GROUP PLC

Yü Group PLC Annual report and financial statements 2016

Becoming the UK's most innovative energy supplier.

Our vision is to become the UK's most innovative energy supplier.

We want to offer a service like no other which is unique to our customers and treats them as individuals and not just another number.

We aim to go above and beyond, within our means, to provide excellent customer service at all times, to offer our customers competitive rates and to take away the strain of their energy bills so they can concentrate on running their business.

STRATEGIC REPORT

CORPORATE GOVERNANCE

FINANCIAL STATEMENTS

Read more about us on our website
www.yugroupplc.com

Highlights

Financial highlights

£27.8m
contracted annual revenue for FY2017

Revenue increased
fourfold
during 2016

- Revenue increased to £16.3m (14 months to 31 December 2015: £3.9m)
- Gross margin increased to 21.2 per cent (14 months to 31 December 2015: 19.3 per cent)
- Adjusted operating profit (excluding IPO costs and share based payments) of £205,000 (2015: loss of £1.0m)
- Loss for the year of £1.4m (2015: £0.8m)
- Proposed final dividend of 1.5p per share, making a full year dividend pay-out of 2.25p per share
- Revenue already contracted at the end of 2016 for the year to 31 December 2017 in excess of £27m (31 March 2016: £8.4m) adding to the Group's high levels of revenue visibility

Operational highlights

Strong balance sheet used to support
robust
hedging policy

Achieved an average renewal rate in excess of
80%

- Successful admission to AIM on 17 March 2016 raising £7.5m gross, principally to support the Group's stated hedging policy
- Exit from Controlled Market Entry for half-hourly meters achieved during the period, enabling the Group to supply high-usage electricity customers
- Increased investment in sales channels and staff to support scaling of the business with headcount increasing to 72 staff (31 December 2015: 40) and further recruitment planned
- Renewal rate continues to be in line with expectations, in excess of 80 per cent

Read more in our CEO's Statement
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At a glance

Unprecedented service

We are a business energy supplier based in Nottingham, providing an unprecedented service to the UK larger corporate and SME sector.

We give businesses the best possible combination of supply, service and savings in the market. That is how we have grown into one of the UK's leading energy suppliers and listed on AIM, a sub-market of the London Stock Exchange, in just under two years.

Our mission

To become the UK's premier energy supplier and the first choice for businesses looking for gas and electricity.

Our vision

To provide our customers with the best energy rates whilst maintaining the highest possible levels of customer service.

Our business model provides considerable confidence and support for our belief in future growth.

We are a fast growing, cash generative and highly scalable business, with predictable revenues.

Our services

Supply, service and savings

- We give businesses the best possible combination of supply, service and savings in the market for gas and electricity.

Manage energy portfolios

- We specialise in managing multi-site business energy portfolios.

Provide meter installations

- We provide meter installations for all new commercial properties requiring a new connection and/or a supply contract.

Reliable supplier relationships

- We work with energy brokers nationwide providing an honest and reliable supplier relationship.

What makes us different

The large energy providers, which currently retain a major market share, have simply forgotten the meaning of providing excellent customer service and support and are forgetting that it is this exact customer service and support that brings in revenue for any business. We want to build strong relationships with our customers and offer competitive prices so that they renew each year, thus increasing our customer portfolio.

PERSONAL ACCOUNT MANAGER: Many energy companies treat you like just a number. We give our customers their own account manager to take them through the entire process.

FIXED PRICES: Our fixed price contracts result in our customers knowing exactly how much they will be paying for their energy.

FLEXIBLE PAYMENT OPTIONS: We can provide a choice of billing options that suit our customers' businesses so they can arrange their payments accordingly.

THREE-RING PICK-UP POLICY: We are proud to be a British company – all of our call centres are based right here in the UK, ready to answer calls in less than three rings.

INDUSTRY-LEADING CUSTOMER SERVICE: Our award-winning customer service team has our customers' best interests at heart. We offer impartial advice to provide the best deal available.

100 PER CENT COMMITMENT: Competitive pricing is a big part of our business model. We are committed to being one of the industry's best on price, as well as service, meaning that we can help businesses save money regardless of usage.

OPTIONS FOR YÜ: Different businesses have different needs. That is why we offer a range of different tariffs and packaging options. We work with our customers to find the best solution to suit their business.

Read more about our strategy
Page 07

Chairman's statement

Delivering growth

Our stock market flotation raised net proceeds of £6m which have been used to support our rapid growth.

Introduction

I am pleased to present the first annual results of Yü Group PLC following the Company's successful admission to AIM on 17 March 2016. The Company raised net proceeds of £6.0m which have been used to support our rapid growth.

Sales growth and cash generation

Little more than two years ago, the business posted annualised sales of some £500,000 and now for the year to December 2016 revenues have risen to over £16m. The Board is confident that the Group will continue to grow at a rapid rate with a concurrent progression in the Group's profitability and cash generation.

With relatively low levels of capital expenditure and a substantial potential marketplace of SMEs and larger corporates, the Board is confident in the Group's ability to generate cash to support the dividend policy which is a key element of our ongoing strategy for delivering healthy returns to investors.

Market conditions, risk management and margins

The market for energy suppliers has been somewhat turbulent throughout the year under review with a high degree of volatility being experienced by all participants. Against that background, our policy of hedging our supply commitments has proved to be extremely successful. Our ability to achieve this by participating within the global commodities market with reliable counterparties would not have been possible without the funds raised at the time of the IPO.

Due to the close co-operation between our sales personnel and our commercial team (who manage the hedging and pricing operations of the business) we have been able to maintain steady margin, while also delivering the very best customer service.

Customer service and support

In the last year we have won Service Provider of the Year awards as well as accolades from industry bodies such as Cornwall Insights, which stated that "service level is very good" and "Yü Energy is a standout for smaller suppliers".

As the business grows, one of the challenges of which the Board is very aware is the need to maintain the high level of customer service and flexibility, while at the same time ensuring that fixed costs, particularly in relation to bad debts, do not increase disproportionately. This challenge will continue but our rapidly growing revenues will fully support the requisite investment in staff and systems.

Our people

Staff levels have grown rapidly in the last year with the average number of employees increasing from 32 to 58 in the 12 months to December 2016. I would like to express the gratitude of the Board to all these employees, both longer serving and more recently joined, who have contributed so much to the success of the business. Their dedication and hard work has been exemplary during a period of rapid growth which has put considerable pressure on the business as a whole. These demands are unlikely to lessen as we continue to grow at a rapid rate but the Board is confident that the Company will be able to recruit the additional staff that will be needed to meet these challenges.

Dividend

The Group, on admission, adopted a progressive dividend policy and paid its maiden dividend in early January 2017 in relation to the first half of 2016. The Company intends to pay a final dividend of 1.5p per ordinary share for the year to December 2016, subject to shareholder approval at the AGM to be held on Thursday 25 May 2017.

The proposed final dividend will be payable on 12 September 2017 to shareholders on the register on 11 August 2017 and the shares will go ex-dividend on 10 August 2017.

Ralph Cohen
Chairman
28 March 2017

A successful year

The growth plans that were developed during 2015 for the business have been delivered in full.

Due to a robust margin and a tight control over fixed costs, it has been possible to deliver profitability ahead of schedule.

Introduction

The year to 31 December 2016 was one of dramatic change within the Group and I am therefore particularly pleased that the growth plans developed during 2015 for the business have been delivered in full. At the beginning of 2016 we planned for revenue to grow from £3.9m in the 14 months to December 2015 to more than £14m by the end of the year. The results we are now reporting show that revenue of £16.3m exceeded our target by 16 per cent.

In addition, due to a robust margin and a tight control over fixed costs, it has been possible to deliver adjusted operating profit (before exceptional IPO costs and share based payment charges) ahead of schedule. It is because of our confidence in the future growth of the Group and the ability of the business to generate cash that we were able to declare an interim dividend for our shareholders, ahead of expectations. We remain positive regarding the future growth opportunities of the Group.

The volatile market that the energy industry has experienced had the potential to cause some difficulties, but the business model – with a firm hedging policy at its core – has demonstrated that even in difficult markets there is an opportunity for a customer-focused supplier to deliver the service and products the market requires at a sensible margin.

Our strategic objectives

Risk-averse operations

At the time of the IPO in March 2016, the strategic priority was to ensure that the Group had a strong enough balance sheet to be able to support its hedging and energy purchasing strategy. By utilising some of the funds raised in the IPO to lodge collateral through letters of credit with trading counterparties in the wholesale energy market, this objective was successfully delivered.

Sales growth and sustainable margins

The next priority was to deliver on the rapid growth opportunity that was apparent following achievement of supply accreditation from the regulator and exited from Controlled Market Entry ("CME") for both non-half-hourly and half-hourly meters. This was achieved with annualised sale bookings (being the forecast annual sales value of new contracts signed) averaging £3.7m per month during 2016 and customer numbers (as measured by meter points) seeing a near fourfold increase over the period. A firm pricing policy combined with effective hedging has meant that margins on these sales are in line with market norms for a business in an increasingly competitive industry. When combined with a renewal rate in excess of 80 per cent, this gives us confidence that profitable growth will continue.

Chief Executive Officer's statement continued

Our strategic objectives continued

Cost control and customer service

An ongoing focus is to maintain tight control over costs, while at the same time developing infrastructure and back office support to ensure that customer service levels are sustained. On occasion this balance has been challenging but, overall, during the year we have been successful. We have kept a close watch over credit control procedures and ensured timely payment of outstanding debts by our customers.

Cash management and shareholder returns

Finally, a key objective is to optimise cash management to support future growth as well as the Group's progressive dividend policy. The Group has a strong balance sheet with healthy cash reserves. Letters of credit were issued during the year for £3.4m in total which are approximately 65 per cent utilised by our trading counterparties. We also absorbed some cash resources into working capital during the year as we moved from collecting cash from our customers in advance to billing in arrears. This change in our billing policy was necessary in order to access some of the higher value customer accounts and has proven to be successful. It has meant the utilisation of circa £2.7m of our cash generation during the year.

Our market place

Yü Group PLC has no intention of becoming a supplier to the domestic energy market. There are approximately 5.4m businesses in the UK, of which, according to recent industry surveys, a significant percentage have rarely, if ever, changed their energy supplier. This provides a significant opportunity for SME and larger corporates to make savings. Yü Energy, our trading name, engages both directly with this target customer base as well as via the energy broking community. Approximately two-thirds of the Group's revenues are derived from direct engagement, thus providing the best possible prices for the end user as well as more direct client service levels. This approach helps to ensure that as a supplier we understand a client's needs in terms of their corporate structure, invoicing, and the provision of ancillary services. It also helps ensure that renewal rates remain high.

