10 October 2019

Morses Club PLC
Interim results for the twenty-seven weeks ended 31 August 2019

Delivering a customer-centric product strategy to meet changing customer needs

Morses Club PLC, an established provider of non-standard financial services ("the Group"), is pleased to announce its interim results for the 27 week period ended 31 August 2019. The prior year comparative period comprised 26 weeks.

The Group now consists of Morses Club, the UK's second largest home collected credit ("HCC") lender, and its wholly owned subsidiary Shelby Finance Limited ("Shelby Finance"), an online instalment loan provider, and its subsidiary U Holdings Limited ("UHL"), a provider of online current account services.

The acquisition by Shelby Finance of the business and certain assets of CURO Transatlantic Limited out of administration on 26 February 2019 and the acquisition of UHL on 21 June 2019, was part of the Group's strategy to develop a wider range of products to address market demand in the non-standard financial sector. As a result, for the first time, the Group results will include segmental information. For these purposes, HCC will be shown as one segment and Digital (comprising Shelby Finance and UHL) will be shown as another.

The Group's results are being reported under IFRS 16 'Leases' for the first time following the mandatory adoption of the standard for accounting periods commencing after 1 January 2019. As permitted by IFRS 16, comparative information for FY19 has not been restated.

Highlights

Group

- Net loan book growth over 12 months of 6.2% to £72.2m (H1 FY19: £68.0m)
- Impairment as a percentage of revenue[1] for the period was 19.0% (H1 FY19: 21.9%)
- Customer numbers of c276,000 (H1 FY19: 230,000) which include around 52,000, (H1 FY19: 1,000) in the digital division
- Proposed interim dividend of 2.6p (H1 FY19: 2.6p)
- HCC adjusted[1] profit before tax up 20.2% to £13.1m (H1 FY19: £10.9m)
- Adjusted[1] profit before tax of £9.6m (H1 FY19: £10.5m) with strong performance in HCC division offset by the integration of new digital businesses; Statutory profit before tax is £6.7m (H1 FY19: £10.0m) impacted for the same reason
- Adjusted[1] EPS 5.9p (H1 FY19: 6.6p); Basic EPS 4.1p (H1 FY19: 6.3p)
- Review of current financing arrangements underway

[1] Definitions are set out in the Glossary of Alternative Performance Measures

HCC

- Adjusted profit before tax up 20.2% to £13.1m (H1 FY19: £10.9m). Reported profit before tax of £11.7m up 12.5% on last year (H1 FY19: £10.4m)
- Following the introduction of the FCA's remedies to the High Cost Credit Review, which were introduced at the end of 2018, growth in credit issued has slowed. There has been a continued focus on quality business which has helped to reduce impairment as % of revenue down to 18.5% (H1 FY19: 21.4%)
- Customer numbers of 224,000 are broadly stable with a small reduction from prior year (H1 FY19: 229,000)
- 97.5% of agent rounds are fully staffed
- Continued efficiency drives have reduced the cost / income ratio to 57.5%[1] (H1 FY19: 58.6%)
- Successful launch of customer portal with 30,000 customers registered in first 6 months
- Morses Club Card established as a core cashless product with c33,000 customers and balances of £15.9m (H1 FY19: 27,000 customers and £13.1m of balances)
- Further technology developments to enable agents to offer customers paperless loan transactions

Digital

- Acquired two digital businesses offering online lending and current account services
- Knowledge transfer, by in house resource of the CURO transatlantic decision engine into Shelby Finance Loan Management platform
- Acquired customer base of 49,000 customers in online lending which has reduced to c36,000 due to the withdrawal of payday type products
- Customer base of 16,000 engaged in online current account product
- Relocation of contact centre to support online lending business
- Engaged in full integration plan into the Group structure

[1] Definitions are set out in the Glossary of Alternative Performance Measures

Paul Smith, Chief Executive Officer of Morses Club, comments:

"The period has seen continued strong financial performance in our core HCC business and significant developments in our diversification strategy. Our core HCC business remains one of the best in the sector and good progress has been made with our technology platform to enhance the customer/agent experience in HCC, as well as develop our product strategy, with clear adherence to our regulatory obligations.

"Our fundamental approach is to develop all our business segments in response to what our customers tell us, and how they respond to our service offering. Whilst the HCC model is still a strong and highly relevant product, as our customers evolve, so must we.

"We have introduced a customer portal in the period, which already has over 30,000 registered customers, actively using the functionality to pay online, request further credit and access other offers. Following our acquisitions, we are involved in a complex integration plan to ensure that the divisions of Shelby Finance are incorporated into the Group's ethos of Treating Customers Fairly (TCF) and customer service excellency. This will further enable the Group to offer relevant credit and online current account products, principally aimed at the non-standard customer. Both businesses have been subject to considerable re-engineering, but we envisage that the second half of the year will begin to further crystallise the work undertaken in the first half of the year.

"Our digital division continues to go through a significant period of change, whilst our HCC division continues to deliver excellent results. The continued commitment, loyalty and work from all our teams, self-employed agents, suppliers and stakeholders is testament to our customer-centric culture and belief in our strategy".

Group Key performance indicators

Key performance indicators	27-week period ended 31 August 2019	26-week period ended 25 August 2018	% +/-
Revenue	£66.3m	£57.5m	15.3%
Net Loan Book	£72.2m	£68.0m	6.2%
Adjusted Profit Before Tax[1]	£9.6m	£10.5m	-8.6%
Statutory Profit Before Tax	£6.7m	£10.0m	-33.0%
Adjusted Earnings per share[1]	5.9p	6.6p	-10.6%
Statutory Earnings per Share	4.1p	6.3p	-34.9%
Cost / Income ratio	63.9%	58.5%	-9.2%
Return on Assets	19.1%	19.0%	0.5%
Adjusted Return on Assets[1]	24.0%	24.0%	0.0%
Return on Equity	22.6%	25.4%	-11.0%
Adjusted Return on Equity[1]	28.4%	25.2%	12.7%
Tangible Equity / average receivables[1]	84.5%	87.6%	-3.5%
No of customers (000's)	276	230	20.0%
Number of agents	1,817	1,942	-6.4%
Credit Issued	£91.0m	£86.1m	5.7%
Impairment as % of Revenue[1]	19.0%	21.9%	13.2%

[1] *Definitions are set out in the Glossary of Alternative Performance Measures*

Forward looking statements

This announcement includes statements that are, or may be deemed to be, “forward-looking statements”. By their nature, forward-looking statements involve known and unknown risks and uncertainties since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements.

Any forward-looking statements in this announcement reflect Morses Club’s view with respect to future events as at the date of this announcement. Save as required by law or by the AIM Rules for Companies, Morses Club undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations or to reflect events or circumstances after the date of this announcement.

For further information please contact:

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Note:

This announcement contains inside information for the purposes of Article 7 of Regulation (EU) No 596/2014.

Analyst presentation

There will be an analyst presentation to discuss the results at 9.30 a.m. today at finnCap, 60 New Broad Street, London, EC2M 1JJ.

Those analysts wishing to attend are asked to contact Kimberley Taylor at Camarco on +44 (0) 20 3757 4999 / 07971 857034 or kimberley.taylor@camarco.co.uk.

