orchard

Orchard Funding Group PLC

Orchard Funding Group plc
Annual report for the year ended 31 July 2015

Orchard in brief

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

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

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Group financial highlights

	% of sales
Sales £3.41m	100%
Gross profit £2.46m	72.2%
Profit after tax £1.03m	30.3%

EPS (pence)
8.77

Closing cash and cash equivalents
£2.85m

Key dates:

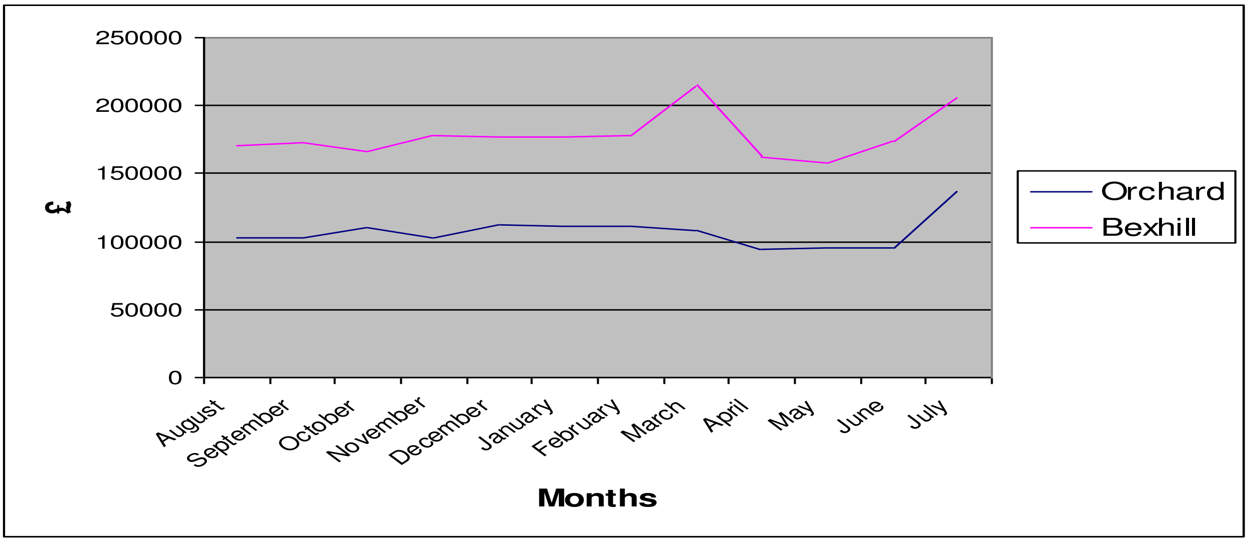
2 June 2015	Orchard Funding Group plc incorporated;
23 June 2015	10,937,500 shares issued in exchange for shares in Bexhill UK Limited and Orchard Funding Limited;
1 July 2015	Company admitted to the AIM market – 1st day of dealings - 10,416,667 shares issued for cash of £10,000,000;
8 July 2015	Trading certificate issued;
15 July 2015	Bexhill UK Limited obtains full FCA permission.

Information on subsidiaries

	Consolidated	Group	Bexhill	Orchard
Capital resources	£11.64m	£11.60m	£2.27m	£0.54m
Loans made in the year	£43.6m	-	£28.3m	£15.3m
Average gross margins	72%	-	80%	59%
Gearing ratio*	26.33%	-	79.42%	88.65%

* Borrowings by subsidiaries include loans from the parent

Sales by subsidiaries for the year ended 31 July 2015



Chairman's statement

I am delighted to be writing my first statement as Chairman of Orchard following the successful fund raising in July 2015 and the subsequent listing of your Company's shares on the Alternative Investment Market of the London Stock Exchange, making the Company part of the public market.

I am very pleased to be able to report that the Company raised £10m and was able to immediately retire some relatively expensive debt. The group continues to gain clients in a growing market place and your Board is actively considering other promising opportunities in related areas.

Both the insurance premium finance and UK accounting fee funding markets are buoyant and the Bexhill and Orchard brands continue to gain traction with borrowers and are providing real alternatives to the current status-quo.

The executive team, led by Chief Executive Ravi Takhar, is highly experienced in operating in our markets and has strong relationships with insurance brokers and accountants across the UK. The high quality of Orchard's lending book is demonstrated by zero arrears or losses over the last seven years.

The group has demonstrated strong financial performance across the economic cycle and your Board believes that conditions are likely to remain favourable for the foreseeable future.

Orchard is cash generative with high quality assets stemming from the business model. It is possessed of a scalable processing platform with a stable funding structure and excellent long term relationships with its debt providers.

Orchard's potential market place continues to grow and opportunities abound. Your Board is excited by these and remains fully focused on making the most of them. We look to the future with confidence.

David A Clark
Chairman

2 November 2015

Chief executive's review

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

Performance

We have great news on our performance and have already exceeded the forecasts set out in our pre IPO research. For the 12 months to July 2015:

- Our revenue increased to just over £3.4m, a 14% growth from the 2014 numbers.
- Our profit before tax rose to £1.29m up from £974k in 2014.
- Our profit after tax rose to £1.03m from £751k, a tremendous jump of 38%.
- Our earnings per share also increased from 6.87p to 8.77p.

We are justly proud of all our achievements in 2015 and are very excited by the prospects for our newly capitalised business in 2016.
An immediate benefit from the capital raise was the repayment of historic and expensive debt facilities, which will have an immediate benefit to the profits of the business going forward.

Operations

Our debtor book stood at a healthy £17.9m at the year end with no arrears or defaults.

Barclays Bank continues to support our insurance premium finance lending. Due to our enhanced capital position we do not currently need any third party financing for our accountancy fee funding business. We will continually review our banking requirements in line with the growth of the business.

We have over 100 insurance broker clients and 400 accountancy clients and we continue to provide best in class service from our operations centre in Luton.

We have enhanced our sales team with a new business development manager for the North of England and will be adding to our sales team over the coming year. These strategic appointments will help Orchard to continue to expand its client base.

Our IT system, which was created by Anchor Software Systems and is exclusive to our business, continues to work well and still has market leading functionality for insurance brokers that wish to operate their own premium finance business. The ease of use of the system has also proved attractive to professional firms who want to offer their clients the ability to spread their fees in an efficient manner. The system was enhanced during the year to enable real time credit searches and electronic signatures.

Regulation

We were delighted to announce in July of this year that the Group obtained full FCA regulation for our subsidiary Bexhill UK Limited. Bexhill was the first premium finance lender in the UK to obtain full FCA permission for consumer credit lending.

Outlook

We are extremely excited about the outlook for our newly-listed business. The IPO has enabled the Company to create a strong capital base, reducing finance costs and is now facilitating the growth of our lending book without the capital constraints we have had to manage historically.

Unlike other finance companies the group is not dependent on finance brokers to originate its business. Our direct sales force enables us to build strong and lasting relationships with our clients and gives us a solid foundation to grow our business from its current base.

We are a resilient, growing business as demonstrated by the results of our subsidiaries over the years. Our focus is to increase the wealth of our shareholders by augmenting our market share in the core businesses and, where we feel it fits with the business model, by attacking new markets.

None of what we have done would have been possible without the team that we have. I should like to take this opportunity to thank all of them for the hard work and dedication that has led us to where we are now – and, in anticipation of their future efforts, to thank them for taking us to where we want to go.

Ravi Takhar
Chief Executive Officer
2 November 2015

Group strategic report

Objectives

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

Strategy

The insurance premium finance market in which the group operates is expected by the board to grow over the next five years in line with the general insurance market from its current estimated levels of circa £8.5 billion per year to £11.6 billion per year. The market for professional fee finance is also expected to grow as the banks continue to pull out of the market for small-ticket, short-term, unsecured funding.

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

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

The board is considering additional markets to augment its core businesses but will only enter these if, after detailed analysis, it will assist in achieving the overall objectives.

Our business model

The Group has two main businesses:

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

Bexhill
Bexhill borrows up to 75% of the amount advanced to each of its clients from Barclays Bank Plc. The balance is provided by Bexhill from receipts from its debtors. Its capital and reserves were £2.3 million as at 31 July 2015. Barclays has renewed Bexhill's facility each year since 2002. Bexhill's current facility is £10.0 million and has recently been extended to 31 July 2016. Barclays performs regular reviews and supplements these with an audit every six months by external independent auditors. Therefore, Bexhill has operated within a disciplined lending environment since its inception. Insurance broker borrowing limits are set based on financial information, credit reports, regulatory requirements and other qualitative factors obtained from the broker. In addition, an annual review process including regulatory permissions and credit checks is conducted and each broker is monitored monthly for the company's financial exposure to that broker. Bexhill's cost of finance ranged from approximately 3.4% to approximately 10% in the financial year to 31 July 2015. The recent public offering raised sufficient capital to allow Bexhill to raise additional finance at more competitive rates from its existing bank. In its last seven years of lending, Bexhill has not suffered any arrears or losses on its lending book.

Orchard
Orchard, at present, has no borrowings. Prior to the capital received from the recent public offering, Orchard was able to borrow up to 80% of the amount advanced to each of its clients from Bracken Holdings Limited. The remainder was provided by Orchard from its capital resources and reserves which, at 31 July 2015, were approximately £535,000. Bracken's lending was protected by performing regular audits of the Orchard business, and that has led to Orchard developing a highly disciplined approach. The directors also set credit limits on professional firms and obtain credit reports as part of the underwriting process. In addition, Orchard performs an annual review process and monitors exposure to each accountancy and professional firm monthly.
Orchard's cost of finance was circa 12% when this was provided by Bracken. This finance has now been repaid. The directors believe that this the recent influx of capital from the IPO will enable Orchard to increase its borrowing capabilities, at more competitive rates, enabling it to further expand its lending book. Orchard has already received term sheets from a number of well-known banking institutions for the future financing of its business. Since it commenced business in 2010, Orchard has not suffered any arrears or losses on its lending book.

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

The business environment

One of the main trends having an impact on the business is regulation. The FCA recently reviewed the premium finance market and has revealed that insurer and insurance intermediaries have not always provided customers with clear information about different payment options available when buying general insurance products, including providing clear information about the overall cost of paying for insurance, clear information about the payment options available to them and transparency in the role of the intermediary. The board is confident that our documentation and procedures fulfil the requirements of the FCA, as evidenced by Bexhill UK Limited obtaining full FCA permission (see key dates on page 1). From research carried out by the group, the insurance premium finance market is currently worth over £8.5 billion and over the next five years it is expected by management to grow to over £11.6 billion per year in the next 5 years.
More professionals are seeing real benefit in offering a finance plan to their clients. It gives them access to cash from their fees more quickly, gives the client an opportunity to budget throughout the year and ensures that the firm is able to plan its own cash flows more reliably. The directors expect this market to grow from the current estimate of approximately £300 million to approximately £500 million in the next 5 years.

Bank interest base rate has remained at 0.5% for some time now. The directors believe that this will continue well into next year from remarks by the Bank of England and other commentators. Even if (or when) rates do increase, the nature of the business will allow fairly quick reaction to this. The board believes that further opportunities will present themselves with liquidity being more important to businesses and individuals.

The business environment provides a real opportunity for the group, with a growing market for its products and relatively stable interest rates.

Principal risks and uncertainties

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

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

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

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

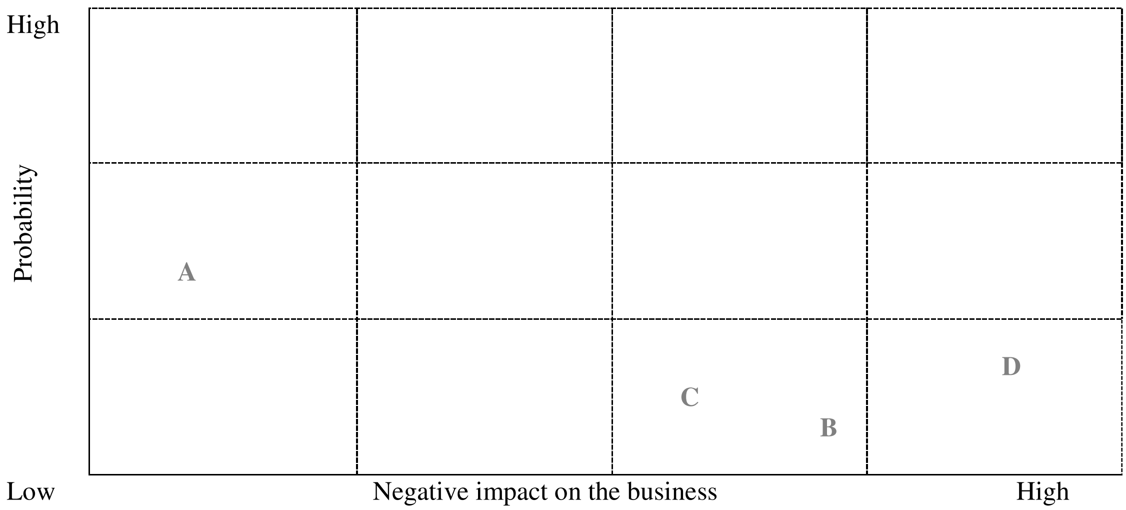
IT systems risk
A further risk identified by the board is that our operations are dependent on IT systems[D], which could potentially suffer significant disruptions or even failure. The directors, therefore, have in place business continuity procedures and security measures in the event of IT failures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

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

Each of the areas identified may be viewed below in terms of its impact on the business.

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

The matrix below gives a broad idea of how each of the risk areas identified above impacts on the business. It is not a precise measure but is an indication of how the board sees the relative risks and effects of an unfavourable situation. For example, if our systems failed, the impact would be great but the chance of it happening is low.



Development and performance of the business

The group relies on funding to provide loans to clients of its partners (insurance intermediaries and professional firms). The ability to provide this money is crucial to the business. The share issue in July made possible the repayment of expensive loans and allowed for better liquidity, enabling further loans to be made at a better margin. Nonetheless, availability of funds is a key area.

The ability to find borrowers is also key to the business. There has been no shortage of good quality lending opportunities up to now. The directors have, however, launched a more formal and extensive marketing plan. The new marketing plan encompasses the expansion of the sales team with new planned staff hires across new regions in the United Kingdom, in addition to the current headquarters located in Luton. A focused marketing drive will help increase awareness of the Group in the market by appointing an industry marketing and public relations agency. In addition, the Group plans to increase regular electronic and telesales contact with existing and new customers in both the insurance and professional sectors. The new marketing plan will also set individual sales targets for insurance brokers and professional firms

Our margin is another key area. Changes in base rate could erode this margin. The board reviews this on a monthly basis and liaises with its bankers. Should rates increase, our rates would also increase to reflect this. Our own analysis indicates that the impact on business would be negligible.

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

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

Lending
Margins
Gearing

The statistics for these are shown in the financial highlights section on page 1. The board are happy with these.

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

Our three senior members of staff have 27 years between them working in the business. They have taken on additional responsibilities over the years to the extent that they know each area of the business.

Although each member of the team has his or her own specific tasks, the ethos of the group is that they should, with time, learn each aspect area of the business. Customer care is of paramount importance in our business culture and this aspect is a constant part of staff training. Feedback from our partners in this area has been very positive. Performance objectives set for our staff have all been met.

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

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

The key assumptions and bases used in the forecasts are:

- Funding provided will grow from circa £55m in 2016 to circa £120m over the next 4-5 years;
- Liquidity will be available to fund those loans;
- Margins will generally remain stable on corporate business and will increase slightly on direct business;
- Overhead will increase at the rate of inflation with stepped increases at certain points (when capacity constraints are hit);
- The funding system will be able to accommodate the increased business.

The consolidated statement of financial position on page 15 shows the situation at the period end in detail.

The two subsidiaries have traded for a number of years and have grown at a rate commensurate with finance available at a given point in time and in line with plans by the directors.

Environmental, social responsibility, community and human rights issues

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

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

Gender diversity

The main board of directors is currently all male. The main reason for this situation is taking in outside board members who were best suited to the positions. One female who would have been a main board member sadly passed away earlier this year. The board of the two subsidiaries consist of one male and two females each.

Males make up 30% of the employees in total.

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

2 November 2015

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 2015.

Incorporation
The company was incorporated on 2 June 2015 and commenced trading on 8 July 2015. The group accounts have been compiled using the 'pooling of interests method'. This treats the companies acquired by Orchard Funding Group plc on 23 June 2015 as though they had always been owned by the group. This is permitted because control in all companies originally vested in R Takhar, a director, and continued to do so after the acquisitions.

Results and dividends
The group profit for the period after taxation was £1,034,413. The directors consider that the going concern basis is appropriate, supported by the profitability of the group and the significant cash balances. During the year the group paid dividends amounting to £137,500 to the previous owners of the subsidiaries prior to the new group being formed. The directors do not recommend payment of a further dividend.

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

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

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

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing each of the group and company financial statements, the directors are required to:

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

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

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

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

Political contributions
During the period the group made no political contributions.

Research and development

During the period nothing was spent on research and development.

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

The directors appointed Baker Tilly UK Audit LLP, which changed its name to RSM UK Audit LLP on 26 October 2015, as the first auditor to the company. 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

2 November 2015

Remuneration report

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

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

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

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

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

Non-executive directors
The remuneration of the non-executive directors is considered by the executive directors. The non-executive directors do not have contracts of service, but the current term of appointment is for an initial period of twelve months and continues thereafter on three months' notice.

Directors' remuneration

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

The above information relates to the parent and covers the period from 23 June 2015 to 31 July 2015.

Further information is to be found within the IPO admission document at http://www.orchardfundinggroupplc.com

Jonathan Shearman,
Remuneration committee chairman

2 November 2015

Board of directors and secretary

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

David Andrew Clark – Independent Non-executive Chairman (age 50)

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

Rabinder ("Ravi") Singh Takhar – Chief Executive Officer (age 50)

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

William ("Liam") Leo McShane – Part-time Chief Financial Officer and Company Secretary (age 57)

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 financial reporting for the group. He has been involved in providing tax and financial advice to Bexhill UK Limited since 2000, from 2002 as a partner in McShane Wright Chartered Certified Accountants. Prior to McShane Wright, Mr McShane became a partner at Clifford Roberts in 1998, having qualified as a chartered certified accountant with Towers Rockall, a local accountancy practise in Northamptonshire, in 1994. From 1989 he advised for the Institute of Independent Insurance Brokers, an association for professional insurance intermediaries, providing tax and financial advice to the Institute, its members and professional advisers to its members. Mr McShane is a Fellow of the Association of Chartered Certified Accountants.

Jonathan Paul David Shearman – Independent Non-executive Director (age 44)

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 and STM Group plc, an AIM listed company, in both cases being a member of the audit committee and chairman of the remuneration committee. Mr Shearman has over 20 years' experience of public equity markets having started his career in equity research at James Capel in 1993, before working in equity sales at Williams de Broë and KBC Peel Hunt. He worked as an equity analyst at Gartmore Investment Management (2006 to 2008) followed by a role as strategic consultant to Altium Group (a pan European Investment Bank).

Corporate governance report

Compliance

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

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

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

Directors

The company supports the concept of an effective board leading and controlling the company. The board is responsible for approving company policy and strategy. It meets every two months and has a schedule of matters specifically reserved to it for decision. Management supply the board with appropriate and timely information and the directors are free to seek any further information they consider necessary. All directors have access to advice from the company secretary and independent professionals at the company's expense. The board consists of two executive directors, who hold key operational positions in the Company, and two non-executive directors who bring a breadth of experience and knowledge. The current board members are described on page 11.

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

Relations with shareholders

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

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

Audit committee

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

Internal controls

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

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

Going concern

After making appropriate enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. At 31 July 2015 the group had cash and cash equivalents, net of bank overdrafts, of £2.85m and undrawn bank facilities of £3m. The group owns a portfolio of loans which are subject to very low risk of non-repayment (see section on credit risk in the strategic report on page 5). These receivables amount to £17.8m against which there are total payables of £9.1m. Total costs for the year were slightly over £2m. There is therefore substantial financial headroom going forward. Accordingly, the directors consider the going concern basis in preparing the consolidated financial statements to be appropriate.

Independent auditor's report

We have audited the group and parent company financial statements ("the financial statements") on pages 14 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent affairs as at 31 July 2015 and of the group's profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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

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

2 November 2015

Consolidated income statement

	Notes	2015 £	2014 £
Continuing operations			
Revenue	5	3,409,859	2,993,369
Finance costs	8	(854,929)	(863,460)
Other operational costs		(92,650)	(85,150)
Gross profit		2,462,280	2,044,759
Administrative expenses		(1,169,028)	(1,070,646)
Operating profit before income tax	9	1,293,252	974,113
Income tax expense	10	(258,839)	(223,024)
Profit for the year		1,034,413	751,089
Other comprehensive income		-	-
Total comprehensive income for the year attributable to the owners of the parent		1,034,413	751,089
Earnings per share attributable to the owners of the parent during the period (pence)			
Basic and diluted	11	8.77	6.87

The notes on pages 20 to 31 are an integral part of these consolidated financial statements

Consolidated statement of financial position

	Notes	2015 £	2014 £
Assets			
Non-current assets			
Property, plant and equipment	14	4,427	11,900
Current assets			
Trade and other receivables	16	17,914,997	19,442,963
Tax receivable		1,410	1,410
Cash and cash equivalents:			
Bank balances and cash in hand	17	2,901,960	16,944
Bank overdrafts	17	(47,159)	(89,739)
		20,771,208	19,371,578
Total assets		20,775,635	19,383,478
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	18	213,542	109,375
Share premium		8,691,910	-
Merger reserve		890,725	890,725
Retained earnings		1,841,398	944,485
Total equity		11,637,575	1,944,585
Liabilities			
Non-current liabilities			
Deferred tax	19	590	1,626
Current liabilities			
Trade and other payables	20	1,835,908	2,236,574
Borrowings	21	7,015,155	14,922,933
Tax payable		286,407	277,760
		9,137,470	17,437,267
Total liabilities		9,138,060	17,438,893
Total equity and liabilities		20,775,635	19,383,478

The financial statements on pages 14 to 31 were approved, and authorised for issue, by the board of directors on 2 November 2015 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 20 to 31 are an integral part of these consolidated financial statements

Company statement of financial position

	Notes	2015 £	2014 £
Assets			
Non-current assets			
Investments	15	2,801,374	2,801,374
Current assets			
Trade and other receivables	16	8,834,046	-
Cash and cash equivalents	17	-	-
		8,834,046	-
Total assets		11,635,420	2,801,374
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	18	213,542	109,375
Share premium		8,691,910	-
Merger reserve		2,691,999	2,691,999
Sustained losses		(1,654)	-
Total equity		11,595,797	2,801,374
Liabilities			
Non-current liabilities			
Deferred tax	19	-	-
Current liabilities			
Trade and other payables	20	39,623	-
Interest bearing loans and borrowings	21	-	-
		39,623	-
Total liabilities		39,623	-
Total equity and liabilities		11,635,420	2,801,374

The financial statements on pages 14 to 31 were approved, and authorised for issue, by the board of directors on 2 November 2015 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 20 to 31 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Called up Share capital £	Retained earnings £	Share premium £	Merger reserve £	Total equity £
Balance at 1 August 2013	109,375	361,396	-	890,725	1,361,496
Changes in equity					
Total comprehensive income	-	751,089	-	-	751,089
Transactions with owners:					
Dividends paid	-	(168,000)	-	-	(168,000)
Balance at 31 July 2014	109,375	944,485	-	890,725	1,944,585
Changes in equity					
Total comprehensive income	-	1,034,413	-	-	1,034,413
Transactions with owners:					
Dividends paid	-	(137,500)	-	-	(137,500)
Issue of share capital	104,167	-	9,895,834	-	10,000,001
Items expensed through share premium	-	-	(1,203,924)	-	(1,203,924)
Balance at 31 July 2015	213,542	1,841,398	8,691,910	890,725	11,637,575

Company statement of changes in equity

	Called up Share capital £	Retained Earnings £	Share premium £	Merger reserve £	Total Equity £
Balance at 1 August 2013	109,375	-	-	2,691,999	2,801,374
Changes in equity					
Total comprehensive income	-	-	-		-
Balance at 31 July 2014	109,375	-	-	2,691,999	2,801,374
Changes in equity					
Total comprehensive income	-	(1,654)	-	-	(1,654)
Transactions with owners:					
Issue of share capital	104,167		9,895,834	-	10,000,001
Items expensed through share premium	-		(1,203,924)	-	(1,203,924)
Balance at 31 July 2015	213,542	(1,654)	8,691,910	2,691,999	11,595,797

The merger reserve arose through the formation of the group on 23 June 2015 using the consolidation method as shown in note 2.2 on page 20.

The share premium account arose on the IPO on 1 July 2015 at a premium of 95p per share. Costs directly attributable to the issue of shares have been deducted from the account.

The notes on pages 20 to 31 are an integral part of these consolidated financial statements

Consolidated statement of cash flows

	Notes	2015 £	2014 £
Cash flows from operating activities:			
Profit before income tax		1,293,252	974,114
Adjustment for depreciation		8,301	11,000
		1,301,553	985,114
Decrease/(increase) in trade and other receivables		1,527,966	(1,288,982)
(Decrease)/increase in trade and other payables		(400,666)	233,444
		2,428,853	(70,424)
Income tax paid		(251,229)	(206,296)
Net cash generated/(absorbed) by operating activities		2,177,624	(276,720)
Cash flows from investing activities			
Purchases of property, plant and equipment		(828)	(17,850)
Net cash absorbed by investing activities		(828)	(17,850)
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		10,000,001	-
Items expensed through the share premium account		(1,203,924)	-
Dividends paid		(137,500)	(168,000)
Proceeds from borrowings		17,430,476	20,694,148
Borrowings repaid		(25,338,253)	(20,271,250)
Net cash generated by financing activities		750,800	254,898
Net increase/(decrease) in cash and cash equivalents		2,927,596	(39,672)
Cash at the beginning of the period		(72,795)	(33,123)
Cash and cash equivalents at the end of period	17	2,854,801	(72,795)

The notes on pages 20 to 31 are an integral part of these consolidated financial statements

Company statement of cash flows

	Notes	2015 £	2014 £
Cash flows from operating activities:			
Loss before income tax		(1,654)	-
Finance income		(59,000)	-
		(60,654)	-
Increase in trade and other receivables		(6,439)	-
Increase in trade and other payables		39,623	-
		(27,470)	-
Income tax paid		-	-
Net cash absorbed by operating activities		(27,470)	-
Cash flows from investing activities			
Loans made		(8,827,607)	-
Dividends received		59,000	-
Net cash absorbed by investing activities		(8,768,607)	-
Cash flows from financing activities			
Proceeds of issuance of ordinary shares		10,000,001	-
Items expensed through the share premium account		(1,203,924)	-
Net cash generated by financing activities		8,796,077	-
Net increase in cash and cash equivalents		-	-
Cash at the beginning of the period		-	-
Cash and cash equivalents at the end of period	17	-	-

The notes on pages 20 to 31 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. General information

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

The company is a public company listed on the Alternative Investment Market of the London Stock Exchange, incorporated and domiciled in the United Kingdom. The address of its registered office is 960 Capability Green, Luton, Bedfordshire LU1 3PE.

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 the Orchard Funding Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations applicable to companies reporting under IFRS. The consolidated financial statements have been prepared on a historical cost basis.

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 Consolidation

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

The business combination giving rise to the group is one in which companies which were under the control of R Takhar combined under a holding company which is also controlled by R Takhar. As such the combination is outside the scope of IFRS 3 and is accounted for using the 'pooling of interests method'. This is a method 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 company records the cost of its investment in subsidiaries acquired in the pooling of interests at the carrying amount of its share of net equity shown in the financial statements of the acquired entities at the date of the reorganisation.
The merger reserve is also used where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, thereby attracting merger relief under the Companies Act 2006.

2.3 Financial assets

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

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

(a) Impairment

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

Evidence of impairment may include indications that the receivables are experiencing significant financial difficulties (including default or delinquency in interest or principal payments) and where observable data indicates that there is a measurable decrease in the estimated future cash flows.

For loans and receivables, the amount of loss is measured as the difference between the asset's carrying value and the present value of future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If in a subsequent period the amount of the impairment loss decreases, and the decrease can be related objectively to an event occurring after the impairment was recognised, a reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

2.4 Trade receivables

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

2.5 Cash and cash equivalents

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

2.6 Share capital

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

2.7 Trade payables

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

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

2.8 Borrowings

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

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

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

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

2.9 Current and deferred taxation

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

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

Deferred tax is recognised on temporary differences arising between the tax based assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised from the initial recognition of goodwill and neither are deferred tax assets recognised from the initial recognition of bargain purchases (negative goodwill). Deferred tax is determined using tax rates that are expected to apply when the liability or asset reverses.

2.10 Employee benefits

One of the subsidiaries in the group operates a defined contribution pension scheme. 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 into contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Contributions payable to the group's pension scheme are charged to the income statement in the period to which they relate.

Notes to the consolidated financial statements

2.11 Revenue recognition

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

Income arising from the provision of funding systems is recognised as the system is provided, usually on a monthly basis.

2.12 Leases

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

2.13 Interest payable

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

2.14 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders.

2.15 Financial reporting standards in issue but not yet effective

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

(a) IFRS 7 Financial instruments: disclosures - adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required;

(b) IFRS 15 Revenue from contracts with customers - specifies how and when an IFRS reporter will recognise revenue. There is new guidance on whether revenue should be recognised at a point in time or over time. This replaces the previous distinction between goods and services. It also requires entities to provide users of financial statements with more informative, relevant disclosures;

(c) IAS 1 Presentation of financial statements - amendments to ensure that entities are able to use judgement when presenting their financial reports as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement.

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

Following the publication of FRS 100 'Application of Financial Reporting Requirements by the Financial Reporting Council', Orchard Funding Group plc ("the company") has elected to adopt FRS 101 'Reduced Disclosure Framework' and to take advantage of the disclosure exemptions therein for its stand alone entity financial statements for the financial year ending 31 July 2016. The board considers that this election is in the best interests of the company.

FRS 101 allows qualifying entities to adopt EU-IFRSs but with a reduction in the required level of disclosures. The company's accounts will still be prepared to meet the requirements of the Companies Act 2006.

The company may take advantage of the disclosure exemptions in FRS 101 'Reduced Disclosure Framework' provided its shareholders have been notified in writing about, and do not object to, the use of the disclosure exemptions.

A shareholder or shareholders holding in aggregate 5% or more of the total allotted shares in the company may serve objections to the use of the disclosure exemptions in FRS 101 'Reduced Disclosure Framework' on the company, in writing, to its registered office, 960 Capability Green, Luton Bedfordshire LU1 3PE, not later than 30 April 2016.

3. Financial risk management

3.1 Financial risk factors

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

(a) Market risk – cash flow interest rate risk

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

(b) Credit risk

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

(c) Liquidity risk

This is the risk that the company will have insufficient funds to conduct its business. This has been substantially mitigated by an injection of capital through a share issue which has enabled the group to increase its borrowings at better rates leading to the ability to lend more.

3.2 Capital management

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

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

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

The table below shows the gearing ratio at 31 July 2015 and 31 July 2014:

	2015 £	2014 £
Total borrowings	7,015,155	14,922,933
Less: cash and cash equivalents	(2,854,801)	72,795
Net debt	4,160,354	14,995,728
Total equity	11,637,575	1,944,585
Total capital	15,797,929	16,940,313
Gearing ratio	26.33%	88.50%

4. Critical accounting estimates and judgements

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

Notes to the consolidated financial statements

5. Segment information

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

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

2015	Total	Central	Insurance premium funding	Professional fee funding
	£	£	£	£
Sales	3,409,859	-	2,132,387	1,277,472
Interest payable	(854,929)	-	(330,459)	(524,470)
Operational costs and administrative expenses	(1,261,678)	(60,655)	(808,349)	(392,674)
Operating profit/(loss) before tax	1,293,252	(60,655)	993,579	360,328

2014	Total	Central	Insurance premium funding	Professional fee funding
	£	£	£	£
Sales	2,993,369	-	1,828,552	1,164,817
Interest payable	(863,460)	-	(315,970)	(547,490)
Operational costs and administrative expenses	(1,155,796)	-	(729,502)	(426,294)
Operating profit/(loss) before tax	974,113	-	783,080	191,033

6. Expenses by nature

		2015	2014
		£	£
Interest payable in cost of sales		854,929	863,460
IT costs		28,536	24,155
Employee costs (including directors)	(note 7)	321,521	277,106
Advertising and selling costs		117,824	128,218
Rent payable		54,041	45,850
Bank fees		315,542	256,699
Other expenses		424,214	423,768
Total cost of sales, other operational costs and administrative expenses		2,116,607	2,019,256

Notes to the consolidated financial statements

7. Employee costs

	2015 £	2014 £
Wages and salaries (including directors)	299,246	256,145
Social security costs	22,228	20,961
Pension costs – defined contribution plans	47	-
Total employee benefit expense	321,521	277,106

The total number of persons employed by the group was:

	No.	No.
Directors	4	1
Administration	9	8

Directors' remuneration is as follows:

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

Information given is for 2015 only as the company did not exist before this year.

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

No director is accruing benefits under a pension scheme.

8. Finance income and costs

The group's income comes from making loans.

Interest payable on borrowings is therefore included as a cost of sale. The amount included was £854,929 (2014 £863,460).

9. Operating profit

This is stated after charging:

	2015 £	2014 £
Depreciation of owned property, plant and equipment	8,301	11,000
Operating lease rentals – land and buildings	54,041	45,850
Auditor's remuneration:		
Audit fees – parent company and consolidation	16,800	-
Audit fees – subsidiaries	23,400	12,000

Baker Tilly Corporate Finance charged £180,280 for work carried out on the IPO. This has been included as part of items expensed through the share premium account.

Notes to the consolidated financial statements

10. Income tax expense

10.1 Current period tax charge:

	2015 £	2014 £
Current tax expense	271,780	223,024
Adjustment re previous year tax expense	(11,905)	-
Deferred tax expense relating to the origination and reversal of temporary differences	(1,036)	-
	258,839	223,024

10.2 Tax reconciliation

The tax assessed for the period differs from the main corporation tax rates in the UK (23%, 21% and 20%). The differences are explained below.

	2015 £	2014 £
Profit for the financial period	1,293,252	974,113
Applicable rate – 21% and 20% (2014 23% and 21%)	20.67%	22.33%
Tax at the applicable rate	267,315	217,552
Effects of:		
Expenses not deductible for tax	3,949	8,084
Marginal relief	(80)	(142)
Adjustment re previous year tax expense	(11,905)	-
Deferred tax not adjusted	(440)	(2,470)
Tax charge for the period	258,839	223,024

11. Earnings per share

Earnings per share is based on the profit for the period of £1,034,413 (2014 £751,089) and the weighted average number of ordinary shares in issue during the period of 11,793,664 (2014 10,937,500). 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 loss for the year was £1,654.

13. Dividends

Dividends paid as shown in the statement of changes in equity were all paid to the previous owners of the subsidiaries, prior to the new group being formed.

Notes to the consolidated financial statements

14. Property, plant and equipment

	Office equipment and fixtures £	Computer equipment £	Total £
Cost			
At 1 August 2013	840	19,465	20,305
Additions	-	17,850	17,850
At 31 July 2014	840	37,315	38,155
Additions	-	828	828
At 31 July 2015	840	38,143	38,983
Depreciation			
At 1 August 2013	840	14,415	15,255
Charged to administrative expenses in the consolidated statement of income	-	11,000	11,000
At 31 July 2014	840	25,415	26,255
Charged to administrative expenses in the consolidated statement of income	-	8,301	8,301
At 31 July 2015	840	33,716	34,556
Net book value at 31 July 2015	-	4,427	4,427
Net book value at 31 July 2014	-	11,900	11,900

15. Investments

15.1 Subsidiaries

	Shares in subsidiaries £
Value on formation of the group and net book value	
Additions	2,801,374
At 31 July 2015 and 31 July 2014	2,801,374

Details of the subsidiaries acquired are:

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

Both subsidiaries are included in the consolidation.

Notes to the consolidated financial statements

16. Trade and other receivables

	2015		2014	
	Group	Company	Group	Company
	£	£	£	£
Trade receivables	17,857,768	-	19,426,626	-
Intercompany receivables	-	8,827,607	-	-
Other receivables	34,637	-	9,280	-
Prepayments	22,592	6,439	7,057	-
	17,914,997	8,834,046	19,442,963	-

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

17. Cash and cash equivalents

	2015		2014	
	Group	Company	Group	Company
	£	£	£	£
Amounts held at banks	2,901,660	-	16,644	-
Cash in hand	300	-	300	-
	2,901,960	-	16,944	-
Bank overdrafts	(47,159)	-	(89,739)	-
	2,854,801	-	(72,795)	-

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

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

18. Called up share capital

Allotted, issued and fully paid:

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

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

19. Deferred tax

The deferred tax balance relates wholly to capital allowances.

20. Trade and other payables

	2015		2014	
	Group	Company	Group	Company
	£	£	£	£
Trade payables	1,447,922	-	1,929,526	-
Other payables	69,278	15,287	139,180	-
Accrued expenses	318,708	24,336	167,868	-
	1,835,908	39,623	2,236,574	-

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

21. Borrowings

	2015		2014	
	Group	Company	Group	Company
	£	£	£	£
Current:				
Bank loans	7,015,155	-	7,884,475	-
Other loans	-	-	7,038,458	-
	7,015,155	-	14,922,933	-

21.1 Terms and debt repayment schedule:

The above amounts are due within one year.

Bank borrowings are secured by a fixed and floating charge over all the assets of Bexhill UK Limited, bear interest at rates of 1.75 per cent. above LIBOR plus any associated costs rates, and are repayable within one year of the advances. The maximum drawdown facility is currently £10m therefore at 31 July 2015 approximately £3m was undrawn.

Other borrowings, which were with Bracken Holdings Limited, had an interest rate which was the higher of 10 per cent. and LIBOR plus 9.46 per cent. The maximum drawdown facility for the loan was £7 million and was repayable on demand with 12 months' notice. It was secured on the assets of Orchard Funding Limited. It has been wholly repaid in the year.

Notes to the consolidated financial statements

22. 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.

22.1 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

22.2 Financial instruments by category

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

	2015		2014	
	Group	Company	Group	Company
	£	£	£	£
Loans and receivables:				
Trade and other receivables: current	17,892,405	8,827,607	19,435,906	-
Cash and cash equivalents:				
Bank balances and cash in hand	2,901,960	-	16,944	-
Bank overdrafts	(47,159)	-	(89,739)	-
	20,747,206	8,827,607	19,363,111	-

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

	2015		2014	
	Group	Company	Group	Company
	£	£	£	£
Other financial liabilities at amortised cost:				
Interest bearing loans and borrowings:				
Borrowings payable: current	7,015,155	-	14,922,933	-
Trade and other payables	1,517,200	15,287	2,068,706	-
	8,532,355	15,287	16,991,639	-

22.3 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.

22.4 Financial risk management

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

- Interest rate risk
- Credit risk
- Liquidity risk

The company's policies for financial risk management are outlined in note 3 on page 23.

Notes to the consolidated financial statements

23. Related party transactions

23.1 Ultimate controlling party

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

23.2 Group companies

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

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

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

23.3 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
Associated Premium Funding Limited	Wholly owned by a director, R Takhar
Orchard Finance Limited	Wholly owned by a director, R Takhar
Mr H Takhar	Close family member of a director, R Takhar
McShane Wright	A firm in which a director, L McShane, is a partner

Associated Premium Funding Limited - acts as a funding company for a number of clients of Bexhill UK Limited. As such it does not trade in its own right. Any payments to or receipts from this company are on behalf of third parties.

Orchard Finance Limited – during the previous year a loan was made to Orchard Finance Limited for £5,000. This was outstanding at 31 July 2014 and 31 July 2015.

Mr H Takhar – during the year Mr Takhar charged the group £45,000 for consultancy fees (2014 £Nil). At the year end he was owed £10,000 (2014 £Nil).

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

In the previous year the firm of McShane Wright was auditor of Bexhill UK Limited and provided accounting services to both that company and Orchard Funding Limited. The amount charged for audit was £7,200 and for other services £1,913. At the previous year end it was owed £7,200.

24. 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.

Company and advisers information

Registered office
960 Capability Green
Luton
Bedfordshire
LU1 3PE

Registered number
09618919 (England and Wales)

Principal bankers
Barclays Bank plc
1 Churchill Place
London
E14 5HP

Independent auditor
RSM UK Audit LLP
Portland
25 High Street
Crawley
West Sussex
RH10 1BG

Solicitors
Michelmores LLP
Woodwater House
Pynes Hill
Exeter
EX2 5WR

Nominated adviser
Panmure Gordon & Co
One New Change
London
EC4M 9AF

Broker
Panmure Gordon & Co
One New Change
London
EC4M 9AF

Registrar
Neville Registrars
Neville House
18 Laurel Lane
Halesowen
B63 3DA

Reference to online information
Website :www.orchardfundinggroupplc.com