £2.9m of new funding in December 2019 which made the net liability balance sheet to net asset position. In addition, a further £0.8m was raised at the Group from existing and new shareholders between September and November 2020. As the Company was in net liability position as at the year end, in June 2020 the Group invested £2.5m of this amount in the Company. The directors are in discussions with new investors to broaden the investor base of the Group, but these discussions remain at early stages. There is material uncertainty as to whether this capital will be raised due to the current pandemic and the Directors are aware of this and are looking at other avenues to raise the capital. The Directors have also considered stressed scenarios where the property market value falls by 20% or probability of default increases to 40%. Under all these scenarios, the Directors concluded that the Company needs additional liquidity and that the going concern basis continues to remain appropriate, albeit with material uncertainties as explained in the Directors' report.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Loan recognition

In our 2018 accounts, we did not recognise loans on the Company balance sheet which have been novated to peer-to-peer investors on the Kuflink P2P investment platform. We have now determined that these should be recognised as assets of the Company.

Under the novation agreements, the peer-to-peer investor is substituted for Kuflink Bridging Ltd. as the lender in the facility agreement struck with borrowers. The investor is exposed to a large proportion of risks of default by the borrower, which could include a delay in repayment or non-repayment of principal or interest on the loan.

However, we have reviewed the substance of these transactions and determined that they do not meet the derecognition criteria for a financial asset as set out in FRS 102, which requires that 'substantially all' of the risk and rewards of ownership of the asset are transferred. Kuflink Bridging Ltd retains some risk and rewards of ownership. In particular, in most cases the Company retains a 5% stake in the loan and commits to absorbing the first losses against that loan with that stake before passing any additional losses to investors. Similarly, the Company benefits from an interest spread and any extra default interest charged to defaulted borrowers when recovered. Consequently, the Company must recognise these as assets of the company and, correspondingly, recognise the investments of peer-to-peer investors as liabilities of the company in compliance with FRS 102.

We have re-stated 2018 figures in these accounts to appropriately reflect the comparatives figures.

Turnover

Revenue is made up of three elements; interest receivable on loans, fees associated with the arrangement of the loans and other fees to cover overheads associated with loans. Interest receivable and arrangement fees are recognised on an accruals basis using the effective interest method over the term of the financial asset. The effective interest method allocates interest income (or expense) over the expected maturity period of the instrument. An instrument's effective interest rate is the rate that exactly discounts estimated future payments on the instrument to its initial carrying amount. All other revenue and interest receivable is recognised on an accrual basis.

Interest expenses and charges

Interest expenses and charges include the interest payable to peer-to-peer and other investors, cost of cashback incentives and commission payable to brokers and are recognised using the effective interest method.

Cashback Incentives paid to P2P investors

Kuflink operates an incentive scheme for retail investors with an aim to increase the longevity of the investments made on the platform. These costs are capitalised on the balance sheet as Deferred Cashback Assets and offset against Liabilities held at amortised costs. The costs are then expensed to the P&L over the behavioural life of the investment. Given the lack of available data on the behavioural maturity of the investments made on the platform given its infancy, available data from 2017 to date is extrapolated and a '4-year' period is assumed as appropriate for amortisation of these costs.

Direct and administrative expenses

Expenses are recognised in the statement of comprehensive income in the period in which they are incurred and are recognised on an accruals basis. Direct expenses are those related to the origination and maintenance of loans and include related impairment losses.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Taxation

A current tax charge is recognised for the tax payable on the taxable profit of the current and past periods. Deferred tax is recognised in respect of all timing differences between the recognition of income and expenses in the financial statements and their inclusion in tax assessments. Unrelieved tax losses and other deferred tax assets are recognised only to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date and that are expected to apply to the reversal of the timing difference. Current and deferred tax assets and liabilities are not discounted.

In a recent review of the structure of the Group it has come to light that the inter-company fee may fall under taxable supply for VAT purposes. Kuflink has sought and received external expert's assessments and concluded that companies should have been registered for VAT. Should a VAT group registration been in place, the VAT liability would have been insignificant. As there was no such set-up in place at the balance sheet date, a 'worst-case' VAT liability provision has been estimated. Offsetting input VAT has not been assessed as the information is not available at this time. The provision is calculated based on the output VAT on the inter-company charges, which is expected to be the maximum amount payable ex any penalties or penal interest that may be imposed by HMRC.

Intangible assets

Intangible assets are measured at cost less accumulative amortisation and any accumulative impairment losses.

An internally generated asset arising from the Company's development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new systems);
- it is probable that the asset created will generate future economic benefits; and
- the development costs of the asset can be measured reliably.

The Company is developing its own internally generated platform and software to manage its operations and to create a platform that will give investors a differentiated customer experience. Costs in relation to these system developments are capitalised as incurred. These intangible assets are amortised on a straight-line basis over their expected useful lives starting from the point at which the asset has been completed and is being utilised by the Company.

Internally generated software	over 4 years - straight line basis
-------------------------------	------------------------------------

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulative depreciation and any accumulative impairment losses. Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold and improvements	over 5 years - straight line basis
Fixtures and fittings	over 4 years - straight line basis

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Financial assets

Recognition and classification:

Financial assets are recognised in the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument. Financial assets are initially measured at the transaction price.

Loans:

Loans made to borrowers by the Company that have fixed or have determinable repayment terms and that are not quoted in an active market are classified as loans and receivables and are measured at amortised cost, less any impairment. The amortised cost of a loan represents the expected future cash flows discounted at the original effective interest rate.

Impairment of financial assets:

At the year end, the Company assesses whether there is any objective evidence that any of the loans made by the Company have been impaired. A loan is deemed to be impaired if, there is objective evidence that one or more events have occurred since the initial recognition of the loan that have an impact on the estimated future cash flows of the loan and the impact can be reliably measured.

Evidence of impairment includes indications that the borrower is experiencing significant financial difficulty; default or delinquency in interest or principal payments; and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The impairment loss is recognised in Statement of Comprehensive Income.

Derecognition of financial assets

Financial assets are derecognised by the Company only when the Company's contractual rights to the cash flows from the asset expire, or when the Company transfers the financial asset and substantially all the risks and rewards of ownership to another entity.

