



LSE:CIN

16 June 2010

City Of London Group Plc

Chairman's Statement, Chief Executive's Review and Financial Results 2010

City Of London Group has made major strides forward and is positioned for growth.

- Group operating profit of £248,422 (2009: £117,723) - an increase of 111%
 - Net Assets £7.73m (2009: £6.28m) up 23.1%
 - Asset value per share 77.4p (2009: 63.9.p) - an increase of 21.1%
 - Share price at 31st March 72.5p (2009: 34.5.p) - an increase of 110.1%%
 - Dividend recommenced at 0.5p per share
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Chairman's Statement:

This is my first full-year report since my appointment as your Non-Executive Chairman in September 2009. As I mentioned in my half-year report, we have seen a significant change in our management team with the appointment of experienced leaders specifically recruited to build the group into a quality financial services group centred on specialist financing and alternative fund management.

The team have made a rapid and positive start and since their arrival in November 2009 we have made two significant investments. These investments are in two fund management companies that have specific management skills in providing finance to the legal profession. We are confident that these groups will successfully raise specialist funds to apply their skills and thereby benefit your company from performance fees.

Investment Climate:

Our ever-changing market conditions, with continued aftershocks arising from the significant global financial crisis, have meant that the global economic recovery and growth is very fragile and uncertain. A climate with low interest rates and a continued lack of liquidity in the wholesale lending market has resulted in a widening of the need for investment approaches to grow shareholder funds. Whilst global stock markets have recovered from their low points in the first half of 2009, we remain cautious about growth prospects for equities and bonds in the next twelve months. European economic stability has been substantially undermined by economic and fiscal bailouts needed in some European Union Member States and we have seen in just the last few weeks major sell-offs in world stock markets.

Investment performance and prospects:

This economic backdrop convinces our board that its strategy of seeking out new focused areas of alternative fund management, based primarily on asset-backed lending, will provide long-term benefits. Meanwhile the group's holdings in resource stocks have continued to provide a sparkle in the performance of its overall investment portfolio. Profits from sale of investments in Pure Energy, Emerald Oil and Tullow Oil made good contributions to our profits. More recently we have seen a bid by Royal Dutch Shell for Arrow Energy that has again improved our growth in underlying investment values.

Our holdings in bank preferred stocks have offered good yield in this market and have been used to cover some of our administration and overhead costs. Our current investments are increasingly focused on developing new streams of earnings which are less dependent on the volatility of markets and which are more focused on a share of high-return business models via specialist fund management teams.

For the current financial year investment performance is in line with company expectations but our new investments leave us well positioned to achieve growth.

Henry Lafferty
16th June 2010

Chief Executive's Review

City Of London Group (COLG) has had a satisfactory year in which operating profit before tax on continuing operations has risen 111% to £248,422. Our current portfolio of investments held for sale is both widely spread and reasonably liquid but at the same time has shown a remarkably strong performance ahead of the general market. At the same time we have been able to make two strategic investments to further the group's intention of moving from an investment fund to a manager of alternative investment vehicles focused on higher returns. I expect these new investments to grow substantially as we raise funds for them to manage and earn performance fees ahead of normal benchmark returns.

Investment Report:

Our mining investments have continued to show the benefit of stock-picking using our strong knowledge and experience in the sector. In fact our investment in Arrow Energy in Australia which, after the year end, has received and accepted a bid from Royal Dutch Shell for its Australian assets is likely to show nearly £500,000 of profit post-transaction on an initial purchase price of some £35,000 for this holding. We continue to see additional value generated during the year on our principal holdings that are set out below:

PRINCIPAL HOLDINGS (as at 31st March 2010)

Holding	Security	Book Cost (Net of Provision) £	Value £
160,000	Arrow Energy Ordinary	34,281	486,961
500,300	Munro UK Fund X Class (Income Shares)	500,000	413,748
16,666,666	Vatukoula Ordinary	208,333	383,334
240,000	Barclays 14% Var. Sub. Prefs	233,863	300,000
200,000	Abbey National £1 10.375% NC Pref	213,192	238,000
25,000	Orient Express Hotels Ordinary	125,170	233,700
200,000	Standard Chartered 7.375% Prefs	200,426	220,000
127,127	Pharmixis Ordinary	158,962	216,917
150,000	Co-Op Bank £1 9.25% NCI Pref	171,130	193,875
100,000	<u>RSA Insurance Group</u> Ordinary	121,734	127,300
50,000	7.375% Cum. Irr. Prefs	43,302	50,250
7,000,000	Tertiary Minerals Ordinary	307,809	175,000
170,000	St Helens Finance 5% Convertible Loan Notes	170,000	170,000
429,000	Prime People Ordinary	215,939	163,020
75,000	Bodycote Ordinary	106,752	157,500
100,000	Qinetiq Ordinary	132,541	134,300
		2,943,434	3,663,905

We have continued to review our investment policy during the year and have now separated our investments into those held for resale and other 'operating' investments that are covered by our restrictions in investments in unlisted companies to 20% of our investment assets. Clarification of our investment policy to comply with our Reporting Standards Terminology has been made and a full statement is attached to this announcement and set out in our published financial statements. At 31st

March the company had invested £988,455 (12.3%) of its net assets in this area against a cap of 20% in our Investment Policy

In respect of our new investments in 'Therium Capital Management Limited' (Therium) and 'St Helens Legal Fund' it is too early in our investment cycle to comment extensively. With Therium, which is raising funds to finance third party litigation cases, we have a strong core team of managers and have reviewed over 100 investment opportunities and commenced funding our first seven cases. All cases are subject to rigorous due diligence procedures and are closely monitored when funding is agreed. It has developed an extensive network of contacts to source case opportunities amongst solicitors, brokers, and insolvency practitioners and other professionals advising on litigation. As we raise further funds under management we will launch new marketing programmes over the coming year to attract potential cases for funding.

For St Helens Finance Legal Funding (SHF Legal) which provides working capital to law firms against settled cases, we have made a very good start and again a pipeline of funding opportunities is developing. SHF Legal has negotiated new 'framework agreements' with a number of solicitors and several large legal Cost Assessment Companies that will provide continued funding opportunities.

Legacy Investments:

We have re-assessed a number of our legacy investments and have started to provide extensive marketing support to "The Munro Fund", managed by our subsidiary, Fundamental Tracker Investment Management Ltd (FTIM). Whilst still a small 'showcase' fund it is about to establish a three-year track record in October 2010 and has enjoyed some strong favourable press comment on its investment process from the Financial Times and other quality financial investment publications.

Our investment (19.84%) in FX Capital Limited (FX), provides deliverable foreign exchange to small and medium-sized companies and individuals (via RabbitFX brand) has completed its initial investment programme and is open for business. We expect to see rapid growth in its operations planned for 2010/2011.

Finally our unsuccessful investment in a consolidation of Individual Financial Advisors (IFA's) in Consolidated Asset Management (Holdings) plc, formerly ARC Fund Management plc, has delisted and the original investment has been provided for, as it is no longer core. We continue to hold our 5-year 2014 convertible loan note of £125,000, which we believe will be recovered over time.

Net Asset Value:

As referred to in the Chairman's Statement, recent weeks have seen significant volatility return to stock markets following bailouts in some European Member States. We are well positioned against these stock market falls but not fully immune. Our Net Asset Value is 74.4 pence per share at 15th June, a drop of 3.9% against 31 March 2010 values.

Dividend:

Given that the results for the full year have been very encouraging and that we have advanced our new investment strategy the Board has decided to recommence dividend payments on a modest basis (0.5 pence per share). Maintaining this and improving on it in future years will be a priority as we grow the group's profitability.

Prospects:

2009/2010 has seen a period of major change in the company. We have succeeded in getting market recognition for our potential such that the shares now at least recognise current value if not potential. I look forward to working to grasp the many opportunities that are opening up to us.

Eric Anstee
16th June 2010

Consolidated statement of comprehensive income for year ended 31 March

	Note	Year to 31 March 2010	Year to 31 March 2009
Continuing operations		£	£
Revenue		175,370	188,761
Administrative expenses	5		
Exchange gain		16,374	307,014
Other		(943,586)	(326,295)
		(927,212)	(19,281)
Profit on sale of investments		1,352,486	888,412
Provision for impairment of investment		(332,727)	(744,770)
Other operating income		26,597	3,869
Exceptional item	6	(46,092)	(199,268)
Operating profit		248,422	117,723
Financial expenses		(4,783)	(10)
Profit before tax on continuing operations		243,639	117,713
Income tax expense		-	-
Profit after tax on continuing operations	7	243,639	117,713
Profit after tax on discontinued operations		(112,837)	36,659
Profit for the year		130,802	154,372
Other comprehensive income			
Available-for-sale investments			
- Valuation gains/(losses) taken on equity		2,293,654	(1,584,348)
- Transferred to profit or loss on sale		(829,275)	(355,816)
Other comprehensive income/(expense) for the year		1,464,379	(1,940,164)
Total comprehensive income/(expense) for the year		1,595,181	(1,785,792)
Profit Attributable to:			
Equity holders		142,526	157,675
Minority interest		(11,724)	(3,303)
		130,802	154,372
Total comprehensive income/(expense) attributable to:			
Equity holders		1,606,905	(1,782,489)
Minority interest		(11,724)	(3,303)
		1,595,181	(1,785,792)
Basic and diluted earnings per share: continuing operations		2.60p	1.19p
Basic and diluted earnings per share: discontinued operations		(1.15)p	0.36p
Basic and diluted total earnings per share		1.45p	1.55p

Consolidated statement of changes in equity

	Attributable to owners of the parent company				Total	Attributable to minority interest	Total equity
	Fair value reserve	Retained earnings	Share premium	Share capital			
	£	£	£	£	£	£	£
At 1 April 2008	1,470,649	673,543	5,107,329	1,018,663	8,270,184	-	8,270,184
Adjustment associate becoming a subsidiary*		15,681			15,681	12,426	28,107
	1,470,649	689,224	5,107,329	1,018,663	8,285,865	12,426	8,298,291
Changes in equity in year to 31 March 2009							
Available-for-sale investments							
- Valuation losses taken to equity	(1,584,348)	-	-	-	(1,584,348)	-	(1,584,348)
- Transferred to profit or loss on sale	(355,816)	-	-	-	(355,816)	-	(355,816)
Total other comprehensive income	(1,940,164)	-	-	-	(1,940,164)	-	(1,940,164)
Profit for year	-	157,675	-	-	157,675	(3,303)	154,372
Total comprehensive income	(1,940,164)	157,675			(1,782,489)	(3,303)	(1,785,792)
Dividends	-	(122,240)	-	-	(122,240)	-	(122,240)
Purchase of treasury shares	-	(109,994)	-	-	(109,994)	-	(109,994)
At 31 March 2009	(469,515)	614,665	5,107,329	1,018,663	6,271,142	9,123	6,280,265
Changes in equity in year to 31 March 2010							
Available-for-sale investments							
- Valuation gains taken to equity	2,293,654	-	-	-	2,293,654	-	2,293,654
- Transferred to profit or loss on sale	(829,275)	-	-	-	(829,275)	-	(829,275)
Total other comprehensive income	1,464,379	-	-	-	1,464,379	-	1,464,379
Profit for year	-	142,526	-	-	142,526	(11,724)	130,802
Total comprehensive income	1,464,379	142,526			1,606,905	(11,724)	1,595,181
Value of employee services	-	7,119	-	-	7,119	-	7,119
Acquired with investments	-	-	-	-	-	(268,025)	(268,025)
Sale of treasury shares	-	49,248	64,638	-	113,886	-	113,886
At 31 March 2010	994,864	813,558	5,171,967	1,018,663	7,999,052	(270,626)	7,728,426

*In accordance with IFRS3, on a stepped acquisition, historic equity accounting for associates is revised to return investments to original cost.

The fair value reserve represents the net gains and losses recognised in respect of 'available-for-sale' investments. The reserve is distributable to equity holders except to the extent that gains and losses are treated as unrealised for company law purposes. Gains and losses are considered realised to the extent that they are readily convertible to cash.

Consolidated balance sheet as at 31 March

	Note	31 March 2010 £	31 March 2009 £
Non-current assets			
Intangible assets		582,707	92,797
Property, plant and equipment		20,247	4,091
'Available-for-sale' financial assets	9	6,293,347	4,218,346
Operating investments		411,852	-
Investments in legal funds		530,265	-
Total non-current assets		7,838,418	4,315,234
Current assets			
Trade and other receivables		225,162	282,089
Cash and cash equivalents		1,370,278	1,797,434
Total current assets		1,595,440	2,079,523
Total assets		9,433,858	6,394,757
Current liabilities			
Trade and other payables		(1,108,732)	(114,492)
Non-current liabilities			
Borrowings		(551,900)	-
Trade and other payables		(44,800)	-
Total non-current liabilities		(596,700)	-
Total liabilities		(1,705,432)	(114,492)
Net assets		7,728,426	6,280,265
Equity			
Share capital	10	1,018,663	1,018,663
Share premium		5,171,967	5,107,329
Retained earnings		813,558	614,665
Fair value reserve		994,864	(469,515)
		7,999,052	6,271,142
Minority interest		(270,626)	9,123
Total equity		7,728,426	6,280,265

Consolidated statement of cash flows for the year ended 31 March

	31 March 2010	31 March 2009
	£	£
Cash flows from operating activities		
Profit before taxation	136,772	156,522
Adjustments for:		
Depreciation charges	4,066	783
Amortisation charges	107,205	-
Charge re: options	7,119	-
Dividends receivable	(134,026)	(136,024)
Impairment of available-for-sale financial assets	332,727	744,770
Share of loss of associated company	-	39,616
Profit on disposal of investments	(1,352,486)	(888,412)
Loss on disposal of property, plant and equipment	70	-
Loss/(profit) on disposal of trade	108,329	(8,328)
Interest received	(32,855)	(73,691)
Finance costs	5,172	10
(Decrease)/increase in trade and other receivables	(50,335)	19,447
Increase/(decrease) in trade and other payables	102,046	(53,435)
Cash from operations	(766,196)	(198,742)
Income taxes	(5,970)	(12,289)
Net cash used in operating activities	(772,166)	(211,031)
Cash flows from investing activities		
Interest received	21,481	57,790
Acquisition of property, plant and equipment	(16,825)	(1,110)
Acquisition of non-current investments	(2,630,002)	(1,031,481)
Acquisition of subsidiary company	467,390	(5,690)
Dividends received	134,026	136,024
Proceeds from sale of non-current investments	2,260,992	1,614,115
Proceeds from sale of trade	-	78,750
Net cash from investing activities	237,062	848,398
Cash flows from financial activities		
Interest paid	(5,172)	(10)
Dividends paid	(766)	(122,240)
Sale/(purchase) of own shares	113,886	(109,994)
Net cash from/(used in) financing activities	107,948	(232,244)
Net (decrease)/increase in cash and cash	(427,156)	405,123
Cash and cash equivalents at 1 April	1,797,434	1,392,311
Cash and cash equivalents at 31 March	1,370,278	1,797,434

Notes

1. The financial information contained in this preliminary announcement does not constitute full accounts as defined in section 240 of the Companies Act 1985 and has been extracted from the statutory accounts for the year ended March 2010. The auditors have issued an unqualified report on these statutory accounts. The statutory accounts for the year ended 31 March 2009 have been filed with the Registrar of Companies and the statutory accounts for the year ended 31 March 2010 will be filed with the Registrar of Companies in due course.
2. In accordance with IAS 1 a Consolidated Statement of Comprehensive Income has been presented. The 2009 Financial Statements included only a Consolidated Income Statement. .
3. Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during year, less those held in treasury by the company, of 9,814,387 (2009: 10,169,793). The calculation of the diluted earnings per share divides this profit by a revised weighted average number of shares 9,814,387 (2009: 10,177,284). The increase relates to dilutive share options.
4. The directors recommend the payment of a final dividend for the year of 0.5p per share (2009: Nil).

5 Administrative expenses

	2010	2009
	£	£
Staff costs		
Payroll	313,395	269,485
Less exceptional item		-
	(40,000)	(177,426)
Other staff costs	71,124	63,160
Establishment costs		
Operating lease rentals (land and buildings)	97,351	5,095
Other establishment costs	81,162	47,055
Professional fees		
Audit fee for the company	25,000	25,000
Audit of subsidiaries pursuant to legislation	2,000	1,368
Less included in discontinued operations	(1,000)	(1,000)
FSA reporting	1,000	-
Tax services	7,750	8,000
Other professional fees	274,533	84,775
Depreciation	4,066	783
Amortisation	35	-
Impairment	107,170	-
Sub-total	943,586	326,295
Foreign exchange gain	(16,374)	(307,014)
Total	927,212	19,281

6 Exceptional Item

The exceptional item consists of the cost of compensation for loss of office payments made to directors and the associated legal costs.

	31 March 2010	31 March 2009
	£	£
Directors' compensation for loss of office	(40,000)	(177,426)
Associated legal costs	(6,092)	(21,842)
	(46,092)	(199,268)

7 Discontinued operations

The group sold its public relations business on 1 December 2007 to Lothbury Financial Limited. The business was sold for an initial consideration of £300,000 adjusted by the book value of the current assets and liabilities transferred, with a further £100,000 receivable after six months and a possible additional consideration of up to £100,000 dependent on the results in the twelve months to 30 November 2008. The additional consideration, which the board estimated to be £75,000 at 31 March 2008, was subsequently calculated to be £83,328. In the year to 31 March 2010 it was considered necessary to provide for the outstanding consideration and accