Orchard in brief

Orchard Funding Group plc, ("the company" or "Orchard") is an AIM listed company which, through its wholly-owned subsidiaries Bexhill UK Limited ("Bexhill"), Orchard Funding Limited ("Orchard Funding") and Orchard Finance Limited ("Orchard Finance"), (together "the group") specialises in insurance premium finance and the professional fee funding market. The group is unique in providing insurance brokers with the ability to operate their own funding companies and in providing a high level of personal service to all its 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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Group financial highlights

	2018	2017	2016
Lending volume	£68.73m	£63.35m	£48.56m
Loan book	£30.95m	£28.42m	£21.80m
Revenue	£5.17m	£4.56m	£3.47m
Gross profit	£4.64m	£4.15m	£3.15m
Profit before tax	£1.89m	£1.64m	£1.27m
Profit after tax	£1.51m	£1.34m	£1.00m
EPS (pence)[1]	7.08	6.26	4.70
DPS (pence)[2]	3.00	3.00	2.81
Return on capital employed[3]	6.77%	6.73%	6.41%
Return on equity	10.76%	10.16%	8.14%

1. There are no factors which would dilute earnings therefore fully diluted earnings per share are identical.
2. Dividends per share are based on interim dividends paid in the year and proposed final dividend for the year.
3. See page 8 and 9 of the Group strategic report for further information on key performance indicators ("KPIs").

Chairman's statement

Orchard Funding Group plc has had a very satisfactory year. I am pleased to report that this success has been driven by a continued increase in overall lending volumes, which grew by 8.49% to £68.73m. This in turn fed through to an increase in group revenues of 13.46% to £5.17m, a record for the group. The position at the year end showed a 6.70% increase in shareholders' equity from £13.17m to £14.04m.

Investment in staff and systems meant that administrative costs in the business grew by 9.28% to £2.74m. This was lower than growth rates in revenue. These increases in investment are important and necessary to ensure that the business continues to support and delight our customers and continue to provide them with the levels of service that they have, rightly, come to expect of us.

The group's profit before tax rose by 15.36% to £1.89m, in line with market expectations. Group earnings per share rose by 13.10% to 7.08p (2017 6.26p), a more than respectable outcome for the year.

The level and growth of dividends announced by any company is a balance between retention for future investment and rewarding shareholders for the confidence they have shown in the business. It is no different for Orchard Funding Group and we are happy to propose that the annual dividend (including the interim dividend) remains the same as last year at 3.00p.

The group's main focus of operations is the insurance premium finance market, currently an area growing well and showing every sign of continuing to so do. This has always been at our core. Along with the professional fee funding market, the board is actively involved in seeking other profitable funding streams (school fee funding and sports membership funding as examples). These should add to shareholder value over time.

The macro background remains generally favourable for the group. Despite the recent increases in base rate, interest rates in the UK still remain relatively low but should they rise further in the future the group is well placed to react quickly. Loans are generally for a 10-month period and none are longer than 12 months in duration.

However, if conditions are of benefit to the group then they are inevitably also helpful to our competitors. We have seen strong competition in some areas of our focus with pressure being put upon rates. The largest players in the accountancy fee funding market continue to aggressively protect their market positions. The same can be said of the insurance premium finance market. That said, we believe that we are in a strong position to continue to grow our lending volumes at acceptable rates without needing to resort to some of the tactics our competitors have utilised.

The board remains focused on the cost of our own borrowing and continually looks to seek out new ways in which to keep this as low as possible. Potential sources of liquidity for the group are always examined and we continue to keep all our options under review. With this in mind, you will note our CEO's comments on the banking licence application on page 4. It is the way forward for the group.

One of our special services for brokers is to help them find their way through the regulation covering lending. Quite rightly, the FCA has been much tougher on lenders in recent years, but this has meant it has been inundated with consumer credit applications. To help brokers avoid these delays, we will allow them to avoid this regulatory burden and use our regulatory permissions, whilst still being able to obtain all the benefits of their own lending operation. Interest from brokers in our innovative approach remains considerable and we believe we are still the only providers of such a service in the UK.

The board is very satisfied with the progress of the group to date. We will continue to examine all appropriate strategic avenues for the group and will also continue to make the investments necessary to ensure continuing success while, at the same time, remaining focused on the cost of our borrowing, the rates returned and the size and quality of the loans we provide.

We look to the future with confidence.

Gary Jennison
Chairman

12 November 2018

Chief executive's review

We are pleased to report that we continue to build on the progress we made last year and continue to increase our profits on a year on year basis.

As stated in the "Our business model" section on page 4, and for the reasons given in that section, we no longer separate insurance broking and professional fees and therefore information on individual markets would not be helpful

The lending market is being flooded by liquidity from alternative funding sources, but we continue to sail a focused and steady course. Our key competition is still the largest players in the market, whose multi-billion-pound lending market we continue to target.

We are delighted to confirm that we have now moved all of our business to a newly developed in-house IT platform, therefore removing our reliance on 3rd party IT providers. Our new IT platform uses cutting edge technology, which will significantly improve our offering to our clients and our competitiveness in the future. Our 3rd party IT platform held us back in the past and we will no longer suffer from this constraint on our business. By using our lean approach to the IT project, we have delivered a new IT platform at minimal cost to the company.

We have also entered 2 new and exciting markets. school fee funding and golf fee funding. Whilst we are still in the early stages of penetrating these markets, we are in the process of discussions with a number of schools and golf clubs and believe these will be great asset classes to add to our balance sheet for the future.

We have continued to work on what we believe to be the most significant improvement to our business over the course of the year. We are happy to confirm that our bank licence application has been submitted at the invitation of the Regulator and is progressing towards approval. A bank licence will significantly reduce our costs of liquidity and enable us to add greater leverage to our business, which will over-time drive higher returns to our shareholders. We hope to receive our bank licence in the first quarter of 2019.

We remain 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 18 years. We will continue to work as hard as we can and to the best of our abilities. We are confident that this will result in an increased share of our market.

We operate in a multi-billion-pound market, which is dominated by two large and well managed companies. We will continue to work hard to take a very small portion of the market for the group. We 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.

We paid a dividend of 2p per share in December 2017 and an interim of 1p per share in April 2018. I am happy to announce that the board has proposed a final dividend of 2p per share to be paid in December 2018, subject to shareholder approval.

Ravi Takhar
Chief executive officer

12 November 2018

Group strategic report

Strategy and objectives

The group's principal objective is to increase our profitability in a prudent, sustainable manner. The reason for this is that our stakeholders (employees, shareholders, partners, other customers, creditors and government) will all benefit from profit growth in the group.

We have two main financial strategies for doing this:

- to grow our lending book profitably. In the short to medium term, the directors believe that the group's aims will be achieved first by increasing the number of our partners (insurance brokers, professional firms), including taking on new partners (schools and sports clubs) and secondly, by increasing the volume of business from these partners. We have, once again, bolstered our sales team with motivated, competent professionals who are attacking new potential customers and markets and have already achieved sensible growth in a hard economic environment;
- to give further security to our sources of liquidity. As we mentioned in the half year report, we were confident that the PRA would welcome our application for a banking licence. They have done so and we are now into the process. A banking licence has been a long-standing strategic goal for Orchard. It will enable us to increase our liquidity further and reduce our reliance on commercial lenders as we build our customer deposit base.

Our financial strategy is bolstered by our non-financial strategies. First, we consider those brokers and professional firms with whom we work as our partners. We provide them with the tools they require to run their own finance businesses or we directly provide their customers with finance. We have found that in this way these businesses become supportive participants in our objectives because they see how this will assist them in achieving theirs. Our sales team are given support in meeting the targets set for them by finding partners who fit in with our business ethos, arranging prospect meetings and, where required, making use of senior personnel to help them close the deal. Care of our partners is of paramount importance in our business culture and this aspect is a constant part of training for all staff. Feedback from our partners in this area has been positive. Performance targets set for our staff (for example, answering partner enquiries promptly) have all been met.

The aim going forward is to build strongly on both our core markets and those which assist in achieving our overall objectives.

Our business model

The group's main business is providing credit to businesses and consumers to enable them to spread the cost of their insurance premiums or professional fees.

In the past, the group has reported in terms of there being two core areas - insurance premium funding and funding for professionals. The board has reviewed this method of reporting and concluded that the nature of these (and additional products) is so similar that any segregation would not give meaningful information to users of the financial statements. Both areas are managed on a similar basis, carry similar risks and rewards and need to comply with the same regulations. The board, which is considered to be the chief operating decision maker, now receives information on an aggregated basis. For this reason they are not separated this year (except to the extent that regulation requires it).

Bexhill borrows up to 75% of the amount advanced to each of its clients (up to a maximum of £15m) from its bankers, Barclays Bank plc. Orchard has in the past borrowed through Orchard Lending Club (a trading style of the group). These loans are still extant. In August 2017 the company arranged a facility of £4m with Conister Bank. This was reduced in July 2018 to £2m, as being all that was required at the time and to keep down costs. The balance of lending is provided by these companies from their own resources. At 31 July 2018 the group had capital and reserves of £14.04m. Both subsidiaries have operated within a disciplined lending environment since their inception. Barclays performs regular reviews and supplements these with an audit every six months by external independent auditors. Conister requires information on lending to be sent on a regular basis. Lending limits to our supporting partners and to the end borrowers are set by reference to financial and other qualitative information for both. Limits are set based on financial information, credit reports, regulatory requirements and other qualitative factors obtained from our partners and their clients. In addition, an annual review process, including regulatory permissions and credit checks, is conducted and each partner is monitored monthly for the company's financial exposure to that entity.

The group's average cost of finance was approximately 3.44% in the financial year to 31 July 2018 (4.06% in the year to 31 July 2017).

A bank licence will increase our liquidity and reduce reliance on third party financing.

The business environment

The insurance premium finance market in which the group operates is still expected by the board to grow over the next five years in line with the general insurance market. We believe that most of our premium finance growth will come from the direct insurance side rather than from broker premium funding companies, although the premium funding company activities will remain the largest part of the business for the foreseeable future. The market for professional fee finance has slowed this year. This fact, coupled with an aggressive response from our competitors, has meant a lot of hard work to get to where we are. We have been examining new markets which, although at an early stage for us, are already looking very promising. Providing finance for school fees and sports clubs are two of these areas. Needless to say, the same vigorous, disciplined approach will be applied to lending in these sectors.

There is the continuing uncertainty attaching to the UK leaving the European Union, which applies to many businesses. However, the board believes that the direct effect of this on Orchard will not be significant in the short term. Conditions arising from this process (including the recent rises in interest rates) have had little impact on us so far. If rates rise further, the nature of the business will allow fairly quick reaction to this with our average loans being ten months on average and none over twelve. Increases in interest rates will also lead to availability of liquidity becoming more important for businesses and consumers and the board believes that this will bring further opportunities for Orchard.

Principal risks and uncertainties

The group's activities expose it to a variety of risks;

- credit risk;
- liquidity risk;
- cash flow interest rate risk; and
- conduct risk.

The group's overall risk management programme focuses on reducing the effect of these risks on the group's financial performance. A regular assessment of the principal risks affecting the group is carried out by the board of directors. It identifies, evaluates and mitigates financial risks and has written policies for credit risk and liquidity risk.

The principal risks, an explanation of what they are, their impact on the group and how they are mitigated, are shown in ***Table 1*** on page 6. Our sole business is lending money and therefore the risks apply to this area.

There are other risks associated with general financial uncertainty in this business (or in any other business), e.g. loss of staff and insurance risk. These have been reviewed but are not considered key or principal risks.

Table 1 principal risks

Risk	Explanation of risk	Impact on the group	Assessment of change in risk year-on-year	Mitigation of risk
Credit risk	The risk that debtors will default.	A major loss could have a serious effect on group profit. Although loans to insurance broking finance companies can be substantial, we have a claim on the underlying agreements which are considerably smaller. For this reason any losses are likely to come from relatively small debts, therefore these would have little impact on liquidity or solvency.	This is an ongoing situation. Despite mitigation there is still risk that bad debts may occur. This happened in 2018	Money is only lent for periods up to one year through regulated introducers who guarantee the loans. Borrowing limits are set based on prudent underwriting principles. Impairment reviews are regularly conducted to identify potential problems early.
Liquidity risk	A lack of funding to finance our business.	If our funding had been halved for the whole of the 2018 year, and there had been no changes in overheads, there would still have been a pre-tax profit of approximately £0.8m. There is no threat to solvency or own liquidity through a reduction in funding.	This is an ongoing situation. There has been no change in this risk.	Our bankers have supported us since 2002 and last year increased our funding by 50%. They have renewed our facility for another year and have indicated, so far as they are able, that they have no wish to withdraw that support. Other lines of credit have since been opened to us. Available credit and our own cash balances amounted to £2.3m at 31 July 2018.
Cash flow interest rate risk	An increase in bank rate means that loans already made need to be covered by new borrowing at a higher rate.	Loans already made will be effectively charged at a lower margin for part of the borrowing term. In any realistic scenario, liquidity and solvency would not be significantly affected.	This is an ongoing situation. Despite two increases in rates this year, there has been no significant change in this risk.	Management is in regular contact with its bankers and routinely reviews the financial situation in the economy. Loans made are relatively short term (no more than twelve months with the average at ten) so any increase is likely to have a fairly short-term impact.
IT risk	Disruption to or failure of our IT systems.	Persistent failures would have an enormous impact on our business and could lead to its collapse. Clearly, this would affect solvency. However, our controls are such that even a minor disruption is very quickly picked up and action taken. We have never had this type of failure.	This is an ongoing situation. Our new system will give us more control but will not effect any change in this risk.	There are in place robust business continuity procedures and security measures in the event of IT failures or disruption. We have developed our own system which, although operational, is consistently being tested. This will give more control than we have previously had.
Conduct risk	Any action that leads to customer detriment or has an adverse effect on market stability or effective competition.	Failing to bring conduct risk in line faces regulatory action, fines, and reputational damage, which can harm us for years beyond the event.	This is an ongoing risk.	The board sets the minimum standards required and provides oversight to monitor that these risks are managed effectively and escalated where appropriate.

In summary:

- credit risk is reduced by a robust system of checks on borrowers and by third party guarantees;
- liquidity risk has been alleviated by a new source of funding from another bank and should be further eased by obtaining a bank licence;
- cash flow interest rate risk is mitigated by the fact that loans are short term and by regular interaction with our bankers;
- risk from disruption of the IT system is avoided by thorough business continuity procedures; and
- conduct risk is taken very seriously. All our employees are responsible for the management and mitigation of conduct risk, in particular the board.

Our internal control systems ensure that the incidence of fraud or error is kept to a minimum. Much of this process is automated.

The nature of the business is that loans are made either to introducer finance companies or to clients of our introducing partners. Although there is high concentration when lending to finance companies, (at 31 October the largest nominal exposure was 14.78% of our loans), the individual debts making up these loans are assigned to us in the event of default. The reality, therefore, is that our exposure is low. At 31 October 2018, (the latest date of review), total outstanding loans were £31.13m, of which the highest was £0.13m, representing 0.43% of the outstanding amounts. This was the level of our highest exposure at that date. The situation was similar throughout the year and is expected to remain so for the foreseeable future.

We have experienced late payments in the past. The majority of these are through clients of our introducers (or the introducers themselves) changing banking details. Where there are other issues which cause late payment, we investigate these. We review debts for impairment and make provision where necessary. As part of this process, we have provided for £0.29m during the year to 31 July 2018 (£0.05m in the year to 31 July 2017), giving a provision of £0.34m carried forward at 31 July 2018 (£0.05m at 31 July 2017). This potential bad debt has arisen as a result of a fraud and a major customer of one of our partner brokers going into liquidation. In the previous year one situation arose causing a loss of £0.05m (see note 17). Because of the size of the individual repayments. any impact on our business through late payments would be negligible.