Debtors

Short term debtors are measured at transaction price (which is usually the invoice price), less any impairment losses for bad and doubtful debts. Loans and other financial assets are initially recognised at transaction price including any transaction costs and subsequently measured at amortised cost determined using the effective interest method, less any impairment losses for bad and doubtful debts.

Creditors

Creditors and other trade payables are initially measured at fair value, which approximates to the amount expected to be required to settle the obligations of the Company and is subsequently measured at amortised cost.

Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Financial liabilities

Financial liabilities are recognised when the Company has a legal obligation as a result of entering into a contract with a third party. The investment held from Peer-to-Peer and other creditors to the Company are classified as "Financial liabilities held at amortised cost" and are measured at the transaction price. They are subsequently measured at amortised cost. Financial liabilities are derecognised when the Company's obligations are discharged, cancelled or expired. Other trade payables are initially recognised at fair value which approximates to the amount expected to be required to settle the obligation on behalf of the Company.

Cash at bank and in hand

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Provisions

Provisions are recognised when there is an obligation at the reporting date as a result of a past event, it is probable that economic benefit will be transferred to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are charged as an expense to the Statement of Comprehensive Income in the year that the Company becomes aware of the obligation, and are measured at the best estimate at the Statement of Financial Position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

Foreign currency translation

The Company's functional and presentation currency is Pounds Sterling. Transactions in foreign currencies are initially recognised at the rate of exchange ruling at the date of the transaction.

At the end of each reporting period foreign currency monetary items are translated at the closing rate of exchange. Non-monetary items that are measured at historical cost are translated at the rate ruling at the date of the transaction. All differences are charged to Statement of Comprehensive Income.

Judgements in applying accounting policies and key sources of estimation uncertainty

In applying the Company's accounting policies, the Directors may be required to make judgements and estimates that could impact the amounts reported for assets and liabilities as at the Statement of Financial Position date and the amounts reported for revenues and expenses during the year.

i) Provisions

Provisions established by the Company are based on management's assessment of relevant information and advice available at the time of preparing the financial statements. Outcomes are uncertain and dependent on future events. Where outcomes differ from management's expectations, differences from the amount provided will impact profit or loss in the period the outcome is determined.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

ii) Impairment of assets held at amortised cost

The Company assesses, at each balance sheet date, whether there is objective evidence that an asset is impaired. A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more loss events and that loss event has had an impact on the estimated future cash flows of the financial asset. The estimation of future cash flows requires management to make judgements and assumptions on timing of the cashflows, discounts rates to apply, and probability of scenarios in respect of recovery/restructure of defaulted loans which impact the recoverable amount of the asset being assessed.

iii) Impairment of intangible assets

Management exercises judgment in determining whether an impairment loss should be recognised when the carrying amount of intangible assets is less than the recoverable amount. Judgement is required to identify the cash generating units (CGU) where the asset does not generate cash inflows that are largely independent of those assets or other groups of assets.

This is particularly relevant where additional functionality or modules are built on to the platform for which individual future economic benefit cannot be quantified. These are thus grouped to the largest CGU to which management can reliably assign future economic benefit.

iv) Effective rate of interest calculations

Interest income/fees and interest expenses/charges are recognised over the period the income and expenses relate to. Effective Interest Rate (EIR) calculations reflect the actuarial method (as required by the accounting standard), which requires assumptions to be made about the behaviour of the liabilities given the lack of historical data. Kuflink has assumed a behavioural maturity of 4 years for platform investments. Where behavioural maturities change, this will impact the recognition of interest expenses and charges in the profit and loss account. Similarly, where loans are re-termed this will impact the recognition of income and fees in the profit and loss account.

v) Tax

Deferred tax assets and liabilities can be recognised when the carrying amount of an asset or liability in the statement of financial position differs from its tax base. Deferred tax assets are recognised when in the opinion of management, it is probable that taxable profits will be available against which the differences can be utilised. Deferred tax assets are recognised in subsidiaries with a history of trading losses only where management have prepared and assessed forecasts of taxable profit which indicate full recovery in the foreseeable future with a high level of confidence.

vi) Value Added Tax

Kuflink Bridging Limited's income is derived from the loans it generates and the income is deemed exempt for VAT purposes. Kuflink Bridging Limited charges Management fees to Kuflink Bridging Ltd (an affiliate company) for services rendered. In a recent review of the structure of the Group it has come to light that the inter-company fee may fall under taxable supply for VAT purposes. Kuflink has sought and received external expert guidance and concluded that companies should have been registered for VAT. Should a VAT group registration been in place, the VAT liability would have been insignificant. As there is no such set-up was in place at the balance sheet date, judgement has been used to estimate a 'worst- case' VAT liability provision. The provision is calculated based on the output VAT on the inter-company charges, which is expected to be the maximum amount payable ex any penalties or penal interest that may be imposed by HMRC. This provisional VAT liability is not reduced for any Input VAT claimable, as at this point in time the Group have not derived the correct input VAT amount. HMRC can charge penalty and interest for late VAT registration, but the management believe the HMRC will not impose such penalties as the VAT registration application was lodged, as soon as it was practically possible, after Kuflink became aware of the situation. No contingent liability was thus recognised in this regard, given it could not be reliably measured or probable.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

2 Financial risk management considerations

(i) Interest rate risk

The Company does not have any significant direct exposure to variances in interest rates. The Company makes fixed rate loans to borrowers that are financed by the issuance of fixed rate borrowings. Both the loans made, and the borrowings issued are measured at amortised cost. As a result, any future interest rate variances will have no direct impact on future cash flows (via interest payments or receipts) or the carrying value of the assets or liabilities held by the Company.

The Company's only asset that is subject to variable interest rates is the cash held at bank. None of the Company's other assets and liabilities are interest bearing. As a result, a 1% increase or decrease in interest rates would not have a material impact on the net assets or profit of the Company (2018: not material).

(ii) Credit risk

The Company's maximum exposure to credit risk represents the aggregate carrying value of the loans held at amortised cost (see note 16), debtors (see note 17) and cash balances held by the Company at 30 June 2019.

