



GROUP PLC

# YÜ GROUP PLC

PLACING AND ADMISSION TO AIM



**SHORE CAPITAL**  
CAPITAL MARKETS

NOMINATED ADVISER AND BROKER

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document you should immediately consult your accountant, legal or professional adviser, financial adviser or a person authorised for the purposes of the Financial Services and Markets Act 2000, as amended (“FSMA”) who specialises in advising on the acquisition of shares and other securities.**

An application has been made for the whole of the issued and to be issued Ordinary Share capital of Yü Group PLC (the “Company”) to be admitted to trading on AIM, a market operated by London Stock Exchange (“Admission”). This document is an admission document in relation to AIM. It has been drawn up in accordance with the AIM Rules published by London Stock Exchange and has been issued in connection with the proposed admission to trading on AIM of the Ordinary Shares. This document does not constitute a prospectus for the purposes of the Prospectus Rules and has not been approved by or filed with the Financial Conduct Authority. Any offer of Ordinary Shares is being made only to qualified investors for the purposes of and as defined in section 86 of FSMA and accordingly this document does not constitute, and the Company is not making an offer to the public within the meaning of sections 85 and 102B of FSMA.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. London Stock Exchange has not itself examined or approved the contents of this document.**

**The AIM Rules are less demanding than those of the Official List. It is emphasised that no application is being made for admission of the Ordinary Shares to the Official List. No applications for the Ordinary Shares to be listed or traded on any other recognised investment exchange have been made or are currently intended to be made.**

The Directors and the Proposed Directors, whose names appear on page 4 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors, the Proposed Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All the Directors and Proposed Directors accept individual and collective responsibility for compliance with the AIM Rules. To the extent information has been sourced from a third party, this information has been accurately reproduced and, as far as the Board and the Company are aware, no facts have been omitted which may render the reproduced information inaccurate or misleading. In connection with this document, no person is authorised to give any information or make any representation other than as contained in this document.

It is expected that Admission will become effective, and that dealings in the Ordinary Shares will commence, at 8.00 a.m. on 17 March 2016.

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# Yü Group PLC

*(Incorporated in England and Wales under the Companies Act 2006 with registered number 10004236)*

## Placing of 5,405,406 Ordinary Shares at 185 pence per Ordinary Share and Admission to trading on AIM

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***Nominated Adviser***  
**Shore Capital and Corporate Limited**

***Broker***  
**Shore Capital Stockbrokers Limited**



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### Share capital immediately following completion of the Placing and Admission

	<i>Issued</i>	
	<i>Number</i>	<i>£</i>
Ordinary Shares of £0.005 each	14,054,055	70,270.28

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### **YOUR ATTENTION IS DRAWN TO THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.**

Prospective investors should read the whole text of this document and should be aware that an investment in the Company involves a high degree of risk. The attention of prospective investors is drawn in particular to Part II of this document which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Group's business, financial position and prospects should be viewed in light of the risk factors set out in Part II of this document.

The Placing is conditional, *inter alia*, on Admission taking place by 8.00 am on 17 March 2016 (or such later date as the Company and Shore Capital may agree being no later than 8.00 am on 30 April 2016). The Placing Shares will, on Admission, rank *pari passu* in all respects with the Ordinary Shares then in issue and will rank in full for all dividends and other distributions declared, paid or made in respect of the Ordinary Shares after Admission.

Shore Capital and Corporate Limited (“**SCC**”), which is authorised and regulated by the Financial Conduct Authority, has agreed to act as nominated adviser to the Company for the purposes of the AIM Rules for Companies. Shore Capital Stockbrokers Limited (“**SCS**”), which is a member of the London Stock Exchange and is authorised and regulated by the Financial Conduct Authority, has agreed to act as broker in the United Kingdom for the purposes of the AIM Rules for Companies exclusively to the Company and no one else in connection with the Placing and Admission. Persons receiving this document should note that, in connection with the Placing and Admission, SCC and SCS are acting exclusively for the Company and no one else and will not be responsible to anyone, other than the Company, for providing the protections afforded to customers of SCC and SCS or for advising any other person on the transactions and arrangements described in this document. No representation or warranty, express or implied, is made by SCC or SCS as to any of the contents of this document in connection with the Proposals, or otherwise.

This document does not constitute an offer to sell or issue, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful and, in particular, is not for distribution into the United States, Canada, Australia, Japan, the Republic of South Africa or the Republic of Ireland. The issue of Ordinary Shares has not been, and will not be, registered under the applicable securities laws of the United States, Canada, Australia, Japan, the Republic of South Africa or the Republic of Ireland and the Ordinary Shares may not be offered or sold directly or indirectly within the United States, Canada, Australia, Japan, the Republic of South Africa or the Republic of Ireland or to, or for the account or benefit of any person within the United States, Canada, Australia, Japan, the Republic of South Africa or the Republic of Ireland. The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdictions.

Prospective investors should rely only on the information contained in this document. No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Board or Shore Capital. Without prejudice to the Company’s obligations under the AIM Rules for Companies, neither the delivery of this document nor any subscription made under this document shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company since the date of this document or that the information contained in this document is correct as of any time subsequent to the date of this document.

Copies of this document, which is dated 11 March 2016, will be available during normal business hours on any day (except Saturdays, Sundays, bank and public holidays) free of charge to the public at the offices of DLA Piper LLP at 3 Noble Street, London EC2V 7EE from the date of this document to the date one month from the date of Admission. This document will be available to download from the Company’s website at [www.yugroupplc.com](http://www.yugroupplc.com).

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## DIRECTORS, PROPOSED DIRECTORS, COMPANY SECRETARY AND ADVISERS

<b>Directors</b>	Baljit (Bobby) Kalar ( <i>Chief Executive Officer</i> ) Anthony Nicholas (Nick) Parker ( <i>Chief Financial Officer</i> ) Garry Pickering ( <i>Chief Operating Officer</i> )
<b>Proposed Directors</b>	Ralph Leslie Cohen ( <i>Independent Non-Executive Chairman</i> ) John Colin Glasgow ( <i>Independent Non-Executive Director</i> )
<b>Company Secretary</b>	Nick Parker
<b>Registered Office</b>	CPK House 2 Horizon Place Nottingham Business Park Mellors Way Nottingham NG8 6PY
<b>Nominated Adviser</b>	Shore Capital and Corporate Limited Bond Street House 14 Clifford Street London W1S 4JU
<b>Broker</b>	Shore Capital Stockbrokers Limited Bond Street House 14 Clifford Street London W1S 4JU
<b>Auditors and Reporting Accountants</b>	KPMG LLP 1 Sovereign Square Sovereign Street Leeds LS1 4DA
<b>Solicitors to the Company</b>	DLA Piper UK LLP 3 Noble Street London EC2V 7EE
<b>Solicitors to the Placing</b>	Fladgate LLP 16 Great Queen Street London WC2B 5DG
<b>Registrars</b>	Neville Registrars Limited Neville House 18 Laurel lane Halesowen B63 3DA
<b>Company website</b>	<a href="http://www.yugroupplc.com">www.yugroupplc.com</a>

## DEFINITIONS

<b>“Act”</b>	the Companies Act 2006;
<b>“Admission”</b>	the admission of the Existing Share Capital and Placing Shares to trading on AIM, such admission becoming effective in accordance with the AIM Rules;
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange;
<b>“AIM Rules”</b>	the AIM Rules for Companies published by the London Stock Exchange governing admission to, and the operation of, AIM as in force as at the date of this document or, where the context so required, as amended or modified after the date of this document;
<b>“AIM Rules for Nominated Advisers”</b>	the AIM Rules for Nominated Advisers, published by the London Stock Exchange governing admission to, and the operation of, AIM as amended from time to time;
<b>“Articles”</b>	the articles of association of the Company as amended from time to time;
<b>“Board”</b>	The Directors and the Proposed Directors whose names are set out on page 4 of this document;
<b>“certificated” or “in certificated form”</b>	an Ordinary Share which is not in uncertificated form;
<b>“City Code” or “Code”</b>	the City Code on Takeovers and Mergers;
<b>“Company” or “Yü Energy”</b>	Yü Group PLC;
<b>“CREST Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001/3755) (as amended);
<b>“CREST”</b>	the Relevant System (as defined in the CREST Regulations) in respect of which CRESTCo Limited is the Operator (as defined in the CREST Regulations);
<b>“Directors”</b>	Bobby Kalar, Nick Parker and Garry Pickering;
<b>“EIS”</b>	Enterprise Investment Scheme under provisions of Part 5 of the Income Tax Act 2007;
<b>“EIS Placing Shares”</b>	the 1,454,041 Ordinary Shares to be issued by the Company to investors seeking EIS relief pursuant to the Placing;
<b>“EMI Option”</b>	an option granted under the Share Option Scheme and intended to qualify as enterprise management incentives pursuant to the provisions of schedule 5 of the Income Tax (Earnings and Pensions) Act 2003;
<b>“Enlarged Share Capital”</b>	the ordinary share capital of the Company on Admission as enlarged by the issue of the new Placing Shares;
<b>“Existing Share Capital”</b>	the 10,000,000 Ordinary Shares in issue as at the date of this document;

<b>“FCA”</b>	the UK Financial Conduct Authority established pursuant to the Financial Services Act 2012 and responsible for, among other things, the conduct and regulation of firms authorised and regulated under FSMA;
<b>“FCA Handbook”</b>	the FCA’s handbook of rules and guidance as published by the FCA from time to time;
<b>“FSMA”</b>	the Financial Services and Markets Act 2000 (as amended);
<b>“Further Placing Shares”</b>	the 1,351,353 Ordinary Shares to be issued by the Company to investors pursuant to the Placing;
<b>“Group”</b>	the Company and its subsidiaries from time to time;
<b>“HMRC”</b>	HM Revenue & Customs;
<b>“IFRS”</b>	International Financial Reporting Standards, as issued by the ISAB, as adopted by the European Commission for use in the European Union;
<b>“KAL”</b>	KAL-Energy Limited (to be re-named Yu Holdings Limited), a company incorporated in England and Wales with company number 08205335 and whose registered office is at CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham, NG8 6PY;
<b>“KAL-Energy Plan”</b>	the KAL-Energy Limited employee share option plan as described in paragraph 6.2 of Part VI of this document;
<b>“KAL Options”</b>	has the meaning given in paragraph 6.2 of Part VI of this document;
<b>“KPL”</b>	Kensington Power Limited (to be re-named Yu Energy Limited), a company incorporated in England and Wales with company number 08246810 and whose registered office is at CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham, NG8 6PY;
<b>“London Stock Exchange”</b>	London Stock Exchange plc;
<b>“Majority Shareholder”</b>	Bobby Kalar;
<b>“New Placing Shares”</b>	the Placing Shares other than the Sale Shares;
<b>“Official List”</b>	the Official List of the UKLA;
<b>“Options”</b>	options granted under the Share Option Scheme;
<b>“Ordinary Shares”</b>	Ordinary shares of £0.005 each in the capital of the Company;
<b>“Panel”</b>	the Panel on Takeovers and Mergers;
<b>“Placees”</b>	the subscribers for or purchasers of Placing Shares pursuant to the Placing;

<b>“Placing”</b>	the proposed conditional placing of the Placing Shares at the Placing Price by SCS on behalf of the Company and the Majority Shareholder to the Placees;
<b>“Placing Agreement”</b>	the conditional agreement dated 11 March 2016 and made between (1) the Company, (2) the Directors, (3) the Proposed Directors, (4) SCC and (5) SCS, a summary of the principal terms of which is set out in paragraph 14 of Part VI of this document;
<b>“Placing Price”</b>	185p per Placing Share;
<b>“Placing Shares”</b>	the 5,405,406 Ordinary Shares to be issued and allotted by the Company or sold by the Majority Shareholder pursuant to the Placing consisting of the EIS Placing Shares, the VCT Placing Shares, the Further Placing Shares and the Sale Shares;
<b>“Prospectus Rules”</b>	the Prospectus Rules brought into effect on 1 July 2005 pursuant to Commission Regulation (EC) No. 809/2004;
<b>“Proposed Directors”</b>	Ralph Cohen and John Glasgow;
<b>“QCA”</b>	Quoted Companies Alliance;
<b>“QCA Corporate Governance Code”</b>	the Corporate Governance Code for Small and Mid-size Companies 2013, published by the QCA;
<b>“Relationship Agreement”</b>	the agreement dated 11 March 2016 between the Company, Bobby Kalar and Shore Capital, further details of which are set out in paragraph 15.6 of Part VI of this document;
<b>“Reorganisation”</b>	the reorganisation of the Group, details of which are set out in paragraphs 2.6.2 to 2.6.6 of Part VI of this document;
<b>“Rule 9”</b>	Rule 9 of the City Code;
<b>“Sale Shares”</b>	the 1,351,351 existing Ordinary Shares being sold on behalf of the Majority Shareholder pursuant to the Placing;
<b>“SCC”</b>	Shore Capital and Corporate Limited;
<b>“SCS”</b>	Shore Capital Stockbrokers Limited;
<b>“Share Option Scheme”</b>	the share option scheme to be known as the Yü Group PLC Employee Share Option Plan and to be adopted by the Company on or immediately prior to Admission as described at paragraph 6.1 of Part VI of this document;
<b>“Shareholder”</b>	a holder of Ordinary Shares from time to time;
<b>“Shore Capital”</b>	SCC and/or SCS as the context permits;



<b>“UK” or “United Kingdom”</b>	the United Kingdom of Great Britain and Northern Ireland;
<b>“Unapproved Option”</b>	an option granted under the Share Option Scheme that does not qualify as an EMI Option;
<b>“uncertificated” or “in uncertificated form”</b>	shares or other securities recorded on the relevant register as being held in uncertificated form in CREST and title in which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<b>“United Kingdom Listing Authority” or “UKLA”</b>	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
<b>“US”, “USA” or “United States”</b>	the United States of America, each State thereof (including the District of Columbia), its territories, possessions and all areas subject to its jurisdiction;
<b>“VCT”</b>	a company approved as a Venture Capital Trust under the provisions of Part 6 of the Income Tax Act 2007; and
<b>“VCT Placing Shares”</b>	the 1,248,661 Ordinary Shares to be issued by the Company to VCTs seeking VCT relief pursuant to the Placing.

## GLOSSARY

<b>"Big Six"</b>	A term used to describe the six largest gas and electricity suppliers in the UK, namely, British Gas Trading Limited (a subsidiary of Centrica), RWE npower plc (trading as npower), SSE plc (" <b>SSE</b> "), Electricite de France S.A. (" <b>EDF</b> "), ScottishPower Ltd (a subsidiary of Iberdrola S.A.) and E.ON SE (" <b>E.ON</b> ")
<b>"BSUOS"</b>	Balancing service use of system
<b>"CCL"</b>	Climate Change Levy
<b>"CNG"</b>	Contract Natural Gas Limited
<b>"CME"</b>	Controlled Market Entry
<b>"CRC"</b>	Carbon Reduction Commitment
<b>"CUSC"</b>	Connection and Use of System Code
<b>"DA"</b>	Data aggregator
<b>"DC"</b>	Data collector
<b>"DECC"</b>	Department of Energy and Climate Change
<b>"DNO"</b>	Distribution Network Operator
<b>"DUOS"</b>	Distribution use of system
<b>"EA"</b>	Electricity Act 1989
<b>"Elexon"</b>	Elexon Limited
<b>"FY"</b>	Financial Year
<b>"GA"</b>	Gas Act 1986
<b>"GEMA" or "Authority"</b>	Gas and Electricity Markets Authority
<b>"Gemserv"</b>	Gemserv Limited
<b>"HH"</b>	Half Hourly Meter
<b>"IDNO"</b>	Independent Distribution Network Operator
<b>"LNG"</b>	Liquefied natural gas
<b>"MAM"</b>	Meter asset manager
<b>"MAP"</b>	Meter asset provider
<b>"MOP"</b>	Meter operators
<b>"MRA"</b>	Master Registration Agreement or Meter Reading Agreement or Meter Reading Agent, as the context requires
<b>"MRASCO"</b>	MRA Service Company
<b>"National Grid"</b>	National Grid Electricity Transmission plc

<b>"NGET"</b>	National Grid Electricity Transmission
<b>"NGG"</b>	National Grid Gas
<b>"NTS"</b>	National Transmission System
<b>"NHH"</b>	Non-Half Hourly Meter
<b>"Ofgem"</b>	Office of Gas and Electricity Markets
<b>"RO"</b>	Renewables Obligation
<b>"ROC"</b>	Renewables Obligation Certificate
<b>"SLCs"</b>	Supply Licence Conditions
<b>"SMEs"</b>	Small and medium enterprises
<b>"SPAA"</b>	Supply Point Administration Agreement
<b>"SO"</b>	System Operator
<b>"TUOS"</b>	Transmission network use of system
<b>"TPIs"</b>	Third Party Intermediaries, who provide energy purchasing and management services to corporate energy users
<b>"UA"</b>	Utilities Act 2000
<b>"Xoserve"</b>	Internet portal for industry data on the gas industry

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	11 March 2016
Admission and commencement of dealings in the Ordinary Shares on AIM	17 March 2016
CREST stock accounts credited with Ordinary Shares	17 March 2016
Despatch of definitive share certificates (where applicable)	by 31 March 2016

*Each of the times and dates in the above timetable is subject to change. All times are London times unless stated otherwise.*

## PLACING STATISTICS

Placing Price per Placing Share	185p
Number of Ordinary Shares in issue immediately prior to the Placing	10,000,000
Number of Placing Shares being offered pursuant to the Placing	5,405,406
– New Placing Shares	4,054,055
– Sale Shares	1,351,351
Number of Ordinary Shares in issue at Admission	14,054,055
Gross proceeds of the Placing receivable by the Company	£7,500,000
Market capitalisation of the Company at the Placing Price following Admission	£26,000,000
Placing Shares expressed as a percentage of the Enlarged Share Capital	38.46%
EPIC/TIDM	YU.
ISIN	GB00BYQDPD80
SEDOL	BYQDPD8

## **FORWARD-LOOKING STATEMENTS**

All statements other than statements of historical facts included in this document, including, without limitation, those regarding the Group's financial position, business strategy, plans and objectives of management for future operations or statements relating to expectations in relation to dividends or any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "plans", "will", "may", "anticipates", "would", "could" or similar expressions and the negatives thereof, are forward looking statements. Such forward looking statements involve known and unknown risks, uncertainties and other important factors beyond the Group's control that could cause the actual results, performance, achievements of or dividends paid by the Group to be materially different from future results, performance or achievements, or dividend payments expressed or implied by such forward looking statements. Such forward looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. These forward looking statements speak only as of the date of this document. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward looking statements contained herein to reflect any changes in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by applicable law or the AIM Rules.

## PART I

### INFORMATION ON THE GROUP

#### 1. Information on the Group

Yü Energy is an independent supplier of gas and electricity focused on servicing SME businesses throughout the UK. It has no involvement in the domestic retail market. The Group was founded by Bobby Kalar and has obtained the necessary Ofgem licences to supply gas and electricity in the UK market. In addition to the supply of gas and electricity, the Group offers certain ancillary services.

#### 2. History and development of the Group

Bobby was originally involved in the care home industry where he was exposed to the issues of energy cost management faced by SMEs. As a result of this he founded Better Business Energy Limited in 2009 as a TPI energy broker to service SMEs, initially focussing on the care home sector. In 2012, he took the decision to enter into the energy supply market setting up KAL and KPL to take advantage of the market opportunity. In May 2013 KAL started to trade using its gas licence from Ofgem, and KPL started to trade using its electricity licence in August 2014. Both the gas licence and electricity licence were granted to KAL and KPL respectively in January 2013. Subsequently, in November 2014 KAL transferred its business to KPL, with KPL becoming the operating subsidiary for the Group's business.

The Group is based in Nottingham and currently employs 43 people, split principally between sales and support functions, in addition to senior management.

#### 3. Overview of the Group's business

##### 3.1. Existing sales channels

###### *Direct sales*

The Group's initial route to market was by way of an outbound telesales team, which was set up in 2013, following receipt of its gas licence by Ofgem. At present, the team consists of 14 sales people and is focused on securing contracts from lower volume, commercial energy users being non half-hourly ("**NHH**") users. The team is currently generating approximately £500,000 per month in contracted annual sales. Following Admission, the Board intends to expand the team to drive further sales growth.

Subsequent to exiting controlled market entry ("**CME**") for NHH users the Group set up three further sales channels, namely Corporate sales, Broker sales and Renewals, each of which is described below.

###### *Corporate sales*

The corporate sales team was established in Autumn 2015 and focuses on servicing corporates that have higher volume requirements and are half hourly meter ("**HH**") users. These customers typically require face-to-face engagement with the Group's sales team. In addition, the Group has started to explore entry into specific niche areas where service and flexibility are paramount. The Group's corporate customers currently represent anything from a single meter point up to 60 meter points. The Directors believe that there are no physical restrictions which would limit the number of meter points per customer that the Company could supply.

###### *Broker sales*

In July 2015, the Group set up a broker sales channel focussed on securing contracts through third party intermediaries ("**TPIs**"). The team currently works with over 25 TPIs across the UK. Yü Energy has developed strong relationships with these TPIs, with a view to ensuring that the Group is amongst a number of preferred suppliers requested to quote for potential new contracts through this sales

channel. The team is now generating between £500,000 and £1.0 million per month in contracted annual sales.

### *Renewals*

A dedicated team was set up in July 2015 to service existing customers whose initial contracts were due to expire. Depending on the type of customer which is renewing smaller customers are able to terminate their contract at anytime up to 30 days prior to the end of the contract whilst larger customers are given 30 days notice between 120 and 90 days prior to their contract end date, during which they have an option to leave or renew the terms of their contract. Where no contact is made by the customer, the Group proactively engages with the client to discuss renewal terms.

In the period from May to December 2015, the renewal rate of gas contracts averaged 90 per cent., and 89 per cent. of electricity contracts were renewed at the end of the initial one year contract term. The blended average margin achieved on renewed contracts was no less than those previously achieved on those same contracts.

The Board views renewals as a key channel for creating a “subscription model” providing the Group with a strong foundation to drive future growth.

#### **3.1.1. Sales Process**

The Group’s direct sales team uses purchased data to drive lead generation. The Group has in place an automated system for following up leads following initial contact. Within the broker sales channel, the sales team establish direct relationships with TPIs to facilitate Yü Energy’s involvement in the tendering process for clients of the TPI as their customer contracts come up for renewal. The corporate sales team engages directly with the procurement officers within large corporates and public sector organisations.

#### **3.1.2. Customer Service**

The Group has designated account managers for each client and named customer service staff who provide a direct line of contact for the customer. The Group has a “three ring” policy in place for phone answering, with a target of a 90 second call resolution.

The Group’s customer relationship management (“**CRM**”), billing and pricing systems allow the Group to offer bespoke contracts, and therefore an opportunity to simplify a customer’s offering where a portfolio of metering points is involved.

Once a customer confirms their intention to enter into a supply contract with the Group, a change of supply process is initiated. The electricity industry process in particular is complex and dictates a sequential flow of data files between various industry parties. This flow will vary according to the information contained within the data files and is subject to data validation at all interfaces. The Group has a bespoke data interface that aggregates and validates individual data flows to its chosen industry agents to improve efficiency and identify bottlenecks. The process tracks the flow of data files and allows manual interaction as required. Change of supply can be subject to objection from the incumbent supplier.

Yü Energy seeks to provide clear and easily understandable billing alongside flexible payment options. Any queries raised are handled by a dedicated billings team.

#### **3.2. IT software systems**

The Group operates two industry compliant IT systems for the gas and electricity sectors. The Directors believe that the IT systems currently in place have sufficient capacity to support the Group’s growth in meter points for the foreseeable future and that the Group has also invested in adequate IT security, protection and back-up facilities. Disaster recovery procedures are in place and tested quarterly.

The Group backs up all its electronic data to an offsite location five times a day and stores these back-up files for 30 days following their creation. It also undertakes regular testing to ensure that disaster recovery procedures are effective.

### **3.3. Hedging and Balancing**

#### **3.3.1. Hedging**

Following Admission, the Directors will seek to hedge 100 per cent. of all sales of energy at fixed prices. Due to the nature of the industry it is not practicable to hedge forward contracts with complete accuracy. Energy contracts are sold to customers at fixed rates and as soon as practically possible, following the sale of such fixed price contracts, forward contracts are taken out with the wholesale energy market to offset this risk to the highest extent possible. It is not possible to buy energy products in the wholesale market that exactly replicate the customers' contract dates. Additionally it is not possible to forecast exactly the volume of energy that the customers will use. As a consequence, there will always be a degree to which the Group is exposed to balancing charges, where there is a mis-match, as described in paragraph 3.3.2 below.

#### **3.3.2. Balancing**

Energy suppliers are required to undertake a balancing and shaping operation whereby excess demand or over supply is settled through wholesale market mechanisms.

For its gas supply, the Group sub-contracts the balancing and shaping operation to CNG, to whom a fixed management fee per therm is paid for providing this service. As the Group grows in scale, it is the Board's intention to bring this activity in-house. The Group already manages its own balancing and shaping operation in relation to its electricity supply. In the period from September 2015 to 31 January 2016, the net cash impact of imbalances to the Group was less than £5,000.

#### **3.3.3. Collateral lodged with the wholesale market**

To support the Group's hedging policy, standard industry terms require letters of credit to be lodged with the wholesale energy market. The Group is fast growing and currently has over 1,700 meter points. A report commissioned by DECC entitled "Credit and collateral in the GB energy markets" (by Cornwall Energy, dated June 2014) stated that suppliers servicing 12,500 SME electricity customers would require approximately £3.5 million of collateral, generally in the form of letters of credit, and suppliers servicing 12,500 gas customers would require approximately £1.0 million of collateral. Gas requires less collateral than electricity due to the ability to store and resell gas as a commodity.

## **4. The UK commercial energy market**

### **4.1. Regulatory framework**

The UK energy market is regulated by the Gas and Electricity Markets Authority ("**GEMA**") through Ofgem, pursuant to the Utilities Act 2000. The main legislation regulating the electricity and gas industries is the Electricity Act 1989 ("**EA**") and Gas Act 1986 ("**GA**") respectively. The principal objective of GEMA is to protect the interests of existing and future consumers in relation to the supply of gas and electricity, including the reduction of greenhouse gases and the security of such supply. In carrying out its role, Ofgem is required, where appropriate, to promote effective competition within the industry.

In order to achieve these objectives, a system of licences is operated by Ofgem with industry codes administered by various bodies. Under the standard licence terms of the relevant electricity and gas licences, all licensees are required to adhere to certain industry codes. These codes set out the technical standards that apply to all members of the industry, and the terms and conditions that will form the basis of commercial transactions between the members of the industry. Each code is given contractual force by the accession of the licensees to a multilateral contract containing the rights and

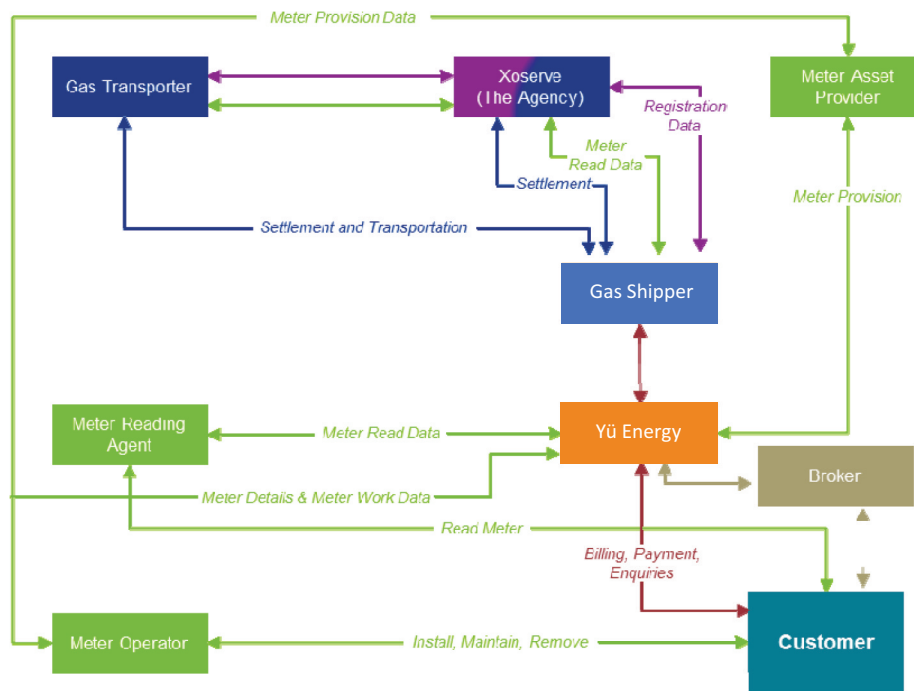


obligations of that code. Market participants may be sanctioned by Ofgem for any breach of the codes.

The industry codes are 'live documents', and as such the details of the codes are subject to periodic modification. Each code has a panel or committee that oversees the assessment of proposed changes to that code, with the approval of Ofgem.

## 4.2. Energy market overview

### 4.2.1. Overview of the UK gas market



Source: Management information

#### Production and importation

The majority of gas for the UK market comes from offshore fields in the North and Irish seas. Significant volumes of gas are also imported from Ireland throughout the year as well as from Belgium and the Netherlands via three interconnector pipes and imported in the form of liquefied natural gas ("LNG"). Gas producers, LNG importers and interconnector operators bring the gas onshore to reception terminals and LNG importation terminals. From these terminals the gas enters the National Transmission System ("NTS"). National Grid Gas ("NGG") is the sole owner and operator of the gas transmission infrastructure in the UK.

Gas producers and importers sell gas to licensed shippers who then own the gas as it travels through the NTS and distribution networks.

#### Transmission and distribution

There are two types of gas network in the UK, transmission and distribution. The NTS is a high pressure gas network which transports gas from the entry terminals to gas distribution networks, or directly to power stations and other large industrial users. Gas subsequently leaves the transmission system and enters distribution networks at high pressure. The pressure is gradually reduced throughout the distribution network until it is finally delivered to consumers.

There are eight regional distribution networks, four of which are owned by NGG. The owners of the distribution networks are known as gas transporters.

### Shipping

Shippers purchase gas from producers and arrange the flow of it through transmission and distribution networks to individual consumer meters on behalf of suppliers, such as the Group. Shippers are responsible for procuring sufficient physical gas to meet the forecast demand of suppliers and manage this process by the entry into contracts over the short, medium and long term with gas producers.

Shippers are required to nominate daily quantities of gas entering and/or exiting the networks to balance inputs and outputs. There are currently more than 220 companies that hold a gas shippers licence in the UK.

### Suppliers

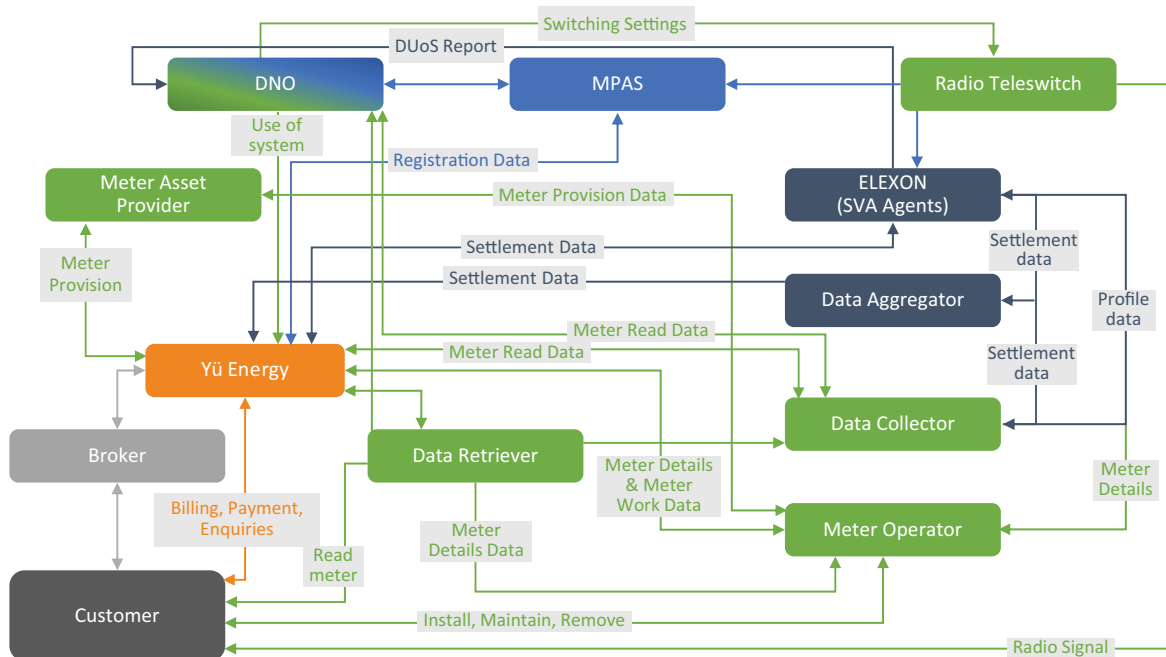
Suppliers buy gas in bulk from shippers and sell it on to customers in the retail market, in Yü Energy's case, to the commercial SME market. The Group currently pays CNG a fixed management fee to act as its shipper, market counterparty and to provide hedging and balancing services for its gas supply. It is the Board's intention to bring the balancing and shaping activity in-house as the Group grows in scale. The balancing and hedging process is described further in paragraph 3.3 of this Part I.

Suppliers are required to be licensed by Ofgem and to adhere to a set of regulations called Supply Licence Conditions ("SLCs"). SLCs cover a wide range of areas such as compliance with industry codes, marketing, metering, arrangements for site access and financial reporting.

### Balancing and settlement

Any imbalance between a shipper's entry and exit positions that requires NGG to trade gas to keep the pipeline physically balanced is then apportioned among suppliers who have failed to balance customers' consumption volumes with purchased gas volumes. For this a balancing charge is incurred with shippers having to pay marginally over the market price to fulfill any shortfall, and to sell any excess gas at marginally below market price.

## 4.2.2. Overview of the UK electricity market



Source: Management information

### *Transmission and distribution*

Electricity generated at the power stations enters the transmission network at Grid Entry Points and leaves the transmission network at Grid Supply Points where it enters the distribution networks. Unlike gas, electricity cannot be easily stored in significant quantities. Consequently, the transmission network needs to be constantly balanced to ensure that sufficient electricity is present in the right place at the right time to meet demand. This balancing role is performed by National Grid in its role as System Operator (“**SO**”).

National Grid Electricity Transmission (“**NGET**”) owns the transmission network in England and Wales and ownership of the Scottish transmission network is split between Scottish Hydro-Electric Transmission Limited and SP Transmission Limited.

Electricity is subsequently distributed across the network by the 14 Distribution Network Operators (“**DNOs**”) together with a small number of Independent Distribution Network Operators (“**IDNOs**”) currently operating across the UK, using a high voltage distribution network, to the meters of the end consumers.

### *Suppliers*

Suppliers, such as Yü Energy, purchase electricity in bulk on the wholesale market and sell it on to customers in the retail market. As with gas suppliers, electricity suppliers are required to be licenced by Ofgem and to adhere to SLCs. To meet their SLCs, suppliers appoint a collection of agents to assist, together know as a “Supplier Hub”. Core to the Supplier Hub are the:

- *Meter operator*: Responsible for installing and maintaining meters.
- *Data collector*: Responsible for validating meter readings and calculating consumption.
- *Data aggregator*: Responsible for aggregating consumption and submitting it into the settlement process.

Other agents that a supplier might appoint include:

- *Meter asset provider (“**MAP**”)*: Owns meters and charges the supplier rental.
- *Data retriever*: Responsible for visiting customers’ premises and obtaining meter readings.

### *Balancing and settlement*

Due to the inability to store electricity, in contrast with gas, electricity is priced and financially settled on a half-hourly basis, while gas is financially settled and balanced on a daily basis. Regulations introduced by Ofgem introduced an obligation on eight trading parties, being Drax Group PLC (“**Drax**”), ENGIE (formerly GDF Suez) and the Big Six. They are obligated to maintain liquidity to provide market access to small suppliers once they meet certain collateral requirements. Yü Energy will meet these collateral requirements following Admission and receipt of its proceeds from the Placing.

## **4.3. Competitive landscape**

There are currently three broad categories of supplier within the UK commercial energy market. The first group is the Big Six who dominate the market, servicing approximately 90 per cent. of the SME market.

The second group are the non-independent energy suppliers who predominantly have a focus on energy trading. Examples include Smartest Energy and Total Gas and Power Limited.

The final category is that of independent energy suppliers. The key operators in this segment include larger challengers to the Big Six such as Havenpower Ltd (owned by Drax), Hudson Energy (commercial supply division of Just Energy Group (NYSE: JE; TSX:JE)) which typically supply the highest volume

customers, Corona Energy Ltd (part owned by Macquarie Group Limited) and Opus Energy (part owned by the listed group Telecom Plus PLC (TEP.L) and ENGIE). Good Energy plc focuses on supplying power from renewable sources to the domestic market and is admitted to trading on AIM (GOOD.L).

#### **4.4. Market opportunity**

Approximately 90 per cent. of SMEs are customers of the Big Six, of which circa 40 per cent., equating to approximately two million accounts, have not considered changing supplier in the past five years (Source: Quantitative Research into Non-Domestic Customer Engagement in, and experience of, the Energy Market, Ofgem 2013). The Board believes that there is significant commercial opportunity for the Group by targeting these SMEs. The Board believes new customers generally have been attracted to the Group due to better prices and subsequently stay with the Group due to the excellent service levels they experience. The Board's intention is to establish the Group as a leading energy supplier in the UK, servicing the SME market.

#### **4.5. Barriers to entry**

In order to supply gas and electricity to customers, new entrants have to overcome significant regulatory and industry barriers to entry. There are currently few independent energy suppliers to the SME sector which, the Board believes, is a reflection of these substantial barriers to entry posed by the regulatory environment of the market.

##### **4.5.1. Regulatory**

There are number of regulatory bodies and codes with which every new entrant has to seek accreditation and compliance respectively. These include:

- Ofgem
- MRASCO
- Gemserv
- Elexon
- Electralink
- SPAA
- Xoserve
- National Grid
- GEMA
- CUSC
- Energy Networks Association Ltd

In addition, there are number of other regulatory bodies with which suppliers have to interact. Consequently, there is a significant regulatory burden placed upon new entrants to the market. The process of receiving full accreditation took two years for Yü Energy to complete, which the Directors believe is not unusual.

##### **4.5.2. Industry**

In order for a supplier to provide a seamless and integrated service to a UK customer, a supplier needs to have in place contractual relationships with a range of industry bodies, including but not limited to:

###### *4.5.2.1. Distribution Network Operators (“DNOs”)*

The UK has 14 DNOs who own and are responsible for distributing and transmitting electricity throughout the UK. To supply energy across the UK, the Group is required to contract and agree with

each DNO on an individual basis. This involves lodging credit, accepting each of their trading and operating conditions including payment terms along with their transmission and distribution charging strategy. Each DNO has its own pricing strategy dependant on their own set of operating conditions. As a consequence the Group has had to build the individual requirements of each DNO into its pricing engine to enable the Group's sales teams to price accurately the supply of energy when providing quotations to potential customers.

#### 4.5.2.2. Metering

##### *Gas*

Each gas meter is owned by a meter asset manager ("**MAM**"). MAMs vary in size and scale from national operations to SMEs. To supply gas to a customer, the Group is required to contract and agree terms and payments with the MAM which owns the meter on the customer's premises to allow the Group to record and monitor the amount of gas the customer uses.

Suppliers are required by the industry codes to read a customer's meter at regular intervals. Given the logistics involved, the Group is required to contract with Meter Reading Agents ("**MRAs**") to manage this process. The cost to the Group per meter reading varies dependant on where the meter is and the type of meter, this in turn needs to be accounted for and managed by the Group's internal systems when pricing supply to a customer.

##### *Electricity*

Industry bodies collect and distribute the metering data required to measure their usage to enable the customers to be billed accurately. Data collectors ("**DC**") are contracted to collect meter readings. The data is provided to data aggregators ("**DA**") who compile metering current and historic data to create a profile on every UK electricity meter and meter operators ("**MOP**") who are responsible for servicing and maintaining the meters.

As an electricity supplier the Group is required to contract with the DAs, DCs and MOPs in order to collect accurate data on the electricity usage of the Group's customers so they can be billed accurately. In addition the Group is required to contract with the various meter asset providers ("**MAPs**") in order to agree terms of payment for use of customers' electricity meters.

#### 4.5.2.3. Taxes

Energy supply is subject to a number of taxes such as the CCL. Consequently, the Group's systems are required to identify which taxes apply when pricing energy provision to a customer to allow accurate pricing of a contract and to ensure the correct amount of tax is collected. The Group has developed IT systems to allow it to manage customer expectations quickly and accurately in a scalable manner.

### **4.5.3. Controlled Market Entry**

CME is a prerequisite for any new entrant intending to supply energy to customers. CME is a probationary period during which the energy supplier must prove that it has in place the appropriate systems and processes to deal with the complexities of the market and that it is able to operate without disruption to other market participants.

During the CME period, the number of new meter points a supplier can take on each month is limited with an overall cap in place. The Group exited CME for NHH users, typically smaller SMEs, in March 2015. As a consequence, the Group is no longer limited as regards the number of NHH customers it can take on and service.

The Group is currently completing the process to exit CME in relation to the supply of energy to HH users, typically larger companies and high energy users. These restrictions limit Yü Energy to accepting 15 new HH meter points per month with a hard cap of 100 new HH meter points prior to exiting CME restrictions. The Board believes that the restrictions of CME for HH users will be lifted during the

course of Summer 2016. The Board expects the exit from CME in relation to HH users to provide a significant additional driver for future growth of the Group's business.

## 5. Summary Financial information

The following information has been extracted from the Financial Information on the Company and should be read in conjunction with the Historical Financial Information on KAL contained within Section B of Part V of this document. Investors should not rely solely on the key summarised information.

Further financial information on the Company is provided in Part III of this document.

	<i>Incorporation to 30 September 2013 £'000</i>	<i>13 months to October 2014 £'000</i>	<i>14 Months to December 2015 £'000</i>
<b>Revenue</b>			
Gas	14	523	1,597
Electricity	—	14	2,283
<b>TOTAL REVENUE</b>	<b>14</b>	<b>537</b>	<b>3,880</b>
Gross profit	11	41	748
Gross margin (%)	N/a	N/a	19.3
<b>Loss Before Tax</b>	<b>(27)</b>	<b>(143)</b>	<b>(1,020)</b>

## 6. Growth strategy, current trading and prospects

Since Yü Energy's exit from the NHH CME period on 31 March 2015, the Group has experienced substantial growth in its NHH customer base.

The average number of new gas contracts entered into increased from 14 per month up to June 2015 to 45 per month in the six months ended 31 December 2015. At the end of December 2015, the Group supplied 538 gas meter points. As at the date of this document, this number has risen to 795 meter points.

Additionally, between August 2014 when Yü Energy started to supply electricity, and June 2015, the average number of contracts taken on board amounted to 35 per month. This increased to 63 new contracts per month, on average, in the second half of FY 2015 such that, for the six months ended 31 December 2015, the Group supplied 819 electricity meter points. As at the date of this document, this number has risen to 955 meter points.

The Board's strategy is to continue to grow the number of meter points supplied by the Group while maintaining a keen focus on customer service levels. The Board's aim is to more than double the number of meter points supplied by the end of December 2016. The Directors anticipate that the Group's exit from CME in relation to HH users, the expansion of the four existing sales channels to service these HH users, and entry into niche markets will drive the growth strategy in the medium term. The Directors also intend to increase the number of sales personnel within its four sales channels to drive growth.

As at 31 December 2015, the Group had £8.4 million of contracted annual revenue for FY 2016. The Group has a diversified customer base operating in many industry sectors. The Board believes the Group has the potential to move into adjacent markets as they become deregulated.

## 7. Key strengths

The Board believes that the Group:

- is a fast growing highly scalable business and is currently growing the number of meter points supplied by approximately 10 per cent. per month;
- has a clear visibility of revenues: as at 31 December 2015, Yü Energy had £8.4 million of contracted annual revenues for the financial year ending 31 December 2016;

- has a historical record of high cash conversion; and
- benefits from a number of barriers to entry including regulatory, industry and CME.

## **8. Directors, Proposed Directors and senior management**

### **8.1. Directors**

The directors of the Company as at the date of this document are Bobby Kalar, Nick Parker and Garry Pickering. On Admission, Ralph Cohen will be appointed as an Independent Non-executive Chairman and John Glasgow will be appointed as an Independent Non-executive Director of the Company.

#### ***Ralph Cohen (aged 67), Independent Non-executive Chairman***

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 ten years as managing director of Associated Electricity Supplies Limited and ten 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 (aged 40), 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 (aged 55), Chief Financial Officer***

Nick has over 25 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 (aged 41), 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 (aged 53), Independent Non-executive Director**

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 & 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 Modwens Environmental Trust.

Details of service contracts and letters of appointment relating to the Board are set out in paragraph 8 of Part VI of this document.

## **8.2. Senior management team**

### **Tina Morrell, Head of Finance and Management Accounts**

Tina has overseen the finance function of the Group since incorporation having previously managed the finance function of Better Business Energy Limited.

### **Ray Claxton, Direct Sales Manager**

Ray joined the Group to lead the direct sales team having spent nearly 22 years in telesales most recently working for Switch My Business (the trading entity of Utility Exchange Online Limited, an energy broker) where he built up their call centre.

### **Kellie Darlington, Head of Customer Services**

Kellie has worked for the Group since incorporation having previously been involved with the TPI activities of the predecessor company, Better Business Energy Limited.

### **Shona Clark, HR Manager**

Shona joined the Group as manager of human resources in September 2014 and has subsequently also taken on the role of marketing with respect to the Group's overall product and brand development. She was previously at Omega Pharma Ltd, Diageo Plc and Tate & Lyle plc in HR and marketing roles.

## **9. Details of the Placing and use of proceeds**

The Company is proposing to raise approximately £7.5 million (before expenses) by the issue of 4,054,055 New Placing Shares at the Placing Price. The Placing Shares will represent approximately 38.46 per cent. of the Enlarged Share Capital. The Placing Shares will rank *pari passu* in all respects with the existing Ordinary Shares including the rights to all dividend and other distributions declared, made or paid following Admission and will be issued credited as fully paid. The Placing has not been underwritten.

The VCT Placing Shares and the EIS Placing Shares will be issued to investors seeking to benefit from the tax advantages available pursuant to the VCT and/or EIS legislation. The Company has obtained advance assurance from HMRC that the VCT Placing Shares will constitute a qualifying holding for VCTs and that the EIS Placing Shares will satisfy the requirements for tax relief under EIS.

The Majority Shareholder will also sell the Sale Shares as part of the Placing at the Placing Price.

The Placing is conditional, *inter alia*, on:

- the Placing Agreement becoming unconditional and not having terminated in accordance with its terms prior to Admission; and



- Admission occurring by no later than 8.00 am on 17 March 2016 (or such later date as Shore Capital and the Company may agree, being no later than 8.00 am on 30 April 2016).

Further details of the Placing Agreement are set out in paragraph 14 of Part VI of this document.

#### *Use of proceeds*

The proceeds of the Placing received by the Company, which will be approximately £6.2 million after expenses, will be used to:

- Provide collateral for letters of credit to trading counterparties in the wholesale markets to satisfy the Group's hedging policy as the Group continues to grow its customer base;
- Finance the expansion of the Group's four existing sales channels;
- Provide additional working capital for the Group, particularly in preparation for the Group's exit from CME in respect of HH;
- Fund further capital investment in infrastructure to support the Group's rapid growth; and
- Fund investment in adjacent utility markets as they become deregulated.

### **10. Dividend policy**

The Board's strategy is to focus on the growth of the Group's business. The Board intends to pay a maiden dividend in respect of the financial year ending 31 December 2016 and intends to adopt a progressive dividend policy thereafter.

On Admission the Company will not have sufficient distributable reserves in place to pay a dividend. It is the Board's intention, as soon as practicable following Admission, to create the requisite distributable reserves by way of a court sanctioned capital reduction.

### **11. Lock in and orderly market arrangements**

Under the terms of the Placing Agreement, the Directors and Proposed Directors have entered into an irrevocable undertaking not to dispose (save in certain specified circumstances) of any interest in Ordinary Shares for a period of one year from Admission.

The Directors and Proposed Directors have also undertaken that they will not dispose of any interest in Ordinary Shares for a period of 12 months following the first anniversary of Admission unless such disposal is effected through Shore Capital.

The Placing Shares placed by Shore Capital are not subject to any lock-in or orderly market arrangements.

### **12. Relationship Agreement**

The Company and Shore Capital have entered into the Relationship Agreement with the Majority Shareholder to regulate the on-going relationship between the Company and the Majority Shareholder, to ensure that the Group is capable of carrying on its business independently of the Majority Shareholder, and that any transactions and relationships between the Group and the Majority Shareholder are at arms' length and on normal commercial basis and do not affect the Group's continuing appropriateness as a company whose Ordinary Shares are traded on AIM.

The Relationship Agreement applies for as long as the Majority Shareholder and any persons connected with him are able to exercise control including holding, in aggregate, an interest in 30 per cent. or more of the Company's Ordinary Shares.

Under the Relationship Agreement, any transaction, agreements or arrangements between any member of the Group and the Majority Shareholder (or persons connected with him) must be made

at arm's length, on a normal commercial basis and with the prior approval of the independent directors (with the Majority Shareholder and any connected persons who are directors abstaining from any such resolution). In addition, under the Relationship Agreement, the Majority Shareholder has the power to appoint himself or another person to the Board and to remove and replace that director as he sees fit (conditional on the approval of the Company's Nominated Adviser at that time as to the AIM suitability requirements). At the time of Admission, the nominated director is the Majority Shareholder.

The Relationship Agreement states that at all times, a majority of directors appointed to the Board are to be independent of the Majority Shareholder and the audit, remuneration and nomination committees shall include an independent director. The Relationship Agreement also provides that the Majority Shareholder cannot requisition a general meeting of the Company in order to amend the Articles in such a way as might reasonably be expected to adversely affect the independence of the Group from the Majority Shareholder.

The Relationship Agreement provides that for three years from Admission the Majority Shareholder (and his connected persons) will not seek to procure or vote on any resolution to cancel the Company's Admission to trading on AIM (or the Official List) without the prior approval of the independent directors.

Further information on the Relationship Agreement is contained in paragraph 15 of Part VI of this document.

### **13. City Code**

The Company is subject to the Code. Brief details of the Panel, the Code and the protections they afford are described below.

The Code is issued and administered by the Panel. The Code applies to all takeover and merger transactions, however effected, where the offeree company is, *inter alia*, a listed or unlisted public company resident in the United Kingdom, the Channel Islands or the Isle of Man (and to certain categories of private limited companies). The Company is a public company resident in the United Kingdom and its shareholders are therefore entitled to the protections afforded by the Code.

Under Rule 9 of the Code ("**Rule 9**"), where any person acquires, whether by a series of transactions over a period of time or not, an interest in shares (as defined in the Code) which (taken together with shares already held by him and any interest in shares held or acquired by persons acting in concert with him) carry 30 per cent. or more of the voting rights of a company which is subject to the Code, that person together with the persons acting in concert with him, is normally required to make a general offer to all the holders of any class of equity share capital or other class of transferable securities carrying voting rights in that company to acquire the balance of their interests in the company.

Rule 9 of the Code also provides that, among other things, where any person who, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. but does not hold shares carrying more than 50 per cent. of the voting rights of a company which is subject to the Code, and such person, or any person acting in concert with him, acquires an additional interest in shares which increases the percentage of shares carrying voting rights in which he is interested, then such person together with the persons acting in concert with him, is normally required to make a general offer to all the holders of any class of equity share capital or other class of transferable securities carrying voting rights of that company to acquire the balance of their interests in the company.

An offer under Rule 9 must be in cash (or with a cash alternative) and at the highest price paid within the preceding 12 months for any shares in the company by the person required to make the offer or any person acting in concert with him.

Rule 9 of the Code further provides, among other things, that where any person who, together with persons acting in concert with him holds over 50 per cent. of the voting rights of a company, acquires an interest in shares which carry additional voting rights, then they will not generally be required to make a general offer to the other shareholders to acquire the balance of their shares.

For the purposes of the Code, persons acting in concert comprise persons who, pursuant to an agreement or understanding (whether formal or informal), actively co-operate, through the acquisition by them of shares in a company, to obtain or consolidate control of that company.

Following the Placing, the Majority Shareholder will hold 8,648,649 Ordinary Shares, representing approximately 61.54 per cent. of the Enlarged Share Capital. Because the Majority Shareholder will hold in excess of 50 per cent. of the Enlarged Share Capital the acquisition of any additional Ordinary Shares by the Majority Shareholder will not result in an obligation under Rule 9 of the City Code to make a general offer.

## **14. Corporate Governance**

The Board seeks to follow best practice in corporate governance appropriate to the Company's size and in accordance with the regulatory framework that applies to AIM companies. Although the QCA Corporate Governance Code is not compulsory for AIM quoted companies, the Board intend to comply, so far as practicable and having regard to the size and nature of the Company's business, with the principles and disclosures as set out in the QCA Corporate Governance Code. The main features of the Group's corporate governance arrangements are:

- The Board intends to meet regularly and at least eight times per year for formal board meetings. It will consider strategy, performance and approve financial statements, dividends and significant changes in accounting practices and key commercial matters, such as decisions to be taken on whether to take forward or to cancel a research project. There is a formal schedule of matters reserved for decision by the Board in place.
- The Company will on Admission have an audit committee and remuneration committee as set out below. Each committee has clear terms of reference.

To enable the Board to discharge its duties, all directors will receive appropriate and timely information. Briefing papers will be distributed to all directors in advance of Board meetings. All directors will have access to the advice and services of the Chief Financial Officer, who will be responsible for ensuring that the Board procedures are followed and that applicable rules and regulations are complied with. In addition, procedures will be in place to enable any director to obtain independent professional advice in the furtherance of their duties, if necessary, at the Company's expense.

### **14.1. Board Committees**

The Company has two committees being the audit and remuneration committees, each with written terms of reference. The Company does not and will not have a nomination committee, as the Board does not consider it appropriate to establish one at this stage of the Company's development. The Board will take decisions regarding the appointment of new directors as a whole and this will follow a thorough assessment of a potential candidate's skill and suitability for the role.

#### **14.1.1. Audit Committee**

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 auditors in that process. It focuses in particular on compliance with accounting policies and ensuring that an effective system of internal and external audit and financial control is maintained, including considering the scope of the annual audit and the extent of the non-audit work undertaken by external auditors and advising on the appointment of external auditors. The ultimate responsibility for reviewing and approving the annual report and accounts and the half yearly reports remains with the Board. The audit committee will meet at least two times a year at the appropriate times in the financial reporting and audit cycle.

The terms of reference of the audit committee cover such issues as membership and the frequency of meetings, as mentioned above, 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.

On Admission, the audit committee will comprise two members, who are both Non-executive Directors: Ralph Cohen and John Glasgow. The committee will be chaired by Ralph Cohen.

#### **14.1.2. Remuneration Committee**

The remuneration committee has responsibility for determination of specific remuneration packages for each of the executive directors, including pension rights and any compensation payments, and recommending and monitoring the level and structure of remuneration for senior management, and the implementation of share option, or other performance related schemes. It will meet at least two times a year.

The responsibilities of the remuneration committee covered in its terms of reference include the following: determining and monitoring policy on and setting levels of remuneration, termination, performance related pay, pension arrangements, reporting and disclosure, share incentive plans and remuneration consultants. The terms of reference also set out the reporting responsibilities and the authority of the committee to carry out its responsibilities.

On Admission, the remuneration committee will comprise two members, who are both Non-executive Directors: Ralph Cohen and John Glasgow. The committee will be chaired by John Glasgow.

#### **14.1.3. Share dealing code**

The Company has adopted a code of dealings in Ordinary Shares by members of the Board and certain employees which conforms to the requirement of the AIM Rules ("**Share Dealing Code**"). The Company will be responsible for taking all proper and reasonable steps to ensure compliance by the Board and applicable employees with the Share Dealing Code and the AIM Rules.

#### **14.1.4. Bribery Act 2010**

The government of the United Kingdom has issued guidelines setting out appropriate procedures for all companies to follow to ensure that they are compliant with the Bribery Act 2010 ("**Bribery Act**") which has been in force since 1 July 2011. In the light of the Bribery Act the Group has in place an anti-bribery and corruption policy and has implemented procedures the Board consider appropriate. The Board will keep compliance under review.

### **15. Share Option Scheme and the KAL-Energy Plan**

Prior to the Reorganisation certain key employees were granted options over 1,094,500 ordinary shares in KAL pursuant to the KAL-Energy Plan. Following the Reorganisation, such options were exchanged for substantially equivalent options ("**Replacement Options**") over Ordinary Shares. The terms of the KAL-Energy Plan will continue to apply to the Replacement Options except that on any exercise of these options, Ordinary Shares will be issued or transferred to option holders, rather than ordinary shares in KAL. Immediately following Admission, the Replacement Options granted in respect of all KAL Options would be outstanding in respect of 1,094,500 Ordinary Shares granted pursuant to the KAL-Energy Plan.

The Company has adopted the Share Option Scheme conditional on Admission. No options are to be granted on Admission under the Share Option Scheme. Going forward, the purpose of the Share Option Scheme will be to assist in the recruitment or retention of employees and directors by enabling the Company to grant EMI Options to such persons pursuant to the rules of the Share Option Scheme. The Share Option Scheme also facilitates the grant of Unapproved Options.

Details of the Share Option Scheme and the KAL-Energy Plan are set out in paragraphs 6.1 and 6.2 respectively of Part VI of this document.

## **16. EIS and VCT Status**

### **16.1. VCT**

The Company has obtained advance assurance from HMRC that the New Placing Shares in the Company should represent a “qualifying holding” for the purposes of investment by VCTs. The continuing status of such Placing Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the Placing Shares being held as a “qualifying holding” for VCT purposes throughout the period of ownership. Neither the Company nor the Directors nor the Proposed Directors nor the Company’s advisers give any warranty, representation or undertaking that any VCT investment in the Company will remain a qualifying holding.

### **16.2. EIS**

The Company has obtained advance assurance from HMRC to confirm that they will issue certificates under section 204 of the Income Tax Act 2007 in respect of Placing Shares issued to individuals, following receipt from the Company of a properly completed compliance statement (EIS 1 form) within the prescribed time limit stipulated in section 205(4) of the Income Tax Act 2007. The continuing status of such Placing Shares as qualifying for EIS purposes will be conditional on the qualifying conditions being satisfied throughout the relevant period of ownership. Neither the Company nor the Directors nor the Proposed Directors nor the Company’s advisers give any warranty, representation or undertaking that any investment in the Company by way of such shares will remain a qualifying investment for EIS purposes. EIS eligibility is also dependent on a Shareholder’s own position and not just that of the Company. Accordingly, prospective investors should take their own advice in this regard.

## **17. Taxation**

Information regarding taxation is set out in paragraph 10 of Part VI of this document. That information is intended only as a general guide to the current tax position under the relevant law. If you are in any doubt as to your tax position you should consult your own independent financial adviser immediately.

## **18. CREST**

The Company’s articles are consistent with the transfer of Ordinary Shares in dematerialised form in CREST under the CREST Regulations. Application has been made for the Ordinary Shares to be admitted to CREST on Admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if relevant Shareholders so wish. CREST is a voluntary system and Shareholders who wish to receive and retain certificates in respect of their Ordinary Shares will be able to do so.

## **19. Admission, settlement and dealings**

Application has been made to the London Stock Exchange for the existing Ordinary Shares and Placing Shares to be admitted to trading on AIM. It is expected that Admission will become effective and dealings will commence in the existing Ordinary Shares and Placing Shares on 17 March 2016. No application has or will be made for the existing Ordinary Shares or the Placing Shares to be admitted to trading or to be listed on any other stock exchange.

## **20. Further information**

Your attention is drawn to Part II of this document which contains certain risk factors relating to any investment in the Company and to Parts III and VI (inclusive) of this document which contain further additional information on the Group.

## PART II

### RISK FACTORS

**Any investment in the Company and/or Placing Shares is subject to a number of risks. Prior to subscribing for or purchasing any Placing Shares, potential investors should be aware of and carefully consider the factors and risks associated with any investment in the Company, the Group's business and the industry in which it operates (as described below), together with all other information contained in this document before making a decision to invest in the Company. Accordingly, you are strongly recommended to consult an investment adviser authorised under the FSMA, who specialises in the acquisition of shares and other securities before making a decision to invest.**

**If any of the following risks actually occur, the Group's business, financial condition, results or future operations could be materially affected. In such circumstances, the price of the Company's shares could decline and investors could lose all or part of their investment. The information set out below does not constitute an exhaustive summary of the risks affecting the Group and is not set out in any order of priority.**

**In addition to the other information in this document, the Board considers the following risk factors are of particular relevance to the Group's activities and to any investment in the Company. It should be noted that this list is not exhaustive and that additional risks and uncertainties not presently known to the Board or which they currently believe to be immaterial may also have an adverse effect on the Group. Any one or more of these risk factors could have a materially adverse impact on the value of the Company and should be taken into consideration when assessing the Group.**

#### **RISKS RELATING TO THE GROUP AND ITS BUSINESS**

##### *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 would be found to replace such person. The senior personnel have equity interests in the Group through options. In addition, the Group has taken out key man insurance in respect of Bobby Kalar. Notwithstanding this, if key personnel 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.

##### *Controlled expansion*

The Group is currently experiencing rapid expansion. The future success of the Group will depend on the Board's ability to have in place in a timely manner the requisite infrastructure and accounting systems to support the development of the business to enable the Group to maintain its high levels of customer service which are core to the Group's business proposition.

##### *Continued growth of the Group*

Whilst the Board is optimistic about the continued growth and prospects of the Group, there is no certainty that anticipated revenues or growth will be achieved. There can be no guarantee that the Group will successfully exit CME in respect of HHs or that the take-up of the Group's services will meet the Board's expectations, which could adversely affect future revenues, margins and profitability.



The value of an investment in the Company is dependent upon the Group achieving the aims set out in this document and in the future. There can be no guarantee that the Group will achieve the level of success the Board anticipates.

#### *Reputation*

The Group's reputation, in terms of the service it provides, the way in which it conducts its business and the financial results which it achieves, are central to the Group's future success. Failure to meet the expectations of customers, suppliers, employees and Shareholders and other business partners may have a material adverse effect on the Group's reputation and the financial performance of the Group.

#### *Existing Customer renewal rates/customer retention lower than expected*

Existing customer renewal rates may not be at levels or commercial terms anticipated by the Group, resulting in an adverse impact on the Group's financial condition, prospects and operating results.

#### *Reliance on TPIs*

The Group generates sales from four sales channels. In recent months significant levels of new sales have been delivered via TPIs who use the Group's services. The extent to which these brokers continue to utilise the services of the Group could have an impact on the financial condition, prospects and operating results of the Group.

#### *Balancing and shaping operations*

The Group has entered into an exclusive contract with CNG for the sale and purchase of natural gas, gas transportation services and hedging and balancing in relation to the Group's gas supply. The contract runs for an initial term of five years, from 1 July 2013 and continues in force after that date unless terminated by six months' prior written notice. Since CNG is currently the Group's exclusive supplier of gas, termination of this contract might cause disruption to the Group's business and potentially impact upon the financial performance of the Group, unless a replacement for CNG was readily available and willing to contract with the Group on commercially acceptable terms.

#### *Third party software licences and third party service providers*

The Group relies on a number of third party software licences. These software licences provided are key to the Group as they offer a full service solution for the supply of gas and electricity (as appropriate) to customers.

Licence agreements cover areas such as software managing the registration process including contract generation, billing of live customers and management of shipper/Transco invoices as well as supporting the processing and billing of gas and electricity for customers. These software licences are crucial to the on-going running of the Group's business.

Any issue with the Group's software licence agreements or deterioration in the Group's relationship with any key third party service provider or failure by any such service provider to fulfil its obligations, or underperformance of its obligations, to the Group in accordance with the terms of its appointment could result in damage to the Group's relationship with Shareholders, and could cause disruptions in the Group's business and materially impact the financial performance of the Group.

#### *IT hardware*

The Company's anticipated headcount growth will result in a requirement to migrate the Group's network domain and email servers to a larger capacity platform. If there is a delay in the implementation of the planned migration project, this could lead to disruption within the operations of the Group.

*Risks associated with cyber fraud and theft of data*

The nature of the Group's business involves the receipt and storage of information about its customers and employees. If the Group experiences a significant data security breach or fails to detect and appropriately respond to a significant data security breach, it could be exposed to government enforcement actions (including substantial fines) and litigation. In addition, the Group's customers could lose confidence in its ability to protect their information, which could cause them to discontinue their contracts with the Group which could have an adverse effect on the Group's business, financial condition and prospects and/or operating results.

*The impact of changing data and internet laws and regulations in the UK*

The Group must comply with data protection and privacy laws. In the event that confidential information or personal data is wrongfully used or misappropriated by the Group, the Group could face legal sanctions. The Group relies upon database administrators to maintain its databases, and there is a risk that any of these people could wrongfully use, misappropriate or otherwise unlawfully or improperly exploit customer data. There is a further reputational risk associated with handling large quantities of personal information and data. If the data were to be obtained by third parties without the consent of the customer, this would have serious risks and ramifications for the Group from both a regulatory and reputational perspective.

*The Group's inability to recover successfully from a disaster or other business continuity event could impair its ability to deliver its services and may negatively affect its business*

The Group's business is reliant on the Group's technology and infrastructure. Any IT infrastructure failure or disruption, including as a result of natural disasters or accidents, such as serious flood or fire, or other interruption, malfunction or adverse occurrence with respect to the Group's network operating centres, data centres or managed service platform may negatively affect the Group's ability to provide a prompt and efficient service to its customers and maintain its reporting obligations to Ofgem.

The Group's technology operations are dependent upon its ability to protect its technology infrastructure against damage from business continuity events that could have a significant disruptive effect on the Group's operations. If such an event was to occur, it may have a material adverse effect on the Group's reputation, business, results of operations and financial condition.

*The Majority Shareholder will have the ability to cast sufficient votes to pass or defeat any ordinary resolution*

Following Admission, the Majority Shareholder will legally and beneficially own in excess of 50 per cent. of the issued share capital of the Company. As a result, the Majority Shareholder will be able to pass or defeat any ordinary resolution of the Company requiring a simple majority of those attending and voting in person or by proxy at the meeting, including, amongst other things the election of directors and authorising the directors to issue equity securities.

The Company has entered into the Relationship Agreement with the Majority Shareholder which is intended to regulate the relationship between the Group and the Majority Shareholder. The Relationship Agreement includes undertakings that the Majority Shareholder will not take any action which would have the effect of preventing the Company or any other member of the Group from complying with the Company's obligations under the AIM Rules or engaging in any conduct which is intended to prejudice any member of the Group from carrying on its business independently of the Majority Shareholder or entering into any transaction or relationship with the Group otherwise than on arm's length normal commercial terms.

Nonetheless, the Majority Shareholder will remain in a position to influence significantly the Group's operations and business strategy and there is a risk that the Majority Shareholder may seek to impose other duties and obligations on the Company. The interests of the Majority Shareholder may also not



necessarily be aligned with those of other Shareholders. In particular, the Majority Shareholder may hold interests in, or may make acquisitions of or investments in, other businesses that may be, or may become, competitors of the Group.

#### *Stamp duty*

On 18 February 2016, in connection with the Reorganisation, as more particularly described in paragraph 2.6 of Part VI of this document, the Company and Bobby Kalar (as the sole shareholder of KAL) entered into a share for share exchange agreement pursuant to which Bobby Kalar sold his entire shareholding of 10,000,000 ordinary shares in the capital of KAL in consideration for the issue and allotment to him of 10,000,000 fully paid Ordinary Shares.

An application has been made to HMRC for relief from stamp duty on the stock transfer form relating to the transfer of the entire issued share capital of KAL to the Company.

Pursuant to the terms of the share for share exchange agreement, Bobby Kalar transferred the beneficial ownership of his shares in KAL to the Company and appointed it as his attorney to exercise all of his voting rights in relation to KAL. The Company is the beneficial owner only of the shares in KAL until its application for stamp duty relief in connection with the share for share exchange has been approved by HMRC and its name entered in the register of members of KAL, at which time it will also become the holder of the legal title to the entire issued share capital of KAL. Until such time Bobby Kalar holds the shares in KAL on trust for the Company.

Pending adjudication by HMRC of the application for relief, the transfer of shares in KAL cannot be registered in its register of members. Whilst the Directors consider that such stamp duty relief will be available, in the event that it is not for any reason, the Company will pay the relevant amount of the stamp duty so as to enable the legal title to the entire issued share capital of KAL to be registered in the name of the Company. It is estimated that the cost of the stamp duty that would be payable in the event the stamp duty relief is not available would be in the region of £90,000.

#### *Long term financing requirements*

The Group's longer-term capital requirements will depend on many factors, including, but not limited to, revenue from operations, working capital requirements, capital to support the letters of credit required by the energy industry and capital expenditure. To the extent that the existing resources are insufficient to fund its activities in the longer-term, the Company may need to raise additional funds through public or private financing. No assurance can be given that additional financing will be available or that, if available, the terms of such financing will be favourable to the Company or its Shareholders. If, in the longer-term, the Company raises additional funds by issuing more Ordinary Shares in the Company the ownership interest of Shareholders could be significantly diluted, and any additional issues may be of instruments that have rights, preferences or privileges senior to the rights currently assigned to the Ordinary Shares.

#### *Litigation and claims*

Whilst the Group operates what the Board believes to be stringent customer management and operating systems, the nature of the Group's business and the markets in which it operates means that it could become subject to a number of claims or potential claims at any one time. Any claims or litigation, with or without merit, could be time consuming, result in costly litigation and the diversion of management personnel. The Group's business or financial condition or operating results could be materially adversely affected.

#### *EIS and VCT status*

The Company has obtained advanced assurance from HMRC that the Company will be a "qualifying holding" for the purposes of the EIS and for investment by a VCT under Part 5 (EIS) and Part 6 (VCT)

of Chapter 4 of the UK Income Tax Act 2007 respectively, and that the Ordinary Shares will be eligible shares for the purposes of section 173 and section 285(3A) of the UK Income Tax Act 2007.

The advance assurance only relates to the qualifying status of the Company and its shares and will not guarantee that any particular investment will be a qualifying holding for a VCT investor or that any particular investor will qualify for EIS relief in respect of an acquisition of Ordinary Shares. The continuing availability of EIS relief and the status of the relevant VCT Placing Shares as a qualifying holding for VCT purposes will be conditional, amongst other things, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making its investment (under EIS) and, for VCT purposes, throughout the period the Ordinary Shares are held as a “qualifying holding”. Neither the Company nor its directors, proposed directors, nor the Company’s advisers are giving any warranties or undertakings that any relief under the EIS or that VCT qualifying status will be available in respect of the Placing, or that in due course such relief or status will not be withdrawn.