In April 2017, the water industry within England and Wales will be opened up for greater competition. While this sector has a different regulatory structure and commercial drivers to the Company's core activity of electricity and gas supply, it is our intention to add water supply to our activities in order to expand the range of bundled services that we are able to offer to our customer base.

Outlook

The new financial year has started well, with contracted revenue for 2017 already amounting to £27.8m. The rapid sales growth seen in 2016 is expected to continue through 2017 with the annual value of new sales booked so far to 24 March 2017 exceeding £8.0m. As markets become increasingly competitive, the Directors are conscious of the pitfall of chasing turnover where margins are unsustainably low and the importance of conserving our capital base for our hedging activities while at the same time ensuring strong cash generation. The sales force has therefore focused and continues to focus on ensuring margins remain stable and that the customer service is such that the renewal rates remain high, thus underpinning the predictable element of the revenue model. The subscription model of signing customers up to a fixed term contract enables the Group to have good visibility of future revenues. This facet of the business coupled with the scalability of our model provides the Board with considerable confidence and support for our belief in future growth.

Bobby Kalar
Chief Executive Officer
28 March 2017

Our key performance indicators

Contracted revenue*

£27.8m +231%

Average monthly new bookings

£3.7m +311%

Total meter numbers

4,321 +290%

Number of gas meters

1,497 +172%

Number of half-hourly meters

473 +1,214%

Number of non-half-hourly meters

2,351 +351%

* Contracted revenue comprises the estimated value of revenue for the subsequent 12 months under contract with customers. The actual amount recognised might vary by up to 10 per cent of this value, due to the inherent estimation involved in the calculation.

A clear growth strategy

Contracted revenues with firm margins and high renewal rates provide a solid foundation for further growth in a large UK market.

	Progress in 2016	Priorities in 2017
Revenue growth at steady margin	• Achieved fourfold increase in sales. • Margin increased to 21.2 per cent.	• Deliver further revenue growth albeit with greater focus on margin in a competitive market.
Manage fixed cost base	• Managed control of infrastructure costs against need to provide good customer service.	• Ensure balance between cost control and award-winning customer service is maintained.

Generate cash	• Raised £6.0m (net) from IPO to fund growth.
	• Absorbed some cash into working capital to enhance growth with larger corporates.
		• Generate cash to:
		  • ensure sufficient resources for hedging collateral requirements; and
		  • maintain a progressive dividend policy.

Manage commodity market risk to minimise exposure	• Raised funds via IPO to put appropriate Letters of Credit ("LOCs") in place with trading counterparties. • Ensured maximum feasible hedging throughout the year to protect margins.	• Continue to operate prudent hedging policy to ensure margin objectives are achieved.

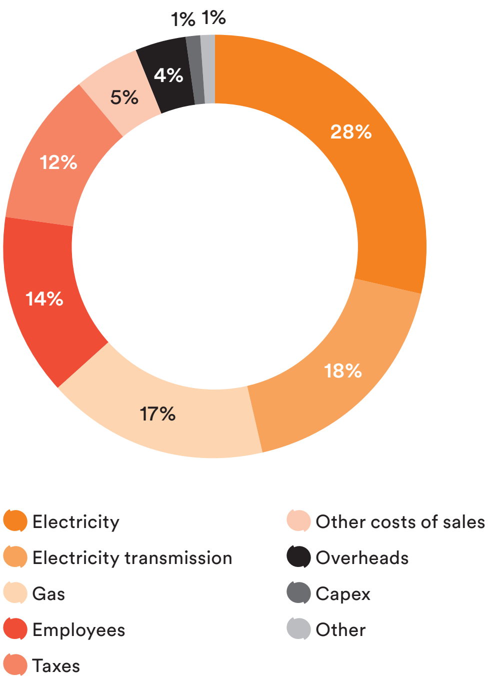
Our strategy, as well as our strong business model, market opportunities and outlook, creates a compelling investment case.

The scalability and predictability of our business model provides considerable confidence and support for our belief in future growth.

Significant opportunity

One of the key advantages of the Yü Group business model is the predictability of revenue streams.

Analysis of cash expenditure 2016



Introduction

2016 has been a year of substantial growth. The two key events that have driven this growth were the admission of the Company's shares to AIM on the London Stock Exchange in March 2016, and the exit from all CME regulations in respect of half-hourly meters in April 2016.

The IPO was extremely successful, raising £6.0m (net of costs). These funds have allowed the Group to invest in its sales and support functions, which, coupled with the lifting of the CME regulations, has resulted in significant growth in the customer base. Gas customer numbers have risen to 1,497 (2015: 550) and electricity customers are up to 2,824 (2015: 557). The proceeds of the IPO have also provided the Group with the necessary collateral to support its hedging activities in the wholesale energy market.

Current year results

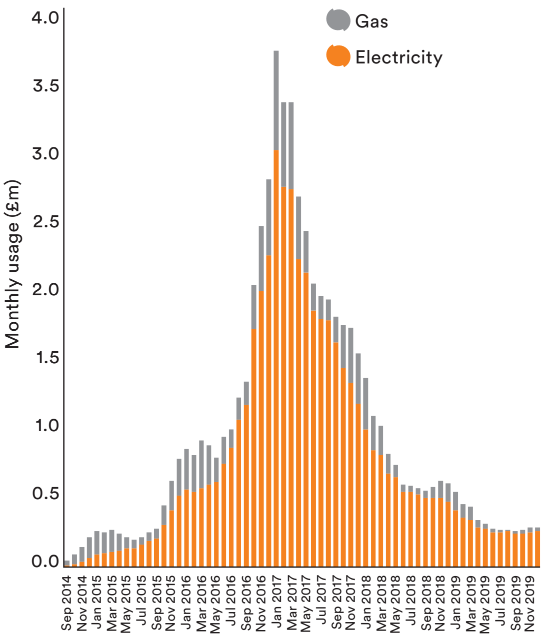
Revenue in 2016 increased to £16.3m (14 months ended 31 December 2015: £3.9m) as a result of the factors mentioned above. Gross margins have improved to 21.2 per cent (2015: 19.3 per cent). Loss for the year before tax was £1.5m (2015: £1.0m). After adjusting for interest, exceptional IPO costs and share based payments, the Group achieved an adjusted operating profit of £205,000 (2015: loss of £1.0m).

The Directors are of the opinion that by reporting the adjusted operating profits before charging share based payments a more representative figure for the relevant profitability of the Company can be derived. The investing community and other stakeholders, such as credit reference agencies, need to be able to calculate this level of profitability in order to assess more accurately the true value of the business and its creditworthiness. In the opinion of the Directors, substantial non-cash charges, such as share based payments, do not materially affect the creditworthiness or short-term enterprise value of the business and thus adjustment is required so that sensible assessments can be made. Furthermore, the adjusted operating profit is the measure by which the Board assesses the performance of the business on a continuing basis.

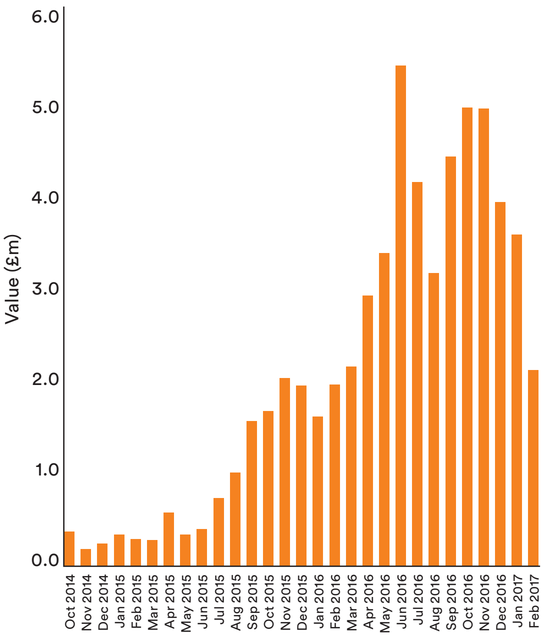
The Group changed its invoicing policy in the year from invoicing in advance to invoicing in arrears to enable the Group to access higher value customers. This change has had a substantial impact on the Group balance sheet, creating a trade debtor balance of £2.7m (2015: £nil).

The Group ended the year with a healthy cash balance of £5.2m, of which £1.4m was held in short-term deposits and £3.4m is being used to support letters of credit.

Contracted revenue



Annualised bookings



Overall the most significant cash cost for the business is the electricity commodity, but due to our hedging policy the margin achieved thereon has remained relatively stable despite the volatility in the market. The second highest cost incurred is the transportation of this electricity around the country to our customers, followed by the cost of gas. While employee costs remain an important cash outflow, the additional expenditure on various government taxes such as Feed-in Tariffs, Renewable Obligation Certificates and the Climate Change Levy are a significant part of the customers' bills.

Dividend

It was stated in the Group's Admission Document that the Board intended to reward shareholders with the adoption of a progressive dividend policy. A maiden interim dividend of 0.75p per share was paid to shareholders on 5 January 2017, and the Board is now recommending the payment of a final dividend of 1.5p per share, subject to shareholder approval at the Company's AGM on 25 May 2017.

Contracted revenue

One of the key advantages of the Group's business model is the predictability of revenue streams. Average contract length for our customers is approximately 15 months and given that the selling price is contractually fixed and the consumption of the customer base can be reliably forecast, it means that forecast contracted revenue, which assumes no new sales going forward, can be estimated with reasonable certainty to the extent of a 10 per cent margin of error.

At the start of the new year the contracted revenue for 2017 was in excess of £27m.

Annualised bookings

Each month a key management review point in order to assess the growth of the sales pipeline is to monitor the annualised value of contracts sold. The level of sales each month will fluctuate dependent upon the time of the year and the number of sales staff, as well as whether the sales team focus is upon margin or revenue. The average monthly sales bookings have risen from £900,000 per month in 2015 to £3.7m per month in 2016.

Letters of credit

At the year end the Group had issued £3.4m of letters of credit, which were supported by way of cash on deposit with the Group's bankers. The Group constantly assesses the level of this collateral against its operations in the commodity market to ensure that there is sufficient support for its hedging operations. Cash and cash equivalents at the end of the year stood at £5.2m.

Nick Parker
Chief Financial Officer
28 March 2017

Managing our risks

We have assessed our principal risks based on the likelihood of their occurrence and potential impact.