The credit risk associated with loans and associated accrued interest entitlements is managed through on-going due diligence that is performed to assess the ability of borrowers to meet their obligations as they fall due for payment. The Company holds cash balances only with reputable credit organisations with a strong credit rating.

(iii) Concentration risk

The largest loan in the portfolio has a carrying value of £3.5m, representing 12% of net loans and has been lent to a related party of the Group. The largest 10 loans account for 43% of total net loan value. The portfolio is weighted to lending on first charge residential mortgaged in Greater London and Southeast England.

(iv) Liquidity risk

Liquidity risk arises from the Company's management of working capital. It is the risk that the Company may encounter difficulties in meeting its financial obligations as they fall due.

The Company's principal liquidity risk relates to having insufficient liquid resources to make repayments of interest or capital to lenders as amounts fall due for payment. Management monitors the cashflow on a regular basis and any pinch point is identified months in advance and necessary action is taken. The table below shows the repayment profile of both interest and capital balances for the Company's existing borrowing portfolio:

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

	Less than 1 year	More than 1 year	Total
	£	£	£
Peer-to-peer Investors	920,814	519,785	1,440,599
Kuflink Borrowing	260,878	7,662	268,540
Interest payable on all borrowings in existence to maturity	1,181,692	527,447	1,709,139
 Interest receivable on all loans in existence to maturity	 1,787,403	 43,769	 1,831,172
	Less than 1 year	More than 1 year	Total
	£	£	£
Peer-to-peer Investors	21,107,779	3,730,657	24,838,436
Kuflink Borrowing	7,786,255	208,306	7,994,561
Expected repayment of capital on all borrowings in existence to maturity	28,894,034	3,938,963	32,832,997
 Expected repayment of capital from all loans in existence to maturity (Net of impairment)	 28,410,347	 1,235,296	 29,645,643

The above table shows there is insufficient liquidity in the next year and the year after. Our past performance shows a substantial number of peer to peer investors do re-term, if this were to continue, the Company would have less of a liquidity mismatch than detailed in the table above. The directors are looking to address any further liquidity mismatches through additional capital raises in the short term. The Company has secured £2.5m of equity capital from the Group in June 2020 and has implemented cost saving plans to increase the available liquidity. For the longer term, management are in discussion with potential investors to raise further equity but these are in the initial stages of the fund raising process (see Directors report (Going concern section) and Note 1).

The Company's other creditors are repayable on demand at balances that approximate to the carrying values shown in Note 19.

(v) Currency risk

The Company has no direct exposure to foreign currency risk as all loans made and the borrowings issued by the Company are denominated in sterling.

(vi) Capital risk management

The Company is not subject to any externally imposed capital requirements. The Company will monitor the capital requirement regularly and the Directors expect to cover the medium-term losses through equity raises by issuing new shares.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

3 Analysis of Interest Income and fees	2019	2018 (Restated)
	£	£
Loan interest receivable	3,070,672	2,281,382
Default Interest	361,781	372,923
Arrangement fees	503,434	154,029
Admin fees	14,896	2,569
Broker fees	37,084	17,718
	<u>3,987,867</u>	<u>2,828,621</u>

All turnover is from services provided in the United Kingdom in respect of the Company's principal activity. Fee income that are generated as part of the loan generation and they are included within the loan balance and recognised using the effective interest method similar to interest income. Significant increase in the Arrangement fees is due to growth in the loan book origination in 2019 and the appropriate accounting of spreading the income over the period of the loan which reduced PYA comparatives on restatement.

4 Analysis of Interest Expenses and Charges	2019	2018 (Restated)
	£	£
Peer-to-Peer Interest		
Interest	1,164,262	488,785
Cashback Expenses	140,337	23,067
	<u>1,304,599</u>	<u>511,852</u>
Interest on Kuflink Borrowings	546,059	479,229
Broker commission	277,470	44,936
	<u>2,128,128</u>	<u>1,036,017</u>

Cashback expenses are incurred by Kuflink Ltd and are recharged to Kuflink Bridging Ltd. These amounts, along with broker commission are deducted from the carrying amount of the associated liability and recognised as an expense over the term of the loan using the effective interest method.

5 Other Income	2019	2018 (Restated)
	£	£
Exit Fees	68,224	55,734
Other Fees	62,638	4,920
Sundry income	85,563	450,025
	<u>216,425</u>	<u>510,679</u>

Other Income incorporate fees and expenses that are unrelated to the loan generation process and are recognised as generated/incurred. Sundry income in 2019 includes referral commission for providing lending leads. The 2018 figures represent income from management charges levied to Kuflink Limited. This practice ceased in 2018, as the cost incurred in the current year was recorded directly in the relevant entities.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

6 Direct Expenses	2019	2018 (Restated)
	£	£
Movement in impairment provision (Note 16)	457,612	2,481,202
Loans written-off	382,870	24,587
Total Impairment Expense	840,482	2,505,789
Other Direct Expenses	51,204	24,090
	<u>891,686</u>	<u>2,529,879</u>

Other Direct Expenses include cost related to legal searches and recovery related to lending activities.

7 Administrative Expenses	2019	2018 (Restated)
	£	£
Employee Cost	1,147,561	1,125,022
Platform Cost	1,335,570	675,152
General administrative expenses	742,871	794,029
	<u>3,226,002</u>	<u>2,594,203</u>

Platform Cost are recharged to the Company by Kuflink Ltd as per agreed service level agreement in place.

8 Operating loss	2019	2018 (Restated)
	£	£
The operating loss of the Company is stated after charging:		
Impairment of loans in the year	840,482	2,505,789
Depreciation of tangible fixed assets	63,442	52,779
Operating lease rentals - land and buildings	89,554	125,260
Auditor's remuneration for audit services (including VAT)	43,360	14,000

The auditor did not receive any remuneration in respect of non-audit services provided to the Company during the year (nil in 2018).