Any person who is in any doubt as to their taxation position should consult their professional tax adviser in order that they may fully understand how the rules apply in their individual circumstances.

ANY CHANGES IN TAXATION LEGISLATION OR THE INTERPRETATION OF TAXATION LEGISLATION COULD AFFECT THE COMPANY’S ABILITY TO PROVIDE RETURNS TO SHAREHOLDERS. THE TAXATION OF AN INVESTMENT IN THE COMPANY DEPENDS ON THE INDIVIDUAL CIRCUMSTANCES OF THE RELEVANT INVESTOR.

## **RISKS RELATING TO THE INDUSTRY IN WHICH THE GROUP OPERATES**

### *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 and GEMA. If the Group fails to maintain an effective relationship with these regulatory bodies and comply with its license obligations, it could be subject to fines or to the removal of its respective licenses.

### **Regulatory environment**

The Group’s services are supplied into highly regulated markets, and this could restrict the operational flexibility of the Group’s business. In order to mitigate this risk, the Group maintains an appropriate relationship with Ofgem (the UK regulators for the energy market) and the DECC. The Group engages with officials from all these organisations on a periodic basis to ensure they are aware of the Group’s views when they are consulting on proposed regulatory changes or if there are competition issues the Group needs to raise with them.

Future regulatory changes may require stricter or additional standards of compliance than those currently in effect, creating additional costs to the Group. In addition, the government may implement legislation requiring changes to current fee structures for energy providers. Should such legislation be passed there may be a material adverse effect on the Group’s financial condition and operating results. Future regulatory changes may also focus on combatting climate change within the energy industry, which may adversely affect or constrain the Group’s sources of supply of electricity and gas, which in turn may impact the Group’s financial condition and operating results. In particular, it is not clear how the closure of the government’s current method of supporting low-carbon electricity generation (the Renewables Obligation Scheme) in March 2017, and its replacement with the Contracts For Difference Scheme, will affect the energy market.

However, it should be noted that the regulatory environment for the energy market in which the Group operates is currently generally focused on promoting competition. As one of the new entrants, the Board believes it is reasonable to expect that most potential changes will broadly be beneficial to the Group, given the Group’s relatively small size compared to the incumbents with whom it competes. However, these regulatory changes, and their actual impact, remain uncertain at present.

It currently remains unclear how the governmental focus on reform of the energy market and the current investigation by the Competition and Markets Authority will impact the operations of the Group.

*Volatility in commodity prices (gas and electricity)*

The Group will seek to hedge 100 per cent. of all sales of energy at fixed prices as soon as practicably possible. Some of the funds raised by the Company as a result of the Placing will be 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.

Energy contracts are sold to customers at fixed rates and as soon as practically possible, following the sale of such fixed price contracts, forward contracts are taken out with the wholesale energy market to offset this risk to the highest extent possible. It is not possible to buy energy products in the wholesale market that exactly replicate the customers' contract dates. Additionally it is not possible to forecast exactly the volume of energy that the customers will use. As a consequence, there will always be a degree to which the Group is exposed to balancing charges. These differences are either bought at short notice from the market using standard industry mechanisms and pricing or, in the case of amounts having been bought in excess of customer requirements, the excess volume is sold back to the market, again using standard industry mechanisms and pricing terms. The degree to which the Company has suffered a cash flow disadvantage in this respect has historically been negligible and it continues to be an area that is monitored closely on a daily basis. Nevertheless the Company may suffer a cash flow disadvantage in the future due to volatility in commodity prices.

In the event that the Group's bank, Royal Bank of Scotland Plc, is not able to provide letters of credit due to insufficient cash resources within the Group, it would not be possible to maintain the policy of being near to 100 per cent. hedged and thus the Group would be subject to volatility in the commodity markets for gas and electricity.

*Lack of liquidity in the wholesale market for electricity may adversely affect the Group or require it to alter its wholesale energy purchasing strategy*

Liquidity in the market for wholesale electricity is dependent on there being a sufficient number of counterparties willing to trade actively and on the solvency of potential trading partners. Factors such as changes to the market structure, or consolidation of the existing generation and supply businesses, could result in a reduction in the number of active participants in the market with whom the Group is able to trade. This may affect the Group's ability to sell all of its output and/or the prices at which it sells. This consolidation could also reduce the level of liquidity in the traded market to such an extent that the Group is no longer able to rely on wholesale market trading as a means of hedging its short to medium term exposure to wholesale electricity market prices and balancing its portfolio. Thus a lack of liquidity could result in the Group realising reduced revenues and/or incurring higher hedging or balancing costs to achieve its trading objectives.

*The Group relies on access to and operation of the transmission and distribution networks, which it does not own or operate, in order to sell energy*

The Group depends on the transmission and distribution networks which are owned and operated by a range of different distribution network owners. Accordingly, if there is any interruption to this continued access to and operation of the transmission system and the distribution networks, this could have an adverse effect on the Group's ability to sell energy which it has contracted to sell.

*Complex change of supplier procedure*

Due to the complex change of supplier procedure, clients may not be inclined to switch supplier quickly or at all. However, the Group has demonstrated its ability to manage such procedures in an efficient manner, albeit any change within the market that would make such procedures more

complex might discourage customers from being inclined to change supplier and result in reduced revenues for the Group.

#### *Exposure to energy wholesaler*

At present, due to the need to lodge collateral with each individual supplier that the Company uses, the Company purchases energy from a small number of possible suppliers. In the event that these suppliers become unwilling or unable to supply the Company with the energy that is required to meet its customers' demands there would be a short term adverse effect on the Group's business, financial condition and operating results, which would continue until an alternative supplier(s) could be identified.

#### *Competition*

Whilst the Group is highly focused on its market it has to compete with a number of large national and international companies, other non-independent 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. Increased competition may cause price reductions, reduced gross margins and loss of market share, any of which could have a material adverse effect on the Group's business, financial condition and operating results. If the Group is not willing to enter into price competition with its competitors, it may accordingly lose existing customers and find it more difficult to generate future revenue.

#### *Reductions in margins*

Any of the potential market pressures described above, including competition in a market dominated by large, national and international companies, may also lead to a reduction in profit margins which could have a material adverse effect on the Group's business, financial condition and operating results.

### **RISKS RELATING TO THE ORDINARY SHARES**

#### *Fluctuations in the price of Ordinary Shares*

The market price of the Ordinary Shares may be subject to fluctuations in response to many factors, including variations in the operating results of the Company, divergence in financial results from analysts' expectations, changes in earnings estimates by stock market analysts, general economic conditions, legislative changes in the Company's sector and other events and factors outside of the Company's control.

In addition, stock markets have from time to time experienced extreme price and volume fluctuations, which, as well as general economic and political conditions, could adversely affect the market price for the Ordinary Shares.

The value of Ordinary Shares may go down as well as up. Investors may therefore realise less than or lose all their original investment.

#### *Liquidity of the Ordinary Shares*

The price of the Ordinary Shares may be volatile, influenced by many factors, some of which are beyond the control of the Company, including the performance of the overall stock market, other shareholders buying or selling large numbers of shares, changes in legislation or regulations and general economic conditions. Therefore, a return on an investment in the Ordinary Shares cannot be guaranteed.

Admission to AIM should not be taken as implying that there will be a liquid market for the Ordinary Shares. It may be more difficult for an investor to realise their investment in the Company than in a company whose shares are quoted on the Official List.

#### *Suitability of Ordinary Shares as an investment*

The Ordinary Shares may not be suitable for all the recipients of this document. Before making a final decision, investors are advised to consult an investment adviser authorised through the Financial Services and Markets Act 2000 or another appropriately qualified professional adviser who specialises in advising on the acquisition of shares and other securities.

#### *Dividends*

Payments of dividends by the Company to Shareholders will depend on a number of factors, including its financial condition and results of operations, contractual restrictions, and other factors considered relevant by the Board. Under English law, any payment of dividends would be subject to the Act. All final dividends to be distributed by the Company must be recommended by the Board and approved by Shareholders. Moreover, under English law, the Company may pay dividends on its Ordinary Shares only out of profits available for distribution in accordance with the Act and under its Articles. Currently the Company does not have distributable reserves in place to effect a dividend payment. Until such time as it does the Company will be unable to pay a dividend to Shareholders.

Although the Board intends to pay dividends to Shareholders in the future, there can be no assurance that the Company will declare and pay, or have the ability to declare and pay, any dividends on the Ordinary Shares in the future.

#### *Realisation of investment*

Potential investors should be aware that the value of the Ordinary Shares and income from the Ordinary Shares can go down as well as up and that Admission should not be taken as implying that there will be a liquid market in the Ordinary Shares. An investment in the Ordinary Shares may thus be difficult to realise.

In the event of a winding up of the Company, the Ordinary Shares will rank behind any liabilities of the Company and therefore any return for Shareholders will depend on the Company's assets being sufficient to meet prior entitlements of creditors.

#### *Forward Looking Statements*

This document contains forward-looking statements that involve risks and uncertainties. The Company's results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Group, which are described above and elsewhere in the document. Additional risks and uncertainties not currently known to the Board may also have an adverse effect on the Group's business.

#### *Issues of Ordinary Shares may result in immediate dilution of existing Shareholders*

The Company may decide to issue additional Ordinary Shares in subsequent public offerings or private placements to fund on-going business activities and future plans. If existing Shareholders are not eligible to, or do not, subscribe for additional Ordinary Shares on a *pro rata* basis in accordance with their existing shareholdings, this will dilute their existing interests in the Company. The issue of Ordinary Shares by the Company, or the possibility of such issue, may cause the market price of the Ordinary Shares to decline and may make it more difficult for Shareholders to sell Ordinary Shares at a desirable time or price.

*Overseas shareholders may be subject to exchange rate risk*

The Ordinary Shares are, and any dividends to be paid in respect of them will be, denominated in pounds sterling. An investment in Ordinary Shares by an investor whose principal currency is not pounds sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of pounds sterling in relation to such foreign currency will reduce the value of the investment in the Ordinary Shares or any dividends in foreign currency terms.

## PART III

### HISTORICAL FINANCIAL INFORMATION ON THE COMPANY

#### Section A: Accountant's Report



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11 March 2016

Ladies and Gentlemen

#### **Yü Group PLC**

We report on the financial information set out on pages 40 to 44 for the period from incorporation on 15 February 2016 to 24 February 2016 in relation to Yü Group PLC. This financial information has been prepared for inclusion in the AIM Admission Document dated 11 March 2016 of Yü Group PLC on the basis of the accounting policies set out in note 2 to the financial information. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of Yü Group PLC are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 11 March 2016, a true and fair view of the state of affairs of Yü Group PLC as at 24 February 2016, and of its result for the period then ending in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

KPMG LLP



## HISTORICAL FINANCIAL INFORMATION

### Section B: Historical Financial information on the Company

#### Statement of comprehensive income for the period from 15 February 2016 to 24 February 2016

During the period from incorporation on 15 February 2016 to 24 February 2016, the Company did not trade and as such no statement of comprehensive income has been presented. There has also been no other recognised income or expense during the period.

#### Balance Sheet

	<i>Note</i>	<i>At 24 February 2016 £000</i>
<b>Non-current assets</b>		
Investments	3	—
<b>Total assets</b>		—
<b>Total liabilities</b>		—
<b>Net assets</b>		—
<b>Equity attributable to equity holders of the parent</b>		
Share capital	4	50
Merger reserve	4	(50)
Retained earnings		—
<b>Total equity</b>		—

## Consolidated Statements of Changes in Equity

	<i>Merger reserve £000</i>	<i>Share capital £000</i>	<i>Retained earnings £000</i>	<i>Total equity £000</i>
<b>Balance at 15 February 2016</b>	—	—	—	—
<b>Total comprehensive income for the period</b>				
Result for the period	—	—	—	—
Total comprehensive income for the period	—	—	—	—
Transactions with owners, recorded directly in equity				
Issue of shares	—	50	—	50
Acquisition of shares in subsidiary	(50)	—	—	(50)
Total contributions by and distributions to owners	(50)	50	—	—
<b>Balance at 24 February 2016</b>	<u>(50)</u>	<u>50</u>	<u>—</u>	<u>—</u>

## Cash Flow Statement for the period from 15 February 2016 to 24 February 2016

No cash flow statement has been presented as the company has no cash or cash equivalents and has not entered into any transactions that result in a cash flow.

## **Notes**

### ***(forming part of the financial statements)***

#### **1 Reporting entity**

Yü Group PLC was incorporated and registered in England and Wales with registered number 10004236 on 15 February 2016 as a private company limited by shares under the name Yoda Newco 1 Limited. The address of the Company's registered office is CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham, NG8 6PY.

On 26 February 2016 the Company was re-registered as a public limited company under the name of Yü Group PLC.

#### **2 Basis of preparation**

##### ***2.1 Statement of compliance***

This financial information to 24 February 2016 has been prepared by the Directors from the financial records of the Company.

This financial information does not constitute statutory accounts for the Company. No statutory accounts have been prepared or delivered to the Registrar.

This financial information has been prepared for the purposes of the Admission Document in accordance with the requirements of the Listing Rules and the Prospectus Directive Regulation.

This financial information for the period from incorporation on 15 February 2016 to 24 February 2016 has been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

##### ***2.2 Basis of measurement***

The financial information has been prepared on the historical cost basis. There are no assets or liabilities stated at their fair value.

##### ***2.3 Going concern***

The financial information has been prepared on a going concern basis.

The Company has been set up to facilitate KAL-Energy Limited seeking admission to the Alternative Investment Market ("AIM") through an Initial Public Offering ("IPO"); hence is a holding company only.

In adopting the going concern assumption, the directors have considered whether the Company's trading subsidiaries (as set out in note 3) have adequate resources to continue in business for the foreseeable future.

##### ***2.4 Functional and presentational currency***

This financial information is presented in GBP, which is the Company's functional currency. All financial information presented in GBP has been rounded to the nearest thousand.

##### ***2.5 Accounting policies***

The accounting policies set out below have, unless otherwise stated, been applied consistently.

There have been no judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial information and estimates with a significant risk of material adjustment in the next year.

## **2.6 Classification of financial instruments issued by the Company**

Following the adoption of IAS 32, financial instruments issued by the Company 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 Company; and
- (b) where the instrument will or may be settled in the Company'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 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.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

## **2.7 Non-derivative financial instruments**

Non-derivative financial instruments comprise investments in equity securities.

### *Investments in equity securities*

Investments in subsidiaries are carried at cost less impairment.

The Company's investment in KAL-Energy Limited was acquired in a share for share exchange as a result of which the Company gained control of the KAL-Energy Limited Group. The net assets of the Group before and after the transaction were the same and there was no change in the rights of the shareholders as a result. The cost of the investment was determined based on the book value of the net assets recorded in the KAL-Energy Limited company balance sheet. Since KAL-Energy had negative net assets, the cost of investment was recorded as £nil.

## **2.8 Adopted IFRS not yet applied**

The following Adopted IFRSs have been issued but have not been applied in this financial information. Their adoption is not expected to have a material effect on the financial information unless otherwise indicated:

- Amendments to IAS 27: Equity Method in Separate Financial Statements
- Amendments to IAS 1: Disclosure Initiative
- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions
- Annual Improvements to IFRSs 2010–2012 Cycle

### 3 Investments in subsidiaries

The Company has the following investment in subsidiaries:

<i>Subsidiaries</i>	<i>Principle activity</i>	<i>Country of incorporation</i>	<i>Registered Number</i>	<i>Year-end</i>	<i>Class of Shares held</i>	<i>Percentage Ownership</i>
KAL-Energy Limited	Supply of energy to SMEs	UK	08205335	31 Dec	Ordinary	100
Kensington Power Limited*	Supply of energy to SMEs	UK	08246810	31 Dec	Ordinary	100
Yü Energy Limited*	Dormant	UK	08737324	31 Oct	Ordinary	100
Yü Water Limited*	Dormant	UK	09918643	31 Dec	Ordinary	100

\* The investments in Kensington Power Limited, Yu Energy Limited and Yu Water Limited are indirectly held as these entities are wholly owned subsidiary companies of KAL-Energy Limited.

The investment is carried at £nil for the reasons set out in note 4.

### 4 Capital and reserves

	<i>Ordinary number of shares</i>	<i>£</i>	<i>Total £</i>
<b>Share capital</b>			
At 15 February 2016	—	—	—
Issued on 15 February 2016	100	1	100
Share sub-division on 16 February 2016	19,900	0.005	—
Issued on 18 February 2016	9,980,000	0.005	49,900
	<u>10,000,000</u>	<u>0.005</u>	<u>50,000</u>
Shares classified as liabilities			—
Shares classified in shareholders' funds			<u>50,000</u>
			<u>50,000</u>

On 15 February 2016, being the date of incorporation, 100 ordinary shares of £1 were issued.

On 16 February 2016, the existing 100 ordinary shares of £1, were sub-divided into 20,000 shares of £0.005 each.

On 18 February 2016, the Company allotted 9,980,000 ordinary shares of £0.005 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.

## PART IV

### HISTORICAL FINANCIAL INFORMATION ON KAL-ENERGY LIMITED AND ITS SUBSIDIARY UNDERTAKINGS

#### Section A: Accountant's Report



KPMG LLP  
1 Sovereign Square  
Sovereign Street  
Leeds  
LS1 4DA  
United Kingdom

The Directors  
Yü Group PLC  
CPK House  
2 Horizon Place  
Nottingham Business Park  
Mellors Way  
Nottingham  
NG8 6PY

11 March 2016

Ladies and Gentlemen

#### **Yü Group PLC**

We report on the financial information set out on pages 47 to 70 for the period from 7 September 2012 to 30 September 2013, the 13 months ended 31 October 2014 and the 14 months ended 31 December 2015 in relation to KAL-Energy Limited and its subsidiary undertaking Kensington Power Limited. This financial information has been prepared for inclusion in the AIM Admission Document dated 11 March 2016 of Yü Group PLC on the basis of the accounting policies set out in note 1 to the financial information. This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The Directors of Yü Group PLC are responsible for preparing the financial information in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

**Basis of opinion**

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

**Opinion on financial information**

In our opinion, the financial information gives, for the purposes of the AIM Admission Document dated 11 March 2016, a true and fair view of the state of affairs of KAL-Energy Limited and its subsidiary undertaking as at 30 September 2013, 31 October 2014 and 31 December 2015, and of its profits/losses, cash flows and recognised gains and losses for the periods ending 30 September 2013, 31 October 2014 and 31 December 2015 in accordance with International Financial Reporting Standards as adopted by the European Union.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the AIM Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the AIM Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

KPMG LLP

## Section B: Historical Financial information on KAL-ENERGY LIMITED GROUP

### Consolidated Statements of Profit and Loss and Other Comprehensive Income

		<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
<b>Revenue</b>	1	3,880	537	14
Cost of sales		(3,132)	(496)	(3)
<b>Gross profit</b>		748	41	11
Administrative expenses		(1,768)	(184)	(38)
<b>Operating loss</b>	3	(1,020)	(143)	(27)
<b>Loss before tax from continuing operations</b>		(1,020)	(143)	(27)
Taxation	6	204	—	—
<b>Loss for the period</b>		(816)	(143)	(27)
<b>Other comprehensive income</b>		—	—	—
<b>Other comprehensive income for the period, net of income tax</b>		—	—	—
<b>Total comprehensive income for the period</b>		(816)	(143)	(27)
		£	£	£
Basic loss per share attributable to equity holders of the parent	5	(8,160)	(1,430)	(270)
Diluted loss per share attributable to equity holders of the parent	5	(8,160)	(1,430)	(270)



## Consolidated Balance Sheets

		At 31 December 2015 £000	At 31 October 2014 £000	At 30 September 2013 £000
	Note			
<b>Non-current assets</b>				
Property Plant and Equipment	7	155	123	9
Intangible assets	8	59	61	—
Deferred tax assets	10	204	—	—
		<u>418</u>	<u>184</u>	<u>9</u>
<b>Current assets</b>				
Trade and other receivables	11	1,063	143	20
Cash and cash equivalents	12	47	34	—
		<u>1,110</u>	<u>177</u>	<u>20</u>
<b>Total assets</b>		<u><u>1,528</u></u>	<u><u>361</u></u>	<u><u>29</u></u>
<b>Current liabilities</b>				
Trade and other payables	13	(2,514)	(531)	(56)
		<u>(2,514)</u>	<u>(531)</u>	<u>(56)</u>
<b>Total liabilities</b>		<u><u>(2,514)</u></u>	<u><u>(531)</u></u>	<u><u>(56)</u></u>
<b>Net liabilities</b>		<u><u>(986)</u></u>	<u><u>(170)</u></u>	<u><u>(27)</u></u>
<b>Equity attributable to equity holders of the parent</b>				
Share capital		—	—	—
Accumulated losses		(986)	(170)	(27)
<b>Total equity – deficit</b>		<u><u>(986)</u></u>	<u><u>(170)</u></u>	<u><u>(27)</u></u>

Refer to note 20 for details of the opening balance sheet at 7 September 2012.

## Consolidated Statements of Changes in Equity

	<i>Share capital £000</i>	<i>Accumulated losses £000</i>	<i>Total equity – deficit £000</i>
<b>Balance at 7 September 2012</b>	—	—	—
<b>Total comprehensive income for the period</b>			
Loss for the period	—	(27)	(27)
Total comprehensive income for the period	—	(27)	(27)
<b>Balance at 30 September 2013 and 1 October 2013</b>	<b>—</b>	<b>(27)</b>	<b>(27)</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	—	(143)	(143)
Total comprehensive income for the period	—	(143)	(143)
<b>Balance at 31 October 2014 and 1 November 2014</b>	<b>—</b>	<b>(170)</b>	<b>(170)</b>
<b>Total comprehensive income for the period</b>			
Loss for the period	—	(816)	(816)
Total comprehensive income for the period	—	(816)	(816)
<b>Balance at 31 December 2015</b>	<b>—</b>	<b>(986)</b>	<b>(986)</b>

## Consolidated Cash Flow Statement

		<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
	<i>Note</i>			
<b>Cash flows from operating activities</b>				
Loss for the period		(816)	(143)	(27)
<i>Adjustments for:</i>				
Depreciation	7	80	34	5
Amortisation	8	2	1	—
Taxation	6	(204)	—	—
		<hr/>	<hr/>	<hr/>
		(938)	(108)	(22)
(Increase) in trade and other receivables	11	(920)	(100)	(20)
Increase in trade and other payables	13	2,018	227	1
		<hr/>	<hr/>	<hr/>
<b>Net cash from operating activities</b>		160	19	(41)
<b>Cash flows from investing activities</b>				
Acquisition of intangible	8	(20)	(42)	—
Acquisition of property, plant and equipment	7	(130)	(112)	(14)
		<hr/>	<hr/>	<hr/>
<b>Net cash from investing activities</b>		(150)	(154)	(14)
<b>Cash flows from financing activities</b>				
Proceeds from connected party loan	11,13	82	175	55
Repayment of connected party loan	11,13	(79)	(6)	—
		<hr/>	<hr/>	<hr/>
<b>Net cash from financing activities</b>		3	169	55
Net increase in cash and cash equivalents		13	34	—
Cash and cash equivalents at beginning of period		34	—	—
		<hr/>	<hr/>	<hr/>
<b>Cash and cash equivalents at end of period</b>	12	47	34	—
		<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

## **Notes**

### ***(forming part of the financial statements)***

#### **1 Accounting policies**

##### ***1.1 Basis of preparation***

The Group is planning to seek admission to the Alternative Investment Market ("AIM") through an Initial Public Offering ("IPO"). This will enable the Group to repay connected party borrowings and provide a source of future financing. At the same time, the IPO provides a mechanism for incentivising Management and key employees of the business as it moves into its next phase of growth.

The Group will be restructured prior to flotation such that the share capital of KAL-Energy Limited will be acquired by a new parent entity, Yü Group PLC, created for this purpose (see note 18). The financial information prepared here relates to KAL-Energy Limited and its wholly owned subsidiary, Kensington Power Limited, as the pre-existing Group.

This financial information has been prepared for the purposes of the Admission Document in accordance with the requirements of the Listing Rules and the Prospectus Directive Regulation.

This financial information for the periods ended 31 December 2015, 31 October 2014 and 30 September 2013 has been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs").

The Group has previously prepared statutory accounts under UK GAAP and an explanation of the differences on transition to Adopted IFRSs is given in note 20.

The Group is preparing its financial statements in accordance with Adopted IFRS for the first time. The date of transition to Adopted IFRSs is 7 September 2012, which is the date of incorporation of KAL-Energy Limited (see note 20). In preparing the financial information, the Group has applied IFRS 1 "First time adoption of International Financial Reporting standards".

The Group financial information consolidates those of the Company and its subsidiary, Kensington Power Limited, which was acquired on 17 February 2014 (together referred to as the "Group").

##### *Accounting period*

The financial information presented covers the 14 month period ended 31 December 2015, 13 month period ended 31 October 2014 and the period from incorporation on 7 September 2012 to 30 September 2013.

KAL-Energy Limited prepared its first accounts to 30 September 2013. It subsequently extended its accounting reference period resulting in a 13 month reporting period to 31 October 2014. In 2015 the Group changed its reporting period end again to 31 December resulting in a 14 month reporting period to 31 December 2015. This latter change was made to align it with that of its subsidiary, Kensington Power Limited. Due to the differing lengths of the three accounting periods presented in the financial information, amounts are not entirely comparable.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 7 September 2012 for the purposes of the transition to Adopted IFRSs.

Judgements made by the Directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 19.

##### ***1.2 Measurement convention***

The financial information has been prepared on the historical cost basis.

### **1.3 Going concern**

The financial information has been prepared on a going concern basis, notwithstanding the fact that current liabilities exceed current assets. The Directors have taken steps to ensure that they can conclude that the Group has adequate resources to continue in business for the foreseeable future and thus that the going concern basis of preparation remains appropriate. The key considerations are summarised below.

As at 31 December 2015, the Group had cash and cash equivalent balances of £47,000 with positive operating cash flows of £160,000 for the 14 month period ended 31 December 2015. The Group does not currently have an agreed overdraft facility and the Group's financial liabilities are in the form of connected party loans of £250,000 and trade and non-trade payables of £390,000.

The Group meets its day to day working capital requirements from cash reserves and connected party loans. Management reporting includes a forecast daily cash balance, and this is updated regularly to ensure that the Group has visibility of its future cash availability. The markets in which the business operates are not considered to be at significant risk due to the current global economic downturn. There are not believed to be any contingent liabilities which could result in a significant impact on the business if they were to crystallise.

The Directors intend to utilise the anticipated net proceeds to be received following the admission of the shares of Yü Group PLC to trading on AIM, in part to provide collateral to its energy suppliers, to enable the Group to purchase all its energy sale commitments as it moves into its next phase of growth.

The Directors have prepared a monthly cash flow forecast to 31 December 2018 to show that, should this new funding not be forthcoming, the existing cash balances and connected party loans remain sufficient to meet the working capital needs of the business such that they can continue to trade and settle current liabilities as they fall due without the need for additional borrowing facilities. Assuming the IPO does not go ahead, written confirmation has been received that repayment of the connected party loans will not be demanded for a period of at least 12 months from the date of this report if the Group does not have the funds to repay it.

After making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the financial information.

Note 14 to the financial information includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

### **1.4 Basis of consolidation**

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated.

## **1.5 Foreign currency**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the statement of profit and loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

### *Functional currency*

The consolidated financial statements are presented in GBP which is the Company's functional currency and have been rounded to the nearest thousand.

## **1.6 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 Company'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 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.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.

## **1.7 Non-derivative financial instruments**

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, 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 call 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 for the purpose only of the cash flow statement.

### *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.

### **1.8 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Depreciation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

fixtures and fittings, office and computer equipment    3 years

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

### **1.9 Intangible assets**

#### *Other intangible assets*

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

#### *Amortisation*

Amortisation is charged to the statement of profit and loss on a straight-line basis over the estimated useful lives of 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:

License        35 years

See note 8 for further details.

### **1.10 Impairment excluding inventories and deferred tax assets**

#### *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be

recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### *Non-financial assets*

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

### **1.11 Revenue**

The Group enters into contracts to supply gas and electricity to its customers.

Revenue on such contracts is recognised in the statement of profit and loss over the life of the contract based on estimated energy usage by the customer and using recognised industry consumption curves.

Corrections to revenue for actual usage are recognised in the statement of profit and loss when a meter reading has been provided and the actual usage billed to the customer.

Accrued income arises when estimated customer energy usage exceeds billed usage. Deferred income arises when billed customer energy usage exceeds estimated usage.

### **1.12 Expenses**

#### *Operating lease payments*

Payments made under operating leases are recognised in the statement of profit and loss on a straight-line basis over the term of the lease.

### **1.13 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.

### **1.14 Adopted IFRS not yet applied**

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

- Amendments to IAS 27: Equity Method in Separate Financial Statements (effective date 31 December 2016)



- Amendments to IAS 1: Disclosure Initiative (effective date 31 December 2016)
- Annual Improvements to IFRSs 2012–2014 Cycle (effective date 31 December 2016)
- Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (effective date 31 December 2016)
- Amendments to IFRS 11: Accounting for Acquisitions of Interests in Joint Operations (effective date 31 December 2016)
- Amendments to IAS 16 and IAS 41: Bearer Plants (effective date 31 December 2016)
- Amendments to IAS 19: Defined Benefit Plans: Employee Contributions (effective date 31 December 2016)
- Annual Improvements to IFRSs 2010–2012 Cycle (effective date 31 December 2016)

The effective dates above are the year ends in which the Group will have to adopt the relevant IFRSs.

## **2 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 are deemed to be the CODM.

The Group’s revenue and profit was 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.

The Group is not reliant on any major customers.

### 3 Result for the financial period

Included in profit/loss are the following:

	<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
Depreciation of property, plant & equipment – owned	80	34	5
Amortisation of intangible asset	2	1	—
Rentals under operating leases – land & buildings	70	9	—
Rentals under operating leases – plant & machinery	29	—	—
Wages and salaries	951	42	—
Social security costs	79	5	—
Marketing costs	129	10	2
IPO related costs	33	—	—
Legal and professional fees	18	38	—
Allowance for impairment of accrued income	50	—	—
Consultancy fees	16	5	16
Computer running costs	40	8	9

### 4 Staff numbers and costs

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

	<i>14 month period ended 31 December 2015 No.</i>	<i>13 month period ended 31 October 2014 No.</i>	<i>7 September 2012 to 30 September 2013 No.</i>
Sales	17	1	—
Other	15	3	—
	<u>32</u>	<u>4</u>	<u>—</u>

The aggregate payroll costs of these persons were as follows:

	<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
Wages and salaries	951	42	—
Social security costs	79	5	—
	<u>1,030</u>	<u>47</u>	<u>—</u>

In the 13 month period ended 31 October 2014, the staff (4 people as disclosed above) were employed by Better Business Energy Limited, a company owned by Mr B Kalar (see Note 17). The amounts included above for that period were recharged to the Group from Better Business Energy Limited. Better Business Energy Limited have provided working capital funding (including staff costs) via the connected party loan, see note 17.

## 5 Loss per share

Basic loss per share is calculated by dividing the net loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

Diluted loss per share is calculated by dividing the net loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

	<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
(Loss) attributable to equity shareholders of the parent	(816)	(143)	(27)
Basic weighted average number of shares	100	100	100
Dilutive potential ordinary shares	—	—	—
Diluted weighted average number of shares	<u>100</u>	<u>100</u>	<u>100</u>
	<i>£</i>	<i>£</i>	<i>£</i>
Basic loss per share	(8,160)	(1,430)	(270)
Diluted loss per share	<u>(8,160)</u>	<u>(1,430)</u>	<u>(270)</u>

## 6 Taxation

Recognised in the statement of profit and loss and other comprehensive income

	<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
<b>Current tax expense</b>			
Current period	—	—	—
Adjustments for prior periods	—	—	—
Current tax expense	<u>—</u>	<u>—</u>	<u>—</u>
<b>Deferred tax (credit)/expense (see note 10)</b>			
Origination and reversal of temporary differences	(194)	23	—
Reduction in tax rate	23	—	—
Adjustments for prior periods	—	2	—
Deferred tax assets recognised on losses	(33)	(25)	—
Deferred tax credit	<u>(204)</u>	<u>—</u>	<u>—</u>
Total tax credit	<u>(204)</u>	<u>—</u>	<u>—</u>

The corporation tax rate applicable to the Company was 20 per cent. in the 14 month period to 31 December 2015. A reduction in the rate from 20 per cent. to 19 per cent. (effective from 1 April 2017) and a further reduction from 19 per cent. to 18 per cent. (effective from 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 31 December 2015 has been calculated based on the rate of 18 per cent. substantively enacted at the balance sheet date.

The corporation tax rate applicable to the Company was 20 per cent. in the 13 month period to 31 October 2014. The deferred tax asset at 31 October 2014 has been calculated based on the rate of 20 per cent. substantively enacted at the balance sheet date.

The corporation tax rate applicable to the Company was 20 per cent. in the period from incorporation on 7 September 2012 to 30 September 2013. The deferred tax asset has been calculated based on the rate of 20 per cent. substantively enacted at the balance sheet date.

### Reconciliation of effective tax rate

	<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
Loss for the period	(816)	(143)	(27)
Total tax (credit)/expense	(204)	—	—
Loss excluding taxation	<u>(1,020)</u>	<u>(143)</u>	<u>(27)</u>
Standard rate of UK corporation tax	20%	20%	20%
Tax using the UK corporation tax rate for the relevant period	(204)	(28)	(5)
Reduction in tax rate on deferred tax balances	23	—	—
Permanent differences	10	—	—
Deferred tax assets recognised on previous losses	(33)	—	—
Deferred tax unrecognised on losses	—	28	5
Total tax credit	<u>(204)</u>	<u>—</u>	<u>—</u>

## 7 Property, plant and equipment

*Fixtures and fittings,  
office and  
computer equipment  
£000*

### **Cost**

Balance at 7 September 2012	—
Additions	14
Balance at 30 September 2013 & 1 October 2013	<u>14</u>
Additions	148
Balance at 31 October 2014 & 1 November 2014	<u>162</u>
Additions	112
<b>Balance at 31 December 2015</b>	<b><u>274</u></b>

### **Depreciation and impairment**

Balance at 7 September 2012	—
Depreciation charge for the period	5
Balance at 30 September 2013 & 1 October 2013	<u>5</u>
Depreciation charge for the period	34
Balance at 31 October 2014 & 1 November 2014	<u>39</u>
Depreciation charge for the period	80
<b>Balance at 31 December 2015</b>	<b><u>119</u></b>

### **Net book value as at 31 December 2015**

Net book value as at 31 October 2014	<u>123</u>
Net book value as at 30 September 2013	<u>9</u>
Net book value as at 7 September 2012	<u>—</u>

## 8 Intangible assets

*Electricity licence*  
*£000*

### Cost

Balance at 7 September 2012, 30 September 2013 & 1 October 2013	—
Additions (see below)	62
Balance at 31 October 2014, 1 November 2014 & 31 December 2015	<b>62</b>

### Amortisation and impairment

Balance at 7 September 2012, 30 September 2013 & 1 October 2013	—
Amortisation charge for the period	1
Balance at 31 October 2014 & 1 November 2014	1
Amortisation charge for the period	2
<b>Balance at 31 December 2015</b>	<b>3</b>

### Net book value as at 31 December 2015

Net book value as at 31 October 2014	61
Net book value as at 30 September 2013	—
Net book value as at 7 September 2012	—

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 license 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.

## 9 Investments in subsidiaries

The Group has the following investments in subsidiaries:

<i>Subsidiaries</i>	<i>Principle activity</i>	<i>Country of incorporation</i>	<i>Registered Number</i>	<i>Year-end</i>	<i>Class of Shares held</i>	<i>Ownership</i>
Kensington Power Limited	Supply of energy to SMEs	UK	08246810	31 Dec	Ordinary	100%

## 10 Deferred tax assets

*Recognised deferred tax assets*

Deferred tax assets are attributable to the following:

	<i>14 month period ended 31 December 2015 £000</i>	<i>13 month period ended 31 October 2014 £000</i>	<i>7 September 2012 to 30 September 2013 £000</i>
Property, plant and equipment	(28)	(25)	—
Tax value of loss carry-forwards	232	25	—
Tax assets	<u>204</u>	<u>—</u>	<u>—</u>

The deferred tax asset relating to brought forward losses is expected to be utilised over the next 3 years as the Group is forecast to generate sufficient taxable income as a result of growth in the customer base triggered by the acquisition of the electricity licence in 2014 (see note 8). The Group has already completed Controlled Market Entry for non-half hourly customers and is expecting to complete Controlled Market Entry for half hourly customers during 2016. Exiting Controlled Market Entry is expected to enable a step change in sales growth. There were unrecognised deferred tax assets of £33,000 at 31 October 2014 and £5,000 at 30 September 2013 which were not recognised at those points on the basis that future recovery was uncertain. See note 6 for further details. These deferred tax assets have been calculated using a deferred tax rate of 18% (2014: 20%, 2013: 20%).

*Movement in deferred tax during the period*

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

	<i>At 1 October 2013 £000</i>	<i>Recognised in income £000</i>	<i>At 31 October 2014 £000</i>
Property, plant and equipment	—	(25)	(25)
Tax value of loss carry-forwards	—	25	25
	<u>—</u>	<u>—</u>	<u>—</u>

## 11 Trade and other receivables

	<i>At</i> <i>31 December</i> <i>2015</i> <i>£000</i>	<i>At</i> <i>31 October</i> <i>2014</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2013</i> <i>£000</i>
Trade receivables	—	38	—
Accrued income	1,005	55	9
VAT	—	9	5
Other receivables	—	4	6
Loans to connected parties	23	23	—
Prepayments	35	14	—
	<u>1,063</u>	<u>143</u>	<u>20</u>

Loans to connected parties represent amounts owed by CPK Investments Limited, a company controlled by Mr B Kalar (see note 17).

## 12 Cash and cash equivalents

	<i>At</i> <i>31 December</i> <i>2015</i> <i>£000</i>	<i>At</i> <i>31 October</i> <i>2014</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2013</i> <i>£000</i>
Cash and cash equivalents	<u>47</u>	<u>34</u>	<u>—</u>

## 13 Trade and other payables

	<i>At</i> <i>31 December</i> <i>2015</i> <i>£000</i>	<i>At</i> <i>31 October</i> <i>2014</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2013</i> <i>£000</i>
<b>Current</b>			
Trade payables	(157)	(191)	—
Loans from connected parties	(250)	(247)	(55)
Accrued expenses	(647)	(57)	(1)
Deferred income	(1,227)	—	—
Non-trade payables	(233)	(36)	—
	<u>(2,514)</u>	<u>(531)</u>	<u>(56)</u>

Loans from connected parties relate to working capital funding made available to the Group by Better Business Energy Limited, a company controlled by Mr B Kalar (see note 17). The connected party loans are non-interest bearing and are repayable on demand.

## 14 Financial instruments

### **Financial risk management**

The Group's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Group's policies on the management of liquidity, credit and market risks are set out below.

The main purpose of the Group's financial instruments which comprise of connected party loans, cash and liquid resources and various items arising directly from its operations, such as trade receivables and trade payables, is to finance the Group's operations.



### **Risk management framework**

Regular group-wide reviews of strategic risks are performed by the Board of Directors which has overall responsibility for the establishment and oversight of the Group's risk management framework.

The executive management team discuss all key business risks at a monthly operational board meeting and actions for managing individual risks and responsibilities are agreed. The executive directors report regularly to the Board of Directors on the key business risks. The Group's key business risk is associated with purchasing energy where the onward sales prices have been agreed with customers. The executive directors monitor this risk on a daily basis.

The Group trades entirely in sterling; hence has no exposure to foreign currency risk.

#### *a) Liquidity risk*

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group's policy is to ensure that it has facilities in place to cover its funding requirements. The Group meets its day to day working capital requirements from cash reserves and connected party loans. Management reporting includes a forecast weekly cash balance, and this is updated regularly to ensure that the Group has visibility of its future cash availability in order to manage liquidity risk.

The following are the contractual maturities of financial liabilities. The carrying amounts are the amounts due if settled at the period end date. The connected party loans, as described in note 13, do not attract interest and have no mandatory repayment date; hence are technically repayable on demand.

	<i>Carrying amount</i>	<i>Total</i>	<i>Contractual cash flows</i>			
	<i>31 December 2015</i>	<i>31 December 2015</i>	<i>Within 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>Over 5 years</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non derivative financial liabilities</b>						
Loans to connected parties	(250)	(250)	(250)	—	—	—
Trade payables	(157)	(157)	(157)	—	—	—
Non-trade payables	(233)	(233)	(233)	—	—	—
	<u>(640)</u>	<u>(640)</u>	<u>(640)</u>	<u>—</u>	<u>—</u>	<u>—</u>

	<i>Carrying amount</i>	<i>Total</i>	<i>Contractual cash flows</i>			
	<i>31 October 2014</i>	<i>31 October 2014</i>	<i>Within 1 year</i>	<i>1-2 years</i>	<i>2-5 years</i>	<i>Over 5 years</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
<b>Non derivative financial liabilities</b>						
Loans to connected parties	(247)	(247)	(247)	—	—	—
Trade payables	(191)	(191)	(191)	—	—	—
Non-trade payables	(36)	(36)	(18)	(18)	—	—
	<u>(474)</u>	<u>(474)</u>	<u>(456)</u>	<u>(18)</u>	<u>—</u>	<u>—</u>

	Carrying	Total	Contractual cash flows			
	amount		Within	1-2 years	2-5 years	Over 5 years
	30 September	30 September	1 year	1-2 years	2-5 years	Over 5 years
	2013	2013	1 year	1-2 years	2-5 years	Over 5 years
	£000	£000	£000	£000	£000	£000
<b>Non derivative financial liabilities</b>						
Loans to connected parties	(55)	(55)	(55)	—	—	—
	<u>(55)</u>	<u>(55)</u>	<u>(55)</u>	<u>—</u>	<u>—</u>	<u>—</u>

b) *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 is 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 period end date there were no significant concentrations of credit risk.

The carrying amount of the financial assets represents the maximum credit exposure at each period end date.

*Credit quality of financial assets and impairment losses*

The Group receives cash monthly in advance via direct debit and customer accounts are tried up quarterly based on meter readings. This leads to a large amount of accrued income which arises when estimated customer energy usage exceeds billed usage. A large proportion of customer accounts are in credit most of the time and there are very few trade receivables.

As a result, the ageing analysis of trade receivables at each balance sheet date is not a useful indicator of credit risk.

The ageing of accrued income at the balance sheet date was:

	Gross	Impairment	Gross	Impairment	Gross	Impairment
	31 December	31 December	31 October	31 October	30 September	30 September
	2015	2015	2014	2014	2013	2013
	£000	£000	£000	£000	£000	£000
Group						
Not past due	1,015	10	55	—	9	—
Past due 0-30 days	10	10	—	—	—	—
Past due 31-120 days	30	30	—	—	—	—
	<u>1,055</u>	<u>50</u>	<u>55</u>	<u>—</u>	<u>9</u>	<u>—</u>

The movement in the allowance for impairment in respect of accrued income during the year was as follows:

	<i>At</i> <i>31 December</i> <i>2015</i> <i>£000</i>	<i>At</i> <i>31 October</i> <i>2014</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2013</i> <i>£000</i>
Opening provision against accrued income	—	—	—
Provision increased in the period	50	—	—
Closing provision for accrued income	<u>50</u>	<u>—</u>	<u>—</u>

The allowance for impairment for accrued income has been created in the current period to cover those customers not honouring direct debits i.e. the collection date for the direct debit has passed and the direct debit has failed to be collected.

Group policy is to provide in full against all accrued income whose full recovery is significantly in doubt. The provision is netted off the gross receivable. There is no impairment necessary to the value of accrued income at the period end date over and above the specific provision held at the period end.

#### *c) Market Risk*

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

The Group trades entirely in Sterling and has no interest bearing loans or borrowings; hence is not subject to foreign exchange rate risk or interest rate risk.

#### *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.

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, see note 1 for further details.

#### *Sensitivity analysis*

The market risk in relation to changes in energy prices is the extent to which the Group is unable to use back to back contracts in order to purchase sufficient volume to meet its future sale commitments. This occurs where customer commitments are not matched by forward purchases due to actual usage by customers being different from forecast usage or because the wholesale markets do not have contract dates that coincide with customer contract dates.

As a result of the Group's policy in this area, changes in market prices have not had a material impact on its profit or loss or equity in the periods under review.

### **Fair values and carrying values of financial instruments**

#### *Trade and other payables and receivables*

The fair value of these items are considered to be their carrying value as the impact of discounting future cash flows has been assessed as not material.

#### *Cash and cash equivalents*

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand.

### Connected party loans

The fair value of connected party loans is estimated as the carrying amount given these have no set repayment dates and are technically repayable on demand.

### d) Debt and Capital Management

The Group's objective when managing capital, which is deemed to be share capital, is to maximise the return on net invested capital while maintaining its ongoing ability to operate and guarantee adequate returns for shareholders and benefits for other stakeholders, within a sustainable financial structure.

The Group manages its capital structure and makes appropriate decisions in light of the current economic conditions and strategic objectives of the Group.

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. There were no changes in the Group's approach to capital management during the period. The Group does not have any externally imposed capital requirements. The funding requirements of the Group are met by the utilisation of connected party borrowings together with available cash.

## 15 Capital and reserves

	<i>At 31 December 2015</i>		<i>At 31 October 2014</i>		<i>At 30 September 2013</i>	
	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>	<i>Number</i>	<i>£</i>
<i>Share capital</i>						
<i>Allotted, called up</i>						
<i>and fully paid:</i>						
Ordinary shares						
of £1 each	100	100	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Shares classified						
as liabilities	—	—	—	—	—	—
Shares classified in						
shareholders' funds	100	100	100	100	100	100
	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

On 7 September 2012 the Company issued 100 £1 ordinary shares for a consideration of £100, settled in cash.

## 16 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	<i>At</i>	<i>At</i>	<i>At</i>
	<i>31 December</i>	<i>31 October</i>	<i>30 September</i>
	<i>2015</i>	<i>2014</i>	<i>2013</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Less than one year	95	60	—
Between one and five years	290	395	—
	<u>385</u>	<u>455</u>	<u>—</u>

## 17 Related parties

### *Identity of related parties with which the Group has transacted*

The Group has transacted with the following related parties during the 3 periods:

- B Kalar (sole owner of the Group and the only statutory Director)
- CPK Investments Limited (an entity owned by B Kalar)
- Better Business Energy Limited (an entity owned by B Kalar)

### *Transactions with key management personnel*

B Kalar is the only Director of the Company and he controls 100 per cent. of the voting shares of the Company by virtue of owning the entire issued share capital. The term 'key management personnel' includes the Director of the Company.

