Orchard in brief

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

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.

Table of contents

Group financial highlights

Our first full financial year as a listed company ended on 31 July 2016. Over a period of three years ending 31 July 2019, Orchard has year on year significantly grown its business. We have materially increased lending, income and profits and maintained strict control over costs. We would like to thank our staff, funders and shareholders for supporting the successful growth of our business.

Since 31 July 2016:

Lending volume has increased by 50.32%.

Revenue has increased by 58.21%

PAT has increased by 63.00%.

Comparing lending, income and profit for 2019 with 2018:

Lending volume	**UP**	from £68.73m in 2018 to £72.99m in 2019	6.20% increase
Loan book	**UP**	from £30.95m in 2018 to £32.14m in 2019	3.84% increase
Revenue	**UP**	from £5.17m in 2018 to £5.48m in 2019	5.93% increase
Gross profit	**UP**	from £4.64m in 2018 to £4.85m in 2019	4.53% increase
Profit before tax	**UP**	from £1.89m in 2018 to £2.02m in 2019	6.88% increase
Profit after tax	**UP**	from £1.51m in 2018 to £1.63m in 2019	7.95% increase
EPS (pence)	**UP**	from 7.08p in 2018 to 7.66p in 2019	8.19% increase

Comparing costs for 2019 with 2018:

Direct costs	UP	from £0.53m in 2018 to £0.63m in 2019	18.87% increase
Expenses	UP	from £2.75m in 2018 to £2.84m in 2019	3.27% increase

Further detail on the above is given throughout the Group strategic report on pages 5 to 12.

Chairman's statement

Orchard Funding Group plc has had another good year. I am pleased to report that this success has once again been driven by a continued increase in overall lending volumes, which grew by 6.20% to £72.99m. This in turn fed through to an increase in group revenues of 5.93% to £5.48m. The position at the year-end showed a 6.62% increase in shareholders' equity from £14.04m to £14.97m.

Investment in staff and systems meant that expenses in the business grew by 3.27% to £2.84m. 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 6.88% to £2.02m, ahead of market expectations. Group earnings per share rose by 8.19% to 7.66p (2018 7.08p), 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. However, with cash required for our own plans, and uncertainties surrounding Brexit, we feel it prudent to propose that the annual dividend (including the interim dividend) is held 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, we have moved into adjacent markets this year (school fee funding and sports membership funding as examples). The response from our partners in these new areas has been extremely positive.

The macro background remains as uncertain for the group as it does for the rest of the economy. 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.

We have again 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.

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 pages 3 and 4. It is the way forward for the group.

We continue to support our partners through the development of our own IT system. All our finance company clients now use this system and it has enabled us to offer the new products mentioned earlier.

We were approached by Accolade Education Finance Limited, with a view to helping them raise finance and give them our experience and support as a lending company. In return, in September last year, we acquired a 20% stake in the company at no cost. In June this year we made two investments – a 30% stake in Open B Gateway Limited and a 35% stake in Zebra Finance Limited. The investment in Open B Gateway Limited was made because of our strong belief that IT will be the most significant factor in the financial services sector over the coming years, particularly in open banking systems. Our CEO gives more detail on this in his review on page 3. Our stake in Zebra Finance Limited was in the nature of a strategic investment – there was a perceived mutual, longer term benefit to operating closely together. Unfortunately, as a result of events after the acquisition within the company, we believe that the fair value of the investment was £nil and we are carrying it at that value.

The board is very satisfied with the progress of the group to date. The financial highlights on page 1 show how far we have come in the last three years in terms of lending, revenue and PAT. 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 should like to welcome Ketan Malde, the former Chief Financial Officer of Hampshire Trust Bank PLC, who joined the board on 1 September 2019.

We should also like to thank Jonathan Shearman for all his hard work on behalf of the group since he joined the board in 2015. Jonathan will be standing down at the next AGM on 12 December this year. We wish him well.

We look to the future with confidence.

Gary Jennison
Chairman

30 October 2019

Chief executive's review

We are very happy to be able to report another successful year to our staff, funders and shareholders. Our first full financial year as a listed company ended on 31st July 2016. Over a period of 3 years ending 31st July 2019, Orchard has year on year significantly grown its business. We have materially increased lending, income and profits and maintained strict control over costs.

We are still a small player in a very large market dominated by two huge and aggressive financial institutions, who have dominated the market for over 20 years and between them lent over £6 billion per year in the market in 2018. Despite very aggressive competition from the two market leaders, we have continued to grow our business.

We have also seen the rise of new forms of liquidity in the market, from peer to peer lenders to challenger banks. We continue to run our own race, looking after our clients and writing business prudently and carefully as our philosophy has always been to be a prudent and conservative lender.

We are supported by a great and loyal staff from our offices in Luton. We continue to grow staff numbers in a controlled manner, supporting our senior managers who have worked in the business for over 10 years. We believe their quality and loyalty is a great benefit to our business and enables us to continue to deliver a very high level of service to our clients.

The quality and commitment of our staff has enabled us to develop our own bespoke IT system, Lend XP. As well as supporting our business, Lend XP is now used by all of our finance company clients. Lend XP enables us to integrate effectively and efficiently with 3rd party IT systems. This has already increased our operational efficiency and has increased our ability to conduct business with introducers, for whom IT integration is a pre-condition to doing business. Notwithstanding the development, testing and implementation of a new in-house IT system, we have increased our profits on a year on year basis. This again exemplifies our philosophy of spending and investing money prudently and only in the best interests of our business and our stakeholders.

The development of our own IT system has also enabled us to offer new products, which are adjacent to our existing product offering. This is a very exciting development in our business and has great potential benefits for the business in the future. Through our own IT system, we have been testing lending in the following finance markets: school fees, golf fees, sport season tickets and other similar markets. All of these markets have similar credit characteristics to our core markets, thus providing significant potential to increase our lending in the future without increasing our risk profile.

We believe that IT will be the most significant factor in the financial services sector over the coming years. As stated, we have already taken the initiative on this point by developing our own IT system. We have also entered into a venture where we hold 30% in a new open banking software company. We are very excited about this investment for a number of reasons. Regulatory rules require affordability assessments to be conducted in respect of each borrower. We believe the only way to conduct effective affordability assessments is through a review of a borrower's bank statements. This is usually impractical for short-term point of sale financing and can only be achieved through sophisticated IT solutions. Orchard's open-banking venture will provide this ability in real time and form a key part of Orchard's underwriting process. This solution will be invaluable to Orchard but will also be an attractive service to other lenders in the lending market, who have already expressed interest in conducting trials on Orchard's open-banking solution. The open-banking solution will also offer benefits to Orchard before it enters new markets as the real-time solution will ensure that credit offered to borrowers is effectively underwritten.

With respect to new lending in the business, we have successfully completed a trial in the school fee finance market and recently signed a contract with a leading park homes operator to fund its future annual site fees. We believe that schools fees and the park homes market represent a significant opportunity for lending growth in the future. We will be seeking to take advantage of this opportunity in the upcoming financial year.

We would like to provide thanks to Barclays Bank PLC and Conister Bank PLC for our current liquidity lines. We have adequate liquidity for our near-term lending aspirations. As shareholders are aware, we are keen to obtain a banking licence for Orchard's business. After considering the acquisition of a business with an existing banking licence, we have determined that the inherent risk in buying a bank with a legacy loan book is not attractive to Orchard. We are therefore refreshing our banking documentation and plan to re-submit our Application in the financial year to 31 July 2020. We will need to bolster our senior management team, to support our Application and have already started this process with the recent appointment of Ketan Malde, the former Chief Financial Officer of Hampshire Trust Bank PLC to the Board. As with all benefits, there are costs. This is the same for a bank licence. Whilst a bank licence will vastly expand liquidity available to Orchard and substantially reduce the costs of Orchard's funding, there are also costs to having a bank licence relating to banking advisor costs, IT system costs, regulatory costs, legal costs and additional staff costs. We have estimated such costs in the next financial year at circa £1m. This is in line with our historic prudent and tight control of costs. We therefore aim to deliver a bank licence to our staff and shareholders at a substantially reduced cost to our peers and without raising any further capital.

In summary, we have delivered growth in profits and NAV year on year since our flotation in 2015. Without impacting profits, we have developed and implemented our own IT system for the future benefit of the business. With the benefit of our new IT system we have the ability and have tested adjacent markets, which can substantially increase our lending over time. We have embraced the importance of IT to improve our underwriting and created a venture to benefit from open banking software. We believe we are well placed to obtain a banking licence, which will significantly enhance our ability to grow in the future. Our exciting future is all due to the commitment and hard work of our staff and the support of our shareholders, to whom we give many thanks.

We paid a dividend of 2p per share in December 2018 and an interim of 1p per share in April 2019. I am happy to announce that the board has proposed a final dividend of 2p per share to be paid in December 2019, subject to shareholder approval.

Ravi Takhar
Chief executive officer

30 October 2019

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, regulators and other parts of government) will all benefit from profit growth in the group.

We have six strategic drivers behind this objective:

- to differentiate our business from that of our competitors, based on service excellence, correct pricing and robust underwriting procedures;
- to increase lending;
- to undertake safe lending for our sources of liquidity;
- to innovate;
- to continually improve our IT systems;
- to support our excellent sales team in their work.

The directors believe that lending increases will come from increasing the number of our partners who fit in with our business values (brokers, accountants and other third party introducers) as well as by increasing the volume of business from these partners.

The bank application process was withdrawn for reasons given in the Development and performance of the business section on page 8. In the same section we explain that the process has been restarted. This long-standing strategic goal will enable us to increase our access to liquidity as well as reducing the costs of funding further and reduce our reliance on commercial lenders as we build our customer deposit base.

