Orchard in brief

Orchard Funding Group plc, (the "company") is an AIM listed company which, through its wholly-owned subsidiaries Bexhill UK Limited and Orchard Finance Limited, (all making up "the group") specialises in insurance premium finance and the professional fee funding market. We are unique in providing insurance brokers with the ability to operate their own funding companies and we provide a high level personal service to all our clients. For those brokers and professional firms who prefer to act as introducers it offers competitive products for their clients.

> "Orchard Funding has greatly benefited our practice as an aid to cash flow management. It gives us certainty and flexibility….."

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7Group financial highlights

2016		2015	
	% of sales		% of sales
Sales £3.47m		Sales £3.41m	
Gross profit £3.15m	90.8%	Gross profit £2.46m	72.2%
Profit before tax £1.27m	36.6%	Profit before tax £1.29m	37.8%
Profit after tax £1.00m	28.8%	Profit after tax £1.03m	30.3%
EPS (pence) 4.70		EPS (pence) 8.77	

Earnings per share is based on the weighted average number of ordinary shares in issue during the period of 21,354,167.
In the previous year the weighted average number was 11,793,664. If all shares had been issued throughout the previous year, the earnings per share figure based on 21,354,167 shares would have been:

2016		2015	
EPS (pence) 4.70		EPS (pence) based on 21,354,167 shares in issue. 4.84	

Information on subsidiaries

2016

	Consolidated	Parent	Bexhill	Orchard
Capital resources	£12.34m	£12.18m	£2.42m	£0.52m
Loans made in the year	£50.1m	-	£32.8m	£17.3m
Trade receivables	£21.80m	-	£14.10m	£7.70m
Average gross margins	91%	-	86%	100%

2015

Capital resources	£11.64m	£11.60m	£2.27m	£0.54m
Loans made in the year	£43.6m	-	£28.3m	£15.3m
Trade receivables	£17.86m	-	£11.57m	£6.29m
Average gross margins	72%	-	80%	59%

Chairman's statement

It is a pleasure to be able to deliver my second report as Chairman of your company.

I am pleased to say that Orchard continues to be very well positioned in its two core markets, namely insurance premium finance and the UK professions fee funding market. All lending continues to be in a prudent and conservative manner and is growing well across the board.

Our organisation has continued to develop over the year with some new key appointments having been made in several areas across the business. We expect these appointments to add significantly to the strength and depth of expertise of the company.

Our market places remain buoyant and demand for our products remains strong. Although we have identified adjacent areas to our well-established markets we remain committed to our core businesses and, while we may involve ourselves in others when a profitable opportunity arises, we are very clear where our main strengths lie and intend to focus clearly on them.

I would be remiss not to report on the progress of our recently launched "peer to peer" product – the Orchard Lending Club which was acquired on 1 August 2016, post year end. In a few short months it has attracted over 80 investors and some funds have already been committed to this. We are the first "peer to peer" lender in the Insurance Premium Funding space. I would urge you to visit our website at https://www.orchardlendingclub.com and see for yourself how simple and attractive a proposition it is.

We continue to believe that conditions will remain favourable for our business for some time. We are unaffected by the Brexit vote and following last year's successful float on AIM our financing options have become cheaper.

In addition, we have received approval from Barclay's Bank to increase Orchard's loan facility from £10m to £15m when required. We continue to examine other options in order to finance further growth in our lending book.

That said, we do not get it all our own way. Competition has increased most notably in the professions fee funding market. Finance brokers with the backing of banks and private equity houses are being converted into lending operations and the biggest players in the market have been protecting their positions.

Indeed, some of our competition has been entering into two to three year exclusivity arrangements and paying substantial advance commission payments in return for introducing their business to premium finance providers. We do not pay any advance commissions to brokers and believe this is the sensible, prudent approach. As you would expect we continue to monitor closely product offerings from our competitors.

Your board remains very confident in the company's ability to grow strongly over the next financial year and momentum in the business remains positive.

David A. Clark

David A Clark
Chairman

11 November 2016

Chief executive's review

Orchard Blossoming

We have made good progress over this financial year.

We have absorbed all the execution and operational costs of our AIM listing.

Our lending is up across all 3 of our core product ranges.

It has taken us 12 months to get to where we are and our pipeline of new business is now very healthy. We are now converting new clients on a regular basis.

The challenges to our growth have not changed and we believe we are defeating all of those challenges.

Our first challenge is growing our business despite fierce competition and insurance broker inertia. From a competition perspective the only real players are the largest companies in the premium finance industry, Close Brothers PLC and Premium Credit Limited. Both players continue to aggressively protect their patch, but the sheer size of the market means that we are making and will continue to make in-roads into the market.

Another historic challenge for the business has been liquidity. With our AIM listing we have effectively overcome this challenge. This is demonstrated by the number of Banks that are now happy to provide us with funding lines, culminating in the increase of our facility from Barclays Bank PLC to £15m. We are actively engaged with other Banks to further increase the liquidity available to the group.

Capital for the development of our software has always been a challenge for the group. Again the AIM listing has removed this challenge. We have made and continue to make material improvements to our software. We have also been able to launch exciting new software led initiatives such as Orchard Lending Club our entry into the exciting Fin Tech market. Orchard Lending Club is the first Peer to Peer Lender in the World, which guarantees the repayment of all capital invested by Crowd Lenders. Orchard Lending Club has been widely applauded in the Fin Tech press and we are excited about the future growth of our Fin Tech business.

Attracting high quality insurance premium finance specialists to join our team was historically a challenge. The AIM listing again has enabled us to overcome this challenge. We now believe we have the most experienced senior management team in the insurance premium finance industry heading up our company. This has enabled us to open doors to the largest insurance brokers in the UK and led to our continued recognition in the UK insurance industry. We have been nominated for 2 leading awards in 2016 by The Insurance Times and the Insurance Post, both the leading publications for the UK insurance industry.

We are a small, lean, hardworking and profitable finance company in a huge financial services market. We are passionate about our business and have now operated in our market for nearly 15 years. The AIM listing has enabled us to grow and will enable us to continue to grow into the future. We are confident that we will continue to grow as our existing clients are very happy with our service and continue to be our best sales tool.

Insurance premium finance is a multi-billion pound market, which is dominated by 2 large and well managed companies. We will continue to work hard to take a very small portion of the market for the group. We now have the capital, liquidity and a great team to achieve our conservative plans and projections for the business and are looking forward to our continued growth over the coming years.

I am delighted to report that we have had a very exciting and successful year since our AIM listing in July 2015. We believe we now have a sound capital structure, which will enable us to grow our business to become a leading financial institution in the UK market.

We paid a dividend of 1.405p per share in April. I am happy to announce that the board has decided to keep the dividend at the level originally envisaged, as a result of the high level of confidence in the growth in earnings. We shall therefore be paying the same rate of dividend in the coming December.

Ravi Takhar
Chief executive officer

11 November 2016

Group strategic report

Objectives

The group's longer term aim is to further increase our capital base to enable us to support higher levels of borrowing and grow our lending book by following the strategy outlined below. This should lead to increased profitability through better liquidity and economies of scale.

Strategy

Our strategy has not altered from last year.

The insurance premium finance market in which the group operates is expected by the board to grow over the next five years in line with the general insurance market. The market for professional fee finance is also expected to grow as the banks continue to pull out of the market for small-ticket, short-term, unsecured funding.

In the short to medium term, the directors believe that the group's aims will be achieved firstly by increasing the number of our insurance broker and professional firm clients and secondly, by increasing the volume of business from our existing insurance broker and professional firm clients.

The two trading companies, Bexhill UK Limited and Orchard Funding Limited, operate in discrete markets - providing funding for insurance premiums and providing funding for payment of professional fees respectively.

The aim going forward is to build strongly on our core markets. The board does consider additional markets to augment its core businesses but will only enter these if, after detailed analysis, it will assist in achieving the overall objectives. In this respect, we have identified a complimentary market (operating on the basis of what amounts to government guarantees) of funding for schools.

Our business model

The group has two main businesses:

- Bexhill UK Limited provides credit to limited companies, partnerships and consumers to enable them to spread the cost of their insurance premiums, through premium funding companies, owned by independent insurance intermediaries; and
- Orchard Funding Limited provides credit to like entities to enable them to spread the cost of their professional fees.

Bexhill
Bexhill borrows up to 75% of the amount advanced to each of its clients from Barclays Bank Plc. The balance is provided by Bexhill from receipts from its debtors. Its capital and reserves were £2.4 million as at 31 July 2016. Barclays has renewed Bexhill's facility each year since 2002. Bexhill's current facility has been increased from £10.0 million to £15.0 million during the financial year. Barclays performs regular reviews and supplements these with an audit every six months by external independent auditors. Bexhill has operated within a disciplined lending environment since its inception. Insurance broker borrowing limits are set based on financial information, credit reports, regulatory requirements and other qualitative factors obtained from the broker. In addition, an annual review process, including regulatory permissions and credit checks, is conducted and each broker is monitored monthly for the company's financial exposure to that broker.

Bexhill's external cost of finance was approximately 3.4% in the financial year to 31 July 2016. In its last eight years of lending, Bexhill has not suffered any arrears or losses on its lending book.

Orchard
Orchard, at present, has no borrowings. Prior to the capital received from the recent public offering, Orchard was able to borrow up to 80% of the amount advanced to each of its clients from Bracken Holdings Limited. The remainder was provided by Orchard from its capital resources and reserves. At 31 July 2016 Orchard's capital and reserves were approximately £0.5 million. In the past Orchard's business was subject to regular audits by Bracken. That led to Orchard developing a highly disciplined approach. The directors also set credit limits on professional firm and obtain credit reports as part of the underwriting process. In addition, Orchard performs an annual review process and monitors exposure to each accountancy and professional firm monthly.
Orchard's external cost of finance is nil. It was circa 12% when this was provided by Bracken. The directors believe that the influx of capital from the IPO has given Orchard the ability to increase its borrowing capabilities, at more competitive rates, enabling it to further expand its lending book. Orchard has already received term sheets from a number of well-known banking institutions for the future financing of its business. Since it commenced business in 2010, Orchard has not suffered any arrears or losses on its lending book.

With both companies it is the simplicity of the premise which is the greatest strength - borrow money at one rate and lend it at a higher rate. Cash flow is excellent and overhead is (relatively) small and stable.

The business environment

One of the main trends having an impact on the business is regulation. In May 2015 the FCA released the results of a review carried out into the insurance premium finance market. This revealed that insurer and insurance intermediaries have not always provided customers with clear information about different payment options available when buying general insurance products, including providing clear information about the overall cost of paying for insurance, clear information about the payment options available to them and transparency in the role of the intermediary. The board is confident that our documentation and procedures fulfil the requirements of the FCA, as evidenced by Bexhill UK Limited obtaining full FCA permission in July 2015.

In August this year the Bank of England cut its base rate to 0.25%. Many commentators, picking up on remarks by the Governor, seem to think that this is as low as rates are likely to fall given the buoyant nature of the UK economy at present. However, using the same sources, the directors believe that it is unlikely that there will be any rises until well into next year. Even if rates do increase, the nature of the business will allow fairly quick reaction to this. The board believes that further opportunities will present themselves with liquidity being more important to businesses and individuals.

Of course, we have had a referendum on whether to stay in or leave the European Union. The run up to this saw a certain amount of unsteadiness in markets generally. The outcome may bring its own problems in the future but at least businesses know the direction the country is heading.

The business environment has certainly provided some challenges this year but it still affords a real opportunity for the group, with a growing market for its products and relatively stable interest rates.

Principal risks and uncertainties

The group's activities expose it to a variety of financial risks; cash flow interest rate risk, credit risk and liquidity risk. The group's overall risk management programme focuses on reducing the effect of these risks on the group's financial performance. A robust assessment of the principal risks affecting the group has been carried out by the board of directors. It identifies, evaluates and mitigates financial risks and has written policies for credit risk and liquidity risk.

Cash flow interest rate risk

The group borrows money from its bankers which it lends on. The borrowings are repaid each month and new loans taken out to cover lending to customers. Bank borrowings are linked to base rate. If bank rate increases there is therefore a risk that loans already made and which need to be covered will be effectively charged at a lower margin for part of the borrowing term. The board is in regular contact with its bankers and regularly reviews the financial situation in the economy to assist in mitigating this risk. In addition, the loans made are for relatively short terms (no more than twelve months with the average at ten) so any increase is likely to have a fairly short term impact.

Credit risk

The group operates a robust credit system. Money is only lent for periods up to one year, through regulated introducers who are the effective underwriters of any loans. They guarantee the debt of the customer to whom the loan is made. Borrowing limits are set based on financial information, credit reports, regulatory requirements and other qualitative factors obtained from the of the introducer. In addition, an annual review process including regulatory permissions and credit checks is conducted and each introducer is monitored monthly for the company's financial exposure to that introducer. This process has meant that the incidence of bad debt in the last eight years has been nil.

Liquidity risk

Until recently, one of the trading companies making up the subsidiaries had to borrow money at a relatively high rate of interest. Business was available but it was not always able to be taken up because liquidity was constricted. Since the share offer sufficient capital has been made available to enable further borrowing at better rates leading to the ability to lend more. The risk of insufficient liquidity has therefore been mitigated.

IT systems risk

A further risk identified by the board is that our operations are dependent on IT systems, which could potentially suffer significant disruptions or even failure. The directors, therefore, have in place business continuity procedures and security measures in the event of IT failures or disruption, including backup IT systems for business critical systems.

In summary, cash flow interest rate risk is mitigated by the fact that loans are short term and by regular interaction with our bankers; credit risk is reduced by a robust system of checks on borrowers and by third party guarantees; liquidity risk has been alleviated by the injection of capital, allowing the group to be less reliant on borrowings and enabling it to obtain better borrowing terms; and risk from disruption of the IT system is avoided by thorough continuity procedures.

Our internal control systems ensure that the incidence of fraud or error is kept to a minimum. Much of the process is automated and provided and maintained by a third party.

Development and performance of the business

The fundamental function of the business (whether the insurance side or fee funding side) is to lend money. To do this the group relies on obtaining funding to provide loans to clients of its partners (insurance intermediaries and professional firms). The ability to provide this money is crucial to the business. As a result of the IPO in 2015, liquidity has not been an issue this year. Nonetheless, availability of funds is a key area for future growth.

The ability to find borrowers is also key to the business. There has been no shortage of good quality lending opportunities up to now. At the beginning of the financial year, the directors launched a more formal and extensive marketing plan. In summary the plan encompassed the expansion of the sales team, a focused marketing drive to help increase awareness of the group in the market and an increase in regular electronic and telesales contact with existing and new customers in both our markets. Unfortunately, the benefits which should have flowed from this have been delayed for several reasons, including delays by the FCA in approving brokers and other intermediaries who offer financial services, and finding key personnel. Things are moving a little quicker at the FCA and recent recruits are already contributing substantially to the growth on the group.

Our margin is another key area. Upward changes in base rate could erode our margins. The board reviews this on a monthly basis and liaises with its bankers. Should rates increase, our rates would also increase to reflect this. Our own analysis indicates that the influence on our business would be negligible. Indeed, we have just seen a reduction in rates which has had very little impact.

Overheads in this business are relatively stable. Apart from the increases resulting from becoming a listed company, and those associated with an increased sales function, these should not alter significantly.

The board have identified the following financial key performance indicators (KPIs):
Lending
Margins

The table below gives a breakdown of our KPIs by subsidiary.

	% change	2016	2015
Bexhill			
Capital resources	6.6%	£2.42m	£2.27m
Loans made in the year	15.9%	£32.8m	£28.3m
Trade receivables	21.9%	£14.10m	£11.57m
Quarter 4 lending	17.3%	£8.8m	£7.5m
Average gross margins		86%	80%
Orchard			
Capital resources	(3.7%)	£0.52m	£0.54m
Loans made in the year	13.1%	£17.3m	£15.3m
Trade receivables	22.4%	£7.70m	£6.29m
Quarter 4 lending	31.4%	£4.6m	£3.5m
Average gross margins		100%	59%

In terms of non-financial indicators, the most important of these is quality of management and staff.

Our three senior members of staff have 28 years between them working in the business. They have taken on additional responsibilities over the years to the extent that they know each area of the business.

All our staff are fully trained for the role which they take. Customer care is of paramount importance in our business culture and this aspect is a constant part of staff training for all staff. Feedback from our partners in this area has been very positive. Performance targets set for our staff have all been met.

People are happy to contribute towards our success and their views are always listened to by senior management. In many cases ideas which come forward are put into action and in all cases explanations are given when this does not happen.

The directors continually assess the prospects of the group. Forecasts are prepared for a five year period, on a rolling basis. These are also subject to sensitivity analysis, the main aspect of which is the value of loans made. In all scenarios, there is no indication that there will be a problem in continuing as a going concern. However, it is important to appreciate that the further away (in time) the estimate, the less reliable it is. The forecasts are prepared on the basis that bank base rate will remain where it is. This is clearly highly unlikely in the longer term. However, should rates from the bank rise we are in a position to react (as mentioned in the section on cash flow interest rate risk on page 5), within a short period of time, with relatively little impact on our margins.

The key assumptions and bases used in the forecasts are:

- Funding provided will grow from circa £50m in 2016 to circa £120m in 2020;
- Liquidity will be available to fund those loans;
- Margins will remain stable on corporate business and will increase slightly on direct business;
- Overhead will increase at the rate of inflation with stepped increases at certain points (when capacity constraints are hit);
- The funding system will be able to accommodate the increased business.

The consolidated statement of financial position on page 16 shows the situation at the period end in detail.

The two subsidiaries have traded for a number of years and have grown at a rate commensurate with finance available at a given point in time and within other recent constraints (e.g. delays by the FCA).

Going concern

The financial statements have been prepared on a going concern basis which assumes that the group will be able to continue its operations for the foreseeable future.

The directors have prepared and reviewed financial projections for the 12 month period from the date of signing of these financial statements. Based on the level of existing cash and the projected income and expenditure, the directors have a reasonable expectation that the company and group have adequate resources to continue in business for the foreseeable future. Accordingly the going concern basis has been used in preparing the financial statements.

Environmental, social responsibility, community and human rights issues

The group is a small group. It does not manufacture or need physical distribution channels. The impact of the group on the environment consists of power used in an office environment and fuel used for getting to and from work. Environmental issues are therefore negligible.

The group operates out of an office in Luton. Most of our employees are based in the local area. We therefore contribute to the economy of the community. We are an ethical employer and believe in paying well for good performance. None of our employees earn less than £10 per hour (before any bonuses). We provide health club membership for any staff who wish it. We review the background of our suppliers and will not use any supplier which breaches our own high standards as regards human rights.

Gender diversity

The main board of directors is currently all male. The main reason for this situation is taking in outside board members who were best suited to the positions. The board of the two subsidiaries consist of one male and two females each.

Males make up 36% of the employees in total (30% in 2015).

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary
11 November 2016

Directors' report

The directors present their annual report together with the audited accounts of the group and the company for the year ended 31 July 2016.

Results and dividends

The group profit for the period after taxation was £1,004,077 (2015 £1,034,413). The directors consider that the going concern basis is appropriate, supported by the profitability of the group and the significant cash balances. During the year the group paid dividends amounting to £300,026 to shareholders (2015 £137,500). The board is pleased to propose a final dividend of 1.405 pence per share to be paid on 23 December 2016 to shareholders on the register on 16 December 2016, with an ex-dividend date of 15 December 2016. The final dividend is subject to shareholder approval at the company's upcoming annual general meeting in December 2016.

Future developments

Future developments and a fuller business review are contained in the chairman's statement, the chief executive's review and the strategic report on pages 2 to 7.

Directors and their interests

The directors who served during the year and their beneficial interests in the share capital of the company are shown in the remuneration report on page 10. There is a directors and officers indemnity insurance policy in existence. There were no other third party indemnity provisions for the directors.

Directors' responsibilities

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected under company law to prepare the company financial statements in accordance with IFRS as adopted by the EU.

The financial statements are required by law and IFRS adopted by the EU to present fairly the financial position of the group and the company and the financial performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 group and the company and of the profit or loss of the group for that period.
In preparing each of the group and company financial statements, the directors are required to:

a) select suitable accounting policies and then apply them consistently;
b) make judgements and accounting estimates that are reasonable and prudent;
c) state whether they have been prepared in accordance with IFRSs adopted by the EU;
d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Orchard Funding Group plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Political contributions

During the period the group made no political contributions.

Research and development
During the period nothing was spent on research and development that would fall to be treated as a fixed asset

Employees
The group is an equal opportunity employer and makes every effort to ensure disabled people are not discriminated against on the grounds of their disabilities. In the event of staff becoming disabled, every effort is made to ensure that employment continues and that appropriate training is arranged. Employees are kept informed regarding the group's affairs and are consulted regularly through staff meetings and on an individual basis.

Environment
The activities of the group do not pose environmental hazards. The group monitors energy consumption and ensures that all legal and regulatory environmental requirements are complied with.

Statement as to disclosure of information to auditor
The directors who were in office on the date of approval of these financial statements have confirmed, as far as they are aware, that there is no relevant audit information of which the auditor is unaware. Each of the directors have confirmed that they have taken all of the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor
A resolution to reappoint RSM UK Audit LLP as auditor for the ensuing year will be proposed at the forthcoming annual general meeting.

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

11 November 2016

Remuneration report

Remuneration policy is set by the chairman of the remuneration committee, Jonathan Shearman and chairman of the company, David Clark with assistance from the company secretary (the remuneration committee).

Policy statement
The remuneration committee sets the remuneration and all other terms of employment of the executive directors. Remuneration levels are set by reference to individual performance, experience and market conditions with a view to providing a package which is appropriate for the responsibilities involved. It is the chairman's intention to seek to align the interests of the executive directors with those of the shareholders.

Service contracts
There are no contracts of service under which any executive director of the company is employed by the company or any of its subsidiaries other than contracts expiring or determinable by the employing company within one year and without payment of predetermined compensation which exceeds more than one year's salary, benefits in kind and pension.

Directors' interests
The interests of the directors at 31 July 2016 and 31 July 2015 in the shares of the company were as follows:

	Number of ordinary shares held	Percentage of issued ordinary share capital
R Takhar	11,458,333	53.66%
D Clark	10,416	0.05%
L McShane	-	-
J Shearman	-	-

Non-executive directors
The remuneration of the non-executive directors is considered by the executive directors. The non-executive directors do not have contracts of service, but the current term of appointment is ongoing subject to three months' notice.

Directors' remuneration

2016	Fees and salary	Taxable benefits	Total
	£	£	£
Executive directors			
R Takhar	258,040	11,131	269,171
L McShane	60,240	-	60,240
Non- executive directors			
D Clark	30,000	-	30,000
J Shearman	30,000	-	30,000

2015	Fees and salary £	Taxable benefits £	Total £
Executive directors			
R Takhar	21,503	-	21,503
L McShane	5,020	-	5,020
Non- executive directors			
D Clark	2,500	-	2,500
J Shearman	2,500	-	2,500

The above information relates to the parent and covers the period from 23 June 2015 to 31 July 2015.
Further information is to be found within the IPO admission document at http://www.orchardfundinggroupplc.com

Jonathan Shearman,
Remuneration committee chairman

11 November 2016

Board of directors and secretary

Short biographies of the group's senior management and details of their roles are set out below:

David Andrew Clark – Independent Non-executive Chairman (age 51)

Currently, Mr David Clark serves as an independent non-executive director of Constellation Health Technology plc, an AIM listed company, where he is also a member of audit and compensation committees. Prior to that, Mr Clark was a fund manager for 25 years and began his career with six years at Scottish Mutual as a senior investment analyst before joining Ignis Asset Management (formerly Resolution) where he worked from 1994 until September 2014. At Ignis he was responsible for the UK Smaller Companies quoted investments across all sectors. His performance resulted in him being ranked number two Fund Manager in the UK (2009) across all sectors by Citywire. Mr Clark graduated from Glasgow University with a Bachelor of Accountancy Degree and also holds an MSc in Investment Analysis from Stirling.

Rabinder ("Ravi") Singh Takhar – Chief Executive Officer (age 51)

Mr Ravi Takhar has over 25 years' experience in the acquisition, growth, financing and disposal of financial businesses. Mr Takhar joined Bexhill UK Limited in 2002 and has led the growth of its business to its current size. Prior to creating the group, Ravi was an investment banker and head of Financial Services investment at Nikko, the Japanese investment bank, from 1998 to 2002 as well as chairman of Mortgages PLC, the mortgage lender. Mr Takhar was also head of Mortgage Principal Finance at Investec Bank PLC from 2005 to 2008. He qualified as a banking solicitor at Clifford Chance, a leading international law firm, and has an MA from the University of Oxford.

William ("Liam") Leo McShane – Part-time Chief Financial Officer and Company Secretary (age 58)

Mr Liam McShane has over 25 years' experience as a chartered certified accountant and is responsible for all internal accounting and treasury management, as well as all monthly and audited accounting for the Group. He has been involved in providing tax and financial advice to Bexhill UK Limited since 2000, from 2002 as a partner in McShane Wright Chartered Certified Accountants. Prior to McShane Wright, Mr McShane became a partner at Clifford Roberts in 1998, having qualified as a chartered certified accountant with Towers Rockall, a local accountancy practice in Northamptonshire, in 1994. From 1989 he advised for the Institute of Independent Insurance Brokers, an association for professional insurance intermediaries, providing tax and financial advice to the Institute, its members and professional advisers to its members. Mr McShane is a Fellow of the Association of Chartered Certified Accountants.

Jonathan Paul David Shearman – Independent Non-executive Director (age 46)

Currently, Mr Jonathan Shearman serves as an independent non-executive director of Trifast plc, a company listed on the Main Market of the London Stock Exchange, being a member of the audit and nominations committee and chairman of the remuneration committee. Mr Shearman has over 20 years' experience of public equity markets having started his career in equity research at James Capel in 1993, before working in equity sales at Williams de Broë and KBC Peel Hunt. He worked as an equity analyst at Gartmore Investment Management (2006 to 2008) followed by a role as strategic consultant to Altium Group (a pan European Investment Bank).

Corporate governance report

Compliance

Corporate governance defines the decision-making systems and structure through which shareholders directly or indirectly control the company. Orchard Funding Group plc is a public limited company registered in England and Wales and listed on the Alternative Investment Market ("AIM").

The governance of Orchard Funding Group plc vests in the board of directors of the holding company, according to the laws and regulations for an AIM listed company extant in the UK.

As the company is listed on AIM, it is not required to comply with the provisions set out in the 2014 UK Corporate Governance Code. However, the company complies with the QCA Corporate Governance Code so far as it is appropriate for a company of this size. The following information is provided which describes how the company applies principles of corporate governance that the directors consider appropriate.

Directors

The company supports the concept of an effective board leading and controlling the company. The board is responsible for approving company policy and strategy. It meets every two months and has a schedule of matters specifically reserved to it for decision. Management supply the board with appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the company secretary and independent professionals at the company's expense. The board consists of two executive directors, who hold key operational positions in the company, and two non-executive directors who bring a breadth of experience and knowledge. The current board members are described on page 12.

All directors are subject to re-election every three years and, on appointment, at the first Annual General Meeting (AGM) after appointment.

Relations with shareholders

The directors meet with the company's institutional and other major shareholders, at their request, in order to communicate mutual understanding of objectives. The company intends at its AGMs to communicate with private investors and encourage their participation.

Each year shareholders will receive a full annual report and an interim report.

Audit committee

Membership of the audit committee comprises the two non-executive directors and is chaired by the group chairman. By invitation, the chief financial officer also attends. The audit committee will meet formally not less than two times every year and otherwise as required. The audit committee is responsible for ensuring that the financial performance of the group is properly measured and reported, for measuring and assessing risk and for reviewing reports from the auditor relating to the group accounts and the group's internal control systems.

Internal controls

The board is responsible for ensuring that the group maintains a system of internal financial controls including suitable monitoring procedures. The objective of the system is to safeguard group assets, ensure proper accounting records are maintained and that the financial information used within the business and for publication is reliable.

Internal financial control monitoring procedures undertaken by the board include the review of monthly financial reports and monitoring of performance, setting of annual budgets and monthly forecasts and the prior approval of all significant expenditure.

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. At 31 July 2016 the group had cash and cash equivalents, net of bank overdrafts, of £1.39m and undrawn bank facilities of £5.83m. The group owns a portfolio of loans which are subject to very low risk of impairment (see section on credit risk in the strategic report on page 5). These receivables amount to £21.8m against which there are total financial liabilities of £10.8m. Total costs for the year were slightly over £2.2m. There is therefore substantial financial headroom going forward. Accordingly, the directors consider the going concern basis in preparing the consolidated financial statements to be appropriate.

Independent auditor's report

We have audited the group and parent company financial statements ("the financial statements") on pages 15 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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 a Report of the Auditors 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.

Respective responsibilities of directors and auditors

As more fully explained in the statement of directors' responsibilities set out in the directors' report on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APBs) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at http://www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 31 July 2016 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the group strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

RSM UK Audit LLP

Geoff Wightwick (Senior Statutory Auditor)
for and on behalf of RSM UK Audit LLP, Statutory Auditor
Portland,
25 High Street
Crawley
West Sussex
RH10 1BG

Date 11 November 2016

Consolidated income statement

	Notes	2016 £	2015 £
Continuing operations			
Revenue	5	3,468,864	3,409,859
Finance costs	8	(238,079)	(854,929)
Other operational costs		(76,025)	(92,650)
Gross profit		3,154,760	2,462,280
Administrative expenses		(1,884,030)	(1,169,028)
Operating profit and profit before income tax	9	1,270,730	1,293,252
Income tax expense	10	(266,653)	(258,839)
Profit for the period from continuing operations		1,004,077	1,034,413
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the owners of the parent		1,004,077	1,034,413
Earnings per share attributable to the owners of the parent during the period (pence)			
Basic and diluted	11	4.70	8.77

The notes on pages 22 to 35 are an integral part of these consolidated financial statements

Consolidated statement of financial position

	Notes	2016 £	2015 £
Assets			
Non-current assets			
Property, plant and equipment	14	95,058	4,427
Intangible assets	15	43,873	-
		138,931	4,427
Current assets			
Trade and other receivables	17	22,003,868	17,914,997
Tax receivable		-	1,410
Cash and cash equivalents:			
Bank balances and cash in hand	18	1,390,098	2,901,960
Bank overdrafts	18	-	(47,159)
		23,393,966	20,771,208
Total assets		23,532,897	20,775,635
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	19	213,542	213,542
Share premium		8,691,910	8,691,910
Merger reserve		890,725	890,725
Retained earnings		2,545,449	1,841,398
Total equity		12,341,626	11,637,575
Liabilities			
Non-current liabilities			
Borrowings	22	27,318	-
Deferred tax	20	10,078	590
		37,396	590
Current liabilities			
Trade and other payables	21	1,657,030	1,835,908
Borrowings	22	9,207,927	7,015,155
Tax payable		288,918	286,407
		11,153,875	9,137,470
Total liabilities		11,191,271	9,138,060
Total equity and liabilities		23,532,897	20,775,635

The financial statements on pages 15 to 35 were approved, and authorised for issue, by the board of directors on 11 November 2016 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 22 to 35 are an integral part of these consolidated financial statements

Company statement of financial position

	Notes	2016 £	2015 £
Assets			
Non-current assets			
Investments	16	2,801,374	2,801,374
Current assets			
Trade and other receivables	17	9,422,246	8,834,046
Cash and cash equivalents	18	-	-
		9,422,246	8,834,046
Total assets		12,223,620	11,635,420
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	19	213,542	213,542
Share premium		8,691,910	8,691,910
Merger reserve		2,691,999	2,691,999
Retained earnings		584,159	(1,654)
Total equity		12,181,610	11,595,797
Liabilities			
Current liabilities			
Trade and other payables	21	42,010	39,623
Total liabilities		42,010	39,623
Total equity and liabilities		12,223,620	11,635,420

The financial statements on pages 15 to 35 were approved, and authorised for issue, by the board of directors on 11 November 2016 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 22 to 35 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Called up Share capital £	Retained earnings £	Share premium £	Merger Reserve £	Total equity £
Balance at 1 August 2014	109,375	944,485	-	890,725	1,944,585
Changes in equity					
Total comprehensive income	-	1,034,413	-	-	1,034,413
Transactions with owners:					
Dividends paid	-	(137,500)	-	-	(137,500)
Issue of share capital	104,167	-	9,895,834	-	10,000,001
Items expensed through share premium	-	-	(1,203,924)	-	(1,203,924)
Balance at 31 July 2015	213,542	1,841,398	8,691,910	890,725	11,637,575
Changes in equity					
Total comprehensive income	-	1,004,077	-	-	1,004,077
Transactions with owners:					
Dividends paid	-	(300,026)	-	-	(300,026)
Balance at 31 July 2016	213,542	2,545,449	8,691,910	890,725	12,341,626

Retained earnings consist of accumulated profits and losses of the group. They represent the amounts available for further investment in group activities. Only the element which constitutes profits of the parent company are available for distribution (see page 19).

The share premium account arose on the IPO on 1 July 2015 at a premium of 95p per share. Costs of the IPO have been deducted from the account as permitted by IFRS.

The merger reserve arose through the formation of the group on 23 June 2015 using the capital reorganisation method as shown in note 2.2 on page 22.

The notes on pages 22 to 35 are an integral part of these consolidated financial statements

Company statement of changes in equity

	Called up Share Capital	Retained Earnings	Share premium	Merger reserve	Total Equity
	£	£	£	£	£
Balance at 1 August 2014	109,375	-	-	2,691,999	2,801,374
Changes in equity					
Total comprehensive income	-	(1,654)	-	-	(1,654)
Transactions with owners:					
Issue of share capital	104,167		9,895,834	-	10,000,001
Items expensed through share premium	-		(1,203,924)	-	(1,203,924)
Balance at 31 July 2015	213,542	(1,654)	8,691,910	2,691,999	11,595,797
Changes in equity					
Total comprehensive income	-	885,839	-	-	885,839
Transactions with owners:					
Dividends paid	-	(300,026)	-	-	(300,026)
Balance at 31 July 2016	213,542	584,159	8,691,910	2,691,999	12,181,610

Retained earnings consist of accumulated profits and losses of the parent company. They represent the amounts available for further investment in group activities and are available for distribution.

The share premium account arose on the IPO on 1 July 2015 at a premium of 95p per share. Costs of the IPO have been deducted from the account as permitted by IFRS.

The merger reserve arose through the formation of the group on 23 June 2015 using the capital reorganisation method as shown in note 2.2 on page 22.

Consolidated statement of cash flows

	Notes	2016 £	2015 £
Cash flows from operating activities:			
Profit before income tax		1,270,730	1,293,252
Adjustment for depreciation and amortisation		20,520	8,301
		1,291,250	1,301,553
(Increase)/decrease in trade and other receivables		(4,088,870)	1,527,966
Decrease in trade and other payables		(178,878)	(400,666)
		(2,976,498)	2,428,853
Income tax paid		(253,245)	(251,229)
Net cash (absorbed)/generated by operating activities		(3,229,743)	2,177,624
Cash flows from investing activities			
Purchases of property, plant and equipment		(61,924)	(828)
Expenditure in software development		(50,949)	-
Net cash absorbed by investing activities		(112,873)	(828)
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		-	10,000,001
Items expensed through the share premium account		-	(1,203,924)
Dividends paid		(300,026)	(137,500)
Proceeds from borrowings		2,185,099	17,430,476
Borrowings repaid		(7,160)	(25,338,253)
Net cash generated by financing activities		1,877,913	750,800
Net (decrease)/increase in cash and cash equivalents		(1,464,703)	2,927,596
Cash at the beginning of the period		2,854,801	(72,795)
Cash and cash equivalents at the end of period	18	1,390,098	2,854,801

The notes on pages 22 to 35 are an integral part of these consolidated financial statements

Company statement of cash flows

	Notes	2016 £	2015 £
Cash flows from operating activities:			
Profit/(loss) before income tax		885,839	(1,654)
Finance income		(1,400,000)	(59,000)
		(514,161)	(60,654)
Increase in trade and other receivables		(27,380)	(6,439)
Increase in trade and other payables		2,387	39,623
		(539,154)	(27,470)
Income tax paid		-	-
Net cash absorbed by operating activities		(539,153)	(27,470)
Cash flows from investing activities			
Loans made		(560,820)	(8,827,607)
Dividends received		1,400,000	59,000
Net cash generated/(absorbed) by investing activities		839,180	(8,768,607)
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		-	10,000,001
Items expensed through the share premium account		-	(1,203,924)
Dividends paid		(300,026)	-
Net cash (absorbed)/generated by financing activities		(300,026)	8,796,077
Net increase/(decrease) in cash and cash equivalents		-	-
Cash at the beginning of the period		-	-
Cash and cash equivalents at the end of period	18	-	-

The notes on pages 22 to 35 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General information

Orchard Funding Group plc ("the company") and its subsidiaries (together "the group") provide funding and funding support systems to insurance brokers and professional firms through the trading subsidiaries. On 23 June 2015 the company acquired its subsidiaries, Bexhill UK Limited and Orchard Funding Limited. The group operates in the United Kingdom.

The company is a public company listed on the Alternative Investment Market of the London Stock Exchange, incorporated and domiciled in the United Kingdom. The address of its registered office is 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

2. Summary of significant accounting policies

The principal accounting policies applied in the presentation of these consolidated financial statements are set out below.

2.1 Basis of preparation

The consolidated financial statements of Orchard Funding Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

The financial statements have been prepared on a going concern basis which assumes that the group will be able to continue its operations for the foreseeable future.

The directors have prepared and reviewed financial projections for the 12 month period from the date of signing of these financial Statements. Based on the level of existing cash and the projected income and expenditure, the directors have a reasonable expectation that the company and group have adequate resources to continue in business for the foreseeable future. Accordingly the going concern basis has been used in preparing the financial statements.

2.2 Consolidation

Subsidiaries are entities over which the group has control. The group controls an entity when the group has rights to, or is exposed to, variable returns from its involvement with, and has the ability to affect those returns through its power over, the entity.

The business combination giving rise to the group is one in which companies which were under the control of R Takhar combined under a holding company which is also controlled by R Takhar. As such the combination is outside the scope of IFRS 3 and is accounted for using the 'pooling of interests method'. This is a capital reorganisation which treats the merged companies as if they had been combined throughout the current and comparative accounting periods. The accounting principles for these combinations gave rise to a merger reserve in the consolidated statement of financial position, being the difference between the nominal value of new shares issued by the company for the acquisition of the shares of the subsidiaries and each subsidiary's own share capital.

The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the company, thereby attracting merger relief under the Companies Act 2006.

2.3 Financial assets

The group has one class of financial asset – loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets except for those that mature more than 12 months after the end of the reporting period. These are classified as non-current assets. The group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the balance sheet (notes 2.4 and 2.5)

(a) Impairment

The group assesses at the end of each financial reporting period whether there is objective evidence that any financial assets are impaired. Impairment losses are incurred only if there is objective evidence that impairment occurred after the initial recognition of the asset (a "loss event") and that impact of the loss event, or events, on the future cash flows of the financial asset or assets can be reliably estimated.

Notes to the consolidated financial statements

Evidence of impairment may include indications that the receivables are experiencing significant financial difficulties (including 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.

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying value and the present value of future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.
If in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, a reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.4 Trade receivables

Trade receivables are amounts due from borrowers for monies loaned, or services provided, to them. If collection is expected wholly within one year they are classified as current assets. If not they are presented as non-current assets. Trade receivables are initially recognised at fair value and subsequently recognised at amortised cost using the effective interest rate method, less provision for impairment.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash in hand and bank current accounts. It includes bank overdrafts where they are repayable on demand and form an integral part of the group's cash management.

2.6 Share capital

Ordinary shares are classified as equity and any cost of issue are deducted from the proceeds received. No other class of shares exists in the group.

2.7 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value and subsequently at amortised cost using the effective interest method.

2.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Borrowings are subsequently carried at amortised cost; any difference between the proceeds and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Fees paid on the establishment of loan facilities are capitalised and amortised over the period of the facility to which it relates.

Where the facility is not fully utilised and there is a non-utilisation charge, this is recognised as a transaction cost.

2.9 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or in equity respectively.

Current Income tax charge is calculated on the basis of tax laws enacted in the United Kingdom, where the group exclusively operates.

Deferred tax is recognised on temporary differences arising between the tax based assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is determined using tax rates that are expected to apply when the liability or asset reverses.

2.10 Employee benefits

One of the subsidiaries in the group operates a defined contribution pension scheme. Contributions payable are charged to the income statement in the period to which they relate. There are no other post employment benefits.

Notes to the consolidated financial statements

A defined contribution plan is a pension plan under which the group pays fixed contributions (based on salary) into a separate entity. The group has no legal or constructive obligations to pay further contributions into contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.11 Revenue recognition

Interest arising from funding activities is recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life or duration of the financial instrument to the net carrying amount of the financial asset.

Income arising from the provision of funding systems is recognised as each licence becomes due for payment. Licences are charged on a monthly basis to the user.

2.12 Leases

Rentals paid under operating leases are charged to the income statement on a straight line basis over the period of the lease. Rent free periods are amortised over the period of the lease.

Assets obtained under hire purchase contracts or finance leases are capitalised in the balance sheet. Those held under hire purchase contracts are depreciated over their estimated useful lives. Those held under finance leases are depreciated over their estimated useful lives or the lease term, whichever is the shorter.

The interest element of these obligations is charged to the profit and loss account over the relevant period using the effective interest rate method.

2.13 Property, plant and equipment

(a) Cost

Property, plant and equipment are stated at historical cost less depreciation. Historical cost consists of expenditure that is directly attributable to the acquisition of the items.

(b) Depreciation

Depreciation is calculated using the following rates:

Office equipment and fixtures	20% straight line
Computer equipment	33.33% straight line
Motor vehicles	25% reducing balance

2.14 Intangible assets

(c) Cost

Intangible assets stated at historical cost less amortisation. Historical cost consists of expenditure that is directly attributable to the acquisition of the items.

(d) Amortisation

Software development costs are amortised over a 3 year period on a straight line basis.

2.15 Interest payable

Interest payable is the cost of borrowing funds to lend on to customers. For this reason it is included in cost of sales and therefore forms part of operating results. This is a departure from the requirements of the Companies Act but is necessary for the accounts to show a true and fair view. Had this treatment not been adopted interest payable and similar charges would have been higher and cost of sales would have been lower. The amount of this difference is shown in note 8.

2.16 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements:

- in the case of an interim dividend in the period in which this is recommended by the directors and paid;
- in the case of a final dividend in the period in which the dividends are approved by the company's shareholders.

Notes to the consolidated financial statements

2.17 Financial reporting standards in issue but not yet effective

The following standards were in issue but not yet effective, and not applied in these financial statements, at the date of authorisation:

(a) IAS 16 and IAS 38 Clarification of acceptable methods of depreciation and amortisation – these standards establish the principle for depreciation that the expected pattern of consumption of the future economic benefits of an asset should be the basis for the charge – not a revenue based system.

(b) IAS 1 Presentation of financial statements - amendments to deal with the concept of materiality in financial statements. Materiality is to apply to the financial statements as a whole, not just the primary statements and is to be used to promote better understanding of financial statements. In particular, additional information should be provided where compliance with specific requirements of IFRS is insufficient to enable users to understand the impact of certain transactions; providing immaterial information and irrelevant subtotals should be avoided; and material items should not be aggregated.

(c) IFRS 9 Financial Instruments (as revised in 2014) - specifies the requirements for the classification and measurement of financial assets and liabilities, impairment methodology and general hedge accounting. The number of categories of financial assets is reduced and all recognised financial assets within the scope of IAS 39 will be subsequently measured at amortised cost or fair value. Expected credit losses as opposed to incurred credit losses are to be accounted for. General hedge accounting requirements of IFRS 9 are retained.

The directors anticipate that the adoption of these standards in future periods will not have a material impact on the financial statements of the group.

3. Financial risk management

3.1 Financial risk factors

The group's activities expose it to a variety of financial risks; market risk (including cash flow interest rate risk), credit risk and liquidity risk. The group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the effect on the group's financial performance. Risk management is carried out by the board of directors. They identify, evaluate and mitigate financial risks. The board provides written policies for credit risk and liquidity risk. These risks are dealt with in detail in the strategic report on page 5 and 6.

(a) Market risk – cash flow interest rate risk

This arises from money borrowed from our bankers which is lent on to customers. There is a risk that loans already made and which need to be covered will be effectively charged at a lower margin for part of the borrowing term. This is mitigated by regular contact with our bankers and regular reviews of the financial situation in the economy. In addition loans are made for a relatively short time so any increase in rates is likely to have a fairly short term impact.

(b) Credit risk

This is the risk that customers will not repay their loans and is mitigated by a system of credit checks, other financial and qualitative factors and a system of third party guarantees from the introducing firms.

(c) Liquidity risk

This is the risk that the company will have insufficient funds to conduct its business. This has been substantially mitigated by an injection of capital through a share issue which has enabled the group to increase its borrowings at better rates leading to the ability to lend more. The group has negotiated a £15m facility with its bankers. At 31 July 2016 there was £5.8m still available to draw.

3.2 Capital management

Capital consists of net debt (borrowings less cash and cash equivalents) plus total equity. The group's objective when managing capital is to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the board may adjust the amount of dividends paid, return capital to shareholders issue new shares or sell assets to reduce debt.

Consistent with other companies the group monitors capital on the basis of gearing ratio. The ratio is calculated as net debt divided by total capital. On this basis the gearing ratio was 26.33% at the year end. This is lower than in the past as a result of cash injected from the IPO in July 2015. The group has a target ratio of 80% in the longer term as this makes best use of our own reserves.

Notes to the consolidated financial statements

The table below shows the gearing ratio at 31 July 2016 and 31 July 2015:

	2016 £	2015 £
Total borrowings	9,235,245	7,015,155
Less: cash and cash equivalents	(1,390,098)	(2,854,801)
Net debt	7,845,147	4,160,354
Total equity	12,341,626	11,637,575
Total capital	20,186,773	15,797,929
Gearing ratio	38.86%	26.33%

4. Critical accounting estimates and judgements

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. However, because of the nature of the group, in the opinion of the board there are no areas where there is a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year.

5. Segment information

The group operates wholly within the United Kingdom therefore there is no meaningful information that could be given on a geographical basis. It does have, however, two discrete operating segments – insurance premium funding and professional fee funding.

The board assesses the performance of each sector based on operating profit (before tax and exceptional items, but after interest which is a cost of sale). The relative revenues, operating costs and operating profit are shown below.