Description	Mitigation	Change
Controlled expansion		
The Group is currently experiencing rapid expansion. There is a risk that the existing systems, processes and procedures that are in place are not fit for purpose, and are not able to scale up at the same rate as the business is growing.	The Board is investing time and money in both the underlying system infrastructure and the personnel who will be using it on a day to day basis. System upgrades have been taking place in 2016 and will continue into 2017, as will the recruitment process to ensure the Group has the necessary talent to maintain its high level of customer service, which is core to its business proposition.	↓
Reliance on key personnel and management		
The Group's business is dependent upon maintaining relationships with its customers. These relationships are maintained through the senior personnel. If any key person resigns, there is a risk that no suitable replacement with the requisite skills, contacts and experience could be found to replace such person. If too many of the key people were to leave the Group, it could lead to the erosion of the Group's customer base and could have a material adverse effect on the Group's business, financial condition and operating results.	A share option plan has been implemented to encourage retention of key individuals, along with a Group share bonus scheme.	↓
Volatility in commodity prices (gas and electricity)		
The Group is at risk from price movements in the gas and electricity market. Customers are signed up to fixed term contracts for the supply of energy at a fixed price. Any increase in the wholesale price of gas and electricity opens the Group up to potential risk.	The Group's policy is to operate a robust and timely commodity (power and gas) purchasing strategy to maintain an efficient and effective hedge that backs the fixed price sales and protects the business against potential market volatility. Some of the funds raised by the Company as a result of the IPO have been used to ensure that the hedging policy is adhered to by providing collateral for letters of credit that are required by trading counterparties in the wholesale market.	→

Change key:

↑ Increase

→ No change

↓ Decrease

Description	Mitigation	Change
Competition		
Whilst the Group is highly focused on its market it has to compete with a number of large national and international companies, other energy trading companies as well as independent suppliers and a number of smaller, localised, independent companies. In addition, the Group's competitors may announce new services, or enhancements to existing services, that better meet the needs of customers or changing industry standards. Furthermore, these markets may consolidate and, as this occurs, the Group could find itself under increased pressure from larger competitors.	The Group will continue to focus on its core principles and values, with the aim of differentiating itself from the competition. It will strive to ensure the customer is put first in every aspect of its business. The Group will continue to be as competitive as possible on price, without sacrificing any of its service levels.	→
Relationship with regulatory bodies		
The Group is a licensed gas and electricity supplier, and therefore has a direct regulatory relationship with the various regulatory bodies within the industry, in particular Ofgem. If the Group fails to maintain an effective relationship with these regulatory bodies and comply with its licence obligations, it could be subject to fines or to the removal of its respective licences.	The Group has a management team and senior staff with significant industry experience, and significant experience in dealing effectively with the various regulatory bodies. The Group will continue to invest in the right people with the right skill set to ensure all obligations are met by the business and that the strong regulatory relationship that currently exists is maintained.	↓

Nick Parker
Chief Financial Officer
28 March 2017

Board of Directors

Ralph Cohen
Independent Non-executive Chairman

A R

Ralph was for 10 years, until April 2015, the CFO and is now a non-executive director of Judges Scientific plc. He held various senior executive positions within the energy and water divisions of the Paris based Vivendi group between 1981 and 2001. This included 10 years as managing director of Associated Electricity Supplies Limited and 10 years as finance director and subsequently managing director of Associated Heat Services Plc, a listed subsidiary for part of this period. In total he has spent 25 years working in the energy sector in roles covering energy services, importation of electricity and electricity supply. He previously spent nine years at Ernst & Young. Latterly he was the founding partner of MC Consultancy Services, where he was closely associated with major projects, including electricity supply opportunities in Europe and M&A projects.

Bobby Kalar
Chief Executive Officer

Bobby has a degree in electrical and electronics engineering having started his career working as an electronics engineer at Marconi PLC. In 2000, having moved to London to work for COLT Telecommunications, he headed a team of engineers involved with the bid and installation of the congestion charge scheme in London on behalf of the Mayor of London's Transport for London initiative. Following this major project Bobby invested in the care home sector eventually owning and running a group of four care homes. In 2013 he sold the care homes so that he could focus on the market opportunity presented by the deregulation of the energy sector.
He is the sole founder of the Group.

Nick Parker
Chief Financial Officer

Nick has over 30 years of experience in financial positions and, in particular, London Stock Exchange-listed companies. Before joining the Group Nick was the CFO of WANdisco PLC prior to and immediately following its admission to AIM, CFO of Volex PLC and, for over eight years, CFO of Dyson Group PLC. He also served as the chief executive of Sheffield Wednesday Football Club and vice president of corporate development at Carclo PLC, where he oversaw numerous acquisitions and disposals in both the UK and overseas. Nick holds a BA in accountancy and economics and is a member of the ICAEW.

Garry Pickering
Chief Operating Officer

Garry has a degree in economics from Nottingham Trent University. He commenced work with East Midlands Electricity PLC in February 1997, which was ultimately acquired by E.ON. He has close to 20 years' experience in electricity and gas markets, the vast majority spent managing the financial risks associated with a supply and generation portfolio. He has worked on projects including the deregulation of the UK electricity supply businesses and the implementation of the New Electricity Trading Arrangements that underpin the operation of the current UK electricity industry. His final role at E.ON, based in Dusseldorf, Germany, was as head of UK power portfolio optimisation. He left E.ON and returned to the UK in January 2015 in order to join the Group and oversee its operational requirements including energy purchasing and risk management.

John Glasgow
Independent Non-executive Director

A R

John has over 35 years' experience in engineering, operations, trading and IT across the energy industry. Senior roles have included head of Powergen technical audit and head of Powergen energy management centre, covering energy trading and power plant portfolio optimisation, and general manager of Powergen Energy Solutions. Latterly he was in board roles including head of strategy at the establishment of the new E.ON Energy Services business, E.ON director of new connections and metering and director of operations and asset management at E.ON Central Networks. During this time John was also a board member of the Energy Networks Association and a member of the DECC Energy Emergencies Executive Committee (E3C). Upon leaving E.ON John became managing director of Sterling Power Utilities Ltd until autumn 2013. John is also a board member of the St Modwen Environmental Trust.

Committee key:

- A Audit committee
- R Remuneration committee
- Chairman

Corporate governance report

Statement by the Directors on compliance with the Code of Best Practice

As an AIM-quoted company, Yü Group PLC is not required to comply with the provisions of the UK Corporate Governance Code ("the Code") that applies to companies with a premium London Stock Exchange listing. However, the Board recognises the importance and value of good corporate governance procedures and accordingly has selected those elements of the Code that it considers relevant and appropriate to the Group, given its size and structure.

The Board

The Group is controlled through a Board of Directors, which at 31 December 2016 comprised a Non-executive Chairman, three Executive Directors and one other Non-executive Director, for the proper management of the Company and the Group. The Chairman is Ralph Cohen and the Chief Executive Officer is Bobby Kalar. Both of the Non-executive Board members, Ralph Cohen and John Glasgow, are considered to be independent. The Board operates both formally, through Board and committee meetings, and informally, through regular contact amongst Directors and senior executives. There is a schedule of matters that are specifically referred to the Board for its decision, including approval of interim and annual financial results, setting and monitoring of strategy and examining business expansion possibilities. The Board is supplied with information in a timely manner, in a form and quality appropriate to enable it to discharge its duties.

The Directors can obtain independent professional advice at the Group's expense in the performance of their duties as Directors.

Board committees

The Board committees comprise the audit committee and the remuneration committee.

Audit committee including the Audit Committee Report

The audit committee comprises two members, who are both Non-executive Directors: Ralph Cohen (Chairman) and John Glasgow. The Group's external auditor, along with the Chief Executive Officer and the Chief Financial Officer, are invited to attend the audit committee meetings.

The audit committee has responsibility for, among other things, the monitoring of the financial integrity of the financial statements of the Group and the involvement of the Group's auditor in that process. It focuses, in particular, on compliance with accounting policies and ensuring that an effective system of audit and financial control is maintained, including considering the scope of the annual audit and the extent of the non-audit work undertaken by the external auditor and advising on the appointment of the external auditor.

The ultimate responsibility for reviewing and approving the annual report and accounts and the half-yearly reports remains with the Board.

The audit committee meets at least twice a year at the appropriate times in the financial reporting and audit cycle, and at such other times as may be deemed necessary. The terms of reference of the audit committee cover such issues as membership and the frequency of meetings, together with requirements of any quorum for, and the right to attend, meetings. The responsibilities of the audit committee covered in its terms of reference include the following: external audit, financial reporting, internal controls and risk management. The terms of reference also set out the authority of the committee to carry out its responsibilities. The audit committee met three times during 2016.

Any non-audit services that are to be provided by the external auditor are reviewed in order to safeguard auditor objectivity and independence. The committee considered the external auditor's procedures to safeguard independence and objectivity and the committee confirms that the non-audit fees earned by the external auditor for work performed in relation to and prior to the IPO are not considered to have impaired its objectivity and independence. The external auditor has the opportunity during the audit committee meetings to meet privately with committee members in the absence of executive management.

In preparation for the IPO, the Board considered a review of risks facing the Group, together with management's assessment of the risks and mitigation steps. Since the IPO, the audit committee has been responsible for reviewing the Company's procedures for the identification, assessment, management and reporting of risks.

The Company has a whistleblowing policy, in which staff may notify management or Non-executive Directors of any concerns regarding suspected wrongdoing or dangers at work.

Remuneration committee

The Chairman of the remuneration committee is John Glasgow; Ralph Cohen is the other Non-executive member. The committee meets periodically as required and is responsible for overseeing the policy regarding Executive remuneration and for approving the remuneration packages for the Group's Executive Directors. It is also responsible for reviewing incentive schemes for the Group as a whole.

Nominations committee

As the Board is small, there is currently no separate nominations committee. This will be reviewed as the Group and Board develop over time. The appointment of new Directors is considered by the Board as a whole.

Risk management and internal controls

The Directors are responsible for the Group's system of internal control and for reviewing its effectiveness, whilst the role of management is to implement Board policies on risk management and control. It should be recognised that the Group's system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Group operates a series of controls to meet its needs. These controls include, but are not limited to, a clearly defined organisational structure, written policies, a comprehensive annual strategic planning and budgeting process and detailed monthly reporting. The annual budget is approved by the Board as part of its normal responsibilities. In addition, the budget figures are regularly reforecast to facilitate the Board's understanding of the Group's overall position throughout the year and this reforecast is reported to the Board in addition to the reporting of actual results during the year.