As far as innovation is concerned, we constantly strive to examine markets which we can service based on our philosophy of safe lending and good returns. This is the first year that we have treated adjacent product lines outside of those in which we traditionally operated - insurance broking and professional fees.

Our IT system is now completely in-house, providing stability for our future business, the ability to increase lending in our core markets where IT system integration is required and the ability to enter new markets.

Our sales team are our first line in dealing with our partners, arranging prospect meetings and, where required, making use of senior personnel to help them close a 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.

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

Our business model

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

In the past, the group has reported in terms of there being two core areas - insurance premium funding and funding for professionals. As explained last year, we no longer differentiate. The nature of all our products is so similar in terms of risk, reward and processes that any segregation would not give meaningful information to users of the financial statements. Segregated information will only be reported on if required by regulation.

Bexhill borrows up to 75% of the amount advanced to each of its clients (up to a maximum of £17m) from its bankers, Barclays Bank plc. There are lending covenants which Bexhill has always upheld. Orchard has a borrowing facility of £2m with Conister Bank. £15.68m of the Barclays facility was in use at the year and £0.50m of the Conister facility. The balance of lending is provided by these companies from their own cash resources. At 31 July 2019 the group had capital and reserves of £14.97m. Both subsidiaries have operated within a disciplined lending environment since their inception. Barclays performs regular reviews and supplements these with an audit of our covenants with the bank 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 (credit reports, regulatory and other requirements) and other qualitative information for both. In addition, an annual review process, including regulatory permissions and credit checks, is conducted for each partner and each partner is monitored monthly for the company's financial exposure to that entity.

The group's average cost of finance was approximately 3.63% in the financial year to 31 July 2019 (3.34% on the same basis in the year to 31 July 2018). Barclays borrowing is based on LIBOR which, on average, has increased over the previous year.

Principal risks and uncertainties

The group's activities expose it to a variety of risks. The board has identified the following Key Risk Indicators (KRIs):

- credit risk;
- liquidity risk;
- interest rate risk;
- systems 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. First, it establishes a risk appetite for the key risk areas. This is the level at which risk is accepted by the group before action needs to be taken. 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 all risk areas.

The principal risks, an explanation of what they are, their impact on the group and how they are mitigated, are shown in **Tables 1 and 2** below. 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.

We are committed to maintaining the highest standards of ethics and integrity in the way we do business. We adopt a zero tolerance approach to bribery and fraud and expect our business partners to do the same. Our staff are encouraged to contact the board if they have any concerns in this regard.

Table 1 principal risks – explanation, impact and year on year assessment

Risk	Explanation of risk	Impact on the group	Assessment of change in risk year-on-year
Credit risk	The risk that debtors will default.	A major loss could have a serious effect on group profit.	This is an ongoing situation. Despite mitigation there is still risk that significant bad debts may occur.
Liquidity risk	A lack of funding to finance our business.	If our funding had been halved for the whole of the 2019 year, our lending would have reduced proportionately. Had there been no changes in overheads, there would still have been a pre-tax profit. Headroom is good.	This is an ongoing situation. There has been no change in this risk.
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 an increase in rates this year, there has been no significant change in this risk.
Systems 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.	This is an ongoing situation. Our new system will give us more control but will not effect any change in this risk.
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.

Table 2 principal risks – risk appetite and mitigation

Risk	Risk appetite	Mitigation of risk
Credit risk	Our aim is to limit credit losses to below 1% of assets.	Money is only lent for periods up to one year mainly through 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	We aim to have 5% more than would be sufficient to enable our plans to be met.	Our principal bankers have supported us since 2002 and increased our funding at the beginning of the year by an additional £2m to £17m. 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. We also have additional banking facilities from Conister Bank plc to support our loan book. Excess available credit and our own cash balances amounted to £4.96m at 31 July 2019.
Interest rate risk	This is outside our control but any estimate of a likely increase in rates in excess of 50% of what we are currently paying would require action to be taken. 50% seems a high figure but had rates increased by 50% and had we been unable to pass this on to borrowers, PBT would still have been £1.8m	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.
Systems risk	There is no risk appetite for systems failure.	Our controls are such that even a minor disruption is very quickly picked up and action taken. Systems are covered by a support contract which enables quick identification of any problems. Remote support access enables prompt resolution of incidents. Internet connection provides guaranteed access.
Conduct risk	The board has no appetite for non-compliance with regulation or for any instance of fraud.	The board sets the minimum standards required and provides oversight to monitor that these risks are managed effectively and escalated where appropriate. The CEO manages development of and needs to recommend new products for board approval. Initial and ongoing recorded training is provided to staff. Due diligence is conducted on all partners and reviewed on at least an annual basis.

In summary:

- credit risk is reduced by a robust system of checks on introducers, borrowers and by third party guarantees;
- liquidity risk is alleviated by funding lines from our bankers;
- 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 mitigated by staff training and board oversight.

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 some significant lending to individual finance companies, (at 5 September 2019, the latest date of review, the largest nominal exposure was £4.86m representing 15.15% of our loans), the individual debts making up these loans are collected by Orchard and assigned to Orchard. The reality, therefore, is that our exposure is low. At 5 September 2019 total outstanding loans were £32.07m, of which the highest individual loan (not a block loan to a premium finance company) was £0.21m, representing 0.66% of the outstanding amounts. This was the realistic 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.

The main uncertainty is the level of potential bad debt. We review debts for impairment (using several indicators) and make provision where necessary. In this respect IFRS9 has had little impact, as our debt is short term (less than one year) and we have already been using a model similar to the expected credit loss model in providing for potential bad debts. As part of this process, we have provided for £0.11m during the year to 31 July 2019, net of reversal of previous provisions and items written off against those provisions (£0.29m in the year to 31 July 2018). The provision this year is £0.42m carried forward at 31 July 2019 (£0.34m at 31 July 2018).

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 continued to slow, but the additional and adjacent product lines now account for approximately 2.75% of our lending. We are still witnessing an aggressive response from our competitors, particularly in the area of professional funding, and this has meant a lot of hard work to get to where we are. We continue to look at new product lines and continue to follow the same vigorous, disciplined approach when looking at any sectors.

At the time of writing, there is, still, 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 to medium term (longer term includes too many variables to make a reasoned assessment). Conditions arising from this process have had little impact on us so far. If interest rates rise further, the nature of the business will allow us to react reasonably quickly as our loans are on average of ten months duration with 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. Reductions in the value of the pound against other traded currencies may well have a more damaging impact in the wider economy. If there is a substantial number of business failures and job losses, there may be negative implications for the group.

Development and performance of the business

Overview

In general, business is continuing to grow with loans, revenue and profit before tax all up (see charts on page 10). Product lines already introduced and potential new lines are reviewed regularly to evaluate the impact they are having on the business. To date that impact has been positive.

The group is keen to obtain a banking licence to protect its access to liquidity. This was reported last year. During the financial year to 31 July 2019, the board looked at acquiring an existing bank with a licence. Consequently, in April this year we announced that we had withdrawn our application for our own banking licence. After a number of detailed, though tentative, discussions with the bank concerned, the acquisition was not pursued. The process of obtaining our own licence has therefore been restarted and is progressing. The board anticipates re-submitting its bank application in the financial year ended 31 July 2020.

During the year we made three investments. The first was in Accolade Education Finance Limited. We were gifted shares in Accolade so that it had an already well established finance company as a shareholder. This added weight in its case for raising finance from a third party and gave it the benefit of using Orchard's experience in lending. The group does not, nor has any right to, participate in the management of this company, nor does it exercise influence on any matters of policy. For these reasons this was treated as a trade investment rather than an associate.

The second was Open B Gateway Limited. Ravi Takhar had originally taken a 30% stake in this (300 shares). This holding was transferred to Orchard Funding Group plc at par value of £300 on 11 June 2019. This company had not traded at 31 July 2019 but will be involved in business software development. This investment fits well with the rest of our business as explained in the Chief executive's review on page 3.

The third was on 17 June 2019 and was in Zebra Finance Limited a short-term finance company that operates in markets adjacent to the group's markets. The stake taken was 35% at a cost of £56k. This acquisition was in the nature of a strategic investment. It was never intended that we had board representation, took part in financial decisions, exchanged managerial personnel or transacted any material business between this company and the group. It was therefore intended to treat this as a trade investment rather than an associate. The group made an irrevocable election on acquisition to have any gains or losses on holding the investment reflected in the Consolidated statement of other comprehensive income. However, since purchase, certain events have occurred within Zebra Finance Limited which called into question the value of the investment. The board believes the fair value of this investment to be £nil, and it is being carried at that value. The reduction has therefore been included in the Consolidated statement of other comprehensive income.

In summary, the plan for the coming year is to increase our sales in existing markets, expand into adjacent markets, re-apply for our banking licence, whilst continuing to keep costs in line with our plans.

Financial indicators

The fundamental function of the business is to lend money safely. To do this the group has relied on obtaining funding from its bankers to provide loans to our partners and clients of our 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 5. We have continued with our more formal and extensive marketing plan. This continues to work well (albeit that economic conditions are still very challenging). 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). For example, if rates increased immediately after we had provided finance to or through a partner at a particular rate, we should have to bear the increase over the term of that loan. Rates for new lending could, however, be increased. Our own analysis indicates that the influence on our business would be negligible (see ***Table 2 principal risks – risk appetite and mitigation*** on page 7). Indeed, the changes in bank rate during this and the previous year have had no 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.