9 Directors' emoluments	2019	2018
	£	£
Emoluments	88,250	83,880
Bonus	500	450
Company contributions to defined contribution pension plans	723	295
	<u>89,473</u>	<u>84,625</u>

Number of directors to whom retirement benefits accrued: Defined contribution plans

2019 Number	2018 Number
1	2

	2019 £	2018 £
Contributions made	723	295

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

10 Staff costs	2019	2018
	£	(Restated)
	£	£
Wages and salaries	903,415	925,523
Social security costs	104,821	97,012
Other pension costs	7,743	3,158
Other employee cost	131,582	99,329
	<u>1,147,561</u>	<u>1,125,022</u>
Average number of employees of the Company including Directors during the year		
	2019	2018
	Number	Number
Administration	12	17
Development	4	4
Marketing	2	2
Sales	9	9
	<u>27</u>	<u>32</u>

Due to current economic conditions as a result of Covid-19, Kuflink have made several positions redundant post year end to streamline its business costs whilst ensuring it can continue to operate effectively.

11 Taxation	2019	2018
	£	(Restated)
	£	£
Analysis of (credit) / charge in period		
Current tax:		
Adjustments in respect of previous periods	-	(17,513)
Deferred tax:		
Origination and reversal of timing differences	-	(36,655)
	<u>-</u>	<u>(54,168)</u>
Tax (credit) / charge on loss on ordinary activities	-	(54,168)

Factors affecting tax charge for period

The differences between the tax assessed for the period and the standard rate of corporation tax are explained as follows:

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

	2019	2018 (Restated)
	£	£
Loss on ordinary activities before tax	(2,041,524)	(2,820,799)
Standard rate of corporation tax in the UK	19%	19%
	£	£
(Loss) / Profit on ordinary activities multiplied by the standard rate of corporation tax	(387,890)	(535,952)
Effects of:		
Expenses not deductible for tax purposes	5,117	18,861
Non-qualifying depreciation	6,469	3,342
Unused trading losses to carry forward	376,304	477,094
Adjustments to tax (credit)/charge in respect of previous periods	-	(17,513)
Total tax (credit)/charge for period	-	(54,168)

The Company has tax losses arising in the UK of £4,667,399 (2018: £2,709,013) against which a Deferred tax asset has not been recognised. These losses are available indefinitely for offset against future taxable profits of the company. However, as the Company cannot accurately forecast the quantum and timing of the future taxable profit, a Deferred tax asset has not been recognised in respect of these losses. In addition, there are other gross short-term timing differences of £92,588 (2018: £87,773) in respect of which a deferred tax asset has not been recognised. As per Note 20, a deferred tax asset has been recognised on taxable losses to the extent that these can offset deferred tax liabilities.

The UK government enacted the Finance (No.2) Act 2015, which received royal assent on 18 November 2015, to reduce the standard rate of UK corporation tax to 19% from 1 April 2017 and further to 18% from 1 April 2020. In the 2016 Finance Bill, the UK Government announced a further reduction in the rate of corporation tax to 17% from 1 April 2020. Since the balance sheet date, the rate reduction to 17% has been reversed, and it will remain at 19%.

The Group has identified that it should have registered for VAT from 1 September 2017 and made an application with HMRC – for more information please refer to Note 19.

12 Intangible assets

	2019	2018 (Restated)
	£	£
Internally generated software		
Cost		
Additions (work in progress)	56,097	-
At 30 June 2019	56,097	-
Amortisation		
At 30 June 2019	-	-
Carrying amount		
At 30 June 2019	56,097	-

Assets being developed are Customer relationship management (CRM) and Loan Management System (LMS). As these assets were being developed and not commissioned into use, no amortisation was provided for these additions in 2019.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

13 Tangible fixed assets

	Leasehold Improvements	Fixtures and fittings	Total
	£	£	£
Cost			
At 1 July 2018	183,823	89,760	273,583
Additions	16,195	27,050	43,245
At 30 June 2019	<u>200,018</u>	<u>116,810</u>	<u>316,828</u>
Depreciation			
At 1 July 2018	55,420	52,481	107,901
Charge for the year	39,617	23,825	63,442
At 30 June 2019	<u>95,037</u>	<u>76,306</u>	<u>171,343</u>
Carrying amount			
At 30 June 2019	<u>104,981</u>	<u>40,504</u>	<u>145,485</u>
At 30 June 2018	<u>128,403</u>	<u>37,279</u>	<u>165,682</u>

14 Other Current Assets Valuation

	2019 £	2018 £
At 1 July 2018	-	-
Reclassification from loans at amortised cost	570,999	-
At 30 June 2019	<u>570,999</u>	<u>-</u>

In the year ending June 2019, the Company entered into a financing arrangement with a client structured as a sale and repurchase agreement. The essence of this agreement was that the Company advanced funds to the customer for business purposes, secured by a high value motor vehicle. This asset was sold to the Company up front, with an agreed repurchase arrangement with the client. The company retained custody of the asset throughout the agreement. Following the client's failure to repurchase the asset by the agreed deadline, the company took possession of the vehicle and reflected this by reclassifying the loan to other current assets.

Subsequent to the balance sheet date, the Company has sold this asset to a third party and did not suffer any loss as a result (Note 33).

15 Investments

	Investments in subsidiary undertakings £
Cost	
At 1 July 2018	1
Disposals	<u>(1)</u>
At 30 June 2019	<u>-</u>
Historical cost	
At 1 July 2018	<u>1</u>

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Kuflink Finance No.1 Ltd (formerly Kuflink HWC Ltd) is incorporated in the UK, and it remained dormant throughout the period. This was disposed during the year to Kuflink Group Plc at no gain or loss.

16 Loans at amortised cost

	2019	2018
	£	(Restated)
		£
Opening value of loans (gross)	19,753,247	10,550,834
Additions	27,283,848	23,568,848
Repaid loans	(17,301,462)	(17,888,296)
Loans written off	(382,870)	(24,587)
Interest and fees	5,084,843	3,546,448
Reclassification to Assets held for sale	(570,999)	-
Closing par value of loans	33,866,607	19,753,247
Opening value of Unearned income	(669,173)	(38,192)
Movement	(608,486)	(630,981)
Closing value of Unearned income	(1,277,659)	(669,173)
Opening value of Impairment provision	(2,485,693)	(4,491)
Movement	(457,612)	(2,481,202)
Closing value of Impairment provision	(2,943,305)	(2,485,693)
Opening value of Loans (Net)	16,598,381	10,508,151
Summary of movement	13,047,262	6,090,230
Closing value of Loans (Net)	29,645,643	16,598,381
Of which:		
Due within one year	28,410,347	11,153,414
Due after one year	1,235,296	5,444,967

Unearned income represents up-front fees charged to borrowers and included in the initial carrying amount of the asset. This income is recognised in the Income Statement over the life of the loan in line with Effective Interest Rate accounting.