The Group is currently experiencing rapid expansion. There is a risk that the existing systems, processes and procedures that are in place are not fit for purpose, and are not able to scale up at the same rate the business is growing. The Board is currently investing time and money in both the underlying system infrastructure and the personnel who will be using it on a day to day basis. System upgrades have taken place in 2016 and will continue into 2017, along with the necessary recruitment process.

The audit committee receives reports from management and the external auditor concerning the system of internal control and any material control weaknesses. Any significant risk issues are referred to the Board for consideration. The Board has considered the need for an internal audit function, but has concluded that, at this stage in the Group's development, the internal control systems in place are appropriate for the size and complexity of the Group.

Shareholder communications

The Chief Executive Officer and the Chief Financial Officer regularly meet with institutional shareholders to foster a mutual understanding of objectives. In particular, an extensive programme of meetings with analysts and institutional shareholders is held following the announcement of results. Feedback from these meetings and market updates prepared by the Company's NOMAD are presented to the Board to ensure they have an understanding of shareholders' views. The Chairman and the other Non-executive Director are available to shareholders to discuss strategy and governance issues.

The Directors encourage the participation of all shareholders, including private investors, at the annual general meeting and as a matter of policy the level of proxy votes (for, against and vote withheld) lodged on each resolution will be declared shortly after the meeting by means of an announcement on the London Stock Exchange and via the Company's website. The annual report and accounts is published on the Company's website, www.yugroupplc.com, and can be accessed by shareholders.

Remuneration report

As an AIM-listed company, Yü Group PLC is not required to comply with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The content of this report is unaudited unless stated.

Membership of the remuneration committee

During the year, the remuneration committee comprised the two Non-executive Directors, John Glasgow (Chairman of the remuneration committee) and Ralph Cohen. The remuneration committee reviews the performance of the Executive Directors and makes recommendations to the Board on matters relating to remuneration, terms of service, granting of share options and other equity incentives.

Remuneration policy

The objectives of the remuneration policy are to enable the Company to attract, retain and motivate its Executive Directors, while ensuring that the overall remuneration of Executive Directors is aligned with the performance of the Group and preserves an appropriate balance of remuneration and shareholder value.

Non-executive Directors

Remuneration of the Non-executive Directors is determined by the Executive Directors. Non-executive Directors are not entitled to pensions, annual bonuses or employee benefits. They are entitled to participate in share option arrangements relating to the Company's shares but neither of them does at this time.

Each of the Non-executive Directors has a letter of appointment stating his annual fee and that his appointment is initially for a term of 12 months from the date of admission (subject to re-election at the Company's first AGM). Their appointment may be terminated with three months' written notice at any time.

The annual fee for each Non-executive Director is set at £35,000 per annum from 17 March 2016.

Directors' remuneration

The normal remuneration arrangements for Executive Directors consist of basic salary and annual performance related bonuses.

All of the Executive Directors have service agreements that can be terminated by either party by giving at least 12 months' written notice.

Following the IPO, the basic annual salaries payable to the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer were increased to £250,000, £200,000 and £200,000 per annum respectively from 17 March 2016.

Executive bonuses

As a result of the financial performance in the year to 31 December 2016, the Executive Directors are entitled under the terms of their service contracts to cash bonuses amounting to £325,000 in aggregate, being £125,000 due to Bobby Kalar and £100,000 each to Nick Parker and Garry Pickering (together, "the Executive Directors"). The Executive Directors have agreed to waive these cash bonuses in full. The remuneration committee has agreed that, in lieu of the waiver of these bonuses, the Executive Directors be granted share options over ordinary shares in the Company, with the exercise price being the nominal value of the shares. The number of options to be granted is to be determined by reference to the amount of the bonus payment waived and the five day volume-weighted average share price immediately following the announcement of the 2016 financial results. The options will be exercisable from the third anniversary of the date of grant.

This approach is designed to enable the Board to retain capital in the Group to support the continued momentum in the Group's growth and development, while providing the Executive Directors with a longer-term incentive to increase shareholder value.

Directors' interests

Details of the Directors' shareholdings are included in the Directors' Report on page 18.

Directors' share options

Aggregate emoluments disclosed below do not include any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors. Details of options for Directors who served during the year are as follows:

	Number of options at 31 Dec 2016	Exercise price
Executive		
Bobby Kalar	—	—
Nick Parker	500,000	£0.09
Garry Pickering	500,000	£0.09
Non-executive		
Ralph Cohen	—	—
John Glasgow	—	—

Directors' remuneration

	Salary/fees £'000	Bonus £'000	Benefits £'000	**Total 2016 £'000**	Total 2015 £'000
Executive					
Bobby Kalar	197	—	—	**197**	—
Nick Parker	189	91	—	**280**	58
Garry Pickering	171	—	—	**171**	60
Non-executive					
Ralph Cohen	28	—	—	**28**	—
John Glasgow	28	—	—	**28**	—
	613	91	—	**704**	118

Nick Parker received a bonus of £91,000 in the year. This was in relation to the successful admission of the Group to AIM.

John Glasgow
Chairman of the remuneration committee
28 March 2017

Directors' report

The Directors present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

Registered office

The registered office of Yü Group PLC is CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham NG8 6PY.

Dividends

The Board has proposed a final dividend in respect of FY2016 of 1.5p per share, subject to shareholder approval at the AGM.

The Board proposed and paid an interim dividend in relation to 2016 of 0.75p per share. The total interim dividend of £105,405 was paid to shareholders on 5 January 2017.

Directors

The Directors of the Group during the year and up to the date of signing the financial statements were:

- Bobby Kalar – appointed 15 February 2016
- Nick Parker – appointed 18 February 2016
- Garry Pickering – appointed 18 February 2016
- Ralph Cohen – appointed 17 March 2016
- John Glasgow – appointed 17 March 2016

Significant shareholders

The Company is informed that, at 28 March 2017, individual registered shareholdings of more than 3 per cent of the Company's issued share capital were as follows:

	Number of ordinary shares held	% of issued ordinary share capital
Bobby Kalar	8,648,649	61.54%
Octopus Investments	1,347,963	9.59%
Miton Group PLC	1,158,972	8.25%
Seneca Partners Limited	668,567	4.76%
Legal & General Investment Management	517,920	3.69%
Artemis Investment Management LLP	476,351	3.39%

Directors' shareholdings

The beneficial interests of the Directors in the share capital of the Company at 31 December 2016 and at 28 March 2017 were as follows:

	Number of ordinary shares held	% of issued ordinary share capital
Executive Directors		
Bobby Kalar	8,648,649	61.54%
Nick Parker	21,605	0.15%
Garry Pickering	—	—
Non-executive Directors		
Ralph Cohen	54,054	0.38%
John Glasgow	—	—

Employees

The Group's Executive management regularly delivers Company-wide briefings on the Group's strategy and performance. These briefings contain details of the Group's financial performance where appropriate.

The Group remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find alternative jobs for those who are unable to continue in their existing job due to disability.

The Group takes a positive approach to equality and diversity. The Group promotes equality in the application of reward policies, employment and development opportunities, and aims to support employees in balancing work and personal lifestyles.

Annual general meeting

The annual general meeting of the Group is to be held on 25 May 2017. The notice of meeting appears on page 41 of these financial statements.

Political and charitable donations

During the year ended 31 December 2016 the Group made political donations of £nil (2015: £nil) and charitable donations of £nil (2015: £870).

Supplier payment policy and practice

The Group does not operate a standard code in respect of payments to suppliers. The Group agrees terms of payment with suppliers at the start of business and then makes payments in accordance with contractual and other legal obligations. The number of creditor days outstanding at 31 December 2016 was 12 days (2015: 18 days).

Statement of disclosure of information to auditor

As at the date this report was signed, so far as each of the Directors is aware, there is no relevant information of which the auditor is unaware and each Director has taken all steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Auditor

In accordance with section 489 of the Companies Act, a resolution for the reappointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Nick Parker
Director
28 March 2017

Statement of Directors' responsibilities

In respect of the annual report and the financial statements

The Directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. As required by the AIM Rules of the London Stock Exchange they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor's report

To the members of Yü Group PLC

We have audited the financial statements of Yü Group PLC for the year ended 31 December 2016 set out on pages 21 to 40. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards ("IFRSs") as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 19, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic Report and the Directors' Report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

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

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

Adrian Stone (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA
28 March 2017

Consolidated statement of profit and loss and other comprehensive income

For the year ended 31 December 2016

		31 December 2016			14 months ended 31 December 2015		
	Notes	**Adjusted £'000**	**Exceptional items and share based payments £'000**	**Total £'000**	Adjusted £'000	Exceptional items £'000	Total £'000
Revenue		**16,264**	**—**	**16,264**	3,880	—	3,880
Cost of sales		**(12,821)**	**—**	**(12,821)**	(3,132)	—	(3,132)
Gross profit		**3,443**	**—**	**3,443**	748	—	748
Operating costs before exceptionals and IFRS 2 charges		**(3,238)**	**—**	**(3,238)**	(1,735)	—	(1,735)
Operating costs – exceptional IPO costs	5	**—**	**(379)**	**(379)**	—	(33)	(33)
Operating costs – IFRS 2 share option charge	20	**—**	**(1,344)**	**(1,344)**	—	—	—
Total operating costs	4	**(3,238)**	**(1,723)**	**(4,961)**	(1,735)	(33)	(1,768)
Profit/(loss) from operations		**205**	**(1,723)**	**(1,518)**	(987)	(33)	(1,020)
Finance income	6	**19**	**—**	**19**	—	—	—
Finance costs	6	**(29)**	**—**	**(29)**	—	—	—
Profit/(loss) before tax		**195**	**(1,723)**	**(1,528)**	(987)	(33)	(1,020)
Taxation	9	**(59)**	**228**	**169**	204	—	204
Profit/(loss) for the year		**136**	**(1,495)**	**(1,359)**	(783)	(33)	(816)
Other comprehensive income		**—**	**—**	**—**	—	—	—
Total comprehensive income/(expense) for the year		**136**	**(1,495)**	**(1,359)**	(783)	(33)	(816)
Loss per share							
Basic and diluted	8			**£0.10**			£0.08