Development and performance of the business

The fundamental function of the business is to lend money safely. To do this the group has relied on obtaining funding to provide loans to clients of its partners. The ability to provide this money is crucial to the business and availability of funds is a key area to enable future growth. This is the major reason for applying for a banking licence.

The ability to find borrowers is also key to the business. This has been discussed at the beginning of the Group strategic report on page 4. We have continued with our more formal and extensive marketing plan. This continues to work well (albeit that economic conditions are challenging at present). Our sales team has been further enhanced during the year.

Our margin is another key area. Upward changes in base rate could erode our margins (but only in the short term). Our rates would increase to reflect any further increases in base rate. Our own analysis indicates that the influence on our business would be negligible. Indeed, neither the reduction in bank rate during the previous year nor the increase in this year have had any real impact.

Overheads in this business are relatively stable. We have increases resulting from an increased sales function, increasing our bank borrowings, investment in the banking licence and enhancements to our IT systems. Other overheads have not altered significantly.

The board has identified the following financial KPIs:

- Lending.
- Gross rate on loans made.
- Borrowing and other capital resources.
- Cost of borrowing.

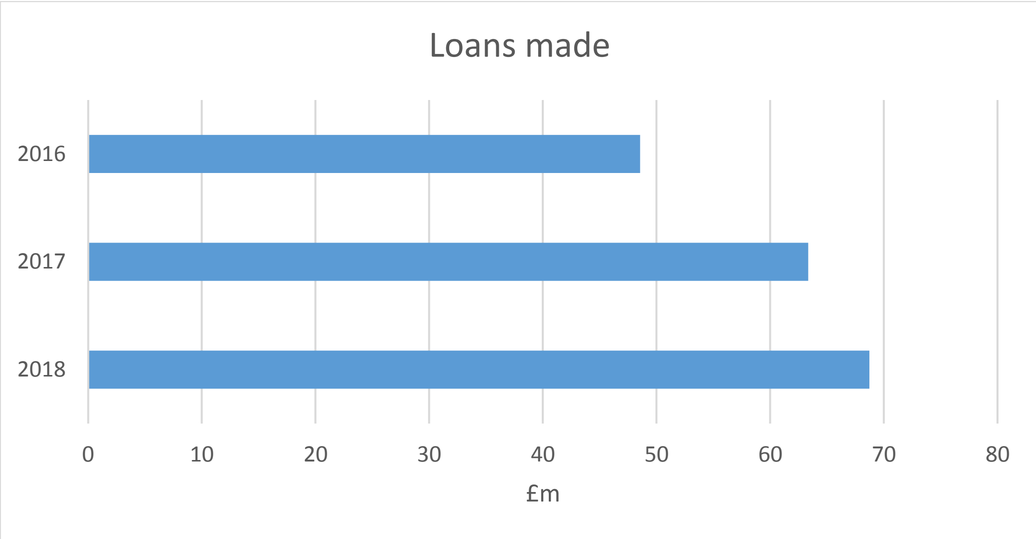
The table below gives a breakdown of our KPIs.

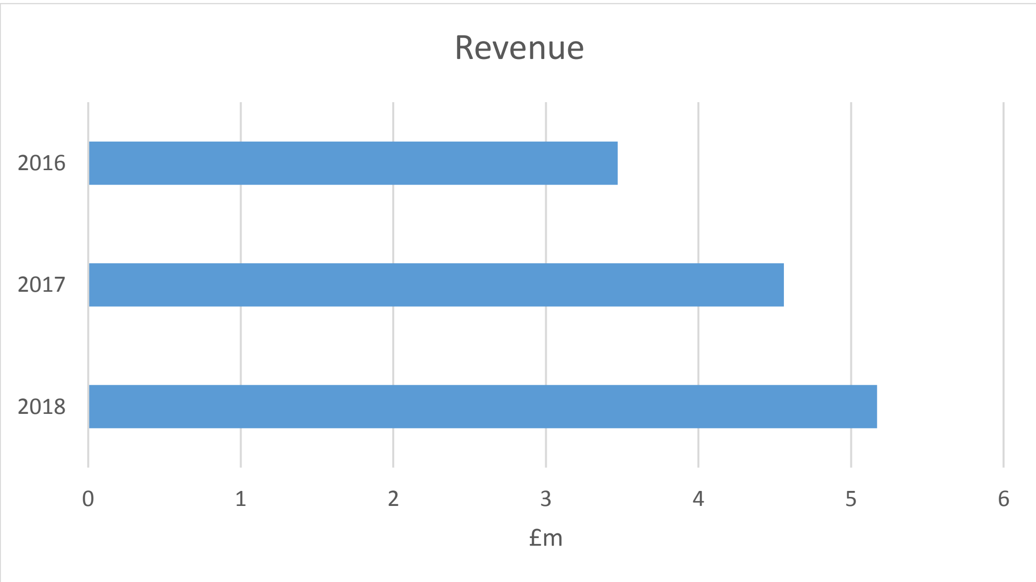
	Actual		
	2018	**2017**	**2016**
Group			
Loans made in the year	£68.73m	£63.35m	£48.56m
Average gross rate on loans made	6.29%	6.06%	6.22%
Level of borrowing	£16.06m	£13.79m	£9.24m
Own capital resources	£14.04m	£13.17m	£12.34m
Cost of borrowing	£0.45m	£0.33m	£0.24m

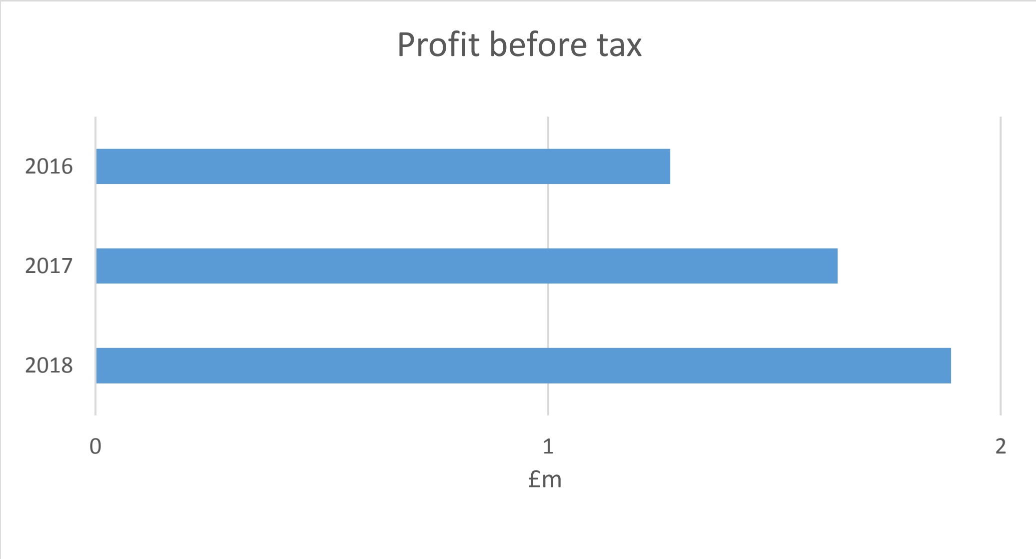
The increase in loans made in the year and the increase in average rate over the previous year has resulted in increases in reported turnover of £0.61m to £5.17m. As stated earlier the market has been hard. The directors are pleased with the strong growth over last year and results in line with expectations.

This increase in lending has led to an increase in borrowing requirement.

The following charts are pictorial representations of loans made, revenue and PBT for the past three years.







This is the first year that we have combined our lending activities (for the reasons disclosed in the section on "Our business model" on page 4). To give a comparison with previous years' reporting we set out below tables showing separate KPIs for insurance premium and professional fee funding.

	2018	2017	2016
Insurance premium funding			
Loans made in the year	£51.25m	£43.04m	£32.79m
Average gross rate on loans made	5.68%	5.49%	5.64%
Level of borrowing	£15.01m	£13.54m	£9.22m
Own capital resources	£3.66m	£2.94m	£2.42m
Cost of borrowing	£0.41m	£0.32m	£0.24m

Professional fee funding			
Loans made in the year	£17.48m	£20.31m	£15.77m
Average gross rate on loans made	8.09%	7.27%	7.44%
Level of borrowing	£1.04m	£0.25m	£0.04m
Own capital resources	£0.93m	£0.68m	£0.52m
Cost of borrowing	£0.04m	£0.01m	£0.00m

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

Our senior members of staff have a substantial number of years of experience between them working in the business. Because, over the years, they have taken on additional responsibilities, they know each area of the business well.