The compensation of key management personnel is as follows:

	<i>At</i> <i>31 December</i> <i>2015</i> <i>£000</i>	<i>At</i> <i>31 October</i> <i>2014</i> <i>£000</i>	<i>At</i> <i>30 September</i> <i>2013</i> <i>£000</i>
Key management emoluments including social security costs	—	—	—
Company contributions to money purchase pension plans	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>

### *Other related party transactions*

Payments totalling £79,441 were made to Better Business Energy Limited in the 14 month period to 31 December 2015 (13 month period ended 31 October 2014: £5,757 and period from 7 September 2012 to 30 September 2013: £nil). These payments were accounted for as repayment of the connected party loan due to Better Business Energy Limited.

The Group owed B Kalar £260 at each period end via the Director current account which forms part of non-trade payables in note 13.

CPK Investments Limited owns the property from which the Group operates and rents it to Kensington Power Limited under an operating lease. The Group paid the following amounts in lease rentals and service charges to CPK Investments Limited:

	<i>14 month</i> <i>period ended</i> <i>31 December</i> <i>2015</i> <i>£000</i>	<i>13 month</i> <i>period ended</i> <i>31 October</i> <i>2014</i> <i>£000</i>	<i>7 September</i> <i>2012 to</i> <i>30 September</i> <i>2013</i> <i>£000</i>
Property rental and service charges	72	9	—
	<u>72</u>	<u>9</u>	<u>—</u>
	<u>72</u>	<u>9</u>	<u>—</u>

In 2014, the Group made payments on behalf of CPK Investments Limited for consultancy services totalling £23,006. This amount was outstanding at 31 October 2014 and 31 December 2015 as outlined in note 11.

Better Business Energy Limited has provided funding to the Group during the 3 periods to support working capital requirements e.g. staff costs (see note 4). The outstanding balances at each period end are set out in note 13.

## **18 Post balance sheet events**

Yü Group PLC was incorporated and registered in England and Wales with registered number 10004236 on 15 February 2016 as a private company limited by shares under the name Yoda Newco 1 Limited. On 26 February 2016 the Company was re-registered as a public limited company with the name Yü Group PLC.

On 16 February 2016, the following occurred:

- 100 £1 shares in KAL-Energy Limited were subdivided into 20,000 £0.005 shares; and
- 9,980,000 new £0.005 ordinary shares in KAL-Energy Limited were allotted to B Kalar and fully paid up. These shares were the same class and had the same rights attached to them as the original shares.

On 17 February 2016, a total of 1,094,500 share options were granted to specific members of the management team at KAL-Energy Limited.

On 18 February 2016, as part of a group reorganisation, B Kalar exchanged his 10,000,000 shares in KAL-Energy Limited for 9,999,999 shares in Yoda Newco 1 Limited (there was already one £0.005 subscriber share in issue).

## **19 Accounting estimates and judgements**

The preparation of consolidated financial information in conformity with IFRSs requires management to make judgements, estimates and assumptions concerning the future, that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. These judgements are based on historical experience and management's best knowledge at the time and the actual results may ultimately differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The estimates and assumptions that have significant risk of causing a material adjustment to the carrying value of assets and liabilities are discussed below.

### *Carrying value of trade receivables and accrued income*

Management review the recoverability of trade receivables and accrued income at each period end to ensure they are recorded in the financial information at their recoverable amount. The allowance account for trade receivables and accrued income is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at which point the amounts considered irrecoverable will be written off against trade receivables or accrued income directly. The allowance account also makes provision for any change in the profile of the ageing of the debt over and above specific impairments. Management use their knowledge of the Group's customers and associated market conditions to assess whether or not they record impairment losses.

### *Assumptions relating to tax*

A key judgement is in relation to the recognition of deferred tax assets. Management compile forecasts to ascertain whether the Group will generate sufficient taxable income in the foreseeable future against which to utilise brought forward losses. See note 10 for further information.

## **20 First time adoption of IFRS**

As stated in note 1, this is the Group's first consolidated financial information prepared in accordance with Adopted IFRSs.

The accounting policies set out in note 1 have been applied in preparing this consolidated financial information and in the preparation of an opening IFRS balance sheet at 7 September 2012 (the Group's date of transition and also the Company's date of incorporation).

As this financial information covers the periods from incorporation on 7 September 2012 to 31 December 2015, the transition date is 7 September 2012.

*Reconciliations between IFRS and UK GAAP*

Certain presentation differences between UK GAAP and IFRS have no impact on reported profit or total equity. Some line items are described differently (renamed) under IFRS compared with previous UK GAAP, although the assets and liabilities included in those line items are unaffected.

The cash flow statement for the periods ended 31 December 2015, 31 October 2014 and 30 September 2013 under IFRS are the same as under UK GAAP apart from presentational differences.

No IFRS adjustments have been made on transition to IFRS.

Consequently no reconciliations of comprehensive income or equity have been included within this note.

## PART V

### UNAUDITED PRO FORMA STATEMENT OF NET ASSETS OF THE GROUP

Set out below is an unaudited pro forma statement of net assets for the Group as at 31 December 2015. It has been prepared on the basis set out in the notes below to illustrate the effect of Admission and the Placing described in Part I as if both had occurred as at 31 December 2015. It has been prepared for illustrative purposes only. Because of its nature, the pro forma statement of net assets addresses a hypothetical situation and, therefore, does not represent the Group's actual financial position or results. It is based on the audited net assets of the Company as at 23 February 2016 as shown in Part III of this document and the audited net assets of KAL-Energy Limited and its subsidiary undertakings as at 31 December 2015 as shown in Part IV of this document. Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part V.

	<i>Yü Group PLC as at 23 February 2016 Note 1 £000</i>	<i>KAL and its subsidiary undertakings at 31 December 2015 Note 2 £000</i>	<i>Net proceeds of the offer receivable by the Company Note 3 £000</i>	<i>Unaudited proforma net assets of the Group £000</i>
<b>Non-current assets</b>				
Property Plant and Equipment	—	155	—	155
Intangible assets	—	59	—	59
Deferred tax assets	—	204	—	204
	—	418	—	418
<b>Current assets</b>				
Trade and other receivables	—	1,063	—	1,063
Cash and cash equivalents	—	47	6,181	6,228
	—	1,110	6,181	7,291
<b>Total assets</b>	—	1,528	6,181	7,709
<b>Current liabilities</b>				
Trade and other payables	—	(2,514)	—	(2,514)
	—	(2,514)	—	(2,514)
<b>Total liabilities</b>	—	(2,514)	—	(2,514)
<b>Net (liabilities)/assets</b>	—	(986)	6,181	5,195

Note 1 – The financial information of Yü Group PLC as at 23 February 2016 has been extracted, without material adjustment, from the audited historical financial information of Yü Group PLC as set out in Part III (Historical Financial Information).

Note 2 – The financial information of KAL and its subsidiary undertakings as at 31 December 2015 has been extracted, without material adjustment, from the audited historical financial information of KAL and its subsidiary undertakings as set out in Part IV (Historical Financial Information).

Note 3 – The total gross proceeds of the Placing receivable by the Company are £7.5 million. The Company's expenses of the Placing are expected to be £1.3 million.

Note 4 – No account has been taken for any changes in trading or financial position of Yü Group PLC since 23 February 2016 or of KAL and its subsidiary undertakings since 31 December 2015.



## PART VI

### ADDITIONAL INFORMATION

#### 1. Responsibility

- 1.1 The Board, whose names appear on page 4 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Board and the Company (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. All the Directors and the Proposed Directors accept individual and collective responsibility for compliance with the AIM Rules.

#### 2. The Company

- 2.1 The Company was incorporated and registered in England and Wales with registered number 10004236 on 15 February 2016 as a private company limited by shares under the name Yoda Newco 1 Limited. On 25 February 2016 the relevant resolutions were passed by the sole member of the Company to re-register as a public limited company with the name Yu Group PLC and on 26 February 2016 the Company was re-registered as a public limited company with the name Yü Group PLC.
- 2.2 The principal legislation under which the Company operates is the Act and regulations made under the Act. The liability of the Company's members is limited.
- 2.3 The Company does not have an authorised share capital.
- 2.4 The Company is domiciled in the United Kingdom. The registered office and principal place of business of the Company is at CPK House, Mellors Way, 2 Horizon Place, Nottingham Business Park, Nottingham, NG8 6PY (telephone number 0115 9758258).
- 2.5 The average monthly number of staff employed by the Group for the year ended 31 December 2015 was 32, with 15 of these being administration staff, and 17 of these being sales staff. As at 10 March 2016, being the latest practicable date prior to publication of this document, the Group had 43 full time staff.
- 2.6 The following are the important events in the development of the Company's business:
- 2.6.1 Incorporation of the Company on 15 February 2016.
- 2.6.2 On 16 February 2016, KAL sub-divided the 100 ordinary shares of £1.00 each then in issue into a total of 20,000 ordinary shares of £0.005 each.
- 2.6.3 On 16 February 2016, KAL issued, fully paid, 9,980,000 ordinary shares of £0.005 each to Bobby Kalar.
- 2.6.4 On 17 February 2016, options over 1,094,500 ordinary shares of £0.005 each in the share capital of KAL were granted to certain senior employees pursuant to the KAL-Energy Plan.
- 2.6.5 On 18 February 2016, as part of a group reorganisation, the Company acquired the entire issued share capital of KAL from Bobby Kalar by way of share for share exchange. Following the share for share exchange Bobby Kalar held 10,000,000 Ordinary Shares. Nick Parker and Garry Pickering were appointed as directors of the Company.

2.6.6 On 18 February 2016, all of the holders of options over shares in KAL surrendered their options and were granted new options over Ordinary Shares under the KAL-Energy Plan, by the Company in the same proportions as they had previously held options over ordinary shares in KAL.

2.6.7 On 25 February 2016, the relevant resolutions were passed by the sole member of the Company to re-register the Company as a public limited company. Nick Parker was appointed as Company Secretary. The Share Option Scheme was adopted conditional on Admission. The re-registration took place on 26 February 2016.

### 3. Subsidiaries

3.1 The Company is the holding company of the Group. The following table contains details of the Company's principal subsidiaries:

<i>Company name</i>	<i>Principal activity</i>	<i>Country of incorporation</i>	<i>Percentage ownership</i>
Kensington Power Limited	Gas and electricity supplier	England	100
KAL Energy Limited	Holding Company	England	100
Yü Energy Limited	Dormant Company	England	100
Yü Water Limited	Dormant Company	England	100

3.2 The Company indirectly owns (via KAL-Energy Limited) 100 per cent. of the ordinary shares in Kensington Power Limited, Yü Energy Limited and Yü Water Limited.

### 4. Share capital

4.1 Set out below are details of the issued share capital of the Company (i) as at the date of this document and (ii) as it will be immediately following the Placing and Admission:

	<i>Present</i>		<i>Immediately following Admission</i>	
	<i>Number</i>	<i>Nominal value (£)</i>	<i>Number</i>	<i>Nominal value (£)</i>
Issued Ordinary Shares	10,000,000	0.005	14,054,055	0.005

4.2 On incorporation, the issued share capital was £0.005 divided into 1 Ordinary Share.

4.3 The following changes to the issued share capital of the Company have taken place since incorporation:

4.3.1 on 15 February 2016, the Company was incorporated with 1 Ordinary Share held by Bobby Kalar;

4.3.2 on 18 February 2016, 9,999,999 Ordinary Shares were issued to Bobby Kalar in exchange for the transfer by him of the entire issued share capital of KAL to the Company. The issued share capital of the Company at that time was 10,000,000 Ordinary Shares, all of which were fully paid-up.

4.4 The New Placing Shares will be issued in accordance with the following resolutions of the Company passed on 25 February 2016 and conditional on (but effective immediately prior to) Admission.

4.4.1 pursuant to section 551 of the Act, the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (as defined by section 560 of the Act) in the Company up to an aggregate nominal amount of:

- (a) £30,000, in respect of the proposed Placing; and
- (b) otherwise, £24,000,

provided that (unless previously revoked, varied or renewed) the authority shall expire on the earlier of 30 June 2017 or the conclusion of the Company's next annual general meeting, save that the Company may make an offer or agreement before the authority expires which would or might require equity securities to be allotted or rights to subscribe for or to convert any security into equity securities to be granted after the authority expires and the directors may allot equity securities or grant such rights pursuant to any such offer or agreement as if the authority had not expired.

The authority is in substitution for all existing authorities under section 551 of the Act;

4.4.2 that, subject to the passing of the resolution referred to in 4.4.1 above 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 the resolution referred to in 4.4.1 above 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:

- (a) referred to in the resolution referred to in 4.4.1 (a) above;
- (b) otherwise than pursuant to the resolution referred to in 4.4.1 (a) above, up to an aggregate nominal amount of £7,202.00,

and the power shall expire at the conclusion of the next annual general meeting of the Company or on 30 June 2017 (whichever is the earlier), save that the Company may make an offer or agreement before the power expires which would or might require equity securities to be allotted for cash after the power expires and the directors may allot equity securities for cash pursuant to any such offer or agreement as if the power had not expired.

The power is in substitution for all existing powers under section 570 of the Act.

4.5 The provisions of section 561 of the Act confer on shareholders rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash (other than by way of allotments to employees under any employee share scheme as defined in section 1166 of the Act). Subject to certain limited exceptions, unless the approval of shareholders is obtained in a general meeting of the Company, the Company must normally offer Ordinary Shares to be issued for cash to existing shareholders on a *pro rata* basis.

4.6 By a resolution of the Board passed on 10 March 2016 it was resolved conditionally upon (but effective immediately prior to) Admission taking place, to allot the New Placing Shares to the Placees for cash at the Placing Price.

4.7 The following table shows the number of Ordinary Shares under option pursuant to terms of the KAL-Energy Plan as at 10 March 2016 (being the last practicable date before publication of this document):

	<i>Number of Ordinary Shares under option</i>	<i>Earliest date of exercise</i>	<i>Expiry date</i>	<i>Exercise price</i>
Nick Parker	500,000	17 February 2018	17 February 2026	£0.09
Garry Pickering	500,000	17 February 2018	17 February 2026	£0.09

In addition, an aggregate of 94,500 Ordinary Shares are subject to options held by certain senior employees of the Group. These options are capable of being exercised in the period commencing on 17 February 2019 and ending on 17 February 2026 and at the same price as set out above.

- 4.8 The Ordinary Shares in issue on Admission will be in registered form and, following Admission, will be capable of being held in uncertificated form. In the case of Ordinary Shares held in uncertificated form, the Articles permit the holding and transfer of Ordinary Shares under CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Board has applied for the Ordinary Shares to be admitted to CREST. The records in respect of Ordinary Shares held in uncertificated form will be maintained by Euroclear UK & Ireland Limited and the Company's registrar, Neville Registrars Limited (details of whom are set out on page 4).
- 4.9 It is anticipated that, where appropriate, share certificates will be dispatched to Shareholders within 10 business days of Admission by first class post. Temporary documents of title will not be issued. Prior to the dispatch of definitive share certificates, transfers will be certified against the register.
- 4.10 The legislation under which the New Placing Shares will be issued is the Act and regulations made under the Act.
- 4.11 The Ordinary Shares are denominated in sterling.
- 4.12 Following the Placing and Admission (assuming all the New Placing Shares are allotted pursuant to the Placing), the Existing Share Capital will represent 71.15 per cent. of the Enlarged Share Capital.
- 4.13 Save as disclosed in this paragraph 4.13, as at the date of this document:
- 4.13.1 the Company did not hold any treasury shares and no Ordinary Shares were held by, or on behalf of, any member of the Group;
  - 4.13.2 no shares have been issued otherwise than as fully paid;
  - 4.13.3 the Company had no outstanding convertible securities, exchangeable securities or securities with warrants;
  - 4.13.4 the Company has given no undertaking to increase its share capital; and
  - 4.13.5 no capital of any member of the Group is under option or is agreed, conditionally or unconditionally, to be put under option.

## 5. Articles of Association

The Articles include provisions to the following effect:

### 5.1 **Objects**

Section 31 of the Act provides that the objects of a company are unrestricted unless any restrictions are set out in the articles. There are no such restrictions in the Articles and the objects of the Company are therefore unrestricted.

### 5.2 **Voting rights**

5.2.1 Subject to any rights or restrictions attached to any shares, on a show of hands:

*5.2.1.1 every shareholder who is present in person has one vote;*

*5.2.1.2 every proxy present who has been duly appointed by one or more shareholders entitled to vote on the resolution(s) has one vote; and*

*5.2.1.3 a proxy has one vote for and one vote against the resolution(s) if he has been duly appointed by more than one shareholder and either (i) is instructed by one or more of those shareholders to vote for the resolution and by one or more others to vote against it; or (ii) is instructed by one or more of those*

*shareholders to vote in one way and is given a discretion as to how to vote by one or more others (and wishes to use that discretion to vote in the other way).*

- 5.2.2 Subject to any rights or restrictions attached to any shares, on a poll every shareholder present in person or by proxy shall have one vote for every share of which he is the holder.
- 5.2.3 Where there are joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote or votes of the other joint holder or holders. Seniority is determined by the order in which the names of the holders stand in the register.
- 5.2.4 Unless the Board otherwise determines, a shareholder shall not be entitled to vote unless all calls or other sums due from him in respect of shares in the Company have been paid.

### 5.3 **Dividends**

- 5.3.1 Subject to the Act and the Articles, the Company may by ordinary resolution declare dividends, but no such dividends shall exceed the amount recommended by the Board. Subject to the Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appear to the Board to be justified by the profits of the Company available for distribution.
- 5.3.2 Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up or credited as paid up (other than amounts paid in advance of calls) on the shares in respect of which the dividend is paid and shall be apportioned and paid proportionately to the amounts paid up on such shares during any portion or portions of the period in respect of which the dividend is paid.
- 5.3.3 Dividends may be declared or paid in whatever currency the Board decides. Unless otherwise provided by the rights attached to the shares, dividends shall not carry a right to receive interest.
- 5.3.4 All dividends unclaimed for a period of 12 years after having been declared or becoming due for payment shall be forfeited and cease to remain owing by the Company.
- 5.3.5 The Board may, with the authority of an ordinary resolution of the Company:
  - 5.3.5.1 *offer holders of Ordinary Shares the right to elect to receive further Ordinary Shares, credited as fully paid, instead of cash in respect of all or part of any dividend or dividends specified by the ordinary resolution;*
  - 5.3.5.2 *direct that payment of all or part of any dividend declared may be satisfied by the distribution of specific assets.*
- 5.3.6 There are no fixed or specified dates on which entitlements to dividends payable by the Company arise.

### 5.4 **Pre-emption rights**

In certain circumstances, shareholders may have statutory pre-emption rights under the Act in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing shareholders on a *pro rata* basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to shareholders.

## 5.5 ***Distribution of assets on a winding-up***

On a winding-up, the liquidator may, with the authority of a special resolution of the Company and any other sanction required by law, divide among the shareholders in kind the whole or any part of the assets of the Company and may value any assets and determine how the division shall be carried out as between the shareholders or different classes of shareholders. The liquidator may, with the like sanction, transfer any part of the assets of the Company to trustees on such trusts for the benefit of shareholders as he may determine. The liquidator shall not, however (except with the consent of the shareholder concerned) distribute to a shareholder any asset to which there is attached a liability or potential liability for the owner.

## 5.6 ***Transfer of shares***

5.6.1 Every transfer of shares which are in certificated form must be in writing in any usual form or in any form approved by the Board and shall be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee.

5.6.2 Every transfer of shares which are in uncertificated form must be made by means of a relevant system (such as CREST).

5.6.3 The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of certificated shares if: (a) it is in respect of a share which is not fully paid up (provided that the refusal does not prevent dealings in the Company's shares from taking place on an open and proper basis); (b) it is in respect of more than one class of share; (c) it is not duly stamped (if so required); or (d) it is not delivered for registration to the registered office of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued) by the relevant share certificate and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer.

5.6.4 The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of shares which is in favour of: (a) a child, bankrupt or person of unsound mind; or (b) more than four joint transferees.

## 5.7 ***Suspension of rights***

If a shareholder or any person appearing to be interested in shares held by such a shareholder has been duly served with a notice under section 793 of the Act and has failed in relation to any shares ("**default shares**") to give the Company the information thereby required within 14 days from the date of the notice, then, unless the Board otherwise determines, the shareholder shall not be entitled to vote or exercise any right conferred by membership in relation to meetings of the Company in respect of such default shares. Where the holding represents more than 0.25 per cent. of the issued shares of that class (excluding any shares of that class held as treasury shares), the payment of dividends may be withheld and such shareholder shall not be entitled to transfer such shares other than by arm's length sale or unless the shareholder himself is not in default and the shareholder proves to the satisfaction of the Board that no person in default is interested in the shares the subject of the transfer.

## 5.8 ***Untraced shareholders***

The Company is entitled to sell any share of a shareholder who is untraceable, provided that:

5.8.1 for a period of not less than 12 years (during which at least three cash dividends have been payable on the share), no cheque, warrant or money order sent to the shareholder has been cashed or all funds sent electronically have been returned;

5.8.2 at the end of such 12 year period, the Company has advertised in a national and local (i.e. the area in which the shareholder's registered address is situated) newspaper its intention to sell such share; and

5.8.3 the Company has not, during such 12 year period or in the three month period following the last of such advertisements, received any communication in respect of such share from the shareholder.

The Company shall be indebted to the former shareholder for an amount equal to the net proceeds of any such sale.

## 5.9 **Variation of class rights**

5.9.1 Subject to the Act, all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights, or, in the absence of any such provision, either with the consent in writing of the holders of at least three-fourths of the nominal amount of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of such holders of shares of that class, but not otherwise. The quorum at any such meeting (other than an adjourned meeting) is two persons holding or representing by proxy at least one-third in nominal amount of the issued shares of the class in question.

5.9.2 The rights attached to any class of shares shall not, unless otherwise expressly provided in the rights attaching to such shares, be deemed to be varied or abrogated by the creation or issue of shares ranking *pari passu* with or subsequent to them or by the purchase or redemption by the Company of any of its own shares.

## 5.10 **Share capital, changes in capital and purchase of own shares**

5.10.1 Subject to the Act and to the Articles, the power of the Company to allot and issue shares shall be exercised by the Board at such times and on such terms and conditions as the Board may determine.

5.10.2 Subject to the Articles and to any rights attached to any existing shares any share may be issued with such rights or restrictions as the Company may from time to time determine by ordinary resolution.

5.10.3 The Company may issue redeemable shares and the Board may determine the terms, conditions and manner of redemption of such shares, provided it does so before the shares are allotted.

## 5.11 **General meetings**

5.11.1 The Board may convene a general meeting whenever it thinks fit. Shareholders have a statutory right to requisition a general meeting in certain circumstances.

5.11.2 Pursuant to the Act, an annual general meeting shall be called on not less than 21 clear days' notice. All other general meetings shall be called by not less than 14 clear days' notice.

5.11.3 The quorum for a general meeting is two shareholders present in person or by proxy and entitled to vote.

5.11.4 The Board and, at any general meeting, the chairman of the meeting may make any arrangement and impose any requirement or restriction which it or he considers appropriate to ensure the security or orderly conduct of the meeting. This may include requirements for evidence of identity to be produced by those attending, the searching



of their personal property and the restriction of items which may be taken into the meeting place.

#### 5.12 **Appointment of directors**

5.12.1 Unless otherwise determined by ordinary resolution, there shall be no maximum number of directors, but the number of directors shall not be less than two.

5.12.2 Subject to the Act and the Articles, the Company may by ordinary resolution appoint any person who is willing to act as a director either as an additional director or to fill a vacancy. The Board may also appoint any person who is willing to act as a director, subject to the Act and the Articles. Any person appointed by the Board as a director will hold office only until conclusion of the next annual general meeting of the Company, unless he is re-elected during such meeting.

5.12.3 The Board may appoint any director to hold any employment or executive office in the Company and may also revoke or terminate any such appointment (without prejudice to any claim for damages for breach of any service contract between the director and the Company).

#### 5.13 **Remuneration of directors**

5.13.1 The total of the fees paid to the non-executive directors for their services must not exceed £125,000 a year, unless otherwise determined by ordinary resolution. This amount shall be automatically increased each year by the same amount as the increase in the General Index of Retail Prices. The Board may decide to pay additional remuneration to a non-executive director for services which the Board determines are outside the scope of the ordinary duties of a director, whether by way of additional fees, salary, percentage of profits or otherwise.

5.13.2 The salary or remuneration of executive directors shall be determined by the Board and may be either a fixed sum of money or may altogether or in part be governed by business done or profits made or otherwise determined by the Board.

5.13.3 Each director is entitled to be repaid all reasonable travelling, hotel and other expenses properly incurred by him in the performance of his duties as director.

#### 5.14 **Retirement and removal of directors**

5.14.1 At each annual general meeting of the Company, one-third of the directors (or the number nearest to but not exceeding one-third if the number of directors is not a multiple of three) shall retire from office. In addition, any director who has been a director at each of the preceding two annual general meetings shall also retire. Each such director may, if eligible, offer himself for re-election. If the Company, at the meeting at which a director retires, does not fill the vacancy the retiring director shall, if willing, be deemed to have been reappointed unless it is expressly resolved not to fill the vacancy or a resolution for the reappointment of the director is put to the meeting and lost.

5.14.2 Without prejudice to the provisions of the Act, the Company may by ordinary resolution remove any director before the expiration of his period of office and may appoint by ordinary resolution appoint another director in his place.

#### 5.15 **Directors' and Proposed Directors' interests**

5.15.1 Subject to the Act and provided that he has disclosed to the directors the nature and extent of any interest, a director is able to enter into contracts or other arrangements with the Company, hold any other office (except auditor) with the Company or be a



director, employee or otherwise interested in any company in which the Company is interested. Such a director shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement or proposal.

5.15.2 Save as otherwise provided by the Articles, a director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board concerning any contract, arrangement, transaction or proposal to which the Company is or is to be a party and in which he (together with any person connected with him) is to his knowledge materially interested, directly or indirectly. Interests of which the director is not aware, interests which cannot reasonably be regarded as likely to give rise to a conflict of interest and interests arising purely as a result of an interest in the Company's shares, debentures or other securities are disregarded. However, a director can vote and be counted in the quorum where the resolution relates to any of the following:

*5.15.2.1 the giving of any guarantee, security or indemnity in respect of (i) money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings or (ii) a debt or obligation of the Company or any of its subsidiary undertakings for which the director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;*

*5.15.2.2 the participation of the director, in an offer of securities of the Company or any of its subsidiary undertakings, including participation in the underwriting or sub-underwriting of the offer;*

*5.15.2.3 a proposal involving another company in which he and any persons connected with him has a direct or indirect interest of any kind, unless he and any persons connected with him hold an interest in shares representing one per cent. or more of either any class of equity share capital, or the voting rights, in such company;*

*5.15.2.4 any arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award the director any privilege or benefit not generally awarded to the employees to whom such arrangement relates;*

*5.15.2.5 any proposal concerning the purchase or maintenance of any insurance policy under which he may benefit; and*

*5.15.2.6 any proposal concerning indemnities in favour of directors or the funding of expenditure by one or more directors on defending proceedings against such director(s).*

5.15.3 A director shall not vote or be counted in the quorum on any resolution of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

5.15.4 The Board may authorise any matter that would otherwise involve a Director breaching his duty under the Act to avoid conflicts of interest, provided that the interested director(s) do not vote or count in the quorum in relation to any resolution authorising the matter. The Board may authorise the relevant matter on such terms as it may determine including:

*5.15.4.1 whether the interested director(s) may vote or be counted in the quorum in relation to any resolution relating to the relevant matter;*

5.15.4.2 *the exclusion of the interested director(s) from all information and discussion by the Company of the relevant matter; and*

5.15.4.3 *the imposition of confidentiality obligations on the interested director(s).*

An interested director must act in accordance with any terms determined by the Board. An authorisation of a relevant matter may also provide that where the interested director obtains information that is confidential to a third party (other than through his position as director) he will not be obliged to disclose it to the Company or to use it in relation to the Company's affairs, if to do so would amount to a breach of that confidence.

## 5.16 **Powers of the directors**

5.16.1 The business of the Company shall be managed by the Board, which may exercise all the powers of the Company whether relating to the management of the business or not.

5.16.2 Subject to the provisions of the Act, the Board may exercise all the powers of the Company to borrow money, to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital, to issue debentures and other securities and to give security, either outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and, insofar as it is able, of its subsidiary undertakings, so as to procure that the aggregate principal amount outstanding in respect of borrowings by the Group shall not, without an ordinary resolution of the Company, exceed a sum equal to two times the aggregate of the amount paid up or credited as paid up on the Company's issued share capital and the total amount standing to the credit of the capital and revenue reserves of the Group as shown in the latest audited balance sheet of the Group, after such adjustments and deductions as are specified in the Articles.

5.16.3 The Board may exercise all the powers of the Company to provide pensions or other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities, by insurance or otherwise, for any person who is, or has at any time been, a director of or employed by or in the service of the Company or of any company which is a subsidiary company of the Company, or is allied to or associated with the Company or any such subsidiary, or any predecessor in business of the Company or any such subsidiary, and for any member of his family (including a spouse or former spouse) or any person who is, or was, dependent on him.

## 5.17 **Directors' and Proposed Directors' indemnity and insurance**

5.17.1 Subject to the Act, each director of the Company and of any associated company may be indemnified against any liability.

5.17.2 Subject to the Act, the Board may purchase and maintain insurance against any liability for any director of the Company or of any associated company.

## 6. **Share Incentive Plans**

A description of the Share Incentive Plans which the Group will operate from Admission is set out below.

### 6.1 **Share Option Scheme**

On 22 February 2016, the Company adopted the Employee Share Option Scheme conditionally upon Admission. Under the Share Option Scheme, options ("**Options**") may be granted to employees and executive directors of the Group which entitle them to acquire Ordinary Shares

subject to certain conditions. The Share Option Scheme allows for the grant of options which are Enterprise Management Incentive options (“**EMI Options**”) under schedule 5 of the Income Tax (Earnings and Pensions) Act 2003 (“**Schedule 5**”) for eligible employees, which offer certain tax advantages to participants and their employing company. Unapproved Options may also be granted under the Share Option Scheme. The Share Option Scheme will be administered by the remuneration committee of the Company (“**Committee**”). The principal terms of the Share Option Scheme are as follows:

#### 6.1.1 *Eligibility*

Options may be granted to employees and executive directors selected by the Committee. EMI Options may only be granted to employees and executive directors who meet the qualifying requirements of Schedule 5. EMI Options granted in breach of Schedule 5 will automatically be treated as Unapproved Options.

#### 6.1.2 *Dilution limits*

The maximum nominal value of Ordinary Shares which may be issued pursuant to Options granted under the Share Option Scheme in any ten year period, when aggregated with the nominal value of Ordinary Shares issued or issuable pursuant to options or rights granted or obtained in that ten year period under any other employees’ share scheme established by the Company, may not exceed 15 per cent. of the nominal value of the Company’s ordinary share capital then in issue. For so long as institutional guidelines recommend, Ordinary Shares transferred from treasury to satisfy Options will count as newly issued Ordinary Shares for these purposes. Ordinary Shares subject to any option or rights which have lapsed or been surrendered will not count towards this dilution limit, nor will Ordinary Shares issued or issuable pursuant to the exercise of the Replacement Options as described in paragraph 6.2 of this Part VI. EMI Options may only be granted so that the aggregate market value of Ordinary Shares under EMI Options (measured at the date of grant) does not exceed £3 million (or other limit applicable for the purposes of Schedule 5).

#### 6.1.3 *Individual participation limits*

The maximum market value of Ordinary Shares over which Options under the Share Option Scheme may be granted to a participant (“**Participant**”) in any financial year of the Company may not exceed 100 per cent. of the Participant’s annual base salary at the date of grant unless the Board considers that the circumstances are exceptional enough to justify granting Options to a Participant in excess of that limit (but Options may not be granted in respect of Ordinary Shares having a market value in excess of 200 per cent. of the Participant’s base salary at the date of grant). EMI Options are subject to the individual participation limits in Schedule 5. In particular, an employee may not hold subsisting EMI Options (when aggregated with certain other tax-advantaged options) over Ordinary Shares with a market value at the date of grant in excess of £250,000 (or other limit which may be applicable for the purposes of Schedule 5). For these purposes, market value will be taken as the average closing mid-market price of an Ordinary Share for the three dealing days immediately preceding the date of grant of the Option.

#### 6.1.4 *Timing of grant of awards*

Generally, Options can only be made in the six week period following the adoption of the Share Option Scheme and thereafter, only in the six week period following the announcement by the Company of its results for any period. However, in circumstances which the Board considers exceptional, or in a case where dealings in ordinary Shares is

prohibited during such six week period, Options may be made outside these six week periods.

#### 6.1.5 *Vesting and exercise of Options*

Options may generally only be exercisable after the exercise date specified by the Board at the date of grant. It is anticipated that the normal exercise date will not normally be earlier than three years from the date of grant. The right to exercise Options will normally be subject to the satisfaction of one or more performance conditions and the number of Ordinary Shares in respect of which an Option may be exercised may be determined in accordance with a vesting schedule. Any vesting schedule or conditions shall be objective and not subject to the discretion of any person. Where events happen which cause the Board to consider that any condition has ceased to be a fair measure, the condition may be waived or varied provided that any varied condition must, in the opinion of the Board, be materially no more or less difficult to satisfy. To the extent that an Option has not been exercised by the tenth anniversary of its date of grant, the Option will lapse on that date.

#### 6.1.6 *Leavers*

Options granted to a Participant who ceases to be an employee or director in circumstances justifying his summary dismissal (a "bad leaver") will lapse whether or not they have become exercisable at the date of ceasing to be an employee or director. A Participant who leaves for any other reason may retain any outstanding Option and exercise it in accordance with (and subject to the lapse provisions in) the rules of the Share Option Scheme (to the extent to which any performance or other conditions applicable to the Option are satisfied). Notwithstanding this, the Committee may instead determine that an Option granted to a leaver (other than a bad leaver) may vest early when he leaves. In such circumstances, the Committee shall determine the extent to which, at the date of cessation of employment, the performance conditions applicable to that Option have been satisfied and may take account of other factors in determining the extent to which the Option may be exercised (and may in its absolute discretion allow the Option to be exercised in full). Except in the case of a good leaver (which means a Participant who leaves by reason of redundancy, retirement, disability or incapacity through ill health, death, or the sale of their employing company or business out of the Group or, at the discretion of the Committee, any other reason), the extent to which an Option may be exercised by a leaver will be pro-rated (unless the Committee determines not to apply pro-rating) so that the proportion of the Option that becomes exercisable (taking into account any performance conditions) corresponds to the proportion of the period between the date of grant and the date the Option would normally have become exercisable which falls prior to the date on which the Participant ceased to be an employee or director. Option holders who are leavers will generally be able to exercise their Option up to the 10th anniversary of the date of grant of their Option except in limited circumstances (including in the case of death when Options must be exercised by the personal representatives of the deceased leaver within 12 months of the date of death).

#### 6.1.7 *Change of control of the Company*

In the event of a change of control of the Company, all outstanding Options will become immediately exercisable, whether or not already vested.

#### 6.1.8 *Variation of share capital*

In the event of a variation of share capital, whether by way of capitalisation, rights issues, open offer, consolidation, sub-division or reduction of capital or otherwise, or in

the event of a capital distribution, special dividend, distribution in specie, demerger or other event having a material impact on the value of the Ordinary Shares, the number of Ordinary Shares subject to an Option and the exercise price may be adjusted as the Board reasonably considers appropriate.

#### 6.1.9 *Administration and amendment*

The Committee may from time to time amend the rules as it sees fit. However certain provisions cannot be altered to the benefit of Participants without prior shareholder approval unless they are minor amendments which are to benefit the administration of the Plan, to take account of a change or proposed change in legislation or to obtain or maintain favourable or avoid unfavourable tax, exchange control or regulatory treatment for the Group company) or for current or future Participants. The provisions which may not generally be amended without shareholder approval are to: the persons to whom Options may be granted, the individual and overall Plan limits, the rights attaching to an Option, the adjustment of Options on a variation of share capital and the rules relating to the amendment of the Plan. No amendment which would materially adversely affect a Participant with a subsisting Option may be made without the written consent of either that Participant or of Participants together holding 75 per cent. by number of Ordinary Shares subject to Options which would be affected by the amendment.

#### 6.1.10 *Other Option terms*

Options shall not be capable of transfer or assignment.

Benefits obtained under the Share Option Scheme shall not be pensionable.

### 6.2 ***The KAL-Energy Plan***

The KAL-Energy Plan was adopted by KAL on 16 February 2016. Options ("**KAL Options**") were granted under the KAL-Energy Plan on 17 February 2016 to a number of employees and executives of the Group over ordinary shares in the capital of KAL. Following the Reorganisation such options were exchanged for substantially equivalent options ("**Replacement Options**") over Ordinary Shares. The terms of the KAL-Energy Plan will continue to apply to Replacement Options (except that Ordinary Shares will be issued or transferred on exercise, rather than ordinary shares in KAL). Immediately following Admission, the Replacement Options granted in respect of all KAL Options would be outstanding in respect of 1,094,500 Ordinary Shares.

The Company does not intend to grant new options under the KAL-Energy Plan after Admission. The following provisions apply to outstanding Replacement Options:

#### 6.2.1 *Exercise of Replacement Options*

Replacement Options will generally become exercisable on the third anniversary of the date of grant. The Replacement Options granted to Nick Parker and Garry Pickering will vest in two equal tranches on the first and second anniversaries of the date of grant but will generally only become exercisable on the second anniversary of the date of grant.

Replacement Options granted to a Participant which have not become exercisable will generally lapse if the Participant ceases to be an employee or director of the Group, unless the Board determines otherwise at the time of the Participant's cessation of employment. Replacement Options granted to a Participant who ceases to be an employee or director in circumstances justifying his summary dismissal (a "bad leaver") will also lapse whether or not they have become exercisable at the date of ceasing to be an employee or director. A Participant who leaves for any other reason may retain any Replacement Option which has already become exercisable at that time and exercise

it in accordance with (and subject to the lapse provisions in) the rules of the KAL-Energy Plan. In the case of Replacement Options granted to Nick Parker and Garry Pickering, if they cease to be an employee or director before their Replacement Option has become exercisable in circumstances in which they are a "good leaver" (that is, if they leave by reason of redundancy, retirement, disability or incapacity through ill health, death, or the sale of their employing company or business out of the Group) they may retain their Replacement Options and exercise them in full when they become capable of exercise. If they cease to be an employee or director before their Replacement Option has become exercisable and are neither a good leaver nor a bad leaver, they may retain their Replacement Options to the extent vested at the date of ceasing to be an employee or director (unless the Board permits the Option to be retained to a greater extent) and exercise it to that extent when it becomes capable of exercise.

In the event of a change of control of the Company, all outstanding Replacement Options will become immediately exercisable, whether or not already vested.

To the extent that a Replacement Option has not been exercised by the tenth anniversary of its date of grant, it will lapse on that date.

#### 6.2.2 *Variation of share capital*

In the event of a variation of share capital, whether by way of capitalisation, rights issues, open offer, consolidation, sub-division or reduction of capital or otherwise, or in the event of a capital distribution, special dividend, distribution in specie, demerger or other event having a material impact on the value of the Ordinary Shares, the number of Ordinary Shares subject to a Replacement Option and the exercise price may be adjusted as the Board reasonably considers appropriate.

#### 6.2.3 *Administration and amendment*

The Board may from time to time amend the rules as it sees fit. No amendment which would materially adversely affect a Participant with a subsisting Replacement Option may be made without the written consent of either that Participant or of Participants together holding 75 per cent. by number of Ordinary Shares subject to Replacement Options which would be affected by the amendment.

#### 6.2.4 *Other Replacement Options terms*

Replacement Options are not capable of transfer or assignment.

Benefits obtained under the KAL-Energy Plan are not pensionable.



## 7. Directors and Proposed Directors' and other interests

- 7.1 As at the date of this document and immediately following Admission, the interests (all of which are beneficial unless otherwise stated), whether direct or indirect, of the Directors and Proposed Directors and their families (within the meaning set out in the AIM Rules) in the issued share capital of the Company and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director or Proposed Director, are as follows:

<i>Director</i>	<i>Before Admission</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Shares</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Bobby Kalar	10,000,000	100	8,648,649	61.54
Ralph Cohen	—	—	54,054	0.38

- 7.2 As at the date of this document, the following options over Ordinary Shares had been granted pursuant to the Share Option Scheme to the following Directors and Proposed Directors for nil consideration:

<i>Director</i>	<i>Number of Ordinary Shares under option</i>	<i>Exercise price</i>	<i>Exercise period</i>
Nick Parker	500,000	£0.09	17 February 2018 to 17 February 2026
Garry Pickering	500,000	£0.09	17 February 2018 to 17 February 2026

- 7.3 Save as disclosed in paragraphs 7.1 and 7.2 above, none of the Directors or Proposed Directors has any interest in the share capital of the Company or of any of its subsidiaries nor does any member of his or her family (within the meaning set out in the AIM Rules) have any such interest, whether beneficial or non-beneficial.

- 7.4 As at 10 March 2016 (being the last practicable date prior to the publication of this document) and so far as the Board is aware, the only persons who are or will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company prior to and immediately following Admission are as follows:

<i>Shareholder</i>	<i>Before Admission</i>		<i>Following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of Existing Shares</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of Enlarged Share Capital</i>
Bobby Kalar	10,000,000	100	8,648,649	61.54
Octopus Investments	—	—	1,382,365	9.84
Miton Group Plc	—	—	1,062,838	7.56
Seneca Partners Limited	—	—	672,567	4.79
Legal and General Investment Management	—	—	654,054	4.65
Hargreave Hale Limited	—	—	495,377	3.52
Artemis International Management LLP	—	—	476,351	3.39

- 7.5 Save as disclosed in paragraph 7.4 above, the Company and the Board is not aware of (i) any persons who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company, nor (ii) any arrangements the operation of which may at a subsequent date result in a change in control of the Company.

- 7.6 The voting rights of the persons listed in paragraph 7.4 above do not differ from the voting rights of any other holder of Ordinary Shares.

7.7 There are no outstanding loans granted by any member of the Group to any Director or Proposed Director nor are there any guarantees provided by any member of the Group for the benefit of any Director or Proposed Director.

7.8 The Directors and Proposed Directors hold the following directorships and are partners in the following partnerships and have held the following directorships and been partners in the following partnerships within the five years prior to the date of this document:

<i>Director</i>	<i>Current</i>	<i>Previous</i>
Bobby Kalar	Better Business Energy Limited CPK Investments Limited Kaluk Holdings Limited Redrose Care (Derby) Limited Redrose Care (Grange) Limited	Norwood Grange Prime Care 4 You Limited Prime Care 4 You (No 2) Limited Redrose Care Limited
Garry Pickering	None	None
Anthony Nicholas Parker	Sheffield Silversmith Company Limited	Sheffield Wednesday PLC Sheffield Wednesday Football Club Limited Volex plc Volex Group Holdings Limited WANdisco plc WANdisco International Ltd
Ralph Cohen	Judges Scientific plc MC Consultancy Services	Aitchee Engineering Limited Armfield Limited Armfield Technical Education Company Limited Bordeaux Acquisition Limited Deben UK Limited EM Technologies Limited Fire Testing Technology Limited FTT Scientific Limited GDS Instruments Limited Global Digital Systems Limited Judges Capital Limited Polaron Instruments Limited Scientifica Ltd Sircal Instruments (U.K.) Limited Stanton Redcroft Limited PE. Fiberoptics Limited Quorum Technologies Limited UHV Design Limited
John Glasgow	St. Modwen Environmental Trust Limited	Central Networks Trustees Limited Energy Networks Association Limited E.ON UK Energy Services Limited Northmere Limited Sterling Power Utilities Limited WPD Midlands Properties Limited



- 7.9 Nick Parker was a director of Harris Miller & Co. (Cutlers) Limited within the 12 months preceding the administration of that company, which was wound up and dissolved on 24 November 1992.
- 7.10 Save as disclosed in paragraph 7.9 of this Part VI, as at the date of this document no Director or Proposed Director:
- 7.10.1 has any unspent convictions in relation to any indictable offences; or
  - 7.10.2 has been bankrupt or entered into an individual voluntary arrangement; or
  - 7.10.3 was a director of any company at the time of or within 12 months preceding any receivership, compulsory liquidation, creditors voluntary liquidation, administration, company voluntary arrangement or any composition or arrangement with that company's creditors generally or with any class of its creditors; or
  - 7.10.4 has been a partner in a partnership at the time of or within 12 months preceding any compulsory liquidation, administration or partnership voluntary arrangement of such partnership; or
  - 7.10.5 has had his assets the subject of any receivership or has been a partner of a partnership at the time of or within 12 months preceding any assets thereof being the subject of a receivership; or
  - 7.10.6 has been subject to any public criticism by any statutory or regulatory authority (including any designated professional body) nor has ever been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

## **8. Directors' service agreements and Proposed Directors' letters of appointment**

- 8.1 Each of the executive Directors has a service agreement with the Company. Each of the Proposed Directors who will be non-executive directors, has a letter of appointment from the Company. Details of these service agreements and letters of appointment are set out below:

### *Bobby Kalar*

Bobby Kalar is employed by the Company as Chief Executive Officer pursuant to a service agreement dated 17 March 2016. His period of continuous employment began on 26 November 2010. Under the agreement, Bobby Kalar is entitled to a notional salary of £100,000 per annum, which will increase to £250,000 per annum on the first business day after Admission. This salary may be increased in any year or years (although the Company is under no obligation to increase the salary in any year upon such a review). Bobby Kalar is also entitled to participate in a revenue and profit based bonus scheme based on pre-agreed targets. This bonus is capped at 100 per cent. of his salary. Either party may terminate the service agreement by giving not less than 12 months' notice. There are provisions which, in the event of termination, restrict Bobby Kalar from soliciting or dealing with the Group's customers and suppliers, and from poaching key employees. Each of these restrictions are intended to apply for a period of 12 months following the termination of employment. Bobby Kalar is also subject to a post-termination restriction that is designed to restrict him from having an interest in a competing business for a period of 6 months following the termination of his employment. The service agreement also contains provisions which, *inter alia*, restrict the disclosure of confidential information and protect the Group's intellectual property rights.

### *Nick Parker*

Nick Parker is employed by the Company as Chief Financial Officer pursuant to a service agreement dated 17 March 2016. His period of continuous employment began on 1 September

2015. Under the agreement, Anthony Nicholas Parker is entitled to a salary of £144,000 per annum, which will increase to £200,000 per annum on the first business day after Admission. This salary may be increased in any year or years (although the Company is under no obligation to increase the salary upon such a review). Nick Parker is entitled to participate in the Share Option Scheme (referred to in paragraph 6.1 of this Part VI). Nick Parker is also entitled to a one-time bonus of £91,000 in relation to services performed in relation to Admission. Nick Parker is also entitled to participate in a revenue and profit based bonus scheme based on pre-agreed targets. This bonus is capped at 100 per cent. of his salary. Either party may terminate the service agreement by giving not less than 12 months' notice. There are provisions which, in the event of termination, are designed to restrict Nick Parker from soliciting or dealing with the Group's customers and suppliers, and from poaching key employees. Each of these restrictions are intended to apply for a period of 12 months following the termination of employment. Nick Parker is also subject to a post-termination restriction that is designed to restrict him from having an interest in a competing business for a period of 6 months following the termination of employment. The service agreement also contains provisions which, *inter alia*, restrict the disclosure of confidential information and protect the Group's intellectual property rights.