Consolidated and Company balance sheet

At 31 December 2016

		Group		Company
	Notes	**31 December 2016 £'000**	31 December 2015 £'000	**31 December 2016 £'000**
ASSETS				
Non-current assets				
Property, plant and equipment	12	**209**	155	**—**
Intangible assets	11	**57**	59	**—**
Deferred tax	14	**467**	204	**297**
		733	418	**297**
Current assets				
Trade and other receivables	15	**4,891**	1,063	**1,252**
Cash and cash equivalents	16	**5,197**	47	**4,818**
		10,088	1,110	**6,070**
Total assets		**10,821**	1,528	**6,367**
LIABILITIES				
Current liabilities				
Trade and other payables	17	**(5,340)**	(2,514)	**—**
Non-current liabilities	17	**(72)**	—	**(72)**
Total liabilities		**(5,412)**	(2,514)	**(72)**
Net assets/(liabilities)		**5,409**	(986)	**6,295**
EQUITY				
Share capital	19	**70**	50	**70**
Share premium	19	**—**	—	**—**
Merger reserve	19	**(50)**	(50)	**(50)**
Retained earnings	19	**5,389**	(986)	**6,275**
		5,409	(986)	**6,295**

The financial statements on pages 21 to 40 were approved by the Board of Directors on 28 March 2017 and signed on its behalf by:

Bobby Kalar
Chief Executive Officer

Nick Parker
Chief Financial Officer

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 1 January 2016	50	—	(50)	(986)	(986)
Total comprehensive income for the year					
Loss for the year	—	—	—	(1,359)	(1,359)
Other comprehensive income	—	—	—	—	—
	—	—	—	(1,359)	(1,359)
Transactions with owners of the Company					
Contributions and distributions					
Equity-settled share based payments	—	—	—	1,272	1,272
Deferred tax on share based payments	—	—	—	69	69
Proceeds from IPO share issue	20	7,480	—	—	7,500
Share issue costs	—	(1,087)	—	—	(1,087)
Capital restructuring	—	(6,393)	—	6,393	—
Total transactions with owners of the Company	20	—	—	7,734	7,754
Balance at 31 December 2016	**70**	**—**	**(50)**	**5,389**	**5,409**
Balance at 1 November 2014	50	—	(50)	(170)	(170)
Total comprehensive income for the period					
Loss for the period	—	—	—	(816)	(816)
Other comprehensive income	—	—	—	—	—
	—	—	—	(816)	(816)
Transactions with owners of the Company					
Contributions and distributions					
Equity-settled share based payments	—	—	—	—	—
Proceeds from IPO share issue	—	—	—	—	—
Share issue costs	—	—	—	—	—
Capital restructuring	—	—	—	—	—
Total transactions with owners of the Company	—	—	—	—	—
Balance at 31 December 2015	50	—	(50)	(986)	(986)

Company statement of changes in equity

For the year ended 31 December 2016

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
Balance at 15 February 2016	—	—	—	—	—
Total comprehensive income for the period					
Loss for the period	—	—	—	(1,459)	(1,459)
Other comprehensive income	—	—	—	—	—
	—	—	—	(1,459)	(1,459)
Transactions with owners of the Company					
Contributions and distributions					
Share based payments	—	—	—	1,272	1,272
Deferred tax on share based payments	—	—	—	69	69
Issue of shares	50	—	(50)	—	—
Proceeds from IPO share issue	20	7,480	—	—	7,500
Share issue costs	—	(1,087)	—	—	(1,087)
Capital restructuring	—	(6,393)	—	6,393	—
Total transactions with owners of the Company	70	—	(50)	7,734	7,754
Balance at 31 December 2016	**70**	**—**	**(50)**	**6,275**	**6,295**

Consolidated statement of cash flows

For the year ended 31 December 2016

	2016 £'000	14 months ended 31 December 2015 £'000
Cash flows from operating activities		
Loss for the financial year	**(1,359)**	(816)
Adjustments for:		
Depreciation of property, plant and equipment	**108**	80
Amortisation of intangible assets	**2**	2
Finance income	**(19)**	—
Finance costs	**29**	—
Taxation	**(169)**	(204)
Share based payment charge	**1,344**	—
Increase in trade and other receivables	**(3,828)**	(920)
Increase in trade and other creditors	**3,022**	2,018
Net cash from operating activities	**(870)**	160
Cash flows from investing activities		
Purchase of intangible assets	**—**	(20)
Purchase of property, plant and equipment	**(162)**	(130)
Interest received	**19**	—
Net cash from investing activities	**(143)**	(150)
Cash flows from financing activities		
Net proceeds from issue of new shares	**6,413**	—
Proceeds from loan	**—**	82
Repayment of borrowings	**(250)**	(79)
Net cash from financing activities	**6,163**	3
Net increase in cash and cash equivalents	**5,150**	13
Cash and cash equivalents at the start of the year	**47**	34
Cash and cash equivalents at the end of the year	**5,197**	47

Notes to the consolidated financial statements

1. Significant accounting policies

The consolidated financial statements of the Group for the year ended 31 December 2016 were approved and authorised for issue in accordance with a resolution of the Directors on 28 March 2017. Yü Group PLC is a public limited company incorporated in the United Kingdom. The Company's ordinary shares are traded on AIM.

Basis of preparation

The consolidated financial statements have been prepared in accordance with EU-endorsed International Financial Reporting Standards ("IFRSs"), IFRIC interpretations and the Companies Act 2006. The Company has elected to prepare its parent company financial statements in accordance with UK accounting standards (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

The consolidated financial statements are presented in British pounds sterling (£) and all values are rounded to the nearest thousand (£'000), except where otherwise indicated.

Going concern

At 31 December 2016 the Group had net assets of £5.4m (2015: net liabilities of £1.0m). Management prepares detailed budgets and forecasts of financial performance and cash flow over the coming 12 to 36 months. Based on the current projections the Directors consider it appropriate to continue to prepare the financial statements on a going concern basis.

Basis of consolidation

The consolidated accounts of the Group include the assets, liabilities and results of the Company and subsidiary undertakings in which Yü Group PLC has a controlling interest. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has all of the following: power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Summary of impact of Group restructure and initial public offering

On 17 March 2016, the Company listed its shares on AIM. In preparation for this initial public offering ("IPO") the Group was restructured. The restructure has impacted a number of the current year and comparative primary financial statements and notes.

For the consolidated financial statements of the Group, prepared under "IFRSs", the principles of reverse acquisition accounting under IFRS 3 "Business Combinations" have been applied. The steps to restructure the Group had the effect of Yü Group PLC being inserted above KAL-Energy Limited as the holder of the KAL-Energy Limited share capital.

By applying the principles of reverse acquisition accounting, the Group is presented as if Yü Group PLC has always owned KAL-Energy Limited. The comparative income statement and balance sheet are presented in line with the previously presented KAL-Energy Limited position. The comparative and current year consolidated reserves of the Group are adjusted to reflect the statutory share capital and share premium of Yü Group PLC as if it had always existed, adjusted for movements in the underlying KAL-Energy Limited share capital and reserves until the share-for-share exchange.

The steps taken to restructure the Group are explained in more detail in the Group reorganisation section below. The impact on the primary consolidated financial statements is as follows:

- Equity reflects the capital structure of Yü Group PLC. Following the restructure a merger reserve of £49,800 was recognised being the difference between the nominal value of the shares issued for consideration on the acquisition of KAL-Energy and the share capital of the existing KAL-Energy group.
- As part of the restructuring of the Group and the IPO, a number of shares in Yü Group PLC were issued in exchange for cash. The premium arising on the issue of shares was allocated to share premium.
- Costs relating directly to the new issue of shares have been deducted from the share premium account. Attributable IPO costs are allocated between share premium and the income statement in proportion to the number of shares traded on admission.
- A resolution was passed by the Company at a general meeting to cancel the share premium account as part of a capital reduction. This became effective from 22 June 2016 following High Court approval.

1. Significant accounting policies continued

Summary of impact of Group restructure and Initial Public Offering continued

Group reorganisation

Prior to the IPO the Group undertook a reorganisation in preparation for the transaction.

The effect of this reorganisation was to insert a new ultimate parent company, Yü Group PLC, into the Group. This company acquired the entire issued share capital of KAL-Energy Limited, as summarised below.

Yü Group PLC became the ultimate parent company of the Group by acquiring KAL-Energy Limited in exchange for the issue of new shares.

The key steps of the process were as follows:

- On incorporation on 15 February 2016, 100 ordinary shares of £1.00 each were allotted and issued.
- On 16 February 2016, the existing 100 ordinary shares of £1.00 were subdivided into 20,000 shares of £0.005 each.
- On 18 February 2016, the Company allotted 9,980,000 ordinary shares of £0.005 each in connection with a share-for-share exchange transaction, pursuant to which the Company acquired beneficial ownership of 100 per cent of the share capital of KAL-Energy Limited.
- The Company has recorded a £nil cost of investment and a merger reserve of £50,000, in the Company only accounts (in line with IAS 27 paragraph 13) as KAL-Energy Limited was in a negative net assets position at that date.
- As part of the Company's admission to AIM on 17 March 2016, 4,054,055 new ordinary shares of £0.005 each were issued. These shares were placed at £1.85 per share, resulting in additional share capital of £20,270 and share premium of £7,479,730.

Use of estimates and judgements

The preparation of the financial statements in conformity with adopted IFRSs requires the use of estimates and assumptions. Although these estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. The key areas of estimation and judgement are the level of accrual for unbilled revenue, the inputs to the IFRS 2 share option charge calculations and the recoverability of deferred tax assets and trade debtors.

Revenue recognition

The Group enters into contracts to supply gas and electricity to its customers. Revenue represents the fair value of the consideration received or receivable from the sale of actual and estimated gas and electricity supplied during the year, net of discounts and value added tax. For both electricity and gas supplied, revenue is recognised on consumption.

Revenue is recognised when the associated risks and rewards of ownership have been transferred, to the extent that it is probable that the economic benefits associated with the transaction will flow to the Group, and where the revenue can be measured reliably.

Due to the inherent nature of the industry and its reliance upon estimated meter readings, revenue includes the Directors' best estimate of differences between estimated sales and billed sales. The Group makes estimates of customer consumption based on available industry data, and also seasonal usage curves that have been estimated through historic actual usage data.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents and trade and other payables.

Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents.

1. Significant accounting policies continued

Financial instruments continued

Derivative financial instruments

The Group uses commodity purchase contracts to hedge its exposures to fluctuations in gas and electricity commodity prices. When commodity purchase contracts have been entered into as part of the Group's normal business activity, the Group classifies them as "own use" contracts and outside the scope of IAS 39. This is achieved when:

- a physical delivery takes place under all such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements; and
- the contracts are not considered as written options as defined by the standard.