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 training for all staff members. 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 situations explanations are given when this does not happen.

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 continually assess the prospects of the group. Forecasts are prepared for a three-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 rise by 0.25% pa over the next three years. This has been intimated by Mark Carney, Governor of the Bank of England. Should this be the case we are in a position to react within a short period of time (as mentioned in the section on cash flow interest rate risk on page 6) and with relatively little impact on our margins.

The key assumptions and bases used in the forecasts are:

- Loans through our partners will grow from circa £69m in 2018 to circa £120m in 2021;
- Liquidity will be available to fund those loans;
- Margins will remain stable on both corporate and 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 23 shows the situation at the year end in detail.

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, human rights issues and gender diversity

The group is a small group. 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 local community. None of our employees earn less than £10 per hour (before any bonuses). We provide health club membership and childcare vouchers for any staff who wish it. We review the background of our suppliers and will not use any supplier which, as far as we are aware, breaches our own high standards as regards human rights.

The main board of directors is currently all male. The main reason for this situation is that the group took 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 57.89% of the employees in total (41.67% in 2017).

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

12 November 2018

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 2018.

Results and dividends

The group profit for the year after taxation was £1,512k (2017 £1,338k). This is shown on page 22. 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 £641k (note 13 on page 37) to shareholders (2017 £514k). The board is pleased to propose a final dividend of 2 pence per share to be paid on 21 December 2018 to shareholders on the register on 14 December 2018, with an ex-dividend date of 13 December 2018. The final dividend is subject to shareholder approval at the company's upcoming annual general meeting on 12 December 2018.

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 10.

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 13 and 14. 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 group 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.

Research and development

During the financial year nothing was spent on research and development.

Financial instruments

Information on the group's financial instruments are stated in notes 2.5 and 23.

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

12 November 2018

Remuneration report

Remuneration policy is set by the chairman of the remuneration committee, Jonathan Shearman and chairman of the company, David Clark (as company chairman until his resignation on 31 October 2017) and Gary Jennison (present company chairman from 1 November 2017) 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

Service contracts for the executive directors of any companies in the group are determinable within a period not exceeding one year. Therefore, no payment can be made for predetermined compensation which exceeds more than one year's salary, benefits in kind and pension contributions.

Directors' interests

The interests of the directors at 31 July 2018 and 31 July 2017 in the shares of the company were as follows:

2018	Number of ordinary shares held	Percentage of issued ordinary share capital
R Takhar	11,458,333	53.66%
D Clark*	10,416	0.05%
G Jennison	-	-
L McShane	-	-
J Shearman	-	-
I Koumi	-	-

* At date of resignation on 31 October 2017

2017	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	-	-
I Koumi	-	-

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. Full details of non-executive directors' terms of appointment are shown on the website at http://www.orchardfundinggroupplc.com/governance/non-executive-directors-appointment-terms/

Board meetings

The board of directors met six times during the year. All directors attended all meetings. Attendance includes conference calls and e-mails. Details of the audit committee attendance is shown on page 17. The remuneration committee and nomination committee did not meet. Matters normally reserved for consideration by these two committees were dealt with by the board as a whole.

All directors are expected to devote such time as is necessary for the proper performance of their duties.

Directors' remuneration

2018	Fees and salary £000	Taxable benefits £000	Total £000
Executive directors			
R Takhar	250	24	274
L McShane	54	-	54
Non-executive directors			
D Clark (resigned 31 October 2017)	8	-	8
G Jennison (appointed 1 November 2017)	26	-	26
J Shearman	30	-	30
I Koumi	24	-	24
Total directors' remuneration	392	24	416

2017	Fees and salary £000	Taxable benefits £000	Total £000
Executive directors			
R Takhar	251	17	268
L McShane	60	-	60
Non-executive directors			
D Clark	30	-	30
J Shearman	30	-	30
I Koumi	14	-	14
Total directors' remuneration	385	17	402

The above information relates to the parent.

I Koumi was appointed on 31 January 2017 by the board. He offered himself for election at the annual general meeting held on 6 December 2017 and was duly elected. His biography is shown on page 15.

G Jennison was appointed on 1 November 2017 by the board. He offered himself for election at the annual general meeting held on 6 December 2017 and was duly elected. His biography is shown on page 15.

Jonathan Shearman,
Remuneration committee chairman

12 November 2018

Board of directors and secretary

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

Gary Antony Jennison – Independent Non-executive Chairman (appointed 1 November 2017)

Mr Gary Jennison has 40 years of retail banking and financial services experience. Until February 2017, he served as CEO of European Business Operations at The Warranty Group, where he played an integral role in taking the business onto a growth platform of increasing revenue and profits. He served as Deputy CEO for a period of 2 years with non-standard mortgage lender Jerrold Holdings Limited, which he joined from Payzone, where he was the UK MD for two and a half years. Prior to that, he held the role of CEO of Secure Trust Bank and was a director of Arbuthnot Banking Group plc for 4 years. Previously he was at Barclays Bank for 4 years where he oversaw 2,000 bank branches and 21,000 employees when he was MD of the UK Branch Network of Barclays. He is currently a director of Solutions Consultants Limited, non-executive director of Admiral Financial Services Limited and chairman of Lantern Debt Recovery Services Limited (Chairman). Mr Jennison is a member of the audit committee and of the remuneration committee.

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

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. Mr Takhar is currently a director of Urban Exposure plc. Mr Takhar believes that his role in Urban Exposure plc will not compromise his role in Orchard.

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

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 annual 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 in 1994. From 1989 until its merger with the British Insurance Brokers Association in 2012, he advised 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. Mr McShane is a Fellow of the Association of Chartered Certified Accountants.

Jonathan Paul David Shearman – Independent Non-executive Director

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). Mr Shearman is a member of the audit committee and chairman of the remuneration committee.

Iacovos Koumi – Independent Non-executive Director

Mr Iacovos Koumi has over 30 years of senior-level experience in banking and finance. From 1999 to 2015 he served as CEO and previously CFO at Bank of Cyprus UK, a focused business and retail bank, where he led the conversion of the firm from an EEA passported branch to a UK authorised and incorporated bank. Before that he was CFO of Ansbacher, a City-based investment and private banking group. He is a Fellow of the Institute of Chartered Accountants in England & Wales, having qualified with KPMG in London, and has a First Class Honours Degree in Mathematics from the University of Warwick. Mr Koumi's other appointments include serving as non-executive director of NETinfo Plc, a developer of digital banking and mobile payment systems, which is listed on the Emerging Companies Market of the Cyprus Stock Exchange.

David Andrew Clark – Independent Non-executive Chairman (resigned 31 October 2017)

Mr David Clark previously served as an independent non-executive director of Constellation Health Technology plc, an AIM listed company. Previously he was a fund manager for 25 years and began his career with six years at Scottish Mutual before joining Ignis Asset Management (formerly Resolution) where he was responsible for the UK Smaller Companies quoted investments across all sectors. Mr Clark graduated from Glasgow University with a Bachelor of Accountancy Degree and also holds an MSc in Investment Analysis from Stirling. Until his resignation Mr Clark was chairman of the audit committee and member of the remuneration committee.

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 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. We believe that a sound and well understood governance structure is essential to maintain the integrity of the group in all its actions, to enhance performance and to impact positively on our shareholders, staff, customers, suppliers and other stakeholders.

After due consideration, from 28 September 2018, Orchard has formally adopted the QCA Corporate Governance Code ("the Code") as the benchmark for measuring our adherence to good governance principles (having previously used the Code as a guide). These principles provide us with a clear framework for assessing our performance as a board and as a company. These principles, and their application by the company, are laid out fully on our website at http://www.orchardfundinggroupplc.com /governance/chairmans-governance-report/.