17 Debtors

	2019	2018
	£	(Restated)
		£
Amounts owed by group undertakings	1,159,016	981,843
Other debtors	5,399	1,050
Prepayments	217,514	154,248
Tax Credit	5,326	5,326
	<u>1,387,255</u>	<u>1,142,467</u>

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019
18 Financial liabilities held at amortised cost

Total Company	Current 2019	Non- current 2019	Total 2019	Total 2018
				(Restated)*
	£	£	£	£
Opening value of financial liabilities (Restated)	13,646,608	3,839,876	17,486,484	10,323,486
Additions	30,006,172		30,006,172	21,367,980
Redeemed financial liabilities	(14,370,618)		(14,370,618)	(13,865,640)
Movement in deferred cashback expense	(101,112)	(187,930)	(289,042)	(339,342)
Movements from non-current to current portion	(287,016)	287,016	-	-
Carrying value at 30 June 2019	<u>28,894,034</u>	<u>3,938,962</u>	<u>32,832,996</u>	<u>17,486,484</u>

of which:

a) Peer-to-Peer Investments	Current 2019	Non- current 2019	Total 2019
	£	£	£
Opening value (Restated)	8,758,064	2,722,344	11,480,408
Additions	22,728,184		22,728,184
Repaid investments	(9,081,115)		(9,081,115)
Movement in deferred cashback expense	(101,112)	(187,930)	(289,042)
Movement from non-current to current portion	(1,196,243)	1,196,243	-
Carrying value at 30 June 2019	<u>21,107,778</u>	<u>3,730,657</u>	<u>24,838,435</u>

b) Company borrowing	Current 2019	Non- current 2019	Total 2019
	£	£	£
Opening value	4,888,544	1,117,532	6,006,076
Additions	7,277,988	-	7,277,988
Repaid borrowings	(5,289,503)	-	(5,289,503)
Movement from non-current to current portion	909,227	(909,227)	-
Carrying value at 30 June 2019	<u>7,786,256</u>	<u>208,305</u>	<u>7,994,561</u>

* Liabilities in 2018 were not split between peer-to-peer and group borrowing, hence comparatives are not disclosed.

Kuflink Bridging Limited

Notes to the Accounts

for the year ended 30 June 2019

19 Creditors: amounts falling due within one year

	2019	2018 (Restated)
	£	£
Trade creditors	131,381	426,259
Amounts owed to group undertakings	193,597	-
Other taxes and social security costs	35,598	32,044
Other creditors	109,753	87,773
Accruals and deferred income	182,473	89,891
	<u>652,802</u>	<u>635,967</u>

Other creditors includes a 'worst-case' provision of possible VAT liability of £92,588 (2018: £87,773) for potential Value Added Tax payable. The Group has identified that it should have registered for VAT from 1 September 2017 and made an application with HMRC. The provision was made for potential Value Added Tax payable for services received from overseas suppliers of £4,815 in 2019 and £87,773 for potential Value Added Tax payable on the management fee received in 2018 by Kuflink Bridging Limited from Kuflink Ltd. Prior year figures were restated accordingly as disclosed in Note 32. HMRC confirmed the Group VAT registration with effective date from 17 March 2020. The Group expects it will be able to claim a proportionate amount of Input VAT which is currently unknown and not included in the provision. Due to late registration for VAT, HMRC could impose penalty and interest, but no provision is made for these, due to uncertainty at this point, and that significant further liability is not expected to arise.

20 Deferred taxation

	2019	2018 (Restated)
	£	£
Accelerated capital allowances	10,088	5,877
Tax losses carried forward	<u>(10,088)</u>	<u>(5,877)</u>
	-	-
	<u>2019</u>	<u>2018</u>
	£	£
At 1 July	-	36,655
Credited to Statement of Comprehensive Income	-	<u>(36,655)</u>
At 30 June	<u>-</u>	<u>-</u>

21 Share capital

	Nominal value	2019 Number	2019 £	2018 £
Allotted, called up and fully paid:				
Ordinary shares	£0.0001 each	21,694,830	2,170	1,571
	Nominal value	Number	Amount £	Amount £
Shares issued during the year:				
Ordinary shares	£0.0001 each	5,986,005	599	-

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

The Company raised £930k of capital during the year through issuance of shares to its immediate parent Kuflink Group Plc. In lieu of these shares, £930k of loans from an existing shareholder was reduced. These balances were settled via intercompany balances with Kuflink Group Plc. The existing shareholder received a consideration of £930k worth of shares in the Group Parent Company Kuflink Group Plc. No gain or loss was recognised in either of these companies on this transaction.

22 Share premium	2019	2018
	£	£
At 1 July	2,438,976	2,438,976
Shares issued	<u>929,401</u>	<u>-</u>
At 30 June	<u>3,368,377</u>	<u>2,438,976</u>
23 Profit and loss account	2019	2018
	£	(Restated)
		£
At 1 July	(1,933,827)	2,432,804
Loss for the financial year	(2,041,524)	(2,766,631)
Dividends	<u>-</u>	<u>(1,600,000)</u>
At 30 June	<u>(3,975,351)</u>	<u>(1,933,827)</u>
24 Dividends	2019	2018
	£	£
Dividends on ordinary shares (note 23)	<u>-</u>	<u>1,600,000</u>

25 Financial commitments

The Company had total future minimum lease payments under non-cancellable operating leases falling due for payment as follows:

	Land and buildings 2019	Land and buildings 2018
	£	£
Amount due within one year	48,000	48,000
Amount due within two to five years	<u>101,786</u>	<u>149,786</u>
	<u>149,786</u>	<u>197,786</u>

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

26 Related party transactions

At the year end, an amount totalling £6,228,104 (2018: £3,197,996) was outstanding on loans to Directors or related parties of Kuflink Bridging Limited. £4,537,292 (2018: £1,184,341) of these loans were funded through the Peer-to-peer platform, split between "Select" product funding of £3,091,922 (2018: £1,184,341) and "Pool" product funding of £1,445,370 (2018: £nil). The balance was funded through the Company's balance sheet.