This classification as "own use" allows the Group not to recognise the commodity purchase contracts on its balance sheet at the year end.

Classification of financial instruments issued by the Group

Following the adoption of IAS 32, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Exceptional items

The Group presents as exceptional items on the face of the consolidated statement of comprehensive income those material items of income and expense which, because of the nature or expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in that year, so as to facilitate comparison with prior periods and to assess better the trends in financial performance.

Intangible assets

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- Licence – 35 years

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives for the current and comparative periods are as follows:

- Computer equipment – three years
- Fixtures and fittings – three years

Leased assets and lease obligations

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets acquired under finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is recorded in the balance sheet as a finance lease obligation. The lease payments are apportioned between finance charges to the income statement and a reduction of the lease obligations.

Rental payments under operating leases are charged to the income statement on a straight-line basis over the applicable lease periods.

1. Significant accounting policies continued

Share based payments

Share based payment arrangements in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payment transactions, regardless of how the equity instruments are obtained by the Group.

The grant date fair value of share based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting conditions, the grant date fair value of the share based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the statement of profit and loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

Segmental reporting

In accordance with IFRS 8 "Operating Segments", the Group has made the following considerations to arrive at the disclosure made in this financial information.

IFRS 8 requires consideration of the chief operating decision maker ("CODM") within the Group. In line with the Group's internal reporting framework and management structure, the key strategic and operating decisions are made by the Board of Directors, who regularly review the Group's performance and balance sheet position and receive financial information for the Group as a whole. Accordingly, the Board of Directors is deemed to be the CODM.

The Group's revenue and profit were derived from its principal activity, which is the supply of energy to SMEs in the UK. As a consequence the Group has one reportable segment, which is supply of energy to SMEs. Segmental profit is measured at operating profit level, as shown on the face of the statement of profit and loss.

As there is only one reportable segment whose losses, expenses, assets, liabilities and cash flows are measured and reported on a basis consistent with the financial statements, no additional numerical disclosures are necessary.

Standards and interpretations

The following adopted IFRSs have been issued but have not been applied by the Group in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated:

- IFRS 9 "Financial Instruments" (effective for periods beginning on or after 1 January 2018, EU endorsed 22 November 2016);
- IFRS 15 "Revenue from Contracts with Customers" (effective date 1 January 2018, EU endorsed 22 September 2016);
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (effective date 31 December 2016);
- IFRS 14 "Regulatory Deferral Accounts" (effective date 31 December 2016);
- IFRS 16 "Leases" (effective for periods beginning on or after 1 January 2019, not yet endorsed by EU); and
- Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective date to be confirmed).

Notes to the consolidated financial statements continued

2. Segmental analysis

Operating segments

The Directors consider there to be one operating segment, being the supply of energy to SMEs and larger corporates.

Geographical segments

100 per cent of the Group revenue is generated from sales to customers in the United Kingdom (2015: 100 per cent).

The Group has no individual customers representing over 10 per cent of revenue (2015: nil).

3. Auditor's remuneration

	2016 £'000	14 months ended 31 December 2015 £'000
Audit of these financial statements	25	—
Amounts receivable by auditor in respect of:		
Audit of financial statements of subsidiaries pursuant to legislation	10	30
Advisory work in respect of AIM listing	280	—
Other services pursuant to legislation	—	—
	315	30

£280,000 of the auditor's remuneration is included in the exceptional cost line (see note 5).

4. Operating expenses

	2016 £'000	14 months ended 31 December 2015 £'000
Loss for the year has been arrived at after charging:		
Staff costs (see note 7)	2,972	1,030
Depreciation of property, plant and equipment	108	80
Amortisation of intangibles	2	2
Auditor's remuneration (see note 3)	315	30
Operating lease rentals	81	99

5. Exceptional items

The Group incurred legal and professional fees in the year ended 31 December 2016 of £379,000 (2015: £33,000) in relation to the placing of ordinary shares and admission to AIM.

6. Net finance costs

	2016 £'000	14 months ended 31 December 2015 £'000
Bank charges	29	1
Bank interest receivable	(19)	—
	10	1

7. Staff numbers and costs

The average number of persons employed by the Group (including Directors) during the period, analysed by category, was as follows:

	2016 Number	14 months ended 31 December 2015 Number
Sales	**30**	17
Administration	**28**	15
	58	32

The aggregate payroll costs of these persons were as follows:

	2016 £'000	14 months ended 31 December 2015 £'000
Wages and salaries	**1,430**	951
Social security costs	**198**	79
Share based payments	**1,344**	—
	2,972	1,030

8. Earnings per share

Basic loss per share

Basic loss per share is based on the loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding.

	2016 £'000	14 months ended 31 December 2015 £'000
Loss for the year attributable to ordinary shareholders	**(1,359)**	(816)

	2016	2015
Weighted average number of ordinary shares		
At the start of the year	**10,000,000**	10,000,000
Effect of shares issued in the year	**3,212,229**	—
Weighted average number of ordinary shares during the year	**13,212,229**	10,000,000

	2016 £	2015 £
Basic loss per share	**(0.10)**	(0.08)

Adjusted earnings per share

Adjusted earnings per share is based on the result attributable to ordinary shareholders before exceptional items and the cost of cash and equity-settled share based payments, and the weighted average number of ordinary shares outstanding:

	2016 £'000	2015 £'000
Adjusted earnings per share		
Loss for the year attributable to ordinary shareholders	**(1,359)**	(816)
Add back:		
Exceptional items	**379**	—
Share based payments after tax	**1,116**	—
Adjusted basic earnings/(loss) for the year	**136**	(816)

Notes to the consolidated financial statements continued

8. Earnings per share continued

Adjusted earnings per share continued

	2016 £	2015 £
Adjusted earnings/(loss) per share	**0.01**	(0.08)

Diluted loss per share

Due to the Group having losses in each of the periods, the fully diluted loss per share for disclosure purposes as shown in the consolidated statement of comprehensive income is the same as the basic loss per share.

9. Taxation

	2016 £'000	14 months ended 31 December 2015 £'000
Current tax charge		
Current year	**(25)**	—
Adjustment in respect of prior years	**—**	—
	(25)	—
Deferred tax credit		
Current year	**219**	204
Adjustment in respect of prior years	**(25)**	—
	194	204
Total tax credit	**169**	204
Tax recognised directly in equity		
Current tax recognised directly in equity	**—**	—
Deferred tax recognised directly in equity	**69**	—
Total tax recognised directly in equity	**69**	—
Reconciliation of effective tax rate		
Loss before tax	**1,528**	1,020
Tax at UK corporate tax rate of 20%	**306**	204
Expenses not deductible for tax purposes	**(73)**	(10)
Adjustment in respect of prior periods – deferred tax	**(25)**	—
Deferred tax recognised in previous losses	**—**	33
Reduction in tax rate on deferred tax balances	**(39)**	(23)
Taxation credit for the year	**169**	204

Reductions in the UK corporation tax rate from 20 per cent to 19 per cent (effective from 1 April 2017) and a further reduction to 17 per cent (effective from 1 April 2020) were substantively enacted on 6 September 2016. This will reduce the Group future corporation tax charge accordingly.

10. Dividends

The Group proposed and paid an interim dividend in relation to 2016 of 0.75p per share. The total interim dividend of £105,405 was paid to shareholders on 5 January 2017.

The proposed final dividend in relation to 2016, of 1.5p per share, will be subject to approval at the AGM on 25 May 2017.

11. Intangible assets

	Electricity licence £'000
Cost	
At 1 January 2016	62
Additions	—
Disposals	—
At 31 December 2016	**62**
Amortisation	
At 1 January 2016	3
Charge for the year	2
Disposals	—
At 31 December 2016	**5**
Net book value at 31 December 2016	**57**
Cost	
At 1 November 2014	62
Additions	—
Disposals	—
At 31 December 2015	62
Amortisation	
At 1 November 2014	1
Charge for the period	2
Disposals	—
At 31 December 2015	3
Net book value at 31 December 2015	59

On 17 February 2014, KAL-Energy Limited acquired all of the ordinary shares in Kensington Power Limited for £60,000, settled by way of £40,000 cash upon completion of the transaction and £20,000 contingent consideration upon the successful completion of MRASCo Controlled Market Entry ("CME") as confirmed by Gemserv Limited. The contingent consideration was paid in 2015.

Acquisition related costs of £2,700 were incurred relating to legal fees and stamp duty.

Kensington Power Limited was non-trading prior to its acquisition by the Group and it had been established as a special purpose company to procure Ofgem licences. Kensington Power Limited held an electricity supply licence under the Electricity Act 1989 which came into force on 11 January 2013. KAL-Energy Limited acquired Kensington Power Limited to enable the Group to commence supply of electricity to SME customers. As Kensington Power Limited only contained the licence and no business, this has been accounted for as an asset acquisition.

Following the acquisition, Kensington Power Limited has become the trading entity within the Group with KAL-Energy Limited acting as a holding company.

The useful economic life of the acquired electricity licence is 35 years, which represents the fact that the licence can be revoked by giving 25 years' written notice but that this notice cannot be given any sooner than 10 years after the licence has come into force.

Notes to the consolidated financial statements continued

12. Property, plant and equipment

	Computer equipment £'000	Fixtures and fittings £'000	Total £'000
Cost			
At 1 January 2016	251	23	274
Additions	131	31	162
Disposals	—	—	—
At 31 December 2016	**382**	**54**	**436**
Depreciation			
At 1 January 2016	114	5	119
Charge for the year	92	16	108
Disposals	—	—	—
At 31 December 2016	**206**	**21**	**227**
Net book value at 31 December 2016	**176**	**33**	**209**
Cost			
At 1 November 2014	156	6	162
Additions	95	17	112
Disposals	—	—	—
At 31 December 2015	251	23	274
Depreciation			
At 1 November 2014	39	—	39
Charge for the period	75	5	80
Disposals	—	—	—
At 31 December 2015	114	5	119
Net book value at 31 December 2015	137	18	155

13. Investments in subsidiaries

The Group has the following investments in subsidiaries:

Company name	Country of incorporation	Holding	Proportion of shares held	Nature of business
KAL-Energy Limited	United Kingdom	Ordinary shares	100%	Dormant
Yü Energy Limited	United Kingdom	Ordinary shares	100%	Dormant
Kensington Power Limited	United Kingdom	Ordinary shares	100%	Supply of energy to SMEs
Yü Water Limited	United Kingdom	Ordinary shares	100%	Dormant

All of the above entities are included in the consolidated financial statements.