The board, led by our chairman, who has responsibility for corporate governance policies and implementation, has established a strategy and business model which promote long-term value for shareholders and security for its other stakeholders (staff, customers, suppliers and government). The model is detailed in the group strategic report on page 4. In summary, Orchard Funding Group Plc borrows from its bankers and uses this together with its own reserves, to lend to its customers. There is a strict underwriting procedure, recourse guarantees, levels of lending decision making commensurate with the skill and seniority of each staff member with, where necessary, the final lending decision being made by the CEO. This has meant that stakeholder assets are given a high level of protection. The group has applied for a banking licence which will necessitate changes in control and monitoring money borrowed by the company from non-institutional lenders. This is discussed further below.

Governance during the last year

This process is ongoing and in the last twelve months has seen, amongst others, the following governance developments:

- Outside expert assistance has been employed to develop and initiate the regulatory environment associated with a bank, including risk assessment, IT development and staff training. We have strengthened the group team with the appointment of two banking specialists and strengthened the board with the appointment of a chairman with substantial bank experience.
- The introduction of a risk matrix and risk register to facilitate transmission to a bank.
- A review of staff job descriptions to match key accountabilities and duties to roles.

The board will continue to develop its governance processes in the coming year.

Directors

The board currently consists of two executive and three non-executive, independent directors. The executives take no part in the audit or remuneration committees to ensure their independence. All directors have the experience necessary to carry out their functions. Before appointment by the board, they produce a brief CV and are interviewed to establish if they have the necessary skills and will fit in with the ethos of the group. Directors ensure that they keep up to date with relevant regulation and legislation through courses, reading and interaction with those making the rules. Currently, given the size of the group, director evaluations are informal, consisting of discussions at board meetings. This does not strictly comply with the requirements of the Code but the board believes that it is appropriate for the existing structure. This will change when and if the banking licence is granted, to a more formal approach.

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 approximately every two months and has a schedule of matters specifically reserved to it for decision (see website at http://www.orchardfundinggroupplc.com/ governance/matters-reserved-for-the-board/). 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 current board members are described on page 15.

All directors are subject to election at the first Annual General Meeting (AGM) after their appointment. They are then subject to re-election every three years.

Relations with shareholders

The CEO and/or CFO meet with the company's institutional and other major shareholders twice a year and explain what is happening with the group, getting valuable feedback on how they view our plans. In addition details of our financial reports and AGM details are sent to all shareholders and these, together with results of votes are included on the website at http://www.orchardfundinggroupplc.com/annual-report-and-accounts/ and http://www.orchardfundinggroupplc.com/agm-notice/.

Audit committee

Membership of the audit committee comprises Gary Jennison (David Clark until his resignation on 31 October 2017) and Jonathan Shearman (two of the non-executive directors). 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.

The audit committee was sent the audit plan by the group's auditor, RSM UK Audit LLP, prior to the commencement of the audit. The plan set out the objectives of the audit; the approach, scope and timetable; audit risks and other areas of focus; and governance and control.

The auditor identified no key audit matters during the planning process.

The audit committee considered and approved the audit plan. It also met to review the accounts prior to their authorisation for issue.

The audit committee reviewed whether the auditor had provided significant non-audit services. There were none during the year.

Orchard has no separate risk committee at present. This role falls to all the directors and is dealt with at board meetings. This is a departure from the requirements of the Code, but given the size of Orchard it was felt that this was a more appropriate arrangement for the group.

The audit committee met twice in the year.

The work and terms of reference of the audit committee are shown on the website at http://www.orchardfundinggroupplc.com/governance/board-sub-committees/

Risk and internal controls

Effective risk management is key to what we do. In addition to the strict underwriting procedures mentioned earlier, we have a process to identify both key and other risks, maintain a risk register and act quickly and decisively where any issues are raised. Our key risks are credit risk, liquidity risk, cash flow interest rate risk, IT risk and conduct risk. Our approach to these is detailed in in the group strategic report on pages 5 and 6.

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.

The board views conduct risk as extremely important in our business. This is part of our culture and is essential to enable us to achieve our objectives, strategy and support our business model. We are a small entity in terms of staffing and our CEO is regularly present on our premises. As the chief officer on the board he monitors how our staff operate and promotes a healthy corporate ethos by example and supervision (both close and remote). Staff are encouraged to approach him with any problems or ideas and he regularly disseminates information from the board back to them. He reports to the board on an exception basis. In this way the board is kept in a position to assess the state of the culture. Staff morale is high in the organisation, as evidenced by low staff turnover.

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 2018 the group had cash and cash equivalents of £1.29m and undrawn bank facilities of £1m. The group owns a portfolio of loans which are subject to low risk of impairment (see section on credit risk in the group strategic report on pages 5 and 6). These receivables amount to £30.95m. There are total financial liabilities of £18.11m. Total costs for the year were £3.28m. There is therefore substantial financial headroom going forward. Based on this and the projected results (see page 12), the directors have a reasonable expectation that the group has adequate resources to continue in business for the foreseeable future. Accordingly, the directors consider the going concern basis in preparing the consolidated financial statements to be appropriate.

Gary Jennison
Chairman

12 November 2018

Independent auditor's report to the members of Orchard Funding Group plc

Opinion
We have audited the financial statements of Orchard Funding Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 July 2018 which comprise the consolidated income statement, consolidated and company statements of financial position, consolidated and company statement of changes in equity, consolidated and company statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 July 2018 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 Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

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

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

Key audit matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. We have determined that there are no key audit matters to communicate in our report.

Our application of materiality
When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the financial statements as a whole. During planning we determined a magnitude of uncorrected misstatements that we judge would be material for the financial statements as a whole (FSM). During planning FSM was calculated as £142,500, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £7,125, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit
The group has four components all of which were subject to full audit scope audits by RSM UK Audit LLP. The components subject to full scope audits accounted for 100% of group turnover and 100% of group net assets.

The audit was scoped to support our audit opinion on the group and company financial statements of Orchard Funding plc and was based on group materiality and an assessment of risk at group level.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

• the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report. We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

• adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

• the parent company financial statements are not in agreement with the accounting records and returns; or

• certain disclosures of directors' remuneration specified by law are not made; or

• we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement set out on page11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: http://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

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

12 November 2018

Consolidated income statement

	Notes	2018 £000	2017 £000
Continuing operations			
Revenue	5	5,174	4,560
Finance costs	8	(452)	(329)
Other operational costs	6	(83)	(78)
Gross profit		4,639	4,153
Administrative expenses	6	(2,746)	(2,512)
Operating profit and profit before tax	9	1,893	1,641
Tax	10	(381)	(303)
Profit for the year from continuing operations		1,512	1,338
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the owners of the parent		1,512	1,338
Earnings per share attributable to the owners of the parent during the year (pence)			
Basic and diluted	11	7.08	6.26

The notes on pages 29 to 44 are an integral part of these consolidated financial statements

Consolidated statement of financial position

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Property, plant and equipment	14	59	76
Intangible assets	15	42	75
Trade and other receivables	17	18	23
		119	174
Current assets			
Trade and other receivables	17	31,084	28,523
Cash and cash equivalents:			
Bank balances and cash in hand	18	1,286	1,728
		32,370	30,251
Total assets		32,489	30,425
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	19	214	214
Share premium		8,692	8,692
Merger reserve		891	891
Retained earnings		4,240	3,369
Total equity		14,037	13,166
Liabilities			
Non-current liabilities			
Borrowings	20	49	57
Deferred tax	21	5	7
		54	64
Current liabilities			
Trade and other payables	22	2,051	3,182
Borrowings	20	16,008	13,734
Tax payable		339	279
		18,398	17,195
Total liabilities		18,452	17,259
Total equity and liabilities		32,489	30,425

The financial statements on pages 22 to 44 were approved, and authorised for issue, by the board of directors on 12 November 2018 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 29 to 44 are an integral part of these consolidated financial statements