Notes to Editors

About Morses Club

Morses Club is an established non-standard financial services provider, consisting of Morses Club, the UK's second largest home collected credit ("HCC") provider, and Shelby Finance, which operates online lending through its Dot Dot brand and U Holdings Limited, which provides online current accounts.

UK HCC is considered to be a specialised segment of the broader UK non-standard credit market. UK HCC loans are typically small, unsecured cash loans delivered directly to customers' homes. Repayments are collected in person during weekly follow-up visits to customers' homes. UK HCC is considered to be stable and well-established, with approximately 1.6 million[1] people using the services of UK HCC lenders.

The HCC division is the second largest UK Home Collected Credit (HCC) lender with 224,000 customers and 1,817 agents across 92 locations throughout the UK. The majority of the Company's customers are repeat borrowers and the HCC division enjoys consistently high customer satisfaction scores of 97%[2]. In April 2016 its cashless lending product Morses Club Card was introduced, enabling its customers to buy online as well as on the high street. In February 2019, the Company introduced an online customer portal for its HCC customers, which now has over 30,000 registered customers.

Shelby Finance, via the Dot Dot brand has 36,000 active customers and U Holdings, through the U Account online current account brand has 16,000 customers. Dot Dot is a provider of 3 – 12 month online loans in the non-standard credit market.

Morses Club successfully listed on AIM in May 2016.

About the UK non-standard credit market

The UK non-standard credit market, of which UK HCC is a subset, consists of both secured and unsecured lending and is estimated to comprise around 10 million consumers[3] and total loan receivables of £10.7bn[4].

Non-standard credit is the provision of secured and unsecured credit to consumers other than through mainstream lenders. Lenders providing non-standard credit principally lend on an unsecured basis and the market is characterised by high frequency borrowing. Approximately 2 million people move annually between standard and non-standard markets[4].

Since February 2014, unsecured personal lending has grown from £161 billion to £216 billion in February 2019[5].

1 High Cost Credit Review ANNEX 1 – July 2017

2 Independent Customer Satisfaction Survey conducted by Mustard

3 FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt – July 2017

4 Apex Insight – Non-Prime Consumer Credit: UK Market Insight Report – September 2019

5 Table A5.2, Bank of England Money and Credit Bank stats February 2019

Chief Executive Officer's Statement

Group Performance

The first half of the year has been an intensive period for the Group with significant acquisition and integration activity, as well as embedding the impact of further regulatory change for the HCC sector. In addition, we have made significant savings on territory build subsidies as the movement of agents has returned to a more normalised state. As a result of this period of heightened activity, our volume of credit issued, loan book revenues and customer numbers have all increased.

The first half of this year has seen revenue increase by 15.4% to £66.3m (H1 FY19: £57.5m) largely as a result of the acquisition of the two digital businesses. Total credit issued rose by 5.7% to £91.0m (H1 FY19: £86.1m), although credit issued in HCC is broadly flat.

Agent numbers in HCC have slightly reduced to 1,817 from 1,942. This is due to consolidation of some smaller loan books, rather than agent churn. Vacancy rates are less than 2.5%.

Impairment ratios for the Group are at 19.0% of revenue. This is largely due to performance in the HCC Division with a reduction in the year on year, like for like sales, and as a consequence upfront impairment charges, following the FCA's remedies to the High Cost Credit Review and the focus on quality lending in H1.. This period of lower sales has shown signs of ending as customers become more familiar and comfortable with the need to engage with the agent prior to any sale process. Whilst pleased with the result, management do not view this is as a new benchmark and are therefore not currently proposing to amend their impairment guidance range of 21 to 26%.

Although operating costs have slightly increased during the period as a result of the intense period of acquisitions, which has impacted on overall Group profit, it is envisaged that these will revert to more normalised levels, as the digital division begins to increase its targeted revenue.

Customer Numbers

Customer numbers have remained broadly stable in the HCC division, slightly declining by 2.2%. This reflects the stabilisation in the market following significant territory build activity and the impact of regulatory activity regarding changes to non-solicitation of loans.

For the digital division of the Group, Shelby Finance active customer numbers are 36,000, reflecting changes post-acquisition in the product range offered to customers. We strategically removed the one and two month single repayment loans (payday type). This was part of a deliberate policy to move away from very short-term lending to longer term lending of up to 12 months.

The online current account customer numbers are broadly stable post-acquisition at 16,000.

Increasing Our Reach Across the Non-Standard Finance Sector

HCC has performed strongly in the first half of the year and will remain a critically important part of our product range as we evolve with our customers.

Whilst the HCC market is stable by diversifying our product offering, we are able to offer products to customers in the broader non-standard credit market, with an estimated 10 million customers in the UK[1].

By developing a range of complementary products, Morses Club aims to retain many of those customers who have experience of Morses Club's HCC product, but are currently moving elsewhere for these alternative forms of credit as they improve their credit footprint.

Our customer surveys provide very useful insights into customer needs and behaviours, enabling us to tailor our planned products to offer customers the flexibility they desire. Our recent acquisitions will play a vital role in enabling us to offer banking style services with credit services attached, as we target a larger share of the non-standard credit market.

1 FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt – July 2017

Initiatives and Product Development

As well as the acquisition activity during the first half of the year, the Group has also undertaken a number of key initiatives to further enhance customer experience.

- **Customer portal**

In our HCC division, we have introduced an online customer portal which enables customers to pay online, request further credit and access other offers. It currently has over 30,000 customer registrations. Our marketing campaigns more than double in success when a customer is registered on the portal. Customer satisfaction surveys for the portal indicate that over 81% of customers are satisfied with the portal, and over 81% of customers would be happy to recommend it to friends or family.

- **Technology developments**

Further developments have been made to the loan processing journey for HCC, including affordability assessments now using ONS data to give further depth to our understanding of customer income and expenditure.

A complex integration plan has been successfully delivered to move the pre-sale loan platform from the US parent of CURO Transatlantic Limited to the loan platform used by Shelby Finance.

- Digital developments

We are now engaged in the next steps for the digital part of the Group operated through Shelby Finance. Our Dot Dot brand has now established itself within its core market, since the acquisition of CURO Transatlantic Limited, and loan balances are now growing following an intensive period of business consolidation and integration.

We are reviewing the end to end customer journey across our digital division, so that the online current account and credit offerings can be offered as part of a suite of products available to our customer base across the Group. In particular, we are developing an app-based customer journey as well as re-engineering and re-launching the U Account brand to reflect the broader requirements of the non-standard customer profile in our sector.

Customer insights

We continue to actively engage with our customers, to understand their requirements as the market develops. Offering various methods of repaying the loan has been a key change in customer behaviour in HCC, with 61% of all our customers paying via cashless methods during the period. 42% of all HCC transactions are now completed using a cashless payment method. We continue to monitor, not just customer satisfaction, but every aspect of our customer journey, ensuring delivery of TCF, and our regulatory obligations. This is independently measured and has consistently achieved an overall score of 97%.