All of the above entities have the same registered address as Yü Group PLC. The address is listed as part of the Company information on page 45.

14. Deferred tax assets

Deferred tax assets are attributable to the following:

	Group		Company	
	2016 £'000	2015 £'000	**2016 £'000**	2015 £'000
Property, plant and equipment	**(33)**	(28)	**—**	—
Tax value of loss carry-forwards	**203**	232	**—**	—
Share based payments	**297**	—	**297**	—
	467	204	**297**	—

Movement in deferred tax in the period:

	At 1 January 2016 £'000	Recognised in income £'000	Recognised directly in equity £'000	At 31 December 2016 £'000
Property, plant and equipment	(28)	(5)	—	**(33)**
Tax value of loss carry-forwards	232	(29)	—	**203**
Share based payments	—	228	69	**297**
	204	194	69	**467**

	At 1 November 2014 £'000	Recognised in income £'000	Recognised directly in equity £'000	At 31 December 2015 £'000
Property, plant and equipment	(25)	(3)	—	(28)
Tax value of loss carry-forwards	25	207	—	232
	—	204	—	204

The deferred tax asset is expected to be utilised over the next three years. The Group is forecast to generate sufficient taxable income as a result of the growth in the customer base following the completion of CME during 2016, against which it will utilise these deferred tax assets.

Notes to the consolidated financial statements continued

15. Trade and other receivables

	Group		Company
	2016 £'000	2015 £'000	**2016 £'000**
Trade receivables	**2,663**	—	**—**
Accrued income	**1,904**	1,005	**—**
Prepayments	**83**	35	**—**
Other receivables	**241**	—	**—**
Amount due from subsidiary undertaking	**—**	—	**1,252**
Loans to connected parties	**—**	23	**—**
	4,891	1,063	**1,252**

None of the Group's receivables fall due after more than one year.

The amount due from subsidiary undertaking in the books of Yü Group PLC is non-interest bearing and is repayable on demand.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

16. Cash and cash equivalents

	Group		Company
	2016 £'000	2015 £'000	**2016 £'000**
Cash at bank and in hand	**379**	47	**—**
Short-term deposits	**4,818**	—	**4,818**
	5,197	47	**4,818**

17. Trade and other payables

	2016 £'000	2015 £'000
Current		
Trade payables	**431**	157
Loans from connected parties	**—**	250
Accrued expenses	**3,602**	647
Corporation tax	**25**	—
Deferred income	**—**	1,227
Other payables	**1,282**	233
	5,340	2,514
Non-current		
Group share bonus liabilities	**72**	—

Details of the Group share bonus scheme are included in note 20.

18. Financial instruments and risk management

The Group's principal financial instruments are cash, trade receivables and trade payables. The Group has exposure to the following risks from its use of financial instruments:

Market risk

Market risk is the risk that changes in market prices, such as commodity and energy prices, will affect the Group's income.

Commodity and energy prices

The Group uses commodity purchase contracts to manage its exposures to fluctuations in gas and electricity commodity prices. The Group's objective is to minimise risk from fluctuations in energy prices by entering into back-to-back energy contracts with its suppliers and customers. Commodity purchase contracts are entered into as part of the Group's normal business activities; the Group classifies them as "own use" contracts. This classification as "own use" allows the Group not to recognise the commodity purchase contracts on its balance sheet at the year end.

18. Financial instruments and risk management continued

Market risk continued

Commodity and energy prices continued

As far as possible the Group attempts to match up all new sales orders with corresponding commodity purchase contracts. There is a risk that at any point in time the Group is over or under hedged. Holding an over or under hedged position opens the Group up to market risk which may result in either a positive or negative impact on the Group's margin and cash flow, depending on the movement in commodity prices.

The Board has evaluated and continues to evaluate the use of commodity purchase contracts and whether their classification as "own use" is appropriate. On the basis that the key requirements are as listed below, it has concluded that this classification is appropriate:

- Physical delivery takes place under all contracts;
- The volumes purchased or sold under the contract correspond to the Group's operating requirements;
- The contracts are not considered to be written options as defined by IAS 39;
- There are no circumstances where the Group would settle the contracts net in cash, nor does the Group take delivery of the commodities and sell them within a short period for trading purposes.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

These trading exposures are monitored and managed at Group level. All customers are UK based and turnover is made up of a large amount of customers each owing relatively small amounts. Any potential new customer has their credit checked using an external credit reference agency prior to being accepted as a customer.

Credit risk is also managed through the Group's standard business terms, which require all customers to make a monthly payment by direct debit. At the year end there were no significant concentrations of credit risk. The carrying amount of the financial assets represents the maximum credit exposure at any point in time.

The ageing of trade receivables at the balance sheet date was:

	2016 £'000	2015 £'000
Not past due	**1,434**	—
Past due (0–30 days)	**523**	—
Past due (31–120 days)	**670**	—
More than 120 days	**36**	—
	2,663	—

At 31 December 2016 the Group held a provision against doubtful debts of £50,000 (2015: £nil).

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. In order to enter into the necessary commodity purchase contracts, the Group is required to lodge funds on deposit with its bank. These funds (£3.4m at 31 December 2016) are used as collateral, allowing the bank to issue letters of credit ("LOCs") to the relevant trading counterparties in the wholesale energy market. The Board has considered the cash flow forecasts, along with the collateral and LOC requirements, for the next 12 months, which show that the Group expects to operate within its working capital facilities throughout the year.

Any excess cash balances are held in short-term, interest bearing deposit accounts. At 31 December 2016 the Group had £5.2m of cash and bank balances, as per note 16.

Foreign currency risk

The Group trades entirely in sterling, hence it has no foreign currency risk.

Notes to the consolidated financial statements continued

19. Share capital and reserves

Share capital	2016 Number	2016 £'000	2015 Number	2015 £'000
Allotted and fully paid ordinary shares of £0.005 each	**14,054,055**	**70**	10,000,000	50

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000
At 1 January 2016	50	—	(50)	(986)
Loss for the year	—	—	—	(1,359)
Share based payment charge	—	—	—	1,272
Deferred tax on share based payment charge	—	—	—	69
Proceeds from IPO share issue	20	7,480	—	—
Share issue costs	—	(1,087)	—	—
Capital restructuring	—	(6,393)	—	6,393
At 31 December 2016	**70**	**—**	**(50)**	**5,389**
At 1 November 2014	50	—	(50)	(170)
Loss for the period	—	—	—	(816)
At 31 December 2015	50	—	(50)	(986)

On 15 February 2016, being the date of incorporation of Yü Group PLC, 100 ordinary shares of £1.00 each were issued.

On 16 February 2016, the existing 100 ordinary shares of £1.00 were subdivided into 20,000 shares of £0.005 each.

On 18 February 2016, the Company allotted 9,980,000 ordinary shares of £0.005 each in connection with a share-for-share exchange transaction pursuant to which the Company acquired beneficial ownership of 100 per cent of the share capital of KAL-Energy Limited. The Company has recorded a £nil cost of investment and a merger reserve of £50,000 as KAL-Energy Limited was in a negative net asset position at that date.

As part of the Company's admission to AIM on 17 March 2016, 4,054,055 new ordinary shares of £0.005 each were issued. These shares were placed at £1.85 per share, resulting in additional share capital of £20,270 and share premium of £7,479,730.

Costs relating directly to the new issue of shares have been deducted from the share premium account. Attributable IPO costs are allocated between share premium and the income statement in proportion to the number of shares traded on admission.

On 26 May 2016, the Company passed a resolution at a general meeting to cancel the Company's share premium account as part of a capital reduction. This became effective from 22 June 2016 following High Court approval. As a result of the capital reduction, the Company has positive distributable reserves, allowing for dividend payments to be made.

20. Share based payments

The Group operates an EMI share option plan for qualifying employees of the Group. Options in the plan are settled in equity in the Company. The options are subject to a vesting schedule, but not conditional on any performance criteria being achieved. The only vesting condition is that the employee is employed by the Group at the date when the option vests.

The terms and conditions of the grants made during the year were as follows:

		Exercisable between				
Date of grant	Expected term	Commencement	Lapse	Exercise price	Vesting schedule	Amount outstanding at 31 December 2016
17 February 2016	2	17 February 2018	17 February 2026	£0.09	1	**1,000,000**
17 February 2016	3	17 February 2019	17 February 2026	£0.09	2	**81,000**
22 December 2016	3	22 December 2019	22 December 2026	£3.25	2	**13,500**
						1,094,500

20. Share based payments continued

The following vesting schedule applies:

1. 50 per cent of options vest on first anniversary of date of grant and 50 per cent vest on second anniversary.
2. 100 per cent of options vest on third anniversary of date of grant.

The number and weighted average exercise price of share options were as follows:

	2016	2015
Balance at the start of the period	—	—
Granted	1,108,000	—
Forfeited	(13,500)	—
Lapsed	—	—
Exercised	—	—
Balance at the end of the period	1,094,500	—
Vested at the end of the period	—	—
Exercisable at the end of the period	—	—
Weighted average exercise price for:		
Options granted in the period	£0.13	—
Options forfeited in the period	£0.09	—
Options exercised in the period	—	—
Exercise price in the range:		
From	£0.09	—
To	£3.25	—

The fair value of each option grant is estimated on the grant date using a Black Scholes option pricing model with the following fair value assumptions:

	2016	2015
Dividend yield	—	—
Risk-free rate	1.50%	—
Share price volatility	35.39%	—
Expected life (years)	2.55	—
Weighted average fair value of options granted during the period	£1.75	—

As disclosed in the Remuneration Report on page 16, the Executive Directors have agreed to waive their 2016 cash bonus entitlement, with a new option award being made in lieu of this bonus. The number of options to be granted is to be determined by reference to the amount of the bonus payment waived and the five day volume-weighted average share price immediately following the announcement of the 2016 financial results. This new option award is accounted for under IFRS 2 to reflect the agreement in place at the year-end date which covers the service already provided by the Directors in 2016, and for further years of service until the options vest in April 2020. The IFRS 2 charge has therefore been split over the four year, three month service period, with the charge taken in these financial statements in relation to 2016 being £81,126.

The new option award will have an exercise price of £0.005 and will be exercisable from the third anniversary of the date of grant. It is expected that the new options will be granted during the week commencing 3 April 2017.