Loans to Directors/related parties were issued at preferential rates as at the balance sheet date. Subsequent to the year-end date, the interest rates on these loans have been brought in line with those levied on third-party borrowers, after the inclusion of an exit fee addendum to these loans. These addendums were signed by the Directors/related parties after the balance sheet date and were actioned for outstanding loans as at the balance sheet date. Any loans previously paid up by directors/related parties were not retrospectively amended.

Also, at the year-end an amount totaling £243,749 (2018: £227,751) was outstanding on the borrowing from Directors or related parties or companies controlled by the Directors.

During the year, the Company has traded with suppliers who are controlled by Directors or related parties amounting to £243,258 (2018: £170,308).

An amount of £76,921 (2018: nil) was reimbursed to the director for payments made to these IT companies on behalf of Kuflink.

Subsequent to the year-end Directors of the Group provided guarantees worth up to £2,078,698, secured by real property and other assets, to cover the Group in the event of a loss on certain loans. This took the balance of year-end extant lending that was either directly to Directors or related parties or indirectly guaranteed by Directors or related parties to £8,306,802.

The Company has taken the advantage of the exemption allowed by FRS102, "Related party disclosures", not to disclose any transaction with members of the group of Kuflink Group Plc where 100% of the voting rights of those companies are controlled within that group.

27 Remuneration of key management personnel

The remuneration of key management personnel, which include both the directors and other employees of the Company that are deemed to meet the definition of key management, is as follows:

	2019 £	2018 £
Wages	454,320	386,865
Bonus	1,500	1,450
Pension	723	295
	<u>456,543</u>	<u>388,610</u>

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

28 Controlling party

Kuflink Bridging Limited is 100% owned by Kuflink Group Plc. The registered address of the parent Company is 21 West Street, Gravesend, Kent, DA11 0BF. Consolidated accounts that include the result of the Company are prepared by Kuflink Group Plc.

29 Functional and presentation currency

The financial statements are presented in Sterling, which is also the functional currency of the Company.

30 Legal form of entity and country of incorporation

Kuflink Bridging Limited is a private Company limited by shares and incorporated in England.

31 Principal place of business

The address of the Company's principal place of business and registered office is:
21 West Street
Gravesend
Kent
DA11 0BF

KUMINK Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

32 Amendments made to prior period

During the year the Company re-assessed the way in which its chosen accounting policies were being applied in practice. The re-assessment was undertaken in comparison to prevailing Generally Accepted Accounting Practice ("GAAP") and consideration was given to how such GAAP had been evolving over time. The result of the review was that a number of accounting policies were not appropriately adhered to, and the application of other previously extant policies was amended. Given this outcome, we have restated our prior year comparatives for the year to June 2018 to reflect these revised policies and practices.

In summary, the key areas of revision relate to better reflecting the risks and rewards of ownership of the loans that are sourced from the platform and the accounting for income and expenses on an Effective Interest Rate method; providing for deemed impaired loans, providing for a 'worst-case' scenario of VAT liabilities, better assessing the rationale supporting the capitalisation of intangible assets and appropriately disclosing related party transactions.

The detailed adjustments to the previously reported prior year financial balances are analysed in the following tables and described thereafter.

Statement of Comprehensive Income	2018	Gross up	EIR	Intangible	Impairment	Cashback	Reclassifi- cation	Tax	2018 (Restated)
	£	£	£	£	£	£	£	£	£
Interest Income	2,827,172		(160,583)				162,032		2,828,621
Interest Expense and Charges	(2,002,972)	(73,465)	65,516			(39,801)	1,014,705		(1,036,017)
Net Interest Income	824,200	(73,465)	(95,067)	-	-	(39,801)	1,176,737	-	1,792,604
Other Income	-						598,452	(87,773)	510,679
Direct Expenses	-				(2,090,921)		(438,958)		(2,529,879)
Administrative expenses	(1,232,678)			(369,686)		344,846	(1,336,784)	99	(2,594,203)
Operating loss	(408,478)	(73,465)	(95,067)	(369,686)	(2,090,921)	305,045	(553)	(87,674)	(4,613,403)
Interest receivable	52						(52)		-
Interest payable	(605)						605		-
Loss on ordinary activities before taxation	(409,031)	(73,465)	(95,067)	(369,686)	(2,090,921)	305,045	-	(87,674)	(2,820,799)
Tax credit/(charge)	42,998							11,170	54,168
Loss for the financial year	(366,033)	(73,465)	(95,067)	(369,686)	(2,090,921)	305,045	-	(76,504)	(2,766,631)

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Statement of Financial Position

	2018 £	Gross up	EIR	Intangible	Impairment	Cashback	Reclassifi- cation	Tax	2018 (Restated) £
Non-currents assets									
Intangible assets	450,000			(450,000)					-
Fixed assets	165,682								165,682
Investments	1								1
Loans held at amortised cost falling due after more than one year	5,444,967								5,444,967
	6,060,650	-	-	(450,000)	-	-	-	-	5,610,650
Current assets									
Loans held at amortised cost	1,585,170	11,819,748	(160,583)		(2,090,921)				11,153,414
Debtors	1,061,606		40,516	44,314		(9,295)	-	5,326	1,142,467
Cash at bank and in hand	722,640								722,640
	3,369,416	11,819,748	(120,067)	44,314	(2,090,921)	(9,295)	-	5,326	13,018,521
Creditors: amounts falling due within one year									
Financial liabilities held at amortised cost	(2,166,200)	(11,819,748)	25,000			314,340			(13,646,608)
Creditors	(474,729)	(73,465)						(87,773)	(635,967)
	(2,640,929)	(11,893,213)	25,000	-	-	314,340	-	(87,773)	(14,282,575)
Net current (liabilities)/assets	728,487	(73,465)	(95,067)	44,314	(2,090,921)	305,045	-	(82,447)	(1,264,054)
Total assets less current liabilities	6,789,137	(73,465)	(95,067)	(405,686)	(2,090,921)	305,045	-	(82,447)	4,346,596
Creditors: Financial liabilities held at amortised cost falling due after more than one year	(3,839,876)								(3,839,876)
Other liabilities									
Deferred taxation	(5,943)							5,943	-
Net assets	2,943,318	(73,465)	(95,067)	(405,686)	(2,090,921)	305,045	-	(76,504)	506,720
Capital and reserves									
Called up share capital	1,571								1,571
Share premium	2,438,976								2,438,976
Profit and loss account	502,771	(73,465)	(95,067)	(405,686)	(2,090,921)	305,045	-	(76,504)	(1,933,827)
Total shareholder's funds	2,943,318	(73,465)	(95,067)	(405,686)	(2,090,921)	305,045	-	(76,504)	506,720