External market

We have fully embedded the requirements of the High-Cost Credit Review (December 2018) with no significant financial or operational impact on our business. We are committed to transparency and fair outcomes for all our customers, with forbearance embedded at the heart of our business model. As a fully FCA regulated lender, we aim to adhere to rules and best practice guidelines in all of the areas the FCA and other regulators have jurisdiction.

Despite ongoing macroeconomic and political uncertainty in the wider market, this has limited financial impact on our customer base, since government support remains relatively stable. As such, household incomes of customers using non-standard credit remain largely unchanged.

Executive team

During the period, Andrew Hayward joined the business as Chief Financial Officer. Andrew brings significant experience working with technology and digital payments companies. Gary Marshall also joined as the Chief Operating Officer of Shelby Finance. Gary has broad experience in senior roles across financial services, with a particular expertise in delivering digital products and working in highly regulated environments.

Andy Thomson, former CFO, and Les Easson, former Operations Director, have been appointed to the Board as Non-Executive Directors, enabling Morses Club to retain their invaluable insights and deep knowledge of the non-standard credit market.

Dividend

As a result of the progress made with our strategy, the Board is delighted to declare an interim dividend of 2.6p per share (H1 FY19: 2.6p).

The dividend of 2.6p per share will be paid on 17 January 2020 to ordinary shareholders on the register on 27 December 2019.

Outlook

We have created a balance between maintaining the strong performance of the core HCC business, whilst advancing our product diversification strategy. The further integration and development of the acquisitions made during the first half of the year means that we can maximise our opportunity to build out our strategy of product diversification whilst maintaining our outstanding customer service.

Trading for HCC remains strong and together with further planned progress in the development of Digital, trading is in line with the director's expectations and we remain confident in the outlook for the full year.

Paul Smith
Chief Executive Officer
Date: 10 October 2019

Financial Review

	27-week period ended 31 August 2019	26-week period ended 25 August 2018
Customer numbers ('000's)	**276**	**230**
Period end receivables	£72.2m	£68.0m
Average receivables	£76.3m	£70.4m

Revenue	**£66.3m**	**£57.5m**
Impairment	(£12.6m)	(£12.6m)
Agent Commission	(£14.7m)	(£14.1m)
Gross Profit	**£39.0m**	**£30.8m**
Administration expenses	(£29.5m)	(£18.7m)
Depreciation	(£1.4m)	(£0.8m)
Operating Profit before amortisation of acquisition intangibles	**£8.1m**	**£11.3m**
Amortisation of acquisition intangibles	(£0.5m)	(£0.5m)
Operating profit	**£7.6m**	**£10.8m**
Gain arising on acquisitions	£0.6m	-
Funding costs	(£1.5m)	(£0.8m)
Statutory Profit Before Tax	**£6.7m**	**£10.0m**
Tax	**(£1.3m)**	**(£1.9m)**
Profit After Tax	**£5.4m**	**£8.1m**
Basic EPS	**4.1p**	**6.3p**

Reconciliation of Statutory Profit Before Tax to Adjusted profit before tax and explanation of Adjusted EPS

£'m (unless otherwise stated)	27-week period ended 31 August 2019	26-week period ended 25 August 2018	Increase
Statutory Profit Before Tax	**6.7**	**10.0**	**-33.00%**
Amortisation of acquired intangibles[2]	0.5	0.5	**0.00%**
Gain arising on acquisitions	(0.6)	-	**n/a**
Non recurring costs[3]	3.0	-	**n/a**
Adjusted Profit Before Tax[1]	**9.6**	**10.5**	**-8.57%**
Tax on Adjusted Profit Before Tax	(1.9)	(2.0)	**-3.87%**
Adjusted Profit After Tax	**7.7**	**8.5**	**-9.68%**
Adjusted EPS[1]	**5.9**	**6.6**	**-30.23%**
Adjusted Return on Assets[1]	24.0%	24.0%	**-0.01%**
Adjusted Return on Equity[1]	28.4%	25.2%	**3.18%**

1 Definitions are set out in the Glossary of Alternative Performance Measures
2 Amortisation of acquired customer lists and agent networks
3 CURO Interest write off relating to prior and future periods£1.2m, HCC restructuring £0.9m, Shelby restructuring £0.9m

Group Highlights

When assessing the financial performance of the Group, it is useful to consider the impact of the two recent digital acquisitions made by Shelby Finance in the period. Firstly, the acquisition of the business and certain assets of CURO Transatlantic Limited on 26 February 2019 was followed by the acquisition of U Holdings Limited on 21 June 2019. These acquisitions have helped to create a foundation for further expansion into the digital arena for the business.

Both acquisitions had financial challenges when purchased, with CURO Transatlantic Limited being put into administration and U Holdings needing significant investment. The turnaround and integration of these companies is complex and although significant progress has been made, we envisage that further work will be needed in the second half of the year to build both businesses back to profitability during FY21. As a result, these digital businesses have contributed losses in the period, which was always anticipated, and although included in the Group performance, should be viewed separately and not detract from continued strong performance in the HCC division, which remains the core of the Group.

Group statutory profit before tax for the six month period to the end of August 2019 decreased by (33%) to £6.7m (FY19: £10.0m). However, as well as the losses of the digital acquisitions, this statutory figure includes a number of non-recurring items[1] which should be adjusted to assess the performance of the Group. As such, the adjusted profit before tax excluding non-recurring and restructuring costs, as well as interest written off relating to other accounting periods decreased to £9.6m (FY19: £10.5m), reflecting an underlying decrease of 8.6%.

Total Group revenue for the twenty-seven week period ended 31 August 2019 increased by 15.3% to £66.3m (H1 FY19: £57.5m). This was driven by a 5.7% increase in total credit issued to £91.0m (H1 FY19: £86.1m), largely related to the acquisition of HCC loan books at the end of FY19 and digital lending through Shelby Finance.

Total customer numbers including Shelby Finance; 276,000

1 *Analysis of non-recurring costs in Note 3*

Home Collect Credit

Key performance indicators	27-week period ended 31 August 2019	26-week period ended 25 August 2018	% +/-
Revenue	£59.4m	£57.2m	3.8%
Net Loan Book	£68.2m	£67.9m	0.4%
Adjusted Profit Before Tax[1]	£13.1m	£10.9m	20.2%
Statutory Profit Before Tax	£11.7m	£10.4m	12.5%
Cost / Income ratio	57.5%	58.6%	1.9%
Return on Assets	25.8%	23.4%	10.3%
Adjusted Return on Assets[1]	28.8%	24.9%	15.7%
No of customers (000's)	224	229	-2.2%
Number of agents	1,817	1,942	-6.4%
Credit Issued	£85.5m	£85.6m	-0.1%
Impairment as % of Revenue[1]	18.5%	21.4%	13.6%

1 *Definitions are set out in the Glossary of Alternative Performance Measures*

The HCC division continued its strong performance to date, increasing its adjusted profit before tax of this division by 20.2% to £13.1m (FY19: £10.9m), £1m of this increase is due to the impact of the 27 week period, with the balance a result of performance and acquired growth together with continued operational efficiencies.

Revenue for the HCC division also displayed growth, increasing 3.8% to £59.4m (H1 FY19: £57.2m) due mainly to increases in loan balances of c3%. Customer numbers in the HCC division were broadly stable showing a small decrease of 1.8% to 224,000 (H1 FY19: 229,000).