The Group also operates a share bonus plan for all qualifying employees of the Group. The plan is settled in cash and is subject to certain financial targets for the next three financial years. On meeting these financial targets each financial year, 50,000 notional shares are awarded to the Group bonus pool. At the end of the third financial year (31 December 2018) the value of the pool will be based on the share price of the Group one week after the announcement of the results for the year ended 31 December 2018, and will be distributed to all qualifying employees.

Notes to the consolidated financial statements continued

20. Share based payments continued

The total expenses recognised for the year, and the total liabilities recognised at the end of the year arising from share based payments, are as follows:

	2016 £'000	14 months ended 31 December 2015 £'000
Equity-settled share based payment expense	1,272	—
Cash-settled share based payment expense	72	—
	1,344	—

21. Commitments

Operating lease commitments

The total amount payable under non-cancellable operating leases is as follows:

	2016 £'000	2015 £'000
Payable within one year	147	95
Payable within two to five years	510	290
Payable after five years	290	—
	947	385

Capital commitments and contingent liabilities

The Group had no capital commitments at 31 December 2016 (2015: £nil).

The Group had no contingent liabilities at 31 December 2016 (2015: £nil).

22. Related parties and related party transactions

The Group has transacted with the following related parties during the current and prior financial periods:

- CPK Investments Limited (an entity owned by Bobby Kalar);
- Better Business Energy Limited (an entity owned by Bobby Kalar); and
- Jinny Kalar (wife of Bobby Kalar).

CPK Investments Limited owns the property from which the Group operates and rents it to Kensington Power Limited under an operating lease. During 2016 the Group paid £99,000 in lease rentals and service charges to CPK Investments Limited (14 months ended 31 December 2015: £72,000).

Of the £99,000 lease payments £35,000 was classified as a pre-paid dilapidation provision at the year end in relation to the newly refurbished first floor of the Group headquarters.

In 2014, the Group made payments on behalf of CPK Investments Limited for consultancy services totalling £23,006. This amount was outstanding at 31 December 2015 (see note 15), but was repaid during 2016.

Better Business Energy Limited has provided funding to the Group in the past to support working capital requirements, such as staff costs. The balance of the loan outstanding at 31 December 2015 was £250,000 (see note 16). This loan was repaid in full during 2016.

During the year, Jinny Kalar provided administration and consulting services to the Group. She received total remuneration of £20,500 during 2016.

All transactions with related parties have been carried out on an arm's length basis.

23. Post-balance sheet events

There are no significant or disclosable post-balance sheet events.

Notice of annual general meeting

Notice is given that the first annual general meeting of Yü Group plc ("the Company") will be held at DLA Piper, 3 Noble Street, London EC2V 7EE on 25 May 2017 at 11.30am for the following purposes:

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive the Company's annual accounts and the Strategic, Directors' and Auditor's Reports for the year ended 31 December 2016.
2. To declare a final dividend for the year ended 31 December 2016 on the issued ordinary shares of £0.005 each in the capital of the Company at the rate of 1.5p per ordinary share to be paid on 12 September 2017 to the shareholders whose names appear on the register of members of the Company as at the close of business on 11 August 2017.
3. To re-elect Ralph Cohen, who retires by rotation as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
4. To re-elect Bobby Kalar, who retires by rotation as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
5. To re-elect Garry Pickering, who retires by rotation as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
6. To re-elect Nick Parker, who retires by rotation as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
7. To re-elect John Glasgow, who retires by rotation as a Director of the Company pursuant to Article 90.2 of the Company's Articles of Association.
8. To reappoint KPMG LLP as auditor of the Company.
9. To authorise the audit committee to determine the remuneration of the auditor.
10. That, pursuant to section 551 of the Companies Act 2006 ("the Act"), the Directors be generally and unconditionally authorised to allot shares in the Company or to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £23,423.43, provided that this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 25 August 2018 (whichever is the earlier), save that the Company may make an offer or agreement before this authority expires which would or might require shares to be allotted or rights to subscribe for or to convert any security into shares to be granted after this authority expires and the Directors may allot shares or grant such rights pursuant to any such offer or agreement as if this authority had not expired.

    This authority is in substitution for all existing authorities under section 551 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

To consider and, if thought fit, pass the following resolutions as special resolutions:

11. That, subject to the passing of resolution 10 and pursuant to section 570 of the Act, the Directors be and are generally empowered to allot equity securities (within the meaning of section 560 of the Act) for cash pursuant to the authority granted by resolution 10 as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

    11.1 in connection with an offer of equity securities (whether by way of a rights issue, open offer or otherwise):

    11.1.1 to holders of ordinary shares in the capital of the Company in proportion (as nearly as practicable) to the respective numbers of ordinary shares held by them; and

    11.1.2 to holders of other equity securities in the capital of the Company, as required by the rights to those securities or, subject to such rights, as the Directors otherwise consider necessary,

    but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates or any legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange; and

    11.2 otherwise than pursuant to paragraph 11.1 of this resolution, up to an aggregate nominal amount of £7,027.03,

    and this power shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 25 August 2018 (whichever is the earlier), save that the Company may make an offer or agreement before this power expires which would or might require equity securities to be allotted for cash after this power expires and the Directors may allot equity securities for cash pursuant to any such offer or agreement as if this power had not expired.

    This power is in substitution for all existing powers under section 570 of the Act (which, to the extent unused at the date of this resolution, are revoked with immediate effect).

Notice of annual general meeting continued

12. That, pursuant to section 701 of the Act, the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares of £0.005 each in the capital of the Company, provided that:

    12.1 the maximum aggregate number of ordinary shares which may be purchased is 1,405,405;

    12.2 the minimum price (excluding expenses) which may be paid for an ordinary shares is £0.005; and

    12.3 the maximum price (excluding expenses) which may be paid for an ordinary share is an amount equal to 105 per cent of the average of the middle market quotations for an ordinary share as derived from the Alternative Investment Market for the five business days immediately preceding the day on which the purchase is made,

    and (unless previously revoked, varied or renewed) this authority shall expire at the conclusion of the next annual general meeting of the Company after the passing of this resolution or on 25 August 2018 (whichever is the earlier), save that the Company may enter into a contract to purchase ordinary shares in the capital of the Company before this authority expires under which such purchase will or may be completed or executed wholly or partly after this authority expires, and may make a purchase of ordinary shares in the capital of the Company pursuant to any such contract as if this authority had not expired.

By order of the Board

Nick Parker
Secretary
28 March 2017

Registered office:
CPK House
2 Horizon Place
Nottingham Business Park
Mellors Way
Nottingham
United Kingdom
NG8 6PY

Registered in England and Wales no. 10004236

Notes

Entitlement to attend and vote

1. The right to vote at the meeting is determined by reference to the register of members of the Company. Only those persons whose names are entered on the register of members of the Company at 6.00pm on 23 May 2017 (or, if the meeting is adjourned, 6.00pm on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote in respect of the number of shares registered in their names at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend and/or vote (and the number of votes they may cast) at the meeting.

Proxies

2. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting and, on a poll, vote instead of him or her. A proxy need not be a shareholder of the Company.
3. A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.
4. A proxy may only be appointed in accordance with the procedures set out in note 7 and the notes to the proxy form.
5. The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting.
6. A proxy does not need to be a member of the Company but must attend the annual general meeting to represent you. Details of how to appoint the Chairman of the annual general meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. You may appoint more than one proxy to attend on the same occasion.
7. A form of proxy is enclosed. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by the proxy form being photocopied. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.
8. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given in the proxy form, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the AGM.
9. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).
10. To be valid, a proxy form must be received by post or (during normal business hours only) by hand at the offices of the Company's transfer agent, Neville Registrars Limited, 18 Laurel Lane, Halesowen, West Midlands B63 3DA, no later than 11.30am on 23 May 2017 (or, if the meeting is adjourned, no later than 48 hours (excluding any part of a day that is not a working day) before the time of any adjourned meeting).
11. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Any amended proxy appointment received after the time specified above will be disregarded.
12. Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Neville Registrars Limited.
13. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.
14. In order to revoke a proxy instruction you will need to inform the Company by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to Neville Registrars Limited. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by a duly authorised officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Neville Registrars Limited prior to the commencement of the annual general meeting or adjourned meeting at which the vote is given or, in the case of a poll taken otherwise than on the same day as the meeting or adjourned meeting, before the time appointed for taking the poll.
15. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then your proxy appointment will remain valid.

Notice of annual general meeting continued

Notes continued

Corporate representatives

16. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares. A Director, the Company Secretary or other person authorised for the purpose by the Company Secretary may require all or any such persons to produce a copy of the resolution of authorisation certified by an officer of the corporation before permitting him to exercise his powers.

Method of voting

17. Voting on all resolutions will be decided on a show of hands unless a poll is duly demanded (i) before or on declaration of the result of a vote on a show of hands or (ii) on the withdrawal of any other demand for a poll.

Documents available for inspection

18. The following documents will be available for inspection during normal business hours at the registered office of the Company and at the Company's business address, CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham NG8 6PY, from the date of this notice until the time of the meeting. They will also be available for inspection at the place of the meeting from at least 15 minutes before the meeting until it ends:

    18.1 copies of the service contracts of the Executive Directors; and

    18.2 copies of the letters of appointment of the Non-executive Directors.

Biographical details of Directors

19. Biographical details of all those Directors who are offering themselves for reappointment at the meeting are set out on pages 12 and 13 of the enclosed annual report and accounts.

Company information

Company Secretary
Nick Parker

Company website
www.yugroupplc.com

Registered office
CPK House
2 Horizon Place
Nottingham Business Park
Mellors Way
Nottingham NG8 6PY

Nominated adviser
Shore Capital and Corporate Limited
Bond Street House
14 Clifford Street
London W1S 4JU

Broker
Shore Capital Stockbrokers Limited
Bond Street House
14 Clifford Street
London W1S 4JU

Auditor and reporting accountant
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Solicitors to the Company
DLA Piper UK LLP
3 Noble Street
London EC2V 7EE

Registrars
Neville Registrars Limited
Neville House
18 Laurel Lane
Halesowen B63 3DA
0121 585 1131

Financial PR
Alma PR
1 Fore Street
London EC2Y 9DT

consultancy, design and production by
designportfolio
design-portfolio.co.uk @WeAre_DP

Design Portfolio is committed to planting trees for every corporate communications project, in association with Trees for Cities.

GROUP PLC

CPK House
2 Horizon Place
Nottingham Business Park
Mellors Way
Nottingham NG8 6PY

www.yugroupplc.com