Company statement of financial position

	Notes	2018 £000	2017 £000
Assets			
Non-current assets			
Investments	16	2,807	2,807
		2,807	2,807
Current assets			
Trade and other receivables	17	9,471	9,559
		9,471	9,559
Total assets		12,278	12,366
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	19	214	214
Share premium		8,692	8,692
Merger reserve		2,692	2,692
Retained earnings		629	728
Total equity		12,227	12,326
Current liabilities			
Trade and other payables	22	51	40
Total liabilities		51	40
Total equity and liabilities		12,278	12,366

The company's profit and total comprehensive income for the year was £542k (2017 £658k)

The financial statements on pages 22 to 44 were approved, and authorised for issue, by the board of directors on 12 November 2018 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 29 to 44 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Called up share capital £000	Retained earnings £000	Share Premium £000	Merger reserve £000	Total equity £000
Balance at 1 August 2016	214	2,545	8,692	891	12,342
Changes in equity					
Profit and total comprehensive income	-	1,338	-	-	1,338
Transactions with owners:					
Dividends paid	-	(514)	-	-	(514)
Balance at 31 July 2017	214	3,369	8,692	891	13,166
Changes in equity					
Profit and total comprehensive income	-	1,512	-	-	1,512
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2018	214	4,240	8,692	891	14,037

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 26). There are no restrictions on payment of dividends by the subsidiaries to the parent or by the parent to shareholders.

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 2.4 on page 29.

Company statement of changes in equity

	Called up share capital £000	Retained earnings £000	Share Premium £000	Merger reserve £000	Total equity £000
Balance at 1 August 2016	214	584	8,692	2,692	12,182
Changes in equity					
Profit and total comprehensive income	-	658	-	-	658
Transactions with owners:					
Dividends paid	-	(514)	-	-	(514)
Balance at 31 July 2017	214	728	8,692	2,692	12,326
Changes in equity					
Profit and total comprehensive income	-	542	-	-	542
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2018	214	629	8,692	2,692	12,227

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. There are no restrictions on payment of dividends.

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 2.4 on page 29.

Consolidated statement of cash flows

	Notes	2018 £000	2017 £000
Cash flows from operating activities:			
Profit before tax		1,893	1,641
Adjustment for depreciation and amortisation		56	48
Hire purchase interest		2	2
		1,951	1,691
(Increase) in trade and other receivables		(2,556)	(6,541)
(Decrease)/increase in trade and other payables		(1,131)	1,525
		(1,736)	(3,325)
Tax paid		(323)	(316)
Net cash absorbed by operating activities		(2,059)	(3,641)
Cash flows from investing activities			
Purchases of property, plant and equipment		(1)	(2)
Purchase of intangible fixed assets		(5)	(59)
Net cash absorbed by investing activities		(6)	(61)
Cash flows from financing activities			
Dividends paid		(641)	(514)
Net proceeds from borrowings		2,276	4,565
Hire purchase repaid		(12)	(11)
Net cash generated by financing activities	20.2	1,623	4,040
Net (decrease)/increase in cash and cash equivalents		(442)	338
Cash and cash equivalents at the beginning of the year		1,728	1,390
Cash and cash equivalents at the end of year	18	1,286	1,728

The notes on pages 29 to 44 are an integral part of these consolidated financial statements

Company statement of cash flows

	Notes	2018 £000	2017 £000
Cash flows from operating activities:			
Profit before tax		542	658
Dividend received		(1,200)	(1,250)
		(658)	(592)
(Increase)/decrease in trade and other receivables		(1)	34
Increase/(decrease) in trade and other payables		11	(2)
Funding by subsidiaries		648	560
Net cash absorbed by operating activities		-	-
Net increase/(decrease) in cash and cash equivalents		-	-
Cash and cash equivalents at the beginning of the year		-	-
Cash and cash equivalents at the end of year	18	-	-

The notes on pages 29 to 44 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. 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 in England and Wales and domiciled in the United Kingdom. The address of its registered office is 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

The principal activities of the group and the nature of its operations are set out in the strategic report on pages 5 to 11.

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.

2.2 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. This is discussed more fully in the Group strategic report on page 10.

2.3 Investment in subsidiaries

Investment in subsidiaries in the parent company balance sheet are stated at cost, less any provision for impairment.

2.4 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 originally 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.

On 1 August 2016, the company obtained control of another company, Orchard Finance Limited, by acquiring 100% of the share capital. Details of this company are shown in note 16.1. No adjustments were necessary to its financial statements to bring its accounting policies in line with the group's accounting policies.

Notes to the consolidated financial statements

2.5 Financial assets

(a) Loans and receivables (including trade receivables)

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 (see below and note 2.6).

(b) 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.

(c) 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 the impact of that loss event, or events, on the future cash flows of the financial asset or assets can be reliably estimated.

Evidence of impairment may include indications that the debtors 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.

2.6 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.

2.7 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.

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

2.9 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.

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

Notes to the consolidated financial statements

2.10 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.

The current 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.

Deferred tax liabilities are recognised in respect of all timing differences that exist at the reporting date. Timing differences are differences between taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in different periods from their recognition in the financial statements. Deferred tax assets are recognised only to the extent that it is probable that they will be recovered by the reversal of deferred tax liabilities or other future taxable profits.

Current and deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited to other comprehensive income or equity, when the tax follows the transaction or event it relates to and is also charged or credited to other comprehensive income, or equity.

Current tax assets and current tax liabilities and deferred tax assets and deferred tax liabilities are offset, if and only if, there is a legally enforceable right to set off the amounts and the entity intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

2.11 Employee benefits

Two of the subsidiaries in the group operate 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.

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 if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

2.12 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.

2.13 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.

2.14 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	20.00% straight line
Computer equipment	33.33% straight line
Motor vehicles	25.00% reducing balance

Notes to the consolidated financial statements

2.15 Intangible assets

(a) Cost

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

(b) Amortisation

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

2.16 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.

2.17 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 dividend is approved by the company's shareholders.

2.18 Financial reporting standards adopted during the year ended 31 July 2018

The following standards have been adopted during the current year:

(a) IAS 7 Disclosure Initiative (Amendments to IAS 7) – specifies that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. It requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary):

(i) changes from financing cash flows;
(ii) changes in fair values; and
(iii) other changes.

Liabilities arising from financing activities are defined as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". The adoption of these amendments has not resulted in any impact on the group's financial position or financial performance.

2.19 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 their authorisation:

(a) 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 currently 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.

(b) IFRS 15 Revenue from contracts with customers – sets out the principle that entities must recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the entity expects to be entitled in exchange for those goods or services. It also includes enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improves guidance for multiple-element arrangements.

(c) IFRS 16 Leases – removes the distinction between operating leases and finance leases for lessees. All leases except short term leases (those with a lease term of 12 months or less) and low value leases, are brought "on balance sheet". Lease payments are divided between an expense (depreciation) forming part of the operating profit and calculated on a straight line basis; and interest calculated using the constant rate of return method.

Notes to the consolidated financial statements

The directors are still assessing the potential impact of the adoption of IFRS 9 but anticipate that the adoption of this and the other 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; credit risk, liquidity risk and cash flow interest rate 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. It identifies, evaluates and mitigates financial risks. The board provides written policies for credit risk and liquidity risk. These risks are dealt with in detail in the Group strategic report on pages 5,6 and 7.

(a) 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.

(b) 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 £17m facility with its bankers. At 31 July 2018 there was £1m still available to draw.

(c) 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.

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.

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 market practices the group monitors capital on the basis of Return on Capital Employed ("ROCE"). This is calculated as earnings before interest, tax, depreciation and amortisation divided by capital as defined above.

The table below shows the ROCE at 31 July 2018 and 31 July 2017:	**2018**	**2017**
	£000	**£000**
Profit before tax	1,893	1,641
Interest	2	2
Depreciation and amortisation	56	54
EBITDA	1,951	1,697
Capital employed:		
Capital and reserves (including current year)	14,037	13,166
Bank borrowings (net of cash held)	14,714	11,791
Other borrowings	57	271
Total capital and borrowings	28,808	25,228
ROCE	6.77%	6.73%

Notes to the consolidated financial statements

4. Critical accounting estimates and judgements

In preparing these financial statements the group makes judgements, estimates and assumptions concerning the future that affect the application of the group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The results of these will seldom equal the related actual results.