KPIs

The directors consider the following financial indicators as KPIs:

- Lending.
- Gross rate on loans made.
- Return on equity (ROE);
- Borrowing and other capital resources.
- Cost of borrowing.

The table below gives a breakdown of group KPIs. This also includes those items not considered KPIs but which give a better understanding of the figures.

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 £0.31m to £5.48m (2018 £0.61m to £5.17m). As stated earlier the market has been competitive. The directors are pleased with the growth over last year and results are ahead of expectations.

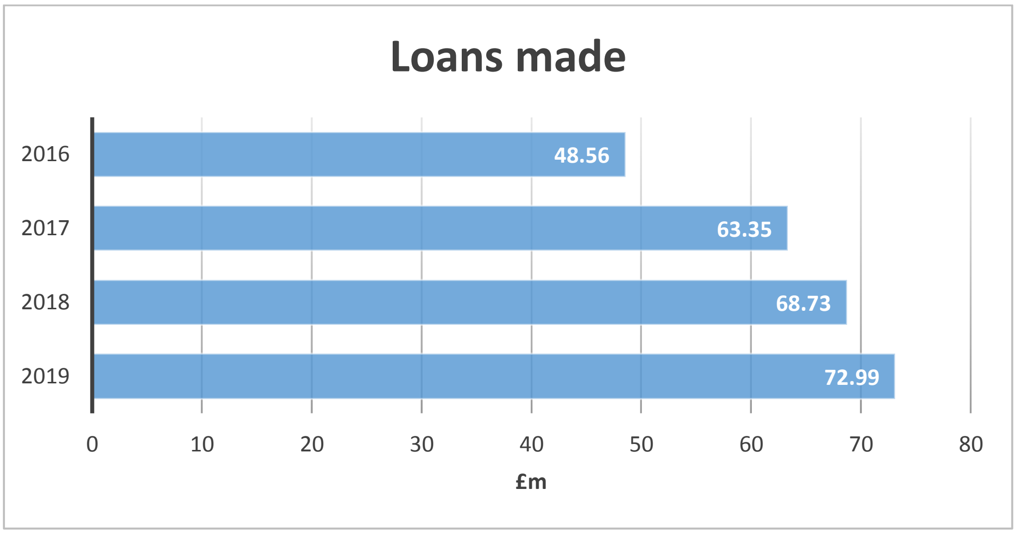
As would be expected, this increase in lending has led to an increase in borrowing requirement as well as cost of achieving the increase.

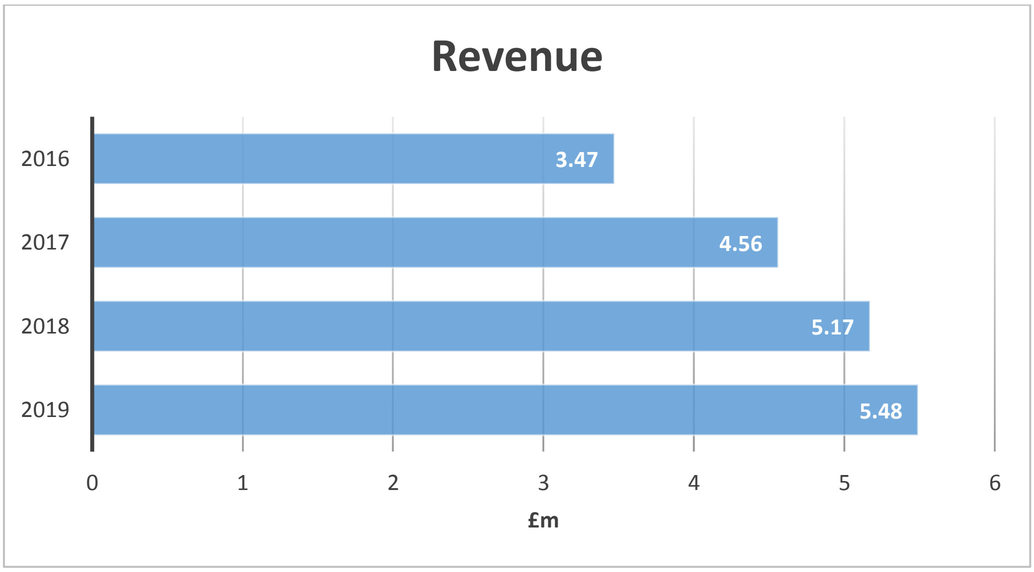
Financial summary – key performance indicators

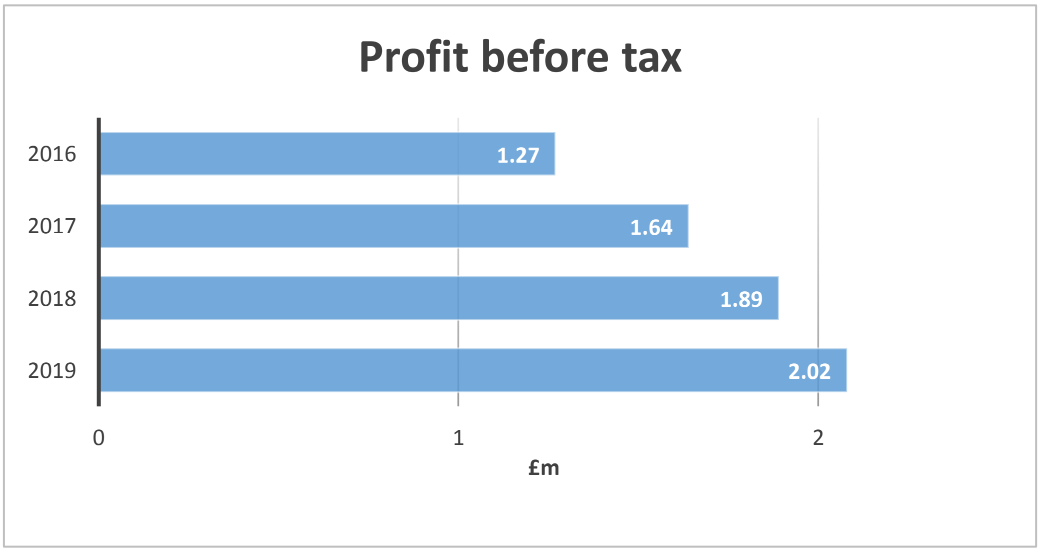
	2019	2018	2017	2016
Lending volume	£72.99m	£68.73m	£63.35m	£48.56m
Average gross rate on loans made	6.34%	6.29%	6.06%	6.22%
Return on equity	10.93%	10.76%	10.16%	8.14%
Level of borrowing	£16.23m	£16.06m	£13.79m	£9.23m
Own capital resources	£14.97m	£14.04m	£13.17m	£12.34m
Cost of borrowing	£0.56m	£0.45m	£0.33m	£0.24m
Financial summary – other performance indicators				
Loan book	£32.15m	£30.95m	£28.42m	£21.8m
Revenue	£5.48m	£5.17m	£4.56m	£3.47m
Gross profit	£4.85m	£4.64m	£4.15m	£3.15m
Profit before tax	£2.02m	£1.89m	£1.64m	£1.27m
Profit after tax	£1.63m	£1.51m	£1.34m	£1.00m
EPS (pence)[1]	7.66	7.08	6.26	4.70
DPS (pence)[2]	3.00	3.00	3.00	2.81
Return on capital employed	7.24%	6.58%	6.73%	6.41%

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.

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







Non-financial indicators

Staffing

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

Our senior members of staff have been with us for many years, working through various aspects of the business over that time.

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 explanations are always given when this does not happen.

Partner retention

Partner retention is extremely important in our business. This couples well with another non-financial indicator, brand preference. As our partner base grows, so does awareness of who we are and what we do. We review our partner base regularly to establish whether they are increasing or decreasing the amount of business they do with us. Action is quickly taken if business from one source is dropping.

Innovation

One of our key strategies is non-financial – innovation (see Strategy and objectives on page 5). Innovation is the ability to continually evolve and grow our business in our chosen markets. For example, we have tested adjacent credit markets. When looking at new products we stay within our risk parameters and examine whether the returns justify the resources expended. If new products fit our return and risk expectations, we proceed with testing our lending on the product.

Quality of lending

Our lending has been based on sound underwriting since we began – we carefully assess any person or body to whom we lend. In addition, we receive at least one instalment before we pay out (eliminating first payment default), the direct debit establishes timely collection and electronic link to borrower, our partners guarantee the payment should the end borrower default and, if the partner fails, we have the financial services compensation scheme to fall back on.

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 last year were prepared on the basis that bank base rate will rise by 0.25% pa over the next three years.

This was based on an indication by Mark Carney, Governor of the Bank of England at that time. Given the continuing, inherent uncertainty surrounding leaving the EU, it is impossible to assess what is likely to happen going forward. We have therefore continued forecasting assuming a 0.25% increase in the next two years.

Should this be the case we are in a position to react within a short period of time (as mentioned in the section on interest rate risk on pages 6 and 7) 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 £73m in 2019 to circa £90m in 2021;
- Liquidity will be available to fund those loans;
- Margins will remain stable on both corporate and direct business;
- Overheads will increase at the rate of inflation with stepped increases at certain points, e.g. when capacity constraints are hit or when project spending is required (as an example, the bank licence);
- The funding system will be able to accommodate the increased business.

The Consolidated statement of financial position on page 26 shows the situation at the 31 July 2019 in detail.

The directors have prepared and reviewed the financial projections covering a period of almost three years 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 68.00% of the employees in total (57.89% in 2018).

Approved by the directors and signed by order of the board

Liam McShane,
Company secretary

30 October 2019

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 2019.

Results and dividends

The group profit for the year after taxation was £1,634k (2018 £1,512k). This is shown on page 24. 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 to shareholders (2018 £641k) - note 13 on page 44. The board is pleased to propose a final dividend of 2 pence per share to be paid on 20 December 2019 to shareholders on the register on 13 December 2019, with an ex-dividend date of 12 December 2019. The final dividend is subject to shareholder approval at the company's upcoming annual general meeting on 12 December 2019.

Future developments

Future developments and a fuller business review are contained in the Chairman's statement, the Chief executive's review and the Group strategic report on pages 2 to 12.

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 15 and 16. 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

Detailed information on the group's financial instruments is stated in notes 2.5, 2.6, 2.7 and 2.9.

The group's objectives and policies for managing risk are shown under Principal risks and uncertainties on page 6 to 8 of the Group strategic report.

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

30 October 2019

Remuneration report

Remuneration policy is set by the chairman of the remuneration committee, Jonathan Shearman and chairman of the company, Gary Jennison 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 2019 and 31 July 2018 in the shares of the company were as follows:

2019	Number of ordinary shares held	Percentage of issued ordinary share capital
R Takhar	11,458,333	53.66%
G Jennison	-	-
L McShane	-	-
J Shearman	-	-
I Koumi (resigned 31 December 2018)	-	-

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%
L McShane	-	-
J Shearman	-	-
I Koumi	-	-

* At date of resignation on 31 October 2017

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.

All directors

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

Board meetings
The board of directors met in person four times during the year with two more meetings being held by e-mail and telephone calls. All directors attended all meetings. Attendance includes conference calls and e-mails. Details of the audit committee attendance is shown on page 19 . 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

2019	Fees and salary £000	Taxable benefits £000	Total £000
Executive directors			
R Takhar	250	1	251
L McShane	39	-	39
Non-executive directors			
G Jennison	35	-	35
J Shearman	30	-	30
I Koumi (resigned 31 December 2018)	10	-	10
Total directors' remuneration	364	1	365

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

The above information relates to the parent.

R Takhar, L McShane and J Shearman were elected to the board in December 2015. They offered themselves for re-election at the annual general meeting held on 12 December 2018 and were duly elected. Their biographies are shown on page 17.
J Shearman has notified the board that he will be retiring as a director at the AGM, effective 12th December 2019.
Ketan Malde joined the board on 1 September 2019. His biography is shown on page 17.

Jonathan Shearman,
Remuneration committee chairman

30 October 2019

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

Mr Gary Jennison has 40 years of retail banking and financial services experience. Until February 2018, 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 non-executive director at Admiral Financial Services Limited; non-executive chairman at Lantern Debt Recovery Services Limited and director of its parent, Copper Street One Limited; chairman of Wilfred T Fry Limited. 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 management, growth, financing, acquisition and disposal of financial businesses. Mr Takhar joined Bexhill 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.

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 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 (resigned 31 December 2018)

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. Mr Koumi resigned on 31 December 2018.

Ketan Jayantilal Malde – Independent Non-executive Director (appointed 1 September 2019)

Mr Ketan Malde has more than 30 years of board level experience in the retail and specialist banking arena. Until April 2017, he was the executive board director and CFO of Hampshire Trust Bank plc. His previous board roles were as Chief Operating Officer and FD of Heritable Bank plc and FD of Sun Bank plc. He is the chairman of the audit committee and member of the remuneration committee. Mr Malde is a director of Nesate Consultants Ltd and a nominee director of Heritable Bank plc.

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, on 28 September 2018, Orchard 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 both of 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 5. 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 arrangements, 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's application for a banking licence 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:

- Further development of 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 a banking specialist with significant experience in risk management. Our chairman has substantial bank experience and continues to oversee development and implementation of governance strategies.
- Further development and formalisation of the risk matrix and risk register.
- Continuing 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 the independence of those bodies. All directors have the experience necessary to carry out their functions. Before appointment by the board, each applicant produces a full CV and is interviewed to establish if he has 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. Before final appointment to the board, full satisfactory references are required and full checks conducted, the results of which are checked and approved by the board. 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' biographies are on page 17.

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

Until 31 August 2019. membership of the audit committee comprised Gary Jennison and Jonathan Shearman (two of the non-executive directors). On 1 September 2019 another non-executive director, Ketan Malde, became chairman of the audit committee. 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, interest rate risk, IT risk and conduct risk. Our approach to these is detailed in in the group strategic report on pages 6 to 8.

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 the management of conduct risk as extremely important to 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.

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 2019 the group had cash and cash equivalents of £2.14m and undrawn bank facilities of £2.82m. The group owns a portfolio of loans which are subject to relatively low risk of impairment (see section on credit risk in the group strategic report on pages 6 to 8). These receivables amount to £32.20m. There are total financial liabilities of £19.21m. Total costs for the year were £3.41m. There is therefore substantial financial headroom going forward. Based on this and the projected results (see Results and dividends in the Directors' report on page 13), 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

30 October 2019

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 2019 which comprise the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated and company statement of financial position, the consolidated and company statement of changes in equity, the 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 2019 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 SME 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 group and parent company 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. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
We did not identify any key audit matters for either the group or the parent company for the year.

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. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. During planning materiality for the group financial statements as a whole was calculated as £151,500, which was not significantly changed during the course of our audit. Materiality for the parent company financial statements as a whole was calculated as £110,000, which was not significantly 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 £7,500, 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 scope audits by RSM UK Audit LLP, accounting for 100% of group turnover and 100% of group net assets.

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 page13, 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

30 October 2019

Consolidated income statement

	Notes	2019 £000	2018 £000
Continuing operations			
Interest revenue	6	4,671	4,367
Other revenue	6	810	807
Total revenue		5,481	5,174
Finance costs	9	(558)	(452)
Other operational costs	7	(72)	(83)
Gross profit		4,851	4,639
Administrative expenses	7	(2,726)	(2,456)
Net impairment losses on financial and contract assets	18	(111)	(290)
Net gain on financial assets at fair value through consolidated income		6	-
Operating profit	10	2,020	1,893
Interest receivable on bank balances		5	-
Interest payable		(4)	-
Profit before tax		2,021	1,893
Tax	11	(387)	(381)
Profit for the year from continuing operations attributable to the owners of the parent		1,634	1,512

Earnings per share attributable to the owners of the parent during the year (pence)			
Basic and diluted	13	7.66	7.08

The notes on pages 33 to 55 are an integral part of these consolidated financial statements

Consolidated statement of other comprehensive income

	Notes	2019 £000	2018 £000
Profit for the year from continuing operations attributable to the owners of the parent		1,634	1,512
Items that will not be reclassified to profit or loss:			
Changes in the fair value of equity investments at fair value through other comprehensive income:			
Changes in fair value of investments	17	(56)	-
Total comprehensive income for the year from continuing operations attributable to the owners of the parent		1,578	1,512

An equity investment was acquired in June 2019. The group has made an irrevocable election to adjust changes in fair values through other comprehensive income. The investment has been reduced to its estimated fair value of £nil. See note 17.

The notes on pages 33 to 55 are an integral part of these financial statements

Consolidated statement of financial position

	Notes	2019 £000	2018 £000
Assets			
Non-current assets			
Property, plant and equipment	15	29	59
Right of use assets	15	58	-
Intangible assets	16	42	42
Deferred tax asset	22	10	-
Investment	17	-	-
Investment at fair value through profit and loss	17	6	-
Investment at fair value through other comprehensive income	17	-	-
Other receivables	18	12	18
		157	119
Current assets			
Trade and other receivables	18	32,297	31,084
Cash and cash equivalents:			
Bank balances	19	2,139	1,286
		34,436	32,370
Total assets		34,593	32,489
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	20	214	214
Share premium		8,692	8,692
Merger reserve		891	891
Retained earnings		5,173	4,240
Total equity		14,970	14,037
Liabilities			
Non-current liabilities			
Borrowings	21	15	49
Deferred tax liabilities	22	5	5
		20	54
Current liabilities			
Trade and other payables	23	3,015	2,051
Borrowings	21	16,218	16,008
Tax payable		370	339
		19,603	18,398
Total liabilities		19,623	18,452
Total equity and liabilities		34,593	32,489

The financial statements on pages 24 to 55 were approved, and authorised for issue, by the board of directors on 30 October 2019 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 33 to 55 are an integral part of these financial statements

Company statement of financial position

	Notes	2019 £000	2018 £000
Assets			
Non-current assets			
Investments	17	2,807	2,807
Investment at fair value through profit or loss	17	6	-
Investments at fair value through other comprehensive income	17	-	-
		2,813	2,807
Current assets			
Trade and other receivables	18	10,344	9,471
		10,344	9,471
Total assets		13,157	12,278
Equity and liabilities			
Equity attributable to the owners of the parent			
Called up share capital	20	214	214
Share premium		8,692	8,692
Merger reserve		2,692	2,692
Retained earnings		1,464	629
Total equity		13,062	12,227
Liabilities			
Non-current liabilities			
Deferred tax liabilities	22	1	-
Current liabilities			
Trade and other payables	23	94	51
Total liabilities		95	51
Total equity and liabilities		13,157	12,278

The company's profit and total comprehensive income for the year was £1,476k (2018 £542k)

The financial statements on pages 24 to 55 were approved, and authorised for issue, by the board of directors on 30 October 2019 and were signed on its behalf by:

R Takhar
Chief executive officer

The notes on pages 33 to 55 are an integral part of these consolidated financial statements

Consolidated statement of changes in equity

	Notes	Called up share capital £000	Retained Earnings £000	Share Premium £000	Merger reserve £000	Total equity £000
Balance at 1 August 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
Change in accounting policy	3	-	(4)	-	-	(4)
Restated total equity at the beginning of the financial year		214	4,236	8,692	891	14,033
Changes in equity						
Profit for the period		-	1,634	-	-	1,634
Movement in equity investments at fair value through other comprehensive income		-	(56)	-	-	(56)
Total comprehensive income for the period		-	1,578	-	-	1,578
Transactions with owners:						
Dividends paid		-	(641)	-	-	(641)
Balance at 31 July 2019		214	5,173	8,692	891	14,970

Retained earnings consist of accumulated profits less 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 30). 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 33.

The notes on pages 33 to 55 are an integral part of these consolidated financial statements

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 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
Changes in equity					
Profit for the year	-	1,532	-	-	1,532
Movement in equity investments at fair value through other comprehensive income	-	(56)	-	-	(56)
Total comprehensive income for the period	-	1,476	-	-	1,476
Transactions with owners:					
Dividends paid	-	(641)	-	-	(641)
Balance at 31 July 2019	214	1,464	8,692	2,692	13,062

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 33.

The notes on pages 33 to 55 are an integral part of these financial statements

Consolidated statement of cash flows

	Notes	2019 £000	2018 £000
Cash flows from operating activities:			
Operating profit		2,020	1,893
Adjustment for depreciation and amortisation		83	56
Hire purchase interest		-	2
		2,103	1,951
Increase in trade and other receivables		(1,211)	(2,556)
Increase/(decrease) in trade and other payables		970	(1,131)
		1,862	(1,736)
Tax paid		(364)	(323)
Net cash generated from/(absorbed by) operating activities		1,498	(2,059)
Cash flows from investing activities			
Purchases of property, plant and equipment		(16)	(1)
Purchase of intangible fixed assets		(36)	(5)
Purchase of investment accounted for using the equity method (associate)		-	-
Purchase of investment at fair value through other comprehensive income		(56)	-
Net cash absorbed by investing activities		(108)	(6)
Cash flows from financing activities			
Dividends paid		(641)	(641)
Net proceeds from borrowings		684	2,276
Borrowings repaid		(541)	-
Lease repayments		(39)	(12)
Net cash (absorbed by)/generated from financing activities	21	(537)	1,623
Net increase/(decrease) in cash and cash equivalents		853	(442)
Cash and cash equivalents at the beginning of the year		1,286	1,728
Cash and cash equivalents at the end of year	19	2,139	1,286

The notes on pages 33 to 55 are an integral part of these financial statements

Company statement of cash flows

	Notes	2019 £000	2018 £000
Cash flows from operating activities:			
Profit before tax		1,532	542
Dividend received		(2,200)	(1,200)
		(668)	(658)
(Increase)/decrease in trade and other receivables		(4)	(1)
Increase/(decrease) in trade and other payables		43	11
Funding by subsidiaries		685	648
Net cash generated from operating activities		56	-
Cash flows from investing activities			
Purchase of investments at fair value through other comprehensive income		(56)	-
Net cash absorbed by investing activities		(56)	-
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	19	-	-

The notes on pages 33 to 55 are an integral part of these 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 12.

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 financial statements have been prepared on a historical cost basis except for an investment measured at fair value through other comprehensive income.

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 covering a period of just under three years 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 11.

2.3 Investment in subsidiaries

Investment in subsidiaries in the parent company Consolidated statement of financial position are stated at cost, less any provision for impairment.

2.4 Consolidation

Subsidiaries

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 17.1. 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

Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost.

Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group. The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.6(d).

2.5 Financial assets

The group has three principal classes of financial asset; investments, loans and receivables (including trade receivables) and cash and cash equivalents (see note 2.7 for cash and cash equivalents).

(a) Investments

Investments which are not in subsidiaries or associates are initially recognised at fair value and measured subsequently at fair value through the Consolidated statement of other comprehensive income where the group has made an irrevocable election to do so. Otherwise gains and losses are recognised in the Consolidated income statement.

Dividends received are recognised in the Consolidated income statement when received.

(b) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

2.6 Impairment

(a) Expected credit losses

Under IAS 39, impairment provisions were made using the incurred loss model. IFRS 9 has introduced the expected credit loss model to be used for financial assets excluding equity instruments and financial assets at fair value through profit and loss. There are three approaches to using this model and the group uses the general approach. This means that the credit risk for each group of financial assets is assessed at each reporting date and an impairment allowance calculated and provided as necessary. No loss event is needed for an impairment allowance to be recognised.

(b) Trade receivables

The nature of all our lending is so similar in terms of risk, reward and processes that trade receivables are classified as a single asset type for purposes of assessing expected credit losses. Preliminary assessment of credit risk is based on days past due. This is the default event. Anything over 30 days past due is reviewed initially as being an increase in credit risk and further analysis is carried out on the broker or borrower. The process also involves looking at the wider economy to establish whether there are any factors which would have an impact on our business. A full description of our risk management processes is shown in the Group strategic report on pages 6 to 8. Where, after our assessment process has been conducted, there appears to be a reasonably low probability of recovery, the debt is included in the impairment provision to the extent

Notes to the consolidated financial statements

that it is unlikely that recovery will be made. Where it is established that there is no realistic chance of recovery, these debts are written off, either against the impairment provision if they were included in that in previous periods, or 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.

(c) Group balances

Balances between companies in the group are subject to the same assessment as trade receivables and credit losses are assessed on these balances.

(d) Property, plant and equipment, right of use assets and intangible fixed assets

These are tested for impairment at each reporting period date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, these assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units).

2.7 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.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, there was no identified impairment loss.

2.8 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.

2.9 Financial liabilities

The group has two principal classes of financial liabilities; trade payables and borrowings.

(a) Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers and are initially recorded at fair value and thereafter at amortised cost using the effective interest rate method. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

(b) Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. After initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of the borrowings on an effective interest basis.

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.

2.10 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.

Notes to the consolidated financial statements

2.11 Current and deferred taxation

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

2.12 Revenue recognition

Interest arising from funding activities (interest income from financial assets at amortised cost) is not within the scope of IFRS 15, but is the primary source of revenue for the Group. It is calculated using the effective interest method and recognised in the Consolidated income statement. 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.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Cancellations are permitted within 14 days. All cancellations within 14 days after the year end are provided for in full if they are material.

Income arising from the provision of funding systems, for which a licence fee is charged to the customer, is recognised as each licence becomes due for payment as that is the point at which control passes to the customer. Licences are charged on a monthly basis to the user. Income arising from the provision of other services is recognised when the services is performed as that is the point at which control passes to the customer. Licence fees are billed and collected monthly, and revenue is recognised over time.

Clients who do not make use of the facility granted to them in any month are charged a non-utilisation fee. Clients who use Associated Premium Funding Limited facility for collection purposes are charged for the use of the direct debits facility.

Non-utilisation fees and direct debit charges are recognised on a monthly basis and billed two months after the month in which the facility was not used or the direct debit costs were incurred. Revenue from both these sources is therefore recognised at a point in time.

The group does not have any contracts where the period between the transfer of the promised service to the customer and payment by the customer exceeds one year. The group does not, therefore, have any assets or liabilities in this respect; nor does it adjust any of the transaction prices for the time value of money.

Notes to the consolidated financial statements

2.13 Leases

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

The group has opted to apply IFRS 16 early. From 1 August 2018, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

In these financial statements, the terms "lease liabilities" and "hire purchase liabilities" both refer to liabilities in connection with right of use assets.

2.14 Property, plant and equipment

(a) Cost

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

Property, plant and equipment acquired under finance leases or hire purchase contracts, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, the present value of the minimum lease payments.

Right-of-use property, plant and equipment held under leases which were previously classified as operating leases are introduced into the financial statements at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application.

(b) Depreciation

Depreciation is calculated using the following rates:

Leasehold property	Over the remaining period of the lease straight line
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 Finance costs and interest payable

Finance costs consist of interest expense which 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. Finance costs are recognised using the effective interest method.

Interest payable comprises the cost of short term borrowing for cash management and hire purchase and finance lease charges. These are recognised using the effective interest method.

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 2019

The following standards have been adopted during the current year:

(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.

The classes of financial assets and liabilities and their measurement under IFRS 9 are shown in note 2.5 above. There are no material differences between the measurement of these instruments under IAS 39 and under FRS 9.

(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. The impact of adoption of IFRS 15 is dealt with in note 2.12.

(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. IFRS 16 is mandatory for accounting periods commencing 1 January 2019. The group has adopted this standard early. In doing so the group has elected to apply the requirements of IFRS 16 retrospectively as explained in note 2.13, The impact of the adoption of IFRS 16 is shown in note 3.

(d) IAS 1 Presentation of financial statements and IFRS 7 Financial Instruments: Disclosures – there were consequential amendments to these standards to take account of the introduction of IFRS 9 and IFRS 15. The principal changes relate to disclosures in these financial statements and not measurement.

The adoption of these standards has resulted in the recognition of an additional asset and liability in respect of IFRS 16, together with an accumulated reduction in retained earnings up to 1 August 2018. The full impact is shown in note 3. Impact over the next two years will be to have a higher charge for interest payable and a lower one for administrative expenses than would have been the case under IAS 17. Profit before tax will be unaffected while the tax charge will be affected by the reversal of part of the applicable deferred tax asset. This will not be material.

Notes to the consolidated financial statements

2.19 Financial reporting standards in issue but not yet effective

There were no standards in issue but not yet effective, at the date of authorisation of these financial statements, and which are likely to affect these financial statements, which have not been applied in their preparation.

2.20 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand pounds unless otherwise stated.

3. Changes in accounting policy

IFRS 9, IFRS 15 and IFRS 16 were adopted without having to restate comparative information. There were no adjustments arising from either IFRS 9 or IFRS 15.

The group leases its premises under a five year, non-cancellable lease. Until 2018, this was treated as an operating lease. The group has adopted the provisions of IFRS 16 early and this lease has therefore been reclassified as a finance lease. Accordingly, the property has been brought on to the Consolidated statement of financial position at the present value of the minimum lease payments on 1 August 2018, as this is lower than the fair value of the asset. It is shown above as an adjustment to the opening position on property, plant and equipment. In this respect the group has opted to apply the standard retrospectively with the cumulative effect as an adjustment to the opening balance of retained earnings as shown in the Consolidated statement of changes in equity on page 28. The adjustment has led to changes as shown below. There is no other impact on the group's financial position or financial performance. The discount rate used in determining the value of the liability on initial application of IFRS 16 is the group's incremental borrowing rate of 4.99%.

There is therefore no need to restate comparatives and no need for an additional column in the Consolidated statement of financial position. Further detail is given in note 2.13 and 2.14.

The table below shows the effect of the adoption of IFRS 16 on the Consolidated statement of financial position.

	As previously stated at 31 July 2018 £000	IFRS 16 amendments £000	As restated at 1 August 2018 £000
Non-current assets			
Property, plant and equipment	59	-	59
Right of use assets	-	60	60
Intangible assets	42	-	42
Deferred tax asset	-	1	1
Financial assets at amortised cost	18	-	18
Current assets			
Trade and other receivables	31,084	(4)	31,080
Cash and cash equivalents	1,286	-	1,286
Total assets	32,489	57	32,546
Equity			
Share capital and other reserves	9,797	-	9,797
Retained earnings	4,240	(4)	4,236
	14,037	(4)	14,033
Non-current liabilities			
Borrowings	49	40	89
Deferred tax liabilities	5		5
Current liabilities			
Trade and other payables	2,051	(7)	2,044
Borrowings	16,008	28	16,036
Tax payable	339	-	339
Total liabilities	18,452	61	18,513
Total equity and liabilities	32,489	57	32,546

Notes to the consolidated financial statements

Operating lease commitments at 31 July 2018, discounted using the group's incremental borrowing rate would have been as shown below. There is no difference between the amount introduced at 1 August 2018 and the total payable at 31 July 2018.

	2018 £000
Due within one year	28
Due between one and two years	29
Due after two years	11
	68

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the group and that are believed to be reasonable under the circumstances.

In preparing these financial statements, the directors consider there are no critical estimates or judgements which could materially affect the results of the following year.

5. Financial risk management

5.1 Financial risk factors

The group's activities expose it to a variety of financial risks. Risk management is carried out by the board of directors. It identifies, evaluates and mitigates financial risks. Below is a summary of the financial risks.

(a) **Credit risk -** this is the risk that customers will not repay their loans. Further details of our risk management activities are given in note 18.

(b) **Liquidity risk -** this is the risk that the company will have insufficient funds to conduct its business. This has been substantially mitigated by the regular renewal of our banking facilities with Barclays and Conister Bank. At 31 July 2019 there was £2.82m still available to draw.

(c) **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.

These risks, along with others, are also dealt with in detail on pages 6 to 8 of the Group strategic report.

5.2 Maximum exposure to credit risk

(a) Investments

The maximum exposure to credit risk on the trade investment which is being carried at a fair value of £nil is £nil. The other investment is being carried at a fair value of £6k and this is the maximum exposure.

(b) Trade and other receivables

The Group adopts the general approach to measuring the expected credit loss on its trade receivables. The approach is set out in note 18. In the prior year, impairment of trade receivables was assessed using an incurred loss model. The impact of the change to an expected credit loss model is to increase the impairment provision at 31 July 2019 by £58k.

The maximum exposure to credit risk on trade receivables was £32.7m. Credit risk is minimised by a strict underwriting policy, and the additional factors set out in note 18.

5.3 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 level of dividends paid, return capital to shareholders issue new shares or sell assets to reduce debt.

Notes to the consolidated financial statements

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 2019 and 31 July 2018.

	2019 £000	2018 £000
Operating profit	2,020	1,895
Depreciation and amortisation	83	56
EBITDA	2,103	1,951
Capital employed:		
Capital and reserves (including current year)	14,970	14,037
Bank borrowings (net of cash held)	14,045	14,714
Other borrowings	49	57
Total capital and borrowings	29,064	28,808
ROCE	7.24%	6.77%

6. Segment information

The group operates wholly within the United Kingdom therefore there is no meaningful information that could be given on a geographical basis. Since 2017 the board has only recognised one segment – lending. This is because the risks, rewards and management in all aspects of lending are so similar that any segregation (other than central costs) would not give meaningful information to users of the financial statements.
The board therefore assesses the entire business based on operating profit (before tax and exceptional items, but after finance costs which are a cost of sale). Revenue (which for these purposes includes interest income, which is outside the scope of IFRS 15) consists of income which is recognised at a single point in time and that which occurs over a given period (up to one year). No income is receivable in more than one year.

2019

	Total £000	Central £000	Financing £000
Revenue			
Other income - interest receivable using the effective interest rate method	4,671	-	4,671
Revenue from contracts with customers - other revenue	810	-	810
	5,481	-	5,481
Timing of revenue recognition:			
At a point in time – direct debit charges	360	-	360
At a point in time – non utilisation fees	306	-	306
Over time – licence fees	144	-	153
Over time – interest revenue outside the scope of IFRS 15	4,671	-	4,671
	5,481	-	5,481
Interest payable	(558)	-	(558)
Operational costs and administrative expenses	(2,902)	(723)	(2,179)
Profit before tax	2,021	(723)	2,744
Current tax expense	(387)	(1)	(386)
Profit/(loss) for the year after tax	1,634	(724)	2,358

Notes to the consolidated financial statements

2018

	Total £000	Central £000	Financing £000
Revenue			
Other income - interest receivable using the effective interest rate method	4,367	-	4,367
Revenue from contracts with customers - other revenue	807	-	807
	5,174	-	5,174
Timing of revenue recognition:			
At a point in time – direct debit charges	384	-	384
At a point in time – non utilisation fees	270	-	270
Over time – licence fees	153	-	153
Over time – interest revenue outside the scope of IFRS 15	4,367	-	4,367
	5,174	-	5,174
Interest payable	(452)	-	(452)
Operational costs and administrative expenses	(2,829)	(658)	(2,171)
Profit before tax	1,893	(658)	2,551
Current tax expense	(381)	-	(381)
Profit/(loss) for the year after tax	1,512	(658)	2,170

Other revenue consists primarily of bank charges recovered from Associated Premium Finance Limited (see note 25.3) together with fees to customers who do not use the financing facility offered (non-use fees) and monthly licence fees for use of the system. All are billed monthly under fixed price contracts under short term contracts.

7. Expenses by nature

		2019 £000	2018 £000
Interest payable in cost of sales		558	452
Other operational costs		72	83
Employee costs (including directors)	(note 8)	1,100	1,002
Advertising and selling costs		413	273
Bank fees		545	553
Professional and legal fees		198	198
Impairment losses		111	290
IT costs		91	66
Depreciation and amortisation		80	56
Fair value gains on investments		(6)	-
Interest payable on hire purchase contracts		1	2
Interest payable on leased assets		3	-
Other expenses		294	306
Total cost of sales, other operational costs, administrative expenses, impairment losses and finance costs		3,460	3,281

Notes to the consolidated financial statements

8. Employees and directors

8.1 Employee costs

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Wages and salaries (including directors)	985	440	899	411
Social security costs	108	49	97	42
Pension costs – defined contribution plans	7	-	6	-
	1,100	489	1,002	453

The average number of persons employed by the group was:

	2019		2018	
	Group No.	Company No.	Group No.	Company No.
Directors	4	4	5	5
Administration	19	2	13	1
Total	**23**	**6**	**18**	**6**

8.2 Directors' remuneration

2019	Fees and salary £000	Taxable benefits £000	Total £000	Employer's NIC £000	Total £000
Total directors' remuneration	364	1	365	49	414

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

R Takhar was the highest paid director during the year earning £251k including taxable benefits (2018 274k).
Details are shown in the Remuneration report on page 16.
Key management personnel are considered to be the directors (executive and non-executive).
No director is accruing benefits under a pension scheme.

9. 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 (Finance costs). The amount included was £558k (2018 £452k).

10. Operating profit

This is stated after charging:

	2019 £000	2018 £000
Depreciation of owned property, plant and equipment	16	14
Depreciation of short leasehold premises right of use assets	26	-
Depreciation of motor vehicle right of use assets	4	4
Interest payable on lease liabilities – short leasehold	3	-
Interest payable on lease liabilities – motor vehicles	1	2
Amortisation of intangible assets	36	38
Operating lease rentals – land and buildings	-	27
Auditor's remuneration:		
Audit fees – parent company and consolidation	23	22
Audit fees – subsidiaries	31	25

The group rents its premises under a five year, non-cancellable lease. The group has adopted early the provisions of IFRS 16 and details of the lease are shown under note **Error! Reference source not found.**.

The group has elected not to restate comparative figures in respect of this lease.

Notes to the consolidated financial statements

11. Tax expense

11.1 Current year tax charge:

	2019 £000	2018 £000
Current tax expense	396	365
Adjustment re previous year tax expense	-	18
Deferred tax expense relating to the origination and reversal of temporary	(9)	(2)
	387	381

11.2 Tax reconciliation

The tax assessed for the year differs from the main corporation tax rates in the UK (19%, 2018 – 19%). The differences are explained below.

	2019 £000	2018 £000
Profit before tax for the financial year	2,020	1,893
Applicable rate – 19.00% (2018 19.00%)	19.00%	19.00%
Tax at the applicable rate	384	360
Effects of:		
Expenses not deductible for tax	2	3
Adjustment re previous year tax expense	-	18
Reduced rate of tax on reversing timing differences	1	
Tax charge for the period	387	381

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 £1,476k (2018 £542k).

13. Dividends

	2019 £000	2018 £000
Amounts recognised as distributions to equity holders in the period:		
Final dividend for the year ended 31 July 2018 of 2p (2017 1.405p) per share	427	427
Interim dividend for the year ended 31 July 2019 of 1p (2018 1p) per share	214	214
	641	641
Proposed final dividend for the year ended 2019 of 2p (2018 2p) per share	427	427

Notes to the consolidated financial statements

14. Earnings per share

Earnings per share is based on the profit for the year of £1.63m (2018 £1.51m) and the weighted average number of the ordinary shares in issue during the year of 21.35m(2018 21.35m). There are no options or other factors which would dilute these therefore the fully diluted earnings per share is identical.

15. Property, plant and equipment and right of use assets

15.1 Property, plant and equipment

	Office equipment and fixtures £000	Computer equipment £000	Total £000
Cost			
At 1 August 2017	52	51	103
Additions	-	1	1
At 31 July 2018	52	52	104
Additions	8	6	14
At 31 July 2019	60	58	118
Depreciation			
At 1 August 2017	16	43	59
Charged to administrative expenses in the consolidated income statement	10	4	14
At 31 July 2018	26	47	73
Charged to administrative expenses in the consolidated income statement	11	5	16
At 31 July 2019	37	52	89
Net book value at 31 July 2019	23	6	29
Net book value at 31 July 2018	26	5	31

Notes to the consolidated financial statements

15.2 Right of use assets

The following assets are right of use assets

	Short leasehold premises £000	Motor vehicles £000	Total £000
Cost			
At 1 August 2017	-	42	42
Additions	-	-	-
At 31 July 2018	-	42	42
Change in accounting policy – re amounts originally classified as operating leases, now classified as finance leases	65	-	65
Restated cost at the beginning of the financial year	65	42	107
Additions	-	-	-
At 31 July 2019	65	42	107
Depreciation			
At 1 August 2017	-	10	10
Charged to administrative expenses in the consolidated income statement	-	4	4
At 31 July 2018	-	14	14
Change in accounting policy – re amounts originally classified as operating leases, now classified as finance leases	5	-	5
Restated depreciation at the beginning of the financial year	5	14	19
Charged to administrative expenses in the consolidated income statement	26	4	30
At 31 July 2019	31	18	49
Net book value at 31 July 2019	34	24	58
Net book value at 31 July 2018	-	28	28

Details of the liability relating to the above are shown in note 21 on page 50. Interest charged in the year is shown in notes 7 and 10 on pages 42 and 43.

16. Intangible assets

	Software development costs £000
Cost	
At 1 August 2017	110
Additions	5
At 31 July 2018	115
Additions	36
At 31 July 2019	151
Amortisation	
At 1 August 2017	35
Charged to administrative expenses in the consolidated income statement	38
At 31 July 2018	73
Charged to administrative expenses in the consolidated income statement	36
At 31 July 2019	109
Net book value at 31 July 2019	42
Net book value at 31 July 2018	42

Notes to the consolidated financial statements

17. Investments

17.1 Subsidiaries

	Shares in subsidiaries £000
Cost and net book value	
At 31 July 2018 and 31 July 2019	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%

The directors believe that the net assets equate to the fair value of the assets acquired (taking account of intangibles such as the brand).

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.

17.2 Investment accounted for at fair value - associate

In June 2019 the group acquired 300 shares in Open B Gateway Limited, a company which is currently dormant but which will be involved in business software development. The company's year-end is currently 31 March but, as there has been no trading yet, there are no results to incorporate. The shares were purchased at par (£1 per ordinary share) and represent a 30% holding in that company. The registered office is that of the parent, 1st Floor, 721 Capability Green, Luton, Bedfordshire LU1 3LU.

Given that there has been no trading yet, the board considers the fair value to be the cost of £300.

Name	Country of incorporation and place of business	Nature of business	Proportion of ordinary shares held directly by the parent
Open B Gateway Limited	England and Wales	Business software development	30%

17.3 Investment at fair value through other comprehensive income

During the year an investment was made in Zebra Finance Limited, an unlisted company registered in England and Wales. The group purchased 35% of the ordinary shares of that company at a price of £56k. This size of shareholding would be sufficient to deem Zebra Limited an associate as significant influence would normally exist in these circumstances. However, the group does not have any representation on the board of Zebra; it takes no part in the management of Zebra; there is not (and no intention to have) any interchange of managerial personnel and there is no intention to have transactions between the parties which are material to either side.

The investment was made for strategic purposes (as may be future similar investments). For this reason, and those given in the previous paragraph, the board considers classification as a trade investment to be more appropriate. Orchard Funding Group plc made an irrevocable election on acquisition to have any gains or losses on holding the investment reflected in the Consolidated statement of other comprehensive income. However, since purchase, certain events have occurred within Zebra Finance Limited which called into question the value of the investment. The fair value is considered to be £nil and this is reflected in the Consolidated statement of other comprehensive income in the year.

Notes to the consolidated financial statements

17.4 Investment at fair value through profit and loss

On 18 September 2018, Accolade Education Finance Limited transferred shares with a nominal value of £20 to Orchard Funding Group plc at nil cost. This was done so that they could have the benefit of a well-established finance company as a shareholder. This assisted them in raising finance themselves and gave them access to Orchard's experience in the lending market.

This investment was more for the benefit of Accolade Education Finance Limited rather than the group. Again, the board considers classification as a trade investment to be more appropriate than as an associate as Orchard does not, nor has a right to take part in the management of the company. Any benefit coming to Orchard will be in the same vein as that coming from Zebra Finance Limited.

The board considers the fair value of this investment to be £6k.

18. Trade and other receivables

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Non-current				
Financial assets at amortised cost				
Other receivables	12	-	18	-
	12	-	18	-
Current				
Trade receivables				
Trade receivables (gross)	32,563	-	31,288	-
Impairment provision	(422)	-	(343)	-
	32,141	-	30,945	-
Other financial assets at amortised cost				
Intercompany receivables	-	10,338	-	9,469
Other receivables	134	-	111	-
	134	10,338	111	9,469
Prepayments	22	6	28	2
	32,297	10,344	31,084	9,471

Trade receivables are held to obtain a return by collecting the contractual cash flows on a solely interest and principal basis. They are therefore measured at amortised cost. 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. Detail of impairment reviews are shown in note 2.6 on page 34.

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, for which no provision had been made, at the year-end is shown below. The directors consider that the carrying amount of trade and other receivables approximates to their fair value. There are impaired debts at the year-end amounting to £422k (2018 £343k) against which £52k (net of reversals and amounts written off against the provision) was charged in the year (2018 £290k). Provision has been made in full for these.

The expected credit losses on receivables not past due have been assessed as very low, because of the following factors:

- No loan is made until the first repayment has been received by the group;
- In the event of default, the group has recourse to the underlying borrower;
- In the case of insurance receivables, the Financial Services Compensation Scheme provides additional cover to the group; and
- For insurance receivables, the cover ceases, premiums paid are refunded, and the group has access to these refunds.

Notes to the consolidated financial statements

The directors' assessment of the expected credit losses for receivables not past due is that an average impairment rate of 0.2% should be applied. This has resulted in an additional charge of £58k which has included in these financial statements.

Trade receivables can be analysed as follows:

	2019		2018	
	Group £000	Company £000	Group £000	Company £000
Amount receivable not past due	31,772	-	30,945	-
Amount receivable past due but not impaired	369	-	-	-
Amount receivable impaired (gross)	422	-	343	-
Less impairment	(422)	-	(343)	-
	32,141	-	30,944	-

Amounts shown as past due but not impaired are largely covered by the Financial Services Compensation Scheme.

The holding company is owed a substantial amount by its two largest subsidiaries. These debts are interest free and due on demand. Neither subsidiary has the cash to repay these immediately and therefore, under the requirements of IFRS 9, provision may need to be made in the financial statements of the holding company. However, the board does not see any need for a provision because:

(a) the loans to customers which each subsidiary has made will generate sufficient cash to repay these loans (after payment of other liabilities) on a "run off" basis (as cash is collected it could be paid across to the parent). Trade receivables in the subsidiaries are all repayable within 12 months; and

(b) any risk of loss is considered remote (not expected) and therefore no impairment provision is necessary.

19. Cash and cash equivalents

	2019 Group £000	2018 Group £000
Amounts held at banks	2,139	1,286

Cash and cash equivalents consist of group bank balances. The parent company has no bank account.

20. Called up share capital

Allotted, issued and fully paid at 31 July 2019 and 31 July 2018

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

Notes to the consolidated financial statements

21. Borrowings

	2019		2018	
	Secured £000	Unsecured £000	Secured £000	Unsecured £000
Non-current:				
Other loans	-	-	-	41
Hire purchase liabilities	3	-	8	-
Leasing liabilities arising from right of use assets	12	-	-	-
	15	-	8	41
Current:				
Bank loans	16,184	-	16,000	-
Other loans	-	-	-	-
Hire purchase liabilities	6	-	8	-
Leasing liabilities arising from right of use assets	28	-	-	-
	16,218	-	16,008	-

The parent company has no borrowings.

21.1 Terms and debt repayment schedule

Barclays Bank borrowings are secured by a fixed and floating charge over all the assets of Bexhill, bear interest at rates of 2.90% above LIBOR plus any associated costs. They are repayable within one year of the advances. The loans are provided on a revolving 12 monthly basis under a facility which was renewed on 29 July 2019. The maximum drawdown on the facility is currently £17m of which £1.32m was undrawn at the year-end (2018 all was drawn). 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, bear interest at a rate of 5% pa and are repayable within one year of the advance. The maximum drawdown facility is currently £2m of which £1.50m was undrawn at the year-end (2018 £1.00m undrawn).

Other loans were unsecured and bore interest at varying rates between 4.00% and 6.25%. They were paid off during the year.

The minimum payments under hire purchase liabilities are as follows:

	2019 Group £000	2018 Group £000
Within 1 year	6	8
Later than 1 year but no later than 5	3	9
	9	17
Future finance charges	-	(1)
	9	16

The present value of hire purchase liabilities is as follows:

Within 1 year	6	8
Later than 1 year but no later than 5	3	8
	9	16

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

Notes to the consolidated financial statements

The minimum payments under other leasing liabilities are as follows:

	2019 Group £000	2018 Group £000
Within 1 year	30	-
Later than 1 year but no later than 5	12	-
	42	-
Future finance charges	(2)	-
	40	-

The present value of hire purchase and finance lease liabilities are as follows:

Within 1 year	28	-
Later than 1 year but no later than 5	12	-
	40	-

The lease is secured on the right of use asset that it finances. The liability is discounted using a rate of 4.99%.

21.2 Reconciliation of liabilities arising from financing activities

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

	At 1 August 2017 £000	Cash-flows £000	At 31 July 2018 £000	Change in accounting policy (note 3) £000	At 1 August 2018 Restated £000	Cash-flows £000	At 31 July 2019 £000
Non-current:							
Other loans	41	-	41	-	41	(41)	-
Hire purchase liabilities	16	(8)	-	40	40	(28)	12
Leasing liabilities	-	-	8	-	8	(5)	3
	57	(8)	49	40	89	(74)	15
Current:							
Bank loans	13,520	2,480	16,000	-	16,000	184	16,184
Other loans	204	(204)	-	-	-	-	-
Hire purchase liabilities	10	(2)	8	-	8	(2)	6
Leasing liabilities contracts	-	-	-	28	28	-	28
	13,734	2,274	16,008	28	16,036	182	16,218
Total liabilities from financing activities	13,791	2,266	16,057	68	16,125	108	16,233
Hire purchase interest included in liabilities		(2)				(4)	
Cashflows from financing activities		2,264				104	
Comprising:							
Net proceeds from borrowings		2,276				684	
Borrowings repaid		(12)				(580)	
		2,264				104	

21.3 Non-cash financing activities

The change in accounting policy led to a non-cash financing transaction of £68k. Details are shown in note 3 on page 39.

Notes to the consolidated financial statements

22. Deferred tax

22.1 Deferred tax assets

	2019 Group £000	2018 Group £000
The balance comprises temporary differences attributable to:		
The reclassification of operating leases as finance leases	1	-
Loss allowance for financial assets	9	-
	10	-

22.2 Deferred tax liabilities

The balance comprises temporary differences attributable to:		
Property, plant and equipment	4	5
Financial assets at fair value through the income statement	1	-
	5	-

22.3 Movement on deferred tax balances

Deferred tax assets		
At 1 August 2018	-	-
Arising from change in accounting policy	1	-
Restated deferred tax asset at the beginning of the financial year	1	-
Credited to income statement	9	-
At 31 July 2019	10	-
Deferred tax liabilities		
At 1 August 2018	5	7
Credited to income statement	-	(2)
At 31 July 2019	5	5

Deferred tax assets initially arose as a result of the cumulative effect to 1 August 2018 of a difference between rental payments allowable for tax and depreciation and finance charges in respect of operating leases reclassified as finance leases. These were augmented by the tax on impairment losses not allowable for tax. To the extent that they belong in the same company, deferred tax liabilities are set against the assets. Deferred tax liabilities arise wholly on the difference between capital allowances and depreciation. A deferred tax asset has not been included in respect of the fair value loss shown in the Consolidated statement of other comprehensive income as it is uncertain when, or if, this may be relieved.

23. Trade and other payables

	2019 Group £000	2019 Company £000	2018 Group £000	2018 Company £000
Trade payables	2,554	-	1,710	-
Other payables	70	-	51	-
Other tax and social security costs	40	23	33	16
Accrued expenses	351	71	257	35
	3,015	94	2,051	51

Trade payables are unsecured and are usually paid within 30 days of recognition.

Notes to the consolidated financial statements

24. 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 5.

24.1 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

24.2 Financial instruments by category

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

	2019		2018	
	Group	Company	Group	Company
	£000	£000	£000	£000
Investments:				
- amortised cost	-	2,813	-	2,807
- fair value through profit or loss	6	-	-	-
Trade and other receivables:				
Other receivables measured at amortised cost: non-current	12	-	18	-
Trade and other receivables: current	32,275	10,338	30,945	9,469
Cash and cash equivalents:				
Bank balances and cash in hand	2,139	-	1,286	-
	34,432	13,151	32,360	12,276

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

	2019		2018	
	Group	Company	Group	Company
	£000	£000	£000	£000
Financial liabilities at amortised cost:				
Interest bearing loans and borrowings:				
Borrowings payable: non-current	15	-	49	-
Borrowings payable: current	16,218	-	16,008	-
Trade and other payables	2,975	71	2,018	35
	19,208	71	18,075	35

24.3 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.

24.4 Financial risk management

The group's activities expose it to a variety of financial risks. These risks are dealt with in detail in the Group strategic report on pages 6 to 8 and note 5 on page 40.

Notes to the consolidated financial statements

25. Related party transactions

25.1 Ultimate controlling party

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

25.2 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 was repaid £1,861k from Bexhill (2018 Bexhill was loaned £336k). Bexhill made payments on behalf of the parent company amounting to £440k (2018 £407k) and paid dividends to the parent company amounting to £1,600k (2018 £1,060k). At the year-end Bexhill owed the parent company £1,390k (2018 £2,091k). The loan is unsecured, interest free and repayable on demand.
Orchard Funding Limited paid expenses on behalf of Bexhill amounting to £79k and Bexhill paid expenses on behalf of Orchard Funding Limited amounting to £71k. (2018 £Nil and £Nil respectively). At the year-end Bexhill owed Orchard Funding Limited £276k (2018 £268k).

Orchard Funding Limited – the parent company loaned £1,220k to (2018 was repaid £1,106k by) Orchard Funding. Orchard Funding made payments on behalf of the parent company amounting to £248k (2018 £112k) and paid dividends to the parent company amounting to £600k (2018 £140k). At the year-end Orchard Funding owed the parent company £8,951k (2018 £7,384k). The loan is unsecured, interest free and repayable on demand.
Orchard Funding's transactions with Bexhill are shown above. At the year-end Bexhill owed Orchard Funding £276k (2018 £268k).

Open B Gateway Limited – this company is an associate by virtue of the fact that significant influence can be exerted (see note 17.2 on page 47). During the year all the shares in this company owned by Mr R Takhar (300 shares of £1 each) were transferred to the group at par.

25.3 Other entities

The group is related to the following parties with whom it had activity during this or the previous 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.
Zebra Finance Limited	A company in which the parent holds a 30% stake.
Accolade Education Finance Limited	A company in which the parent holds a 20% stake.

Mr D Clark – up to the date of his resignation in October 2017 Mr Clark received dividends amounting to £208.

Mr R Takhar - during the year Mr Takhar (including connected shareholdings) received dividends amounting to £343,750 (2018 £343,750). On 11 June 2019 Orchard Funding Group purchased 30% of the share capital in Open B Gateway Limited from Mr Takhar for the share nominal value of £300.

McShane Wright - during the year the firm of McShane Wright provided the group with accountancy and associated services. The charge made for these was £27,533 (2018 £42,480). Of this £27,449 (2018 £42,480) is shown as part of directors' remuneration in note 8.2 on page 43 and £83 (2018 £398) is shown under administrative expenses. At the year-end it was owed £7,200 (2018 £9,480).

Associated Premium Funding Limited - Associated Premium Funding Limited acts as a funding company for a number of clients of Bexhill. 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 in the past on behalf of the group. This year no work was carried out. Costs no incurred in this work in 2018 were £375. Nothing was owed at the year-end (2018 £Nil).

Notes to the consolidated financial statements

Accolade Education Finance Limited – during the year the parent was gifted shares by Accolade Education Finance Limited. The board considers the fair value of these shares to be £6k at the year-end. These shares have been given as security for borrowings by Accolade Education Finance Limited.

26. 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.

27. Major non-cash transactions.

The group adopted IFRS 16 early, as a result of which an asset and liability were introduced onto the Consolidated statement of financial position. Details are shown in note 3 on page 39.
In addition, the group received shares at no cost from Accolade Education Finance Limited during the year. The fair value of these was £6k at the year-end.

Company and advisers information

Registered office
1st Floor,
721 Capability Green
Luton
Bedfordshire
LU1 3LU

Solicitors
Michelmores LLP
Woodwater House
Pynes Hill
Exeter
EX2 5WR

Registered number
09618919 (England and Wales)

Nominated adviser
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

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

Broker
Liberum Capital Limited
Ropemaker Place, Level 12
25 Ropemaker Street
London
EC2Y 9LY

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

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

Reference to online information
Website www.orchardfundinggroupplc.com