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Statement of Cash Flows

	2018	Gross up	EIR	Intangible	Impairment	Cashback	Reclassification	Tax	2018 (Restated)
	£	£	£	£	£	£	£	£	£
Operating activities									
Loss for the financial year/period	(366,033)	(73,465)	(95,067)	(369,686)	(2,090,921)	305,045	(42,998)	(87,674)	(2,820,799)
Adjustments for:									
Interest receivable	(52)							(99)	(151)
Interest payable	605								605
Tax credit	(42,998)						42,998		-
Depreciation	52,779								52,779
Amortisation of intangible fixed assets	150,000			(150,000)					-
Decrease in loans held at amortised cost									
Additions	(6,465,350)	(20,018,965)							(26,484,315)
Repayments	9,553,083	8,335,213							17,888,296
Write off and impairments	390,281	24,587			2,090,921				2,505,789
Decrease in debtors	887,027		(40,516)	(80,314)		9,295			775,492
Increase in funding	-	11,819,748	(25,000)			(314,340)	(2,355,950)		9,124,458
Increase in creditors	313,670	73,465						87,773	474,908
	4,473,012	160,583	(160,583)	(600,000)	-	-	(2,355,950)	-	1,517,062
Interest received	52								52
Interest paid	(605)								(605)
Corporation tax paid	(42,216)								(42,216)
Cash generated from operating activities	4,430,243	160,583	(160,583)	(600,000)	-	-	(2,355,950)	-	1,474,293
Investing activities									
Payments to acquire intangible assets	(600,000)			600,000					-
Payments to acquire tangible fixed assets	(35,187)								(35,187)
Payments to acquire investments	(1)								(1)
Cash used in investing activities	(635,188)	-	-	600,000	-	-	-	-	(35,188)

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Statement of Cash Flows (continued)

	2018	Gross up	EIR	Intangible	Impairment	Cashback	Reclassification	Tax	2018 (Restated)
	£	£	£	£	£	£	£	£	£
Financing activities									
Equity dividends paid	(1,600,000)								(1,600,000)
Proceeds from the issue of borrowings	7,590,844						(7,590,844)	-	-
Amount paid on redemption of borrowings	(9,946,794)						9,946,794		-
Cash used in financing activities	(3,955,950)	-	-	-	-	-	2,355,950	-	(1,600,000)
Net (decrease)/increase in cash and cash equivalents									
Cash generated from operating activities	4,430,243	160,583	(160,583)	(600,000)	-	-	(2,355,950)	-	1,474,293
Cash used in investing activities	(635,188)	-	-	600,000	-	-	-	-	(35,188)
Cash used in financing activities	(3,955,950)	-	-	-	-	-	2,355,950	-	(1,600,000)
Net cash used	(160,895)	160,583	(160,583)	-	-	-	-	-	(160,895)
Cash and cash equivalents at start of the period	883,535								883,535
Cash and cash equivalents at end of the period	722,640								722,640
Cash and cash equivalents comprise:									
Cash at bank	722,640								722,640

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

Year 2018 numbers have been restated due to the following adjustments:

a) Gross up of loans and financial liabilities

Given the spread earned by the Company between the income on any loans novated to the platform and the amounts paid to the platform investors; and the fact the Company tends to retain at least a 5% interest in the loans that is used to absorb first losses should they arise; it is clear that the Company retains the majority of the risks and rewards of ownership of the loans. Therefore, the loans should be recognised on a gross basis on the Company's balance sheet – specifically within the Kuflink Bridging Limited entity. As described in Note 1, loans and financial liability comparatives have been grossed up.

These adjustments led to £11,819,748 of loans and financial liabilities being recognised within the comparatives and £73,465 of interest expense payable to platform investors being recognised which had not previously been accrued.

b) Effective Interest Rate (EIR) accounting

The recognition of loans and their associated liabilities gross on the balance sheet would require that the associated interest income and expense be recognised over the life of the loans and liabilities under the effective interest rate method. Previously revenue associated with the loans had been recognised as agency fee income when earned as the loans and liabilities were not recognised within the financial statements. The recognition of certain income items on the basis of the EIR method has impacted the interest income by £145,583 (£160,583 less the adjustment of £15,000 discussed below). The impact of EIR on cash back expenses is discussed below.

Kuflink's loan management system records interest on a straight-line basis. An adjustment of £15,000 was made to the interest income and £25,000 to interest expenses to align the treatment to the actuarial method as required by the accounting standards. £40,516 of prepaid broker fees was also booked as a prepaid asset on balance sheet to align with the EIR accounting adopted.

Deferred Cashback accounting.

Kuflink Limited operated an incentive scheme for platform investors and previously recharged the related cost back to Kuflink Bridging Limited. To reflect the revised EIR basis of accounting, the 2018 cost of £344,846 has been reversed from administrative expenses and instead recognised as a deferred cash back asset and amortised over a 4-year period. The net charge for 2018 was £30,506. Reserve deal interest cashback of £9,295 was shown in Kuflink Ltd previously, now transferred to Interest expense and charges in Kuflink Bridging Ltd. Intercompany debtor balance was accordingly adjusted. The net impact of this was a credit to P&L of £305,045.

c) Intangible

Intangibles amounting to £450,000 were written off as they did not meet the capitalisation criteria. Of this, Intangibles worth £420,000 were transferred to Kuflink Ltd (an affiliate company) as they were previously booked to the wrong entity. Similarly £36,000 (which was adjusted in KBL's 2018 opening equity) was transferred from Kuflink Ltd as it was previously booked in the wrong entry. A net adjustment of £30,000 was made to administrative expenses to write off the remaining intangibles. £150k of previously charged amortization was adjusted in the cashflow restatement as all intangibles were effectively written off to the P&L as they did not qualify for capitalisation.

A net £44,314 adjustment to debtors relates to the inter-co adjustment (£420,000 and £36,000) in relation to Intangible mentioned above and £339,686 of employee costs now correctly charged in Kuflink Bridging Limited which was previously charged in the incorrect entity Kuflink Limited. This cost has been reversed and charged as administrative expenses in Kuflink Bridging as they did not meet the capitalisation criteria.

A net adjustment of £369,686 was made to Administrative expenses incorporating the reversal of the £150,000 of intangibles amortization offset by £180,000 of intangible write offs and £339,686 of previously recharged expenses as discussed above.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

d) Impairment

Management have done a re-assessment for impairment on loans and have provided for those loans that were deemed impaired. This led to an additional impairment loss for 2018 of £2,090,921.

e) Reclassification

Management have done a review of the Comprehensive Income statement and reclassified income and expenses, to show fair presentation in line with gross up of loans and financial liabilities. Of note were £1,020,000 of Platform fees and £205,012 investor promotion reclassified from Interest expenses and charges to Administrative expenses. Interest income and interest expenses was grossed up by £415,320 as interest on novated loans and financial liabilities due to platform investors and the recognition of loans were made on the balance sheet of Kuflink Bridging Limited. Impairment provisions and write offs amounting to £414,868 reclassified from Administrative expenses to Direct expenses. A number of other smaller adjustments were made to align presentation. The net impact of this and other reclassification on the P&L for 2018 is nil.

f) Tax

Value Added Tax payable of £87,773 on the management fee received in 2018 by Kuflink Bridging Limited from Kuflink Ltd have now been recognised in the accounts. These possible VAT liabilities were identified on a recent review the Company undertook and identified, that it should have been registered for VAT from 30 June 2018. Please see Note 19 for a fuller description of the issue and the assumptions and estimates made in the calculation of these liabilities.

Given the various PYA restatements, Kuflink Bridging Limited submitted a revised tax return for 31 December 2016 in June 2018, which increased the tax credit receivable by £5,227 and the interest receivable of £99. Previously recognised Deferred Tax liabilities of £5,943 have now been offset against the unrecognised Deferred Tax Asset.

The net impact on the P&L of these adjustments was a tax credit of £11,170.

g) Amendments to Cashflows

The adjustments detailed above have been reflected in the restated cash flow statement of the company and the table above highlights the various movements to get to the restated number. A number of adjustments were made to bring the presentation of the cashflow in line with the P&L and B/S by reclassifying cashflow to operating activities that were previously presented as financing. This was largely due to the gross up of loans and liabilities and the recognition of interest income and expenses on an effective interest rate method. Impact from the other items are depicted in the reconciliation of the restated numbers above.

h) Statement of Changes in Equity

The overall impact of these adjustments was £2.436m of which £36k was adjusted in the FY17 P&L reserves and £2.4m was adjusted in the FY18 P&L reserves as depicted in the Statement of Changes in Equity.

33 Post balance sheet events

Pandemic

Subsequent to the balance sheet date, there has been a sharp deterioration in the economic outlook in the UK as a consequence of the COVID-19 pandemic and measures taken by the government to control the spread of the virus. A significant reduction in UK economic output is now expected over an uncertain period with large rises in unemployment as a result of business closures and knock on supply chain impacts. As more fully explained within the Directors' Report on page 7, as a result of this the Company is expected to be impacted in the year ahead by a reduction in its originally projected levels of income.

Management continues to consider the pandemic's potential economic impact on the Company. The majority of our employees are currently operating successfully from remote locations. IT and communications resources available to the Directors have ensured that all staff can continue to work effectively and keep in regular contact with colleagues and clients, and as a result disruption has been kept to a minimum.

Kuflink Bridging Limited
Notes to the Accounts
for the year ended 30 June 2019

However, as part of our going concern review, the Directors assessed the potential impact of a prolonged slowdown on levels of revenue and cashflow and have taken steps to absorb most of the impact on the Company's overall results. Steps taken include:

- Senior management voluntary pay cuts
- Utilised Covid-19 furlough scheme and low interest Government backed loans.
- Secured additional securities to improve loan collateralisation levels.
- Reduction of cost by way of redundancies, savings on marketing spend and licenses, by negotiating discounts and outsourcing to overseas partners at significantly reduced cost.
- Kuflink mobile app and compound interest features introduced to P2P investors, to boost the investments and liquidity.
- Secured new loan funding in Kuflink Bridging.
- Strategy change from high growth to a focus on achieving higher profitability and liquidity.
- Introduced payment holidays on investments to match the payment holidays introduced to borrowers.

Management do not see the pandemic's economic impact on its own as a material uncertainty in relation to going concern, but they do believe these circumstances contribute to the material uncertainties discussed in note 1.

The Directors' actions post year end to reduce the cost base are deemed to be non- adjusting post balance sheet events.

Motor Vehicle:

In the year ending June 2019, the Company entered into a financing arrangement with a client structured as a sale and repurchase agreement. The essence of this agreement was that the Company advanced funds to the customer for business purposes, secured by a high value motor vehicle. This asset was sold to the Company up front, with an agreed repurchase arrangement with the client. The company retained custody of the asset throughout the agreement. Following the client's failure to repurchase the asset by the agreed deadline, the Company took formal possession of the vehicle.

Subsequent to the balance sheet date, the Company has sold this asset to an unrelated third party and did not suffer any loss as a result.

Guarantees:

Some of the Directors of the Group have provided personal guarantees to the value of £2.1m, to cover the Group in the event of a loss on certain loans. These guarantees were provided after the balance sheet date.

Capital Raise:

The Company raised £2.5m of additional equity capital from Kuflink Group Plc in June 2020.

Staff Redundancies:

Due to current economic conditions as a result of Covid-19, the Company has made several positions redundant post year end to streamline its business costs whilst ensuring it can continue to operate effectively.