#### *Garry Pickering*

Garry Pickering is employed by the Company as Chief Operating Officer pursuant to a service agreement dated 17 March 2016. His period of continuous employment began on 2 February 2015. Under the agreement, Garry Pickering is entitled to a salary of £60,000 per annum, which will increase to £200,000 per annum on the first business day after Admission. This salary may be increased in any year or years (although the Company is under no obligation to increase the salary in any year). Garry Pickering is entitled to participate in the Share Option Scheme (referred to in paragraph 6.1 of this Part VI). Garry Pickering is also entitled to participate in a revenue and profit based bonus scheme based upon pre-agreed targets. This bonus is capped at 100 per cent. of his salary. Either party may terminate the service agreement by giving not less than 12 months' notice. There are provisions which, in the event of termination, restrict Garry Pickering from soliciting or dealing with the Group's customers and suppliers, and from poaching key employees. Each of these restrictions are intended to apply for a period of 12 months following the termination of employment. Garry Pickering is also subject to a post-termination restriction that is designed to restrict him from having an interest in a competing business for a period of 6 months following the termination of employment. The service agreement also contains provisions which, *inter alia*, restrict the disclosure of confidential information and protect the Group's intellectual property rights.

#### **Proposed Directors**

##### *Ralph Cohen*

Ralph Cohen was appointed a non-executive director and chairman of the Company conditional upon and with effect from Admission, by letter of appointment dated 17 March 2016. The appointment is for a period of 12 months from Admission (subject to re-election at the next annual general meeting) and thereafter is terminable on 3 months' notice by either the Company or the non-executive director. The fee payable for Ralph Cohen's services as a non-executive director is £35,000 per annum and is subject to annual review.

##### *John Glasgow*

John Glasgow was appointed a non-executive director of the Company conditional upon and with effect from Admission, by letter of appointment dated 17 March 2016. The appointment is for a period of 12 months from Admission (subject to re-election at the next annual general meeting) and thereafter is terminable on 3 months' notice by either the Company or the non-executive director. The fee payable for John Glasgow's services as a non-executive director is £35,000 per annum and is subject to annual review.

- 8.2 Save as disclosed in paragraph 8.1 above, there are no existing or proposed service agreements or consultancy agreements between any of the Board and the Company which cannot be terminated by the Company without payment of compensation within 12 months.
- 8.3 There are no arrangements under which any Director or Proposed Director has waived or agreed to waive future emoluments nor have there been any such waivers of emoluments during the financial year immediately preceding the date of this document.

## **9. Related Party Transactions**

- 9.1 KPL is a party to a lease ("**Lease**") dated 12 February 2016 in relation to premises known as 2 Horizon Place, Mellors Way, Nottingham Business Park, Nottingham, NG8 6PY, being the Company's registered office and the Group's sole trading premises, with CPK Investments Limited (a company owned and controlled by Bobby Kalar). The term of the Lease commenced on 1 June 2014 for a period of ten years. There is no break clause in the Lease. The current rent is stated to be £60,000 per annum, increasing to £120,000 per annum for the period between 1 June 2016 and 31 May 2019. From 1 June 2019 until the end of the term of the Lease, the rent is revised in accordance with the rent review provisions contained within the Lease. The Lease provides for an upwards only rent review from the rent review date (being 1 June 2019) and will be the higher of the current rent and the open market rent. The Lease contains covenants, rights and obligations that are typical for an arm's length commercial lease of this nature.
- 9.2 KPL is a party to an unwritten loan arrangement with Better Business Energy Limited, a company owned and controlled by Bobby Kalar. The loan arose due to the initial funding requirements of the Group and is in substance a loan from the Majority Shareholder. The outstanding balance due to Better Business Energy Limited as at 31 December 2015 was £250,000. This loan is non-interest bearing and repayable on demand by Better Business Energy Limited.
- 9.3 KAL is a party to an unwritten loan arrangement with CPK Investments Limited, a company owned and controlled by Bobby Kalar. The outstanding balance due to KAL as at 31 December 2015 was £23,006. This loan is non-interest bearing and repayable to KAL on demand.
- 9.4 Better Business Energy Limited entered into a maintenance and software agreement on 7 December 2012. Following the acquisition of KPL by KAL, Better Business Energy Limited permitted KPL to use this licence on an informal basis until a formal novation was entered into on 8 January 2016.
- 9.5 On 18 February 2016, the Company entered into a share exchange agreement with Bobby Kalar in relation to the sale and purchase of the entire issued share capital of KAL by the Company from Bobby Kalar. The consideration was satisfied by the issue to Bobby Kalar of 9,999,999 ordinary shares of £0.005 each in the share capital of the Company.
- 9.6 Save as disclosed in this paragraph 9, no Director or Proposed Director has any interest, direct or indirect, in any assets which have been acquired by, disposed of by, or leased to, any member of the Group or which are proposed to be acquired by, disposed of by, or leased to, any member of the Group.

## **10. Taxation**

### **10.1 Introduction**

The information in this section, which is intended as a general guide only, is based on current legislation and Revenue practice in the United Kingdom regarding the ownership and disposition of Ordinary Shares. The following should be regarded as a summary and should not be construed as constituting advice. Prospective shareholders are strongly advised to take their own independent tax advice.

On issue, the Ordinary Shares will not be treated as either “listed” or “quoted” securities for tax purposes. Provided that the Company remains one which does not have any of its shares quoted on a recognised stock exchange (which for these purposes does not include AIM) and assuming that the Company remains a trading company or the holding company of a trading group for UK tax purposes, the Ordinary Shares should continue to be treated as unquoted securities qualifying for certain reliefs from UK taxation. These reliefs, summarised below, are only available to UK resident taxpayers.

**The following information is based upon the laws and practice currently in force in the UK and may not apply to persons who do not hold their Ordinary Shares as investments.**

## 10.2. **Capital Gains Tax (“CGT”)**

Shareholders who are resident for tax purposes in the United Kingdom may be liable to UK taxation on chargeable gains on a disposal of Ordinary Shares, depending upon their individual circumstances and subject to any available exemption or relief.

A Shareholder who is not resident for tax purposes in the United Kingdom will not be liable to UK taxation on chargeable gains unless the Shareholder carries on a trade, profession or vocation in the UK through a branch or agency and the Ordinary Shares disposed of are, or have been, used, held or acquired for the purposes of such trade, profession or vocation or for the purposes of such branch or agency. Such Shareholders may also be subject to tax under any law to which they are subject outside the United Kingdom.

United Kingdom resident individual Shareholders, depending upon their individual circumstances and any available reliefs, may be subject to capital gains tax at the prevailing rate on any disposals of Ordinary Shares. For individuals whose total taxable income and gains after all allowable deductions (including losses, the income tax personal allowance and the capital gains tax annual exempt amount) is less than the upper limit of the basic rate income tax band (£31,785 for 2015-16), the rate of capital gains tax will be 18 per cent. For gains (and any parts of gains) above that limit, the rate will be 28 per cent. For trustees and personal representatives, the rate will be 28 per cent. for gains above the applicable capital gains tax annual exempt amount.

Where a Shareholder is within the charge to corporation tax, a disposal of Ordinary Shares may give rise to a chargeable gain (or allowable loss) for the purposes of UK corporation tax, depending on the circumstances and subject to any available exemption or relief. Corporation tax is charged on chargeable gains at the rate applicable to that company. Indexation allowance may reduce the amount of chargeable gain that is subject to corporation tax, but may not create or increase a loss.

## 10.3. **Inheritance Tax (“IHT”)**

The Ordinary Shares are assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift of Ordinary Shares by, or the death of, an individual Shareholder may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the Shareholder is neither domiciled nor deemed to be domiciled in the United Kingdom.

## 10.4. **Income Tax**

### 10.4.1. *Taxation of Dividends*

Changes to the taxation of UK dividends were announced in the Summer Budget and are expected to take effect from 6 April 2016.

Under current UK legislation, no tax is withheld from dividend payments by the Company. The Company assumes no obligation to withhold UK tax at source from dividend payments.

A UK resident individual Shareholder will be entitled to a tax credit in respect of any dividend received from the Company and will be taxed on the aggregate of the dividend and the tax credit (the "Gross Dividend"). The value of the tax credit is one ninth of the dividend received (or ten per cent. of the Gross Dividend). The Gross Dividend will be treated as the top slice of the individual's income.

In the case of a UK resident individual who is liable to income tax at the basic rate only, there will be no further tax to pay on the dividend received. A UK resident individual who is liable to income tax at the higher rate will be subject to income tax on the Gross Dividend at 32.5 per cent., but will be able to set the tax credit off against part of this liability. As a result, such a Shareholder will suffer income tax at an effective rate of 25 per cent. of the dividend received. A UK resident individual who is liable to income tax at the additional rate will be subject to income tax on the Gross Dividend at 37.5 per cent., but will be able to set the tax credit off against part of this liability. As a result, such a Shareholder will suffer income tax at an effective rate of 30.55 per cent. of the dividend received. A UK resident Shareholder who is not liable to income tax on the dividend (or part of it) is not able to claim payment of the tax credit in cash from HM Revenue & Customs.

With effect from 6 April 2016, the UK Government intends to change the taxation of UK dividends so that the following rules will apply to UK resident individuals from the 2016/17 tax year.

No tax will be withheld on the payment of a dividend and the entitlement to a tax credit will cease. Investors will be taxed on the amount of dividends actually received – dividends will no longer be "grossed up". The first £5,000 of dividend income received by an individual in any tax year will be entirely exempt from UK income tax. The rates of tax payable over and above this will be 7.5 per cent. for basic rate taxpayers, 32.5 per cent. for higher rate taxpayers and 38.1 per cent. for additional rate taxpayers.

UK resident corporate Shareholders (including authorised unit trusts and open-ended investment) and pension funds will not normally be liable to UK taxation on any dividend received and are not entitled to payment in cash of the related tax credit.

Whether Shareholders who are resident for tax purposes in countries other than the UK are entitled to the whole or a proportion of the tax credit in respect of dividends on their Ordinary Shares depends in general upon the provisions of any double taxation convention or agreement which exists between such countries and the United Kingdom.

#### 10.4.2. *Loss Relief*

If a loss arises on the disposal of shares in an unquoted trading company, such shares being originally acquired on a subscription for new shares, the loss may be relieved under section 131 Income Tax Act 2007 ("**ITA 2007**") against income of that year or the previous year (with priority for relief in the current year where income of both years is utilised). Any loss remaining after claiming relief against income may be available for relief against capital gains in either the current or subsequent years.

#### 10.4.3. *Qualifying Investment Relief*

A gift to a charity of a "qualifying investment" should qualify for income tax relief under section 431 of the ITA 2007. Shares in an AIM company are currently treated as "qualifying investments" under section 432 ITA 2007.

Therefore, if an individual disposes of shares in a company on AIM to a charity (of which an individual may be the settlor or a trustee), the gift qualifies for income tax relief. The amount of relief is calculated based on the market value of the “qualifying investment” at the date of the gift and the incidental costs of making the disposal. The gift will also be exempt from capital gains tax.

#### 10.5. **Stamp Duty and Stamp Duty Reserve Tax (“SDRT”)**

The following comments are intended as a guide to the general UK stamp duty and stamp duty reserve tax position and do not apply to persons such as market makers, brokers, dealers or intermediaries. In relation to stamp duty and SDRT:

1. The allocation and issue of the New Placing Shares will not give rise to a liability to stamp duty or SDRT.
2. Following Admission, the Ordinary Shares will be eligible securities traded on a recognized growth market (and not on any other recognised stock exchange) and accordingly no stamp duty or SDRT will be charged on the conveyance, transfer or sale of Ordinary Shares (nor will any stamp duty or SDRT be chargeable on any transfer of Ordinary Shares effected on a paperless basis through CREST) in accordance with the Finance Act 2014.

#### 10.6. **EIS & VCT**

##### 10.6.1. *Venture Capital Trusts*

The Company has obtained assurance from HMRC that the New Placing Shares will be eligible shares for the purposes of the investment by VCTs. The status of the New Placing Shares as a qualifying holding for VCTs will be conditional, *inter alia*, upon the Company continuing to satisfy the relevant requirements. It is the Board’s intention that the Company will continue to meet the Venture Capital Trust provisions so that it continues to be a qualifying company for these purposes. However, the Board cannot give any warranty or undertaking that the Company will continue to meet the conditions, including in the event that the Board believes that the interests of the Company are not best served by preserving the Venture Capital Trust status, or as a result of changes in legislation.

##### 10.6.2. *Enterprise Investment Scheme*

The Company has obtained assurance from HMRC that a subscription for New Placing Shares will be eligible for EIS purposes, subject to the submission of the relevant claim form in due course. The obtaining of such provisional assurance and submission of such a claim by the Company does not guarantee EIS qualification for an individual, whose claim for relief will be conditional upon his or her own circumstances and is subject to holding the shares throughout the relevant three year period.

In addition, for EIS relief not to be withdrawn, the Company must comply with a number of conditions throughout the qualifying period relating to those shares.

The following provides an outline of the EIS tax reliefs available to individuals and trustee investors. Any potential investor should obtain independent advice from a professional advisor in relation to their own particular set of personal circumstances.

In summary, EIS relief may be available where a qualifying company issues new shares, the purpose of which is to raise money for a qualifying business activity which can include that of research and development. The EIS shares must be subscribed for in cash and be fully paid up at the date of issue and must be held, broadly, for three years after



they were issued. EIS income tax relief is available to individuals only – the current relief is 30 per cent. of the amount subscribed for EIS shares to be set against the individual's income tax liability for the tax year in which the EIS investment is made, and is available up to a maximum of £1,000,000 in EIS subscriptions per tax year. This relief can be 'carried back' one tax year. This relief is only available to individuals who are not connected with the Company in the period of two years prior to and three years after the subscription.

Very broadly, an individual is connected with the issuing company if, *inter alia*, he or his associates are employees or directors or have an interest in more than 30 per cent. of the Company's ordinary share capital.

Where EIS income tax relief has been given and has not been withdrawn, any gain on the subsequent disposal of the shares in qualifying circumstances is generally free from capital gains tax. If the shares are disposed of at a loss, capital gains tax relief will generally be available for that loss net of any income tax relief previously given. Alternatively, an election can be made to set that loss (less any income tax relief already given) against income of that year or the preceding year.

Individuals and trustees who have realised gains on other assets within one year before or up to three years after the EIS shares are issued, are able to defer a capital gains tax liability arising on those gains by making a claim to reinvest an amount of those gains against the cost of the EIS share subscription. Deferred gains will become chargeable on a disposal or deemed disposal of the EIS shares. The investor can be connected with the Company (as outlined above) and obtain such capital gains tax deferral relief.

## **11. Working capital**

The Board are of the opinion, having made due and careful enquiry, taking into account available bank and other facilities and the net proceeds of the Placing receivable by the Company that the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of Admission.

## **12. Significant change**

There has been no significant change in the financial or trading position of the Group since 31 December 2015, the date to which the Group's last audited financial statements were published, set out in Parts III and IV of this document.

## **13. Litigation**

No member of the Group is involved in any legal or arbitration or Governmental proceedings which are having or may have a significant effect on the Group's financial position or prospects nor, so far as the Company is aware, are any such proceedings pending or threatened by or against any member of the Group.

## **14. Placing Agreement**

In connection with the Placing, the Company, the Directors (including the Majority Shareholder), SCC and SCS entered into the Placing Agreement on 11 March 2016 under which SCS has agreed to use reasonable endeavours to procure Placees to subscribe for or purchase the Placing Shares at the Placing Price. The Placing Agreement is conditional on, *inter alia*, Admission occurring on 17 March 2016 or such later date (not being later than 8.00 am on 30 April 2016) as the Company and Shore Capital may agree. The principal terms of the Placing Agreement are as follows:

- 14.1 the Company has agreed to pay Shore Capital, whether or not the Placing Agreement becomes unconditional, a corporate finance fee of £225,000 and, provided the Placing Agreement

becomes unconditional, a commission of five per cent. of the aggregate value at the Placing Price of the Placing Shares (plus any applicable VAT);

- 14.2 Save for any commission payable by the Majority Shareholder to SCS in respect of the sale of the Sale Shares, the Company has agreed to pay all of the costs and expenses of and incidental to the Placing and related arrangements together with any applicable VAT;
- 14.3 the Company, the Directors and the Proposed Directors have given certain warranties to Shore Capital as to the accuracy of the information in this document and as to other matters relating to the Group (and in the case of the Majority Shareholder, the Sale Shares). The liability of the Directors and the Proposed Directors under these warranties is limited in time and amount. The Company has given an indemnity to SCC against any losses or liabilities arising out of the proper performance by Shore Capital of its duties under the Placing Agreement;
- 14.4 the Directors and the Proposed Directors have agreed that, subject to certain limited exceptions, they will not dispose of any Ordinary Shares (or any interest therein) before the first anniversary of Admission, without the prior written consent of Shore Capital and that any disposal permitted by Shore Capital and any disposal of Ordinary Shares between the first and second anniversaries of Admission will be made through Shore Capital in such orderly manner as they shall reasonably determine;
- 14.5 Shore Capital may terminate the Placing Agreement before Admission in certain circumstances, including for material breach of the warranties referred to above; and
- 14.6 The following table contains details of the Sale Shares to be sold by the Majority Shareholder pursuant to the Placing:

<i>Name</i>	<i>Business Address</i>	<i>Number of Sale Shares</i>	<i>Position, office or material relationship with the Group</i>
Bobby Kalar	CPK House, 2 Horizon Place, Nottingham Business Park, Mellors Way, Nottingham NG8 6PY	1,351,351	Director

## 15. Material Contracts

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into in the two years preceding the date of this document by any member of the Group and are, or may be, material to the Group or have been entered into by any member of the Group and contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group at the date of this document:

- 15.1 **the Placing Agreement;** The Company is a party to the Placing Agreement detailed in paragraph 14 of this Part VI;
- 15.2 **the Lease;** KPL is a party to the Lease which is a related party transaction as detailed in paragraph 9.1 of this Part VI;
- 15.3 **the Loan arrangement with Better Business Energy Limited;** KPL is a party to the unwritten loan arrangement with Better Business Energy Limited which is a related party transaction as detailed in paragraph 9.2 of this Part VI;
- 15.4 **Share exchange agreement;** The Company is a party to the share exchange agreement dated 18 February as detailed in paragraph 9.5 of this Part VI;
- 15.5 **Nominated adviser and broker agreement;** The Company and the Board entered into a Nominated Adviser and Broker Agreement dated 17 March 2016 with SCC and SCS, pursuant to which SCC agreed to act as the Company's nominated adviser and SCS agreed to act as the



Company's broker for a minimum period of 12 months from Admission ("**initial term**") and thereafter terminable by either party on three months' prior written notice after the expiry of the initial term. SCC undertakes to provide the services of a nominated adviser as required under the AIM Rules and the Company and the Board agree to comply with their obligations under the AIM Rules. The Company will pay Shore Capital a fee of £60,000 per annum (plus applicable VAT) pursuant to the terms of the agreement; and

- 15.6 **Relationship Agreement;** The Company entered into a relationship agreement dated 11 March 2016 with Bobby Kalar pursuant to which Bobby Kalar provided certain undertakings to the Company to ensure *inter alia* that (i) the Group is capable of carrying on its business independently of Bobby Kalar and his connected persons; (ii) at all times the Board acts in the best interests of all shareholders, independently of Bobby Kalar or any of his connected persons; (iii) any transactions, agreements or arrangements with Bobby Kalar or any of his connected persons are on arm's length terms and shall be approved, enforced, terminated, implemented or amended by the independent directors with Bobby Kalar abstaining from such Board decisions; (iv) the independence of the Board and its committees is maintained; (v) no general meeting of the Company will be requisitioned by Bobby Kalar or any of his connected persons in order to amend the Company's Articles in such a manner as might reasonably be expected to adversely affect the independence of the Group; (vi) for three years from Admission neither Bobby Kalar nor any of his connected persons shall seek or procure to vote on any resolution to cancel the Company's admission to trading on AIM (or the Official List) without the approval of the independent directors. Bobby Kalar has a right, for as long as he and any connected persons with him hold more than 20 per cent. of the Company's issued share capital, to appoint a Director to the Board, such appointment being Bobby Kalar. Any future appointment may be effected subject to the AIM Rules.

## 16. Consents

- 16.1 KPMG has given its consent to the inclusion of its reports in Parts III and IV of this document in the form and context in which they appear and has authorised the contents of those reports for the purposes of Schedule Two of the AIM Rules.
- 16.2 Shore Capital has given and not withdrawn its consent to the issue of this document with the inclusion of its name in the form and context in which they appear.

## 17. Mandatory Bids, Squeeze-out and Sell-out Rules Relating to the Ordinary Shares

### 17.1 **Mandatory bid**

The Takeover Code applies to the Company. Under the Takeover Code, if an acquisition of Ordinary Shares were to increase the aggregate holding of the acquirer and its concert parties to shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer (and depending on the circumstances, its concert parties) would be required, except with the consent of the Panel on Takeovers and Mergers, to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for any interests in the Ordinary Shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by an acquisition of shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the voting rights.

### 17.2 **Squeeze-out**

Under the Act, if an offeror were to acquire 90 per cent. of the Ordinary Shares within four months of making the offer, it could then compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding shareholders telling them that it will

compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily acquired under the Act must, in general, be the same as the consideration that was available under the takeover offer.

### 17.3 **Sell-out**

The Act also gives minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the Ordinary Shares and at any time before the end of the period within which the offer could be accepted the offeror held or had agreed to acquire not less than 90 per cent. of the Ordinary Shares, any holder of shares to which the offer relates who has not accepted the offer can require the offeror to acquire his shares. The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority shareholders to be bought out, but that period cannot end less than three months after the end of the acceptance period. If a shareholder exercises its rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

## 18. **General**

- 18.1 The total costs and expenses of, or incidental to, the Placing and Admission, all of which are payable by the Company, are estimated to be approximately £1.2 million (exclusive of value added tax). This amount includes the commissions referred to in paragraph 14 of this Part VI. No expenses of the Placing are being specifically charged to subscribers under the Placing.
- 18.2 The Company confirms that where information in this document has been sourced from a third party, the source of this information has been provided, the information has been accurately reproduced and, as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.
- 18.3 Save as disclosed in this document, no person (other than the Company's professional advisers named in this document and trade suppliers) has at any time within the 12 months preceding the date of this document received, directly or indirectly, from the Company or any other member of the Group or entered into any contractual arrangements to receive, directly or indirectly, from the Company or any other member of the Group on or after Admission any fees, securities in the Company or any other benefit to the value of £10,000 or more.
- 18.4 The Placing Price of 185 pence represents a premium of 184.5 pence above the nominal value of £0.005 pence per Ordinary Share. The Placing Price is payable in full on application.
- 18.5 The auditor of the Company is KPMG LLP (a member of the Institute of Chartered Accountants in England & Wales). The historical financial information contained in Part IV of this document relating to KAL-Energy Limited (including its subsidiary undertaking, KPL) for the period ended 30 September 2013 has been extracted from the Company's unaudited financial data but upon which KPMG LLP has reported. The financial information of KAL-Energy Limited (including its subsidiary undertaking KPL) for the period ended 31 December 2015 contain comparative information for the period ended 31 October 2014 and both of these periods have been audited by KPMG LLP.
- 18.6 Save as disclosed in this document, the Company currently has no significant investments in progress and the Company has made no firm commitments concerning future investments.
- 18.7 The Directors are not aware of any patents or other intellectual property rights, licences, particular contracts or manufacturing processes on which the Company is dependent.

18.8 Save in connection with the application for Admission, none of the Ordinary Shares has been admitted to dealings on any recognised investment exchange and no application for such admission has been made and it is not intended to make any other arrangements for dealings in the Ordinary Shares on any such exchange.

Dated 11 March 2016



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