The total impairment charge in the HCC division decreased to £10.7m and as a ratio to revenue to 18.5% for the period (H1 FY19: 21.4%). This is below our target range of 21.0% to 26.0% of revenue, a much improved position. The reduced impairment levels are due to a combination of reduced sales and improved quality lending. The contribution from the loan book (Revenue less Impairment) demonstrated very good progress, increasing by 11.2% to £49.9m (H1 FY19: £44.9m). The average customer balance of £607 has increased by c3% from £590 twelve months ago as lending is gradually increased to high performing customers introduced through the territory builds in FY18. Customer indebtedness remains within conservative levels with the average level of 25% of the customer's net disposable income (being net income less all living expenses and other debt repayments) used on each loan.

Agent commission (excluding territory build subsidies) was up from £12.8m to £14.0m, an increase of 9.7% which is a result of the impact of the 27 week period and the growth in cash collected. The period resulted in territory build costs decreasing significantly to £0.3m (H1 FY19: £1.3m) as subsidies reached their 12 month anniversary. Agent subsidies represent an investment cost to establish quality agents and grow the customer numbers. With territory build activity returning to more normalised levels, management would expect this number to continue to reduce.

HCC Administration expenses (excluding non-operating costs) increased to £19.8m from £19.3m and represents 33.3% of income (H1 FY19: 33.9%).

Non-recurring items were £0.9m for the period due to the removal of regional administrators within field operations. We will continue to enhance operational efficiencies through our Customer to Manager ratios, by capitalising on the investment in technology (H1 FY19: £nil).

Digital Lending

Key performance indicators	27-week period ended 31 August 2019	26-week period ended 25 August 2018	% +/-
Revenue	£6.9m	£0.3m	n/a
Net Loan Book	£4.0m	£0.1m	n/a
Adjusted Loss Before Tax[1]	(£3.5m)	(£0.4m)	n/a
Statutory Loss Before Tax	(£5.0m)	(£0.4m)	n/a
Cost / Income ratio	117.8%	138.4%	14.9%
Return on Assets	-235.8%	-377.3%	-37.5%
Adjusted Return on Assets[1]	-159.7%	-377.3%	-57.7%
No of customers (000's)	52	1	n/a
Credit Issued	£5.5m	£0.4m	n/a
Impairment as % of Revenue[1]	23.7%	75.2%	68.5%

For certain metrics above the movement from prior year has not been calculated due to there being significant increases from last year as a result of the acquisitions which render the variance meaningless.

[1] *Definitions are set out in the Glossary of Alternative Performance Measures*

As highlighted, the acquisition and integration of the digital businesses is ongoing, and the financial impact of this work is reflected in the interim results. Revenue for this division in the period was £6.9m (FY19: £0.3m) highlighting the significant increase in activity in this area.

The level of costs recognised through this division in the year is disproportionate to the ongoing levels anticipated in the business. This resulted in a statutory loss before tax in the digital business of (£5.0m) (FY19: (£0.4m)). This figure includes a number of non-recurring items that should be added back to derive an adjusted loss before tax of (£3.5m). These items relate to restructuring costs of £0.9m required to re-align the cost base and interest written off relating to other accounting periods of £1.2m.

Through the acquisition of the digital businesses, the company inherited the existing cost bases. Although this cost base has been addressed as required, a level of increased expenses will remain.

IFRS 16

IFRS 16 'Financial instruments' was mandatory for the first time for the accounting period starting 24 February 2019 and replaces IAS 17 'Leases'. The Company has adopted the modified retrospective approach with the right of use asset equal to the lease liability at transition date, adjusted by any prepayments or lease incentives recognised immediately before the date of the initial application. Under the modified retrospective transition approach, the comparative information is not restated. IFRS 16 has no material impact at a profit before tax level.

Regulatory Update

Morses Club has been operating under full Financial Conduct Authority ("FCA") authorisation since May 2017. The Group has implemented the remedies required by the FCA in response to the High Cost Credit review of December 2018.

Funding

The Company's current £50m RCF facility expires in August 2020. The company also has a mezzanine facility of £5m, with a further £10m mezzanine finance available, subject to conditions and lender approval, which expires in February 2021.

The Company is in the process of appointing an adviser to facilitate the process of either extending or replacing the existing funding arrangements in time for the publication of the Group's full year results in May 2020. Initial discussions have been positive, and the Board remain confident of reaching a satisfactory outcome. The expiry date of the RCF facility remains August 2020. As at 31 August 2019, the Company had drawn £23.0m of these facilities (25 August 18: £12.0m). The Directors expect this to increase during the second half of the year in the run-up to Christmas, which is the peak lending and therefore borrowing period.

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance over the remaining 26 weeks of the financial year and could cause results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the 52 weeks ended 23 February 2019. These should be read in the context of the cautionary statement regarding forward looking statements at the beginning of these Interim Results. A detailed explanation of the risks summarised below, and how the Company seeks to mitigate the risks, can be found on page 32 of the annual report which can be found at www.morsesclubplc.com/investors/.

The Company's principal financial assets are loan book receivables, cash and other receivables.

Liquidity Risk

The Directors monitor liquidity closely. From November 2018 the Company has access to a £50.0m revolving asset-based credit facility (H1 FY19: £40.0m) and a mezzanine facility of £5m (H1 FY19: £0.0m) with an option to increase this, with lender consent, to £15m, which the Directors believe provides sufficient headroom to manage the business and meet its strategic objectives. The Company does not use any complex financial instruments.

Credit Risk

The Company is involved in the provision of consumer credit and a key risk for the Company is the credit risk inherent in amounts receivable from customers which is principally controlled through credit control policies supported by regular impairment reviews. The amounts presented in the balance sheet are net of provisions for impairments.

Operational Risk

The Directors are confident that they have mitigated operational risk through an embedded control environment with the use of integrated technology and in-depth Management Information. Operational risks are regularly reviewed during the year, via thorough horizon scanning, which is circulated to Directors with details on any emerging significant themes, including regulatory, economic or legislative, e.g. BREXIT or IR35. The Company has a strong compliance culture, with robust systems and controls and provides regular regulatory training to all employees and self-employed agents.

Interest rate risk

The Group's activities do not expose it to significant financial risks of changes in interest rates. There is considered to be no material interest rate risk in cash, trade and other receivables or trade and other payables.

Capital risk management

The Board of Directors assess the capital needs of the Group on an on-going basis and approve all capital transactions.

The Group’s policy is to maintain a strong equity and reserves base so as to maintain investor and market confidence and to sustain future development of the business. Management monitors the return on equity and return on assets and strives to deliver a progressive dividend policy for shareholders.

Regulation

The Company is fully committed to working with the regulator in an open and on-going dialogue through its regular supervisory regime. The Group does carry a risk and uncertainty which may arise through changes to regulation or a failure to comply with existing rules and regulations.

The Company is also subject to legislative regulatory changes within the consumer credit sector and stays in touch with changes through its compliance and credit risk functions via the Consumer Credit Association and regular dialogue with the FCA.

Related Party Transactions

Related party transactions are disclosed in note 13 of these financial statements.

By order of the board:

Andrew Hayward
Chief Financial Officer

Date: 10 October 2019

Registered Office:
Kingston House
Centre 27 Business Park
Woodhead Road
Birstall
WF17 9TD

INDEPENDENT REVIEW REPORT TO MORSES CLUB PLC

We have been engaged by the company to review the condensed set of financial statements in the interim financial report for the six months ended 31 August 2019 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 13. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting," as adopted by the European Union.

Our responsibility
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the interim financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the interim financial report for the six months ended 31 August 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the AIM Rules of the London Stock Exchange.

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
10 October 2019

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE 27 WEEK PERIOD ENDED 31 AUGUST 2019

	Notes	27 weeks ended 31.08.19 £,000 (Unaudited)	26 weeks ended 25.08.18 £,000 (Unaudited)	52 weeks ended 23.2.19 £,000 (Audited)
TURNOVER				
Existing Operations		60,602	57,459	116,803
Acquisitions during the period	12	5,689	-	203
		66,291	57,459	117,006
Cost of sales		(27,312)	(26,648)	(54,465)
GROSS PROFIT		38,979	30,811	62,541
Administration expenses		(31,350)	(20,061)	(40,579)
OPERATING PROFIT BEFORE AMORTISATION OF INTANGIBLES		8,137	11,246	22,987
Amortisation of acquisition intangibles	8	(508)	(496)	(1,025)
OPERATING PROFIT				
Existing Operations		12,977	10,750	21,875
Acquisitions during the period		(5,348)	-	87
		7,629	10,750	21,962
Gain arising on acquisitions	12	584	-	-
Finance costs		(1,478)	(753)	(1,745)
PROFIT BEFORE TAXATION		6,735	9,997	20,217
Tax on profit on ordinary activities	4	(1,347)	(1,899)	(4,042)
PROFIT AFTER TAXATION		5,388	8,098	16,175

EARNINGS PER SHARE		**Pence**	**Pence**	**Pence**
Basic	6	4.13	6.25	12.48
Diluted	6	4.08	6.17	12.30

All results derive from continuing operations. A Statement of Comprehensive Income is not included as there is no other income or losses, other than those presented in the Income Statement.

CONSOLIDATED BALANCE SHEET

31 August 2019

		27 weeks ended 31.08.19 (Unaudited)	26 weeks ended 25.08.18 (Unaudited)	52 weeks ended 23.2.19 (Audited)
ASSETS	**Notes**	**£'000**	**£'000**	**£'000**
Non-current assets				
Goodwill	7	13,281	2,834	3,501
Other intangible assets	8	7,423	5,312	6,221
Property, plant and equipment		4,377	523	378
Deferred Tax		920	927	958
Amounts receivable from customers	9	198	211	206
		26,199	9,807	11,264
Current Assets				
Amounts receivable from customers	9	72,010	67,757	72,840
Stock		8	-	-
Other receivables	9	4,087	2,074	2,369
Cash and cash equivalents		7,465	5,812	7,893
		83,570	75,643	83,102
Total assets		109,769	85,450	94,366
LIABILITIES				
Current Liabilities				
Trade and other payables		(11,820)	(5,986)	(1,830)
Taxation payable		(1,382)	(1,899)	(7,482)
Lease liabilities		(3,519)	-	-
		(16,721)	(7,885)	(9,312)
Non-current liabilities				
Bank and other borrowings	10	(22,707)	(11,677)	(14,075)
Total liabilities		(39,428)	(19,562)	(23,387)
NET ASSETS		70,341	65,888	70,979
Equity				
Called up share capital		1,310	1,295	1,298
Retained Earnings		69,031	64,593	69,681
TOTAL EQUITY		70,341	65,888	70,979

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 27 WEEK PERIOD ENDED 31 August 2019

	Called up share capital £'000	Retained Earnings £'000	Total Equity £'000
As at 24 February 2018 (Audited)	**1,295**	**65,225**	**66,520**
Unaudited impact of adoption of IFRS 9 'Financial instruments'	-	(2,874)	(2,874)
At 25 February 2018 (Unaudited)	**1,295**	**62,351**	**63,646**
Total comprehensive income for the period	-	8,097	8,097
Share based payment charge	-	361	361
Dividends paid	-	(6,216)	(6,216)
As at 25 August 2018 (Unaudited)	**1,295**	**64,593**	**65,888**
Unaudited impact of adoption of IFRS 9 'Financial instruments'	-	(358)	(358)
As at 26 August 2018 (Unaudited)	**1,295**	**64,235**	**65,530**
Total comprehensive income for the period	-	8,078	8,078
Share Issue	3	-	3
Share based payment charge	-	743	743
Dividends paid	-	(3,375)	(3,375)
As at 23 February 2019 (Audited)	**1,298**	**69,681**	**70,979**
Unaudited impact of adoption of IFRS 16 'Leases'	-	186	186
As at 24 February 2019 (Unaudited)	**1,298**	**69,867**	**71,165**
Total comprehensive income for the period	-	5,388	5,388
Share Issue	12	-	12
Share based payment charge	-	525	525
Dividends paid	-	(6,749)	(6,749)
As at 31 August 2019 (Unaudited)	**1,310**	**69,031**	**70,341**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 27 WEEK PERIOD ENDED 31 August 2019

	Notes	27 weeks ended **31.08.19** **(Unaudited)** **£'000**	26 weeks ended **25.08.18** **(Unaudited)** **£'000**	52 weeks ended **23.2.19** **(Audited)** **£'000**
Net cash inflow from operating activities	1	**17,332**	**12,576**	**20,467**
Dividends Paid	5	(6,749)	(6,216)	(9,591)
Proceeds from additional long-term debt		18,500	-	(1,052)
Arrangement costs associated with additional funding		-	-	(425)
Repayment of long-term debt		(10,000)	(4,000)	-
Principal paid under lease liabilities		(682)	-	-
Interest Paid		(1,298)	(580)	(1,745)
Net cash inflow/(outflow) from financing activities		**(229)**	**(10,796)**	**(12,813)**
Purchase of intangibles	8	(2,552)	(836)	(2,411)
Purchase of property, plant and equipment		(949)	-	(31)
Additional investment in subsidiary		-	-	-
Acquisitions		(14,030)	-	(2,187)
Net cash (outflow) from investing activities		**(17,531)**	**(836)**	**(4,629)**
(Decrease)/Increase in cash and cash equivalents		**(428)**	**944**	**3,025**

Reconciliation of increase in cash and cash equivalents to movement in cash equivalents			
(Decrease)/Increase in cash and cash equivalents	(428)	944	3,025
Change in cash and cash equivalents resulting from cash flows	(428)	944	3,025
Movement in cash and cash equivalents in the period	**(428)**	**944**	**3,025**
Cash and cash equivalents, beginning of year	7,893	4,868	4,868
Cash and cash equivalents, end of year	**7,465**	**5,812**	**7,893**

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT
FOR THE 27 WEEK PERIOD ENDED 31 August 2019

1. **RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

	27 weeks ended 31.08.19 (Unaudited) £'000	26 weeks ended 25.08.18 (Unaudited) £'000	52 weeks ended 23.2.19 (Audited) £'000
Profit before taxation	5,388	9,997	20,217
Interest paid (loan interest and non-utilisation fees)	1,181	753	1,745
Interest paid (lease liabilities)	249	-	-
Share Issue	12	-	3
Depreciation charges	1,406	299	475
Share based payments charge	525	361	1,104
Amortisation of intangibles	766	1,044	2,209
(Increase)/decrease in debtors	(849)	318	(3,901)
Increase/(Decrease) in creditors	10,460	912	2,170
Taxation paid	(1,806)	(1,108)	(3,555)
Net cash inflow from operating activities	**17,332**	**12,576**	**20,467**

1. ACCOUNTING POLICIES

General information

The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley, West Yorkshire, WF17 9TD.

The information for the year ended 23 February 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The unaudited condensed interim financial statements for the 27 weeks ended 31 August 2019 have been reviewed, not audited, and were approved by the Board of Directors on 10 October 2019.

Going concern

The Directors have considered the appropriateness of adopting the going concern basis in preparing these Condensed financial statements.

The Group has prepared a three-year business plan which is a continuation of its strategy of generating growth through organic and acquisitive means.

In addition to standard internal governance, the Group is also monitored against key financial covenants tied in with the current funding facilities. These are produced and submitted on a monthly basis, with key schedules included in the monthly Board Papers.

The Group is subject to a number of risks and uncertainties which arise as a result of the current economic environment. In determining that the Group is a going concern these risks, which are described in the principal risks and uncertainties section, have been considered by the Directors. The Directors have considered these risks in the Group's forecasts and projections which highlight continued profitability for the foreseeable future.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements.

Accounting convention

The statutory annual financial statements of Morses Club PLC are prepared under International Financial Reporting Standards (IFRS) adopted by the European Union. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

Accounting policies

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption). Other than IFRS 16, already disclosed, there are no other new IFRSs or International Financial Reporting Interpretations (IFRIC) that are effective for the first time for the 27 weeks ended 31 August 2019 which have a material impact on the Group. As such the accounting policies applied in preparing the unaudited condensed interim financial statements are consistent with those used in preparing the statutory financial statements for the year ended 23 February 2019, other than the implications of adopting IFRS 16.

Share issue was reclassified from operating to financing activities and interest paid has been reclassified from financing to operating activities, as this better represented the commercial reality of the arrangement, so the August 2018 and February 2019 figures have also been reclassified for consistency.

IFRS 16 Leases

In the current year, the Group, for the first time, has applied IFRS 16 Leases. The date of initial application of IFRS 16 for the Group is 24 February 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance lease, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group is not party to any material leases where it acts as a lessor, but the Group does have a large number of material property, vehicle and equipment leases.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined.

Accounting policies under IFRS 16 Leases
The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:
- fixed lease payments (including in substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:
- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment. Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The Group does not have any lease payments which fall under the definition of variable lease payments.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within Administrative expenses in the consolidated income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for property leases for which the business rate is included in the lease contract.

Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. In respect of those leases the Group previously treated as operating leases have been measured following the approach in IFRS 16.C8(b)(ii), whereby right of use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 24 February 2019 is 13.82%.

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 24 February 2019.
As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics;
- hindsight has been used in determining the lease term.

Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted above), the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments as described above.

Lease incentives (e.g. rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17 operating leases previously gave rise to a straight-line expense in other operating expenses.

Under IFRS 16 the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change did not have a material effect on the Group's consolidated financial statements.

Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognized and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-to-use assets and lease liabilities.

The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

	23 February 2019 As originally presented	IFRS 16 adjustment	24 February 2019 Restated
	£'000	£'000	£'000
Non-Current Assets			
Right-of-use asset	-	3,621	3,621
Current Assets			
Other receivables	2,369	(51)	2,318
Total impact on assets	**2,369**	**3,570**	**5,939**
Current Liabilities			
Lease liability	-	1,446	1,446
Trade and other payables	7,482	(7)	7,475
Non-current liabilities			
Lease liability	-	1,945	1,945
Total impact on liabilities	**7,482**	**3,384**	**10,866**
Retained Earnings	**7,482**	**186**	**7,668**

Of the total right-of-use assets of £3.6m recognised at 24 February 2019, £1.5m related to leases of motor vehicles, £0.9m to leases of servers and £1.2m to leases of properties.

The table below presents a reconciliation from operating lease commitments disclosed at 23 February 2019 to lease liabilities recognised at 24 February 2019.

	£'000
Operating lease commitments disclosed under IAS 17 at 23 February 2019	2,613
Discounted using the lessee's incremental borrowing rate of 13.82% as at the date of initial application	(860)
(Less): short-term leases recognised on a straight-line bases as expense	(40)
(Less): low-value leases recognised on a straight-line bases as expense	-
Add: adjustments as a result of a different treatment of extension and termination options	1,678
Lease liabilities recognised at 24 February 2019	3,391

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the six months ended 31 August 2019, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement:

	£'000
Depreciation	837
Interest expense	249
Variable lease payments (not depending on an index or rate)	-
Short-term lease expense	40
Low-value lease expense	-

2. SEASONALITY

The Group's peak period of lending to customers is in the run-up to Christmas in the second half of the financial year. Typically, approximately 54% of the loans issued are made in the second half of the financial year and the peak lending and collections period leads the Group to operate with a materially higher draw down on debt facilities in December. In addition, the Group's accounting policies relating to revenue and impairment are an important influence on the recognition of the Group's profit between the first and second halves of the financial year.

3. NON-RECURRING COSTS

Following the acquisitions within the prior periods and their subsequent integration within Morses Club PLC, £1,800,000 (H1 FY19 - £1,020,000) (YE 18 - £1,020,000) of restructuring costs were incurred and interest written off of £1,190,000 (H1 FY19 - nil) (YE 18 - nil) due to its un-recoverability, which was identified when migrating the loan book data from the pre-sale loan platform of the US parent of CURO Transatlantic Limited to the loan platform used by Shelby Finance. These have been included within administration expenses.

Non-recurring Costs	**HCC**	**Digital**	**Group**
	£m	£m	£m
Restructuring costs	0.9	0.9	1.8
Write-off of interest from Curo Loan Book relating to past and future periods	-	1.2	1.2
	0.9	2.1	3.0

4. TAXATION

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 20% (H1 FY19 – 19%) (YE FY19 – 19%), to the profit before tax for the period. The tax rate reflects the reduction in the mainstream UK corporation tax rate from 20% to 19% which was effective from 1 April 2017.

5. DIVIDENDS

	27 weeks Ended 31.8.19 £'000	26 weeks ended 25.8.18 £'000	52 weeks Ended 23.2.19 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the 52 weeks ended 23 February 2019	6,749	6,216	9,591
	6,749	6,216	9,591

The directors have declared an interim dividend in respect of the 27 weeks ended 31 August 2019 of 2.6p per share (H1 FY19 – 2.6p) (YE FY19 – 5.2p) This dividend is not reflected in the balance sheet as it was declared after the balance sheet date. It will result in a total half year dividend pay-out of approximately £3.4m (H1 FY19 - £3.3m) (YE FY19 - £9.5m). A dividend of £6.7m (H1 FY19 - £6.2m) was paid during the period.

6. EARNINGS PER SHARE

	27 weeks Ended 31.8.19	26 weeks ended 25.8.18	52 weeks Ended 23.2.19
Earnings (£'000)	5,388	8,098	16,175
Number of shares			
Weighted average number of shares for the purposes of basic earnings per share ('000s)	130,462	129,500	129,570
Effect of dilutive potential ordinary shares through share options ('000s)	1,729	1,684	1,977
Weighted average number of shares for the purposes of diluted earnings per share ('000s)	132,191	131,184	131,547
Basic per share amount (pence)	4.13	6.25	12.48
Diluted per share amount (pence)	4.08	6.17	12.3

Diluted earnings per share calculated the effect on earnings per share assuming conversion of all dilutive potential ordinary shares. Dilutive potential ordinary shares are calculated for awards outstanding under performance related share incentive schemes such as the Deferred Share Plan. The number of dilutive potential ordinary shares is calculated based on the number of shares which would be issuable if the performance targets have been met.

7. GOODWILL

	£'000
COST	
At 27 February 2017	3,167
Additions 2017/18	-
At 25 February 2018	3,167
Additions 2018/19	667
At 28 February 2019	3,834
Additions 2019/20	9,780
At 31 August 2019	**13,614**
Impairment	
At 27 February 2017	(333)
Impairment loss for the period	-
At 25 February 2018	(333)
Impairment loss for the period	-
At 28 February 2019	(333)
Impairment loss for the period	-
At 31 August 2019	**(333)**
NET BOOK VALUE	
At 31 August 2019	**13,281**
At 28 February 2019	3,501
At 25 February 2018	2,834
At 27 February 2017	2,834

8. **OTHER INTANGIBLE ASSETS**

	Software, Servers & Licences £'000	Acquired Customer Lists £'000	Acquired Agent Networks £'000	Totals £'000
COST				
At 24 February 2018	6,453	20,766	850	28,069
Additions	836	-	-	836
At 25 August 2018	7,289	20,766	850	28,905
Additions	1,575	475	24	2,074
At 23 February 2019	8,864	21,241	874	30,979
Additions	2,279	273	-	2,552
At 31 August 2019	11,143	21,514	874	33,531
ACCUMULATED AMORTISATION				
At 24 February 2018	3,041	18,740	768	22,459
Charge for period	548	476	20	1,044
At 25 August 2018	3,589	19,216	788	23,593
Charge for period	637	508	20	1,165
At 23 February 2019	4,226	19,724	808	24,758
Charge for period	842	492	16	1,350
At 31 August 2019	5,068	20,216	824	26,108
NET BOOK VALUE				
At 31 August 2019	6,075	1,298	50	7,423
At 23 February 2019	4,638	1,517	66	6,221
At 25 August 2018	3,700	1,550	62	5,312
At 24 February 2018	3,412	2,026	82	5,520

9. TRADE AND OTHER RECEIVABLES

Amounts receivable from customers	31.8.19	25.8.18	23.2.19
	£'000	£'000	£'000
Amounts falling due within one year:			
Net receivable from advances to customers	72,010	67,757	72,840
Amounts falling due after one year:			
Net receivable from advances to customers	198	211	206
Net loan book	**72,208**	**67,968**	**73,046**
Other debtors	1,555	803	625
Prepayments	2,532	1,271	1,744
Trade and other receivables	**76,295**	**70,042**	**75,415**

10. BANK AND OTHER BORROWINGS

	Group	
	31.8.19	**25.8.18**
	£'000	**£'000**
Bank loans	23,000	12,000
Unamortised arrangement fees	(293)	(323)
	22,707	11,677

In November 2018 the Company signed a £10,000,000 loan facility to bring its total revolving credit facilities to £50,000,000. In addition, the Company has also signed a £15,000,000 mezzanine facility of which £5,000,000 is committed and £10,000,000 is uncommitted.

Total bank and other borrowings, including unamortised arrangement fees, are £22,707,000 as at 31 August 2019 (H1 FY19: £11,677,000).

Additional funding of £8,500,000 was drawn down against the loan facility during the period, in line with the terms of the loan agreement.

11. RESERVES

Details of the movements in reserves are set out in the statement of changes in equity. Share capital as at 31 August 2019 amounted to £1,310,000 (H1 FY19: £1,295,000).

12. ACQUISITIONS

U Holdings Limited

As part of the Group's documented strategy of having a wide range of financial products available to its customers, on the 21 June 2019 Shelby Finance Limited (100% subsidiary of Morses Club plc) acquired U Holdings Limited. The acquisition was carried out through the cash purchase of 100% of the shares of U Holdings Limited. The costs incurred in relation to this acquisition of £213,544 were expensed to the Income Statement.

As per IFRS 3.36, the review was carried out to ensure the identification of assets and liabilities of U Holdings Limited is complete, and that measurements appropriately reflect consideration of all available information. Fair value exercise was performed and reflected in financial statements. The valuation of assets and liabilities was performed under IFRS rules and company accounts consolidated into group financial statements accordingly.

The value of the contingent consideration as stated per the agreement is subject to the future profit performance of U Holdings Limited and is capped at £5.0m. The value of the contingent consideration recognised at the date of acquisition is £2.96m. Management's current expectation is that the agreed financial targets will be met. However, in future if the entity is not performing as expected the value of contingent consideration will be reviewed fair valued if required.

Shelby Finance Limited is expected to provide a good level of synergy as the nature of both businesses is similar. In this respect goodwill is recognized and tested for impairment under IFRS. All financial information in regards to the major financial components is presented in the table above.

U Holdings Limited	**Book value**	**adjustments**	**Fair value**
	£'000	**£'000**	**£'000**
Non-current assets			
Intangible assets	88	271	359
Tangible fixed assets	126	-	126
Current assets			
Debtors	475	-	475
Total assets	689	271	960
Non-current liabilities	(2,114)	1,109	(1,005)
Deferred tax	-	(49)	(49)
Total liabilities	(2,114)	1,060	(1,054)
Net assets	(1,425)	1,331	(94)

Goodwill arising on acquisition	**£'000**
Consideration	6,742
Fair Value of contingent consideration	2,960
Less net assets acquired	94
Goodwill	9,796

CURO Transatlantic Limited

On 26 February 2019 Shelby Finance Limited (100% subsidiary of Morses Club plc) acquired the trade and assets of CURO Transatlantic Limited via a cash purchase. The costs incurred in relation to this acquisition of £368,327 were expensed to the Income Statement in the period ending 23 February 2019. The valuation of goodwill was performed under IFRS 3. This resulted in a negative value (bargain purchase) which was calculated as the difference between consideration against the net assets acquired. This was due to the business being placed in administration immediately prior to acquisition resulting in a purchase at a lower market value than perhaps would ordinarily have been the case. The measurement of goodwill is complete and reflects consideration of all available information.

Curo Transatlantic Limited	**Book value £'000**	**Fair value adjustments £'000**	**Fair value £'000**
Non-current assets			
Tangible fixed assets	409	-	409
Current assets			
Debtors	8,326	-	8,326
Total assets	8,735	-	8,735
Non-current liabilities			
Deferred tax	-	-	-
Current assets	-	-	-
Other Payables	(183)	-	(183)
Total liabilities	(183)	-	(183)
Net assets	8,552	-	8,552

Goodwill arising on acquisition	**£'000**
Consideration	4,267
Deferred consideration	3,701
Less net assets acquired	(8,552)
Negative Goodwill (Bargain Purchase)	(584)

13. RELATED PARTY TRANSACTIONS

Up until 21 February 2018 the Company was a 51% subsidiary of Hay Wain Group Limited. Hay Wain Group Limited's shareholding reduced on 23 February 2018 to 36.8% and as such it no longer holds a controlling interest in the Company. From 24 February 2018 the Directors consider there to be no ultimate Parent Company. Shelby Finance Limited and Shopacheck Financial Services Limited are subsidiaries of Morses Club PLC.

The Company undertook the following transactions with Hay Wain Group Limited and Shelby Finance Limited during the period:

	Dividends Received / (Paid)
	£'000
27 Weeks ended 31 August 2019	
Hay Wain Group Limited	(2,480)
	(2,480)
26 Weeks ended 25 August 2018	
Hay Wain Group Limited	(2,287)
	(2,287)
52 Weeks ended 23 February 2019	
Hay Wain Group Limited	(3,529)
	(3,529)

At the period-end the following balances were outstanding:

	31.8.19	**25.8.18**	**23.2.19**
	£'000	**£'000**	**£'000**
Shopacheck Financial Services Limited	(1,321)	(1,321)	(1,321)
Shelby Finance Limited	13,782	337	485
Amounts owed from / (to) Related Parties	12,461	(984)	(836)

Alternative performance measures

This Interim Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use where relevant and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

APM	**Closest Statutory Measure**	**Definition and Purpose**
Income Statement Measures		
Impairment as % of Revenue (%)	None	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business and within the sector.
Agent Commission as % of Revenue (%)	None	Agent commission, which is included in cost of sales, divided by reported revenue. This calculation is used to measure operational efficiency and the proportion of income generated which is paid to agents
Cost / Income Ratio or Operating Cost ratio (%)	None	The cost-income ratio is cost of sales and administration expenses, excluding exceptional items, finance costs and amortisation divided by reported revenue. This is used as another efficiency measure of the company's cost base.
Credit Issued (£m)	None	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business.
Sales Growth (%)	None	Sales growth is the period-on-period change in Credit Issued
Adjusted Profit Before Tax (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional costs, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance.
Adjusted Profit Before Tax (underlying HCC) (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional costs, non-recurring costs and amortisation of goodwill and acquisition intangibles, Territory Build subsidies and losses of Dot Dot Loans. This is used to measure ongoing business performance.
Adjusted Earnings Per Share	Earnings Per Share	Adjusted Profit After Tax divided by the weighted average number of shares. This gives a better reflection of underlying earnings generated for shareholders

Reconciliation of Statutory Profit Before Tax to Adjusted profit before tax and explanation of Adjusted EPS

£'m (unless otherwise stated)	27-week period ended 31 August 2019	26-week period ended 25 August 2018	Increase
Statutory Profit Before Tax	**6.7**	**10.0**	**-33.00%**
Amortisation of acquired intangibles[2]	0.5	0.5	**0.00%**
Gain arising on acquisitions	(0.6)	-	**n/a**
Non recurring costs[3]	3.0	-	**n/a**
Adjusted Profit Before Tax[1]	**9.6**	**10.5**	**-8.57%**
Tax on Adjusted Profit Before Tax	(1.9)	(2.0)	**-3.87%**
Adjusted Profit After Tax	**7.7**	**8.5**	**-9.68%**
Adjusted EPS[1]	**5.9**	**6.6**	**-30.23%**
Adjusted Return on Assets[1]	24.0%	24.0%	**-0.01%**
Adjusted Return on Equity[1]	28.4%	25.2%	**3.18%**

1 Definitions are set out in the Glossary of Alternative Performance Measures
2 Amortisation of acquired customer lists and agent networks
3 CURO Interest Write off relating to prior and future periods£1.2m, HCC restructuring £0.9m, Shelby restructuring £0.9m

	27 weeks Ended 31.8.19 £'000	26 weeks ended 25.8.18 £'000	52 weeks Ended 23.2.19 £'000
Adjusted basic earnings per share			
Basic earnings	5,388	8,097	16,175
Amortisation of acquisition intangibles	508	496	1,025
Gain arising on acquisitions	(584)	-	-
Non recurring costs	2,990	-	790
Tax effect of the above	(554)	(94)	(345)
Adjusted earnings	7,748	8,499	17,645
Weighted average number of shares for the purposes of basic earnings per share ('000s)	130,462	129,500	129,570
Adjusted basic per share amount (pence)	5.9	6.6p	13.6p

APM	Closest Statutory Measure	Definition and Purpose
Balance sheet and returns measures		
Tangible Equity (£m)	Equity	Net Assets less intangible assets less acquisition intangibles.
Adjusted Return on Equity (%)	None	Calculated as adjusted profit after tax divided by rolling 12 month average of tangible equity. This calculation has been adjusted to an IFRS 9 basis. It is used as a measure of overall shareholder returns adjusted for exceptional items. This is presented within the interim report as the directors believe they are more representative of the underlying operations of the business
Adjusted Return on Assets (%)	None	Calculated as adjusted profit after tax divided by 12 month average Net Loan Book. This calculation has been adjusted to an IFRS 9 basis. It is used as a measure of profitability generated from the loan book. Net Loan Book is Amounts owing from customers less provisions for deferred income and impairments. This is presented within the interim report as the directors believe they are more representative of the underlying operations of the business
Tangible Equity / Average Receivables Ratio (%)	None	Net Assets less intangible assets less acquisition intangibles divided by 12 months average receivables. This calculation has been adjusted to an IFRS 9 basis.

Adjusted Return on Assets and Adjusted Return on Equity £m	to Aug 19	to Aug 18
Adjusted Profit After Tax (Rolling 12 months)	17.2	16.2
12 month average Net Loan Book	71.7	67.5
Adjusted Return on Assets	24.1%	24.0%
12 month average Equity	60.6	64.1
Adjusted Return on Equity	28.4%	25.2%

Other measures

Customers	None	Customers who have an active loan and from whom we have received a payment of at least £3 in the last 17 weeks.
Agents	None	Agents are self-employed individuals who represent the Group's subsidiaries and are engaged under an agency agreement.
Cash from Operations (excluding investment in loan book) (£m)	Cash from Operations	Cash from Operations (excluding investment in the loan book) is Cash from Operations excluding the growth in the loan book due to either acquisition or movement in the net receivable otherwise (see reconciliation below).
Adjusted Net Margin	None	Adjusted Profit before tax (which excludes amortisation of intangibles on acquisitions, the one-off costs of the IPO and other non-operating costs) divided by reported revenue. This is used to measure overall efficiency and profitability.
Cash from funding (£m)	None	Cash from Funding is the increase / (decrease) in the Bank Loan balance.