Because of the nature of the group, in the opinion of the board there are no judgemental areas, estimates or assumptions 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. In previous years the board recognised two discrete operating segments – insurance premium funding and professional fee funding. After a detailed review of this method of analysis, the board has concluded that the nature of these (and additional products) is so similar that any segregation (other than central costs) would not give meaningful information to users of the financial statements. Both areas are managed on a similar basis, carry similar risks and rewards and need to comply with the same regulations. For this reason they are not separated this year (except to the extent that regulation requires it).

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

2018	Total £000	Central £000	Financing £000
Revenue	5,174	-	5,174
Interest payable	(452)	-	(452)
Operational costs and administrative expenses	(2,829)	(658)	(2,171)
Operating profit/(loss) before tax	1,893	(658)	2,551
Current tax expense	(381)	-	(381)
Profit/(loss) for the year after tax	1,512	(658)	2,170

2017	Total £000	Central £000	Financing £000
Revenue	4,560	-	4,560
Interest payable	(329)	-	(329)
Operational costs and administrative expenses	(2,584)	(592)	(1,992)
Goodwill on consolidation written off	(6)	-	-
Operating profit/(loss) before tax	1,641	(592)	2,239
Current tax expense	(303)	-	(303)
Profit/(loss) for the period after tax	1,338	(592)	1,936

Notes to the consolidated financial statements

6. Expenses by nature

		2018 £000	2017 £000
Interest payable in cost of sales		452	329
Other operational costs		83	78
Employee costs (including directors)	(note 7)	1,002	1,072
Advertising and selling costs		273	218
Bank fees		553	438
Professional and legal fees		198	228
Impairment provision		290	79
IT costs		66	71
Depreciation and amortisation		56	54
Other expenses		308	352
Total cost of sales, other operational costs and administrative expenses		3,281	2,919

7. Employee costs

	2018 Group £000	2018 Company £000	2017 Group £000	2017 Company £000
Wages and salaries (including directors)	899	411	952	385
Social security costs	97	42	108	42
Pension costs – defined contribution plans	6	-	12	-
	1,002	453	1,072	427

The average number of persons employed by the group was:

	2018 Group No.	2018 Company No.	2017 Group No.	2017 Company No.
Directors	5	5	5	5
Administration	13	1	12	-
Total	18	6	17	5

Directors' remuneration

2018	Fees and salary £000	Taxable benefits £000	Total £000	Employer's NIC £000	Total £000
Total directors' remuneration	392	24	416	42	458

2017	Fees and salary £000	Taxable benefits £000	Total £000	Employer's NIC £000	Total £000
Total directors' remuneration	385	17	402	42	444

R Takhar was the highest paid director during the year earning £274k including taxable benefits (2017 268k). Details are shown in the Remuneration report on page 14.

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 £452k (2017 £329k).

9. Operating profit

This is stated after charging:

	2018 £000	2017 £000
Depreciation of owned property, plant and equipment	14	14
Depreciation of property, plant and equipment held under hire purchase contracts	4	6
Amortisation of intangible assets	38	28
Operating lease rentals – land and buildings	27	27
Auditor's remuneration:		
Audit fees – parent company and consolidation	25	22
Audit fees – subsidiaries	32	40

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 months' notice, on 11 February 2018. Notice was not given by 11 May 2017 therefore the group's minimum lease payment commitments within the non-cancellable period of the operating lease are as follows:

	2018		2017	
	Group £000	Company £000	Group £000	Company £000
Within one year	27	-	27	-
Later than one year but no later than five	42	-	69	-
	69	-	96	-

10. Tax expense

10.1 Current year tax charge:

	2018 £000	2017 £000
Current tax expense	365	331
Adjustment re previous year tax expense	18	(25)
Deferred tax expense relating to the origination and reversal of temporary differences	(2)	(3)
	381	303

Notes to the consolidated financial statements

10.2 Tax reconciliation

The tax assessed for the year differs from the main corporation tax rates in the UK (19%, 2017 – 19% and 20%). The differences are explained below.

	2018 £000	2017 £000
Profit before tax for the financial year	1,893	1,641
Applicable rate – 19.00% (2017 19.67%)	19.00%	19.67%
Tax at the applicable rate	360	323
Effects of:		
Expenses not deductible for tax	3	5
Adjustment re previous year tax expense	18	(25)
Tax charge for the period	381	303

11. Earnings per share

Earnings per share is based on the profit for the year of £1,512k (2017 £1,338k) and the weighted average number of ordinary shares in issue during the year of 21.35m (2017 21.35m). 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 £542k (2017 £658k).

13. Dividends

	2018 £000	2017 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 July 2017 of 2p (2016 1.405p) per share	427	300
Interim dividend for the year ended 31 July 2018 of 1p (2017 1p) per share	214	214
	641	514
Proposed final dividend for the year ended 2018 of 2p (2017 2p) per share	427	427

Notes to the consolidated financial statements

14. Property, plant and equipment

	Office equipment and fixtures £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost				
At 1 August 2016	51	49	42	142
Additions	1	1	-	2
At 31 July 2017	52	50	42	144
Additions	-	1	-	1
At 31 July 2018	52	51	42	145
Depreciation				
At 1 August 2016	5	39	4	48
Charged to administrative expenses in the consolidated statement of income	10	4	6	20
At 31 July 2017	15	43	10	68
Charged to administrative expenses in the consolidated statement of income	10	4	4	18
At 31 July 2018	25	47	14	86
Net book value at 31 July 2018	27	4	28	59
Net book value at 31 July 2017	37	7	32	76

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

15. Intangible assets

	Software development costs £000
Cost	
At 1 August 2016	51
Additions	59
At 31 July 2017	110
Additions	5
At 31 July 2018	115
Amortisation	
At 1 August 2016	7
Charged to administrative expenses in the consolidated statement of income	28
At 31 July 2017	35
Charged to administrative expenses in the consolidated statement of income	38
At 31 July 2018	73
Net book value at 31 July 2018	42
Net book value at 31 July 2017	75

Notes to the consolidated financial statements

16. Investments

16.1 Subsidiaries

	Shares in subsidiaries £000
Cost and net book value	
At 31 July 2016	2,801
Additions 2017	6
At 31 July 2017 and 31 July 2018	2,807

Details of the subsidiaries 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%
Orchard Finance Limited	England and Wales	Finance provider	100%

Orchard Finance Limited was acquired on 1 August 2016 when the net assets of that company were £72, at a cost of £6,000. The goodwill on consolidation has all been written off in the year. The directors believe that the net assets equate to the fair value of the assets acquired (taking account of intangibles such as the brand). Given the small number of transactions, and following the guidance in IAS 1, no further disclosures are necessary in respect of this company.

All subsidiaries are included in the consolidation. The registered office of each subsidiary is that of the parent, 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

17. Trade and other receivables

	2018		2017	
	Group £000	Company £000	Group £000	Company £000
Non-current				
Other receivables	18	-	23	-
	18	-	23	-
Current				
Trade receivables	30,945	-	28,413	-
Intercompany receivables	-	9,469	-	9,558
Other receivables	111	-	86	-
Prepayments	28	2	24	1
	31,084	9,471	28,523	9,559

Standard credit terms for trade receivables are based on the length of the loan but repayments are due on a monthly basis. As part of the impairment review process (and among other evaluation methods), debts on which no repayment has been received in the last 30 days are assessed. It is not abnormal for borrowers to miss a payment for several reasons (e.g. changing banks) and 30 days gives time for the situation to be rectified. Debts within this 30 day period are not considered past due. Any debts for which repayments are still outstanding after 30 days would be considered overdue and subject to an impairment review. The amount of debts past due but not impaired at the year end was £Nil (2017 £Nil). The directors consider that the carrying amount of trade and other receivables approximates their fair value. There are impaired debts at the year end amounting to £343k (2017 £53k) against which £290k was charged in the year (2017 £53k). Provision has been made in full for these.