2016	Total £	Central £	Insurance premium funding £	Professional fee funding £
Revenue	3,468,864	-	2,259,577	1,209,287
Interest payable	(238,079)	-	(238,079)	-
Operational costs and administrative expenses	(1,960,055)	(514,161)	(961,771)	(484,123)
Operating profit/(loss) before tax	1,270,730	(514,161)	1,059,727	725,164
Current tax expense	(266,653)	-	(121,831)	(144,822)
Profit/(loss) for the period after tax	1,004,077	(514,161)	937,896	580,342

2015	Total £	Central £	Insurance premium funding £	Professional fee funding £
Revenue	3,409,859	-	2,132,387	1,277,472
Interest payable	(854,929)	-	(330,459)	(524,470)
Operational costs and administrative expenses	(1,261,678)	(60,655)	(808,349)	(392,674)
Operating profit/(loss) before tax	1,293,252	(60,655)	993,579	360,328
Current tax expense	(258,839)	-	(192,952)	(65,887)
Profit/(loss) for the period after tax	1,034,413	(60,655)	800,627	294,441

Notes to the consolidated financial statements

6. Expenses by nature

		2016	2015
		£	£
Interest payable in cost of sales		238,079	854,929
Employee costs (including directors)	(note 7)	838,544	321,521
Advertising and selling costs		151,791	117,824
Bank fees		353,577	315,542
Other expenses		616,143	506,791
Total cost of sales, other operational costs and administrative expenses		2,198,134	2,116,607

7. Employee costs

	2016	2015
	£	£
Wages and salaries (including directors)	759,810	299,246
Social security costs	76,597	22,228
Pension costs – defined contribution plans	2,137	47
Total employee benefit expense	838,544	321,521

The total number of persons employed by the group was:

	No.	No.
Directors	4	4
Administration	11	9
Total	15	13

Directors' remuneration is as follows:

2016

	Fees and salary	Taxable benefits	Total	Employer's NIC	Total
	£	£	£	£	£
Executive directors					
R Takhar	258,040	11,131	269,171	36,026	305,197
L McShane	60,240	-	60,240	402	60,642
Non- executive directors					
D Clark	30,000	-	30,000	2,526	32,526
J Shearman	30,000	-	30,000	2,526	32,526
Total directors' remuneration	378,280	11,131	389,411	41,480	430,891

2015

	Fees and salary	Taxable benefits	Total	Employer's NIC	Total
	£	£	£	£	£
Executive directors					
R Takhar	21,503	-	21,503	2,874	24,377
L McShane	5,020	-	5,020	-	5,020
Non- executive directors					
D Clark	2,500	-	2,500	-	2,500
J Shearman	2,500	-	2,500	-	2,500
Total directors' remuneration	31,523	-	31,523	2,874	34,397

2015 figures cover the period from 23 June 2015 to 31 July 2015.

Key management personnel are considered to be the directors (executive and non-executive).

No director is accruing benefits under a pension scheme.

Notes to the consolidated financial statements

8. Finance income and costs

The group's income comes from making loans.

Interest payable on borrowings to finance these loans is therefore included as a cost of sale. The amount included was £238,079 (2015 £854,929).

9. Operating profit

This is stated after charging:

	2016 £	2015 £
Depreciation of owned property, plant and equipment	9,484	8,301
Depreciation of property, plant and equipment held under hire purchase contracts	3,960	-
Amortisation of intangible assets	7076	-
Operating lease rentals – land and buildings	71,580	54,041
Auditor's remuneration:		
Audit fees – parent company and consolidation	21,600	16,800
Audit fees – subsidiaries	36,655	23,400

In the year to 31 July 2015, Baker Tilly Corporate Finance LLP (now RSM Corporate Finance LLP) charged £180,280 for work carried out on the IPO. This has been included as part of items expensed through the share premium account.

The group rents its premises under an operating lease starting on 11 February 2016, for a five year period. There is a break clause which is exercisable, with no less than 9 month's notice, on 11 February 2018. The group's minimum lease payment payable under the non-cancellable period of the operating lease is as follows:

	2016 £	2015 £
Within 1 year	30,300	-
Later than 1 year but no later than 2	30,300	-

10. Income tax expense

10.1 Current period tax charge:

	2016 £	2015 £
Current tax expense	250,616	271,780
Adjustment re previous year tax expense	6,549	(11,905)
Deferred tax expense relating to the origination and reversal of temporary differences	9,488	(1,036)
	266,653	258,839

Notes to the consolidated financial statements

10.2 Tax reconciliation

The tax assessed for the period differs from the main corporation tax rates in the UK (20%, 2015 - 21% and 20%).
The differences are explained below.

	2016 £	2015 £
Profit for the financial period	1,270,730	1,293,252
Applicable rate – 20% (2015 21% and 20%)	20.00%	20.67%
Tax at the applicable rate	254,146	267,315
Effects of:		
Expenses not deductible for tax	7,737	3,949
Marginal relief	-	(80)
Adjustment re previous year tax expense	6,549	(11,905)
Deferred tax not adjusted	-	(440)
Reduced rate of tax (17%) on reversing timing differences	(1,779)	-
Tax charge for the period	266,653	258,839

11. Earnings per share

Earnings per share is based on the profit for the year of £1,004,077 (2015 £1,034,413) and the weighted average number of ordinary shares in issue during the year of 21,354,167 (2015 11,793,664). There are no options or other factors which would dilute these therefore the fully diluted earnings per share is identical.

12. Profit of the parent company

As permitted by Section 408 of the Companies Act 2006, the statement of comprehensive income of the parent is not presented as part of these financial statements. The parent company's profit for the year was £885,839 (2015 loss £1,654).

13. Dividends

A dividend of 1.405p per share was paid to shareholders on 27 April 2016 to shareholders on the register at 22 April 2016. The directors are proposing the payment of a further dividend of the same amount to be paid on 23 December 2016 to shareholders on the register at 16 December 2016.
Dividends paid in the previous year, as shown in the statement of changes in equity for that year, were all paid to the previous owners of the subsidiaries, prior to the new group being formed.

Notes to the consolidated financial statements

14. Property, plant and equipment

	Office equipment and fixtures £	Computer equipment £	Motor vehicles £	Total £
Cost				
At 1 August 2014	840	37,315	-	38,155
Additions	-	828	-	828
At 31 July 2015	840	38,143	-	38,983
Additions	50,619	11,305	42,151	104,075
At 31 July 2016	51,459	49,448	42,151	143,058
Depreciation				
At 1 August 2014	840	25,415	-	26,255
Charged to administrative expenses in the consolidated statement of income		8,301		8,301
At 31 July 2015	840	33,716	-	34,556
Charged to administrative expenses in the consolidated statement of income	4,634	4,850	3,960	13,444
At 31 July 2016	5,474	38,566	3,960	48,000
Net book value at 31 July 2016	45,985	10,882	38,191	95,058
Net book value at 31 July 2015	-	4,427	-	4,427

Motor vehicles are all held under hire purchase contracts. Other assets are not financed.

15. Intangible assets

	Software development costs £
Cost	
Additions	50,949
At 31 July 2016	50,949
Amortisation	
Charged to administrative expenses in the consolidated statement of income	7,076
At 31 July 2016	7,076
Net book value at 31 July 2016	43,873
Net book value at 31 July 2015	-

Notes to the consolidated financial statements

16. Investments

16.1 Subsidiaries

	Shares in subsidiaries
	£
Cost and net book value	
At 31 July 2015 and 31 July 2016	2,801,374

Details of the subsidiaries acquired are:

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held directly by the parent
Bexhill UK Limited	England and Wales	Finance provider	100%
Orchard Funding Limited	England and Wales	Finance provider	100%

Both subsidiaries are included in the consolidation.

17. Trade and other receivables

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Trade receivables	21,799,397	-	17,857,768	-
Intercompany receivables	-	9,388,427	-	8,827,607
Other receivables	170,947	19,892	34,637	-
Prepayments	33,524	13,927	22,592	6,439
	22,003,868	9,422,246	17,914,997	8,834,046

Standard credit terms for trade receivables are based on the length of the loan but payments are due on a monthly basis. The directors consider that the carrying amount of trade and other receivables approximates their fair value. There are no impaired debts. The value of debts which were past due but not impaired at year end was £Nil (2015 £Nil)

18. Cash and cash equivalents

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Amounts held at banks	1,389,798	-	2,901,660	-
Cash in hand	300	-	300	-
	1,390,098	-	2,901,960	-
Bank overdrafts	-	-	(47,159)	-
	1,390,098	-	2,854,801	-

Cash and cash equivalents consists of cash in hand and bank balances. The overdraft is repayable on demand and forms an integral part of the group's cash management.

There is no right of set off between overdrafts and amounts held at bank. Under IAS 32 there can be no offset between assets and liabilities in this situation. However, the overdraft is included as part of current assets because, under IAS 7 it should, for the reasons stated in the previous paragraph, be included in the cash flow statement as part of cash and cash equivalents. The directors believe that it gives better information for the statement of financial position to follow the same treatment.

Notes to the consolidated financial statements

19. Called up share capital

Allotted, issued and fully paid at 31 July 2016 and 31 July 2015

Number	Class	Nominal value	£
21,354,167	Ordinary shares	1p	213,542

On 23 June 2015 the company issued 10,937,500 ordinary shares in exchange for all the share capital of Bexhill UK Limited and Orchard Funding Limited plus £500,000 in cash. On 1 July 2015 a further 10,416,667 shares were issued for cash of £10,000,001. Costs of the issue amounting to £1,203,924 were expensed through the share premium account.

20. Deferred tax

The deferred tax balance relates wholly to capital allowances.

21. Trade and other payables

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Trade payables	1,469,707	-	1,447,922	-
Other payables	33,584	-	26,766	-
Other tax and social security costs	34,187	15,786	42,512	15,287
Accrued expenses	119,552	26,224	318,708	24,336
	1,657,030	42,010	1,835,908	39,623

The directors consider that the carrying value of trade and other payables approximates their fair value.

22. Borrowings

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Non Current:				
Other loans	1,100	-	-	-
Hire purchase contracts	26,218	-	-	-
	27,318	-	-	-

Current:				
Bank loans	9,174,044	-	7,015,155	-
Other loans	25,110	-	-	-
Hire purchase contracts	8,773	-	-	-
	9,207,927	-	7,015,155	-

Notes to the consolidated financial statements

22.1 Terms and debt repayment schedule:

The bank loan is due within one year.

The other loan falls due as follows:

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Within 1 year	25,110	-	-	-
Later than 1 year but no later than 3	100	-	-	-
Later than 3 years but no later than 5	1,000	-	-	-
	26,210	-	-	-

The minimum payments under hire purchase contracts are as follows:

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Within 1 year	11,036	-	-	-
Later than 1 year but no later than 5	29,144	-	-	-
	40,180	-	-	-
Future finance charges	(5,189)	-	-	-
	34,991	-	-	-

The present value of hire purchase liabilities are as follows:

Within 1 year	8,773	-	-	-
Later than 1 year but no later than 5	26,218	-	-	-
Future finance charges	34,991	-	-	-

Bank borrowings are secured by a fixed and floating charge over all the assets of Bexhill UK Limited, bear interest at rates of 1.75 per cent. above LIBOR plus any associated costs rates, and are repayable within one year of the advances. The maximum drawdown facility is currently £15m therefore at 31 July 2016 approximately £6m was undrawn.

Other borrowings, which were from Orchard Finance Limited, are unsecured and bear interest at varying rates between 4% and 6.25%.

Hire purchase liabilities are secured on the assets that they finance and bear interest at varying rates.

23. Financial instruments

The company is exposed to the risks that arise from its use of financial instruments. The objectives, policies and processes of the company for managing those risks and the methods used to measure them are detailed in note 3.

23.1 Principal financial instruments

The principal financial instruments used by the company, from which financial instrument risk arises, are as follows:

- Cash and cash equivalents
- Trade and other receivables
- Trade and other payables
- Borrowings

Notes to the consolidated financial statements

23.2 Financial instruments by category

The group held the following financial assets at the reporting date:

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Loans and receivables:				
Trade and other receivables: current	21,970,344	9,408,319	17,892,405	8,827,607
Cash and cash equivalents:				
Bank balances and cash in hand	1,390,098	-	2,901,960	-
Bank overdrafts	-	-	(47,159)	-
	23,360,442	9,408,319	20,747,206	8,827,607

The group held the following financial liabilities at the reporting date:

	2016		2015	
	Group	Company	Group	Company
	£	£	£	£
Other financial liabilities at amortised cost:				
Interest bearing loans and borrowings:				
Borrowings payable: non current	27,318	-	-	-
Borrowings payable: current	9,207,927	-	7,015,155	-
Trade and other payables	1,537,478	15,786	1,517,200	15,287
	10,772,723	15,786	8,532,355	15,287

23.3 Fair value of financial instruments

The fair values of the financial assets and liabilities are not materially different to their carrying values due to the short term nature of the current assets and liabilities.

23.4 Financial risk management

The company is exposed through its operations to the following financial risks:

- Interest rate risk
- Credit risk
- Liquidity risk

The company's policies for financial risk management are outlined in note 3 on page 25.

24. Related party transactions

24.1 Ultimate controlling party

The ultimate controlling party is considered to be R Takhar who owns 53.66% of the issued share capital.

24.2 Group companies

The following transactions took place between group companies during the period, all of which were considered to be at arm's length:

Bexhill UK Limited ("Bexhill") – the company loaned £100,000 (2015 £1,800,000) to Bexhill. Bexhill made payments on behalf of the company amounting to £372,336 (2015 £104,597) and paid dividends to the company amounting to £800,000 (2015 £49,000). At the year end Bexhill owed the company £2,272,068 (2015 £1,744,404). The loan is unsecured, interest free and repayable on demand.

Orchard Funding Limited ("Orchard") – the company loaned £Nil (2015 £7,436,482) to Orchard. Orchard made payments on behalf of the company amounting to £566,842 (2015 £363,280) and paid dividends to the company amounting to £600,000 (2015 £10,000). At the year end Orchard owed the company £7,116,3601(2015 £7,083,203). The loan is unsecured, interest free and repayable on demand.

Notes to the consolidated financial statements

24.3 Other entities

The group is related to the following parties with whom it had activity during the period, all of which is considered to be at arm's length:

Name of related party	Nature of the relationship
Mr D Clark	Chairman of, and shareholder in, the company
Mr R Takhar	CEO of, and shareholder in, the company
Mr H Takhar	Close family member of a director, R Takhar
McShane Wright	A firm in which a director, L McShane, is a partner
Orchard Finance Limited	Wholly owned by a director, R Takhar

Mr D Clark – during the year Mr Clark received dividends amounting to £146.

Mr R Takhar - during the year Mr Takhar (including connected shareholdings) received dividends amounting to £160,990. The group has paid expenses on behalf of Mr Takhar which he repaid after the balance sheet date, amounting to £36,648 (2015 £Nil).

Mr H Takhar – during the year Mr Takhar charged the group £Nil for consultancy fees (2015 £45,000). At the year end he was owed £Nil (2015 £10,000).

McShane Wright - during the year the firm of McShane Wright provided the group with accountancy and associated services. The charge made for these was £50,537 (2015 £17,231 including work carried out for the IPO). Of this £48,240 (2015 £4,020) is shown as part of directors' remuneration in note 7, £2,297 (2015 £1,511) is shown under administrative expenses and £Nil (2015 £11,700) as part of items expensed through the share premium. At the year end it was owed £Nil (2015 £432).

Orchard Finance Limited - during the year Orchard Funding Limited borrowed £26,210 (2015 £Nil) from Orchard Finance Limited. These amounts were still outstanding at the year end (2015 £5,000). Interest of £23 was paid on these loans (2015 £Nil). Orchard Funding Limited paid expenses on behalf of Orchard Finance Limited amounting to £11,024 (2015 £Nil) which was still outstanding at the year end.

25. Treatment of borrowings

The group borrows money from its bankers and lends this on, together with its own funds, to its customers. Any increase in activity leads to an increase in debtors and an associated increase in borrowings. If the company was one which bought and sold goods or services the money borrowed would be similar to the company's stock in trade and the change in creditors would be shown as part of operating cash flows. However, accounting standards require cash flows from financing to be shown separately and this means that there appears to be a large outflow of cash from the company's operations which is then covered by borrowings. For reasons stated above this is not the case.

26. Major non cash transactions

During the year the company purchased vehicles under hire purchase contracts. The amount financed was £42,151 (2015 £Nil). This has not been included in the cash flow under either investing activities or financing activities as it did not involve a cash transaction.

27. Post balance sheet event

On 1 August 2016, Orchard Funding Group plc purchased all the share capital of Orchard Finance Limited for £100 from Mr R Takhar, the sole shareholder. The assets of Orchard Finance Limited consist mainly of loans made to the group (see note 24) and its liabilities consist mainly of cash borrowed. The directors are therefore of the opinion that the fair values of the assets and liabilities equate to the net book values of the same. The book values amount to £816.

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