Notes to the consolidated financial statements

Trade receivables can be analysed as follows:

	2018		2017	
	Group	Company	Group	Company
	£000	£000	£000	£000
Amount receivable not past due	30,945	-	28,413	-
Amount receivable past due but not impaired	-	-	-	-
Amount receivable impaired (gross)	343	-	53	-
Less impairment	(343)	-	(53)	-
	30,945	-	28,413	-

18. Cash and cash equivalents

	2018		2017	
	Group	Company	Group	Company
	£000	£000	£000	£000
Amounts held at banks	1,286	-	1,728	-

Cash and cash equivalents consist of cash in hand and bank balances.

19. Called up share capital

Allotted, issued and fully paid at 31 July 2018 and 31 July 2017

Number	Class	Nominal value	£000
21,354,167	Ordinary shares	1p	214

20. Borrowings

	2018		2017	
	Group	Company	Group	Company
	£000	£000	£000	£000
Non-current:				
Other loans	41	-	41	-
Hire purchase contracts	8	-	16	-
	49	-	57	-
Current:				
Bank loans	16,000	-	13,520	-
Other loans	-	-	204	-
Hire purchase contracts	8	-	10	-
	16,008	-	13,734	-

Notes to the consolidated financial statements

20.1 Terms and debt repayment schedule:

The bank loans are due within one year.
The other loans fall due as follows:

	2018		2017	
	Group £000	Company £000	Group £000	Company £000
Within 1 year	-	-	204	-
Later than 1 year but no later than 2	41	-	40	-
Later than 2 years but no later than 5	-	-	1	-
	41	-	245	-

The minimum payments under hire purchase contracts are as follows:

	2018		2017	
	Group £000	Company £000	Group £000	Company £000
Within 1 year	8	-	11	-
Later than 1 year but no later than 5	9	-	18	-
	17	-	29	-
Future finance charges	(1)	-	(3)	-
	16	-	26	-

The present value of hire purchase liabilities are as follows:

Within 1 year	8	-	10	-
Later than 1 year but no later than 5	8	-	16	-
	16	-	26	-

Barclays Bank borrowings are secured by a fixed and floating charge over all the assets of Bexhill UK Limited, bear interest at rates of 2.90% above LIBOR plus any associated costs, and are repayable within one year of the advances. The loans are provided on a revolving 12 monthly basis under a facility which is due for renewal on 29 July 2019 at which time it is expected that they will be renewed. The maximum drawdown on the facility is currently £15m all of which was drawn at the year end (2017 £1.4m undrawn). The directors consider that the terms of this facility closely match the maturity dates of the group's receivables.

Conister Bank borrowings are secured over the assets of Orchard Funding Limited, bear interest at a rate of 4.5% pa and are repayable within one year of the advance. The maximum drawdown facility is currently £2m of which £1m was drawn at the year end (2017 £Nil available).

Other borrowings are unsecured and bear interest at varying rates between 4.00% and 6.25%.

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

Notes to the consolidated financial statements

20.2 Reconciliation of liabilities arising from financing activities

The information given below relates to the group. The parent has no cashflows from financing activities as all its costs are paid for by its subsidiaries.

	At 1 August 2016	Cashflows	At 31 July 2017	Cashflows	At 31 July 2018
	£000	£000	£000	£000	£000
Non-current:					
Other loans	1	40	41	-	41
Hire purchase contracts	26	(10)	16	(8)	8
	27	30	57	(8)	49
Current:					
Bank loans	9,174	4,346	13,520	2,480	16,000
Other loans	25	179	204	(204)	-
Hire purchase contracts	9	1	10	(2)	8
	9,209	4,526	13,734	2,274	16,008
Total liabilities from financing activities	9,236	4,556	13,791	2,266	16,057
Hire purchase interest included in operating cashflows		(2)		(2)	
Cashflows from financing activities		4,554		2,264	
Comprising:					
Net proceeds from borrowings		4,565		2,276	
Borrowings repaid		(11)		(12)	
		4,554		2,264	

21. Deferred tax

The deferred tax balance relates wholly to capital allowances.

22. Trade and other payables

	2018		2017	
	Group	Company	Group	Company
	£000	£000	£000	£000
Trade payables	1,710	-	2,833	-
Other payables	51	-	40	-
Other tax and social security costs	33	16	43	16
Accrued expenses	257	35	266	24
	2,051	51	3,182	40

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

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:

	2018		2017	
	Group	Company	Group	Company
	£000	£000	£000	£000
Loans and receivables:				
Trade and other receivables: non-current	18	-	23	-
Trade and other receivables: current	31,056	9,469	28,499	9,558
Cash and cash equivalents:				
Bank balances and cash in hand	1,286	-	1,728	-
	32,360	9,469	30,250	9,558

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

	2018		2017	
	Group	Company	Group	Company
	£000	£000	£000	£000
Other financial liabilities at amortised cost:				
Interest bearing loans and borrowings:				
Borrowings payable: non-current	49	-	57	-
Borrowings payable: current	16,008	-	13,734	-
Trade and other payables	2,018	35	3,139	24
	18,075	35	16,930	24

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's policies for financial risk management are outlined in note 3 on page 33. A sensitivity analysis of the group's exposure to interest rate movements has not been prepared as, in the opinion of the directors, the impact would be immaterial given the short term nature of the group's lending.

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 year, all of which were considered to be at arm's length:

Bexhill – the parent company loaned £336k to Bexhill (2017 Bexhill repaid £1,567k). Bexhill made payments on behalf of the parent company amounting to £407k (2017 £453k) and paid dividends to the parent company amounting to £1,060k (2017 £850k). At the year end Bexhill owed the parent company £2,091k (2017 £1,102k). The loan is unsecured, interest free and repayable on demand. Orchard Funding paid expenses on behalf of Bexhill in 2016 amounting to £268k. This amount was still outstanding at the year end (2017 £268k).

Orchard Funding – the parent company was repaid £1,106k (2017 Orchard Funding borrowed £1,003k) by Orchard Funding. Orchard Funding made payments on behalf of the parent company amounting to £112k (2017 £70k) and paid dividends to the parent company amounting to £140k (2017 £400k). At the year end Orchard Funding owed the parent company £7,384k (2017 £8,462k). The loan is unsecured, interest free and repayable on demand. Orchard Funding paid expenses on behalf of Bexhill in 2016. The balances outstanding at the year end and previous year end are shown above.

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 the company until 31 October 2017 and shareholder
Mr R Takhar	CEO of, and shareholder in, the company
McShane Wright	A firm in which a director, L McShane, is a partner
Associated Premium Funding Limited	A company wholly owned by Mr R Takhar
Urban Exposure Investment Adviser Limited	A company in which Mr R Takhar is a director.
Premium Finance No 1 Limited	A company in which Mr R Takhar is a director.

Mr D Clark – up to the date of his resignation, Mr Clark received dividends amounting to £208 (2017 £250).

Mr R Takhar - during the year Mr Takhar (including connected shareholdings) received dividends amounting to £343,750 (2017 £275,574). On 1 August 2016 Orchard Funding Group purchased the whole of the share capital in Orchard Finance Limited from Mr R Takhar for the share nominal value of £6,000.

McShane Wright - during the year the firm of McShane Wright provided the group with accountancy and associated services. The charge made for these was £42,480 (2017 £48,638). Of this £42,480 (2017 £48,240) is shown as part of directors' remuneration in note 7 and £Nil (2017 £398) is shown under administrative expenses. At the year end it was owed £9,480 (2017 £Nil).

Associated Premium Funding Limited - Associated Premium Funding Limited acts as a funding company for a number of clients of Bexhill UK Limited. In this respect, payments to or receipts from this company are on behalf of third parties.

Urban Exposure Investment Adviser Limited – Urban Exposure Investment Adviser Limited performed work on behalf of the group. Costs incurred in this work were £375 (2017 £2,649).

Premium Finance No 1 Limited
Premium Finance No 1 Limited also performed work on behalf of the group in the previous year. Costs incurred in this work were £1,413. No work was carried out this year.

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

There were no major non-cash transactions during the year (2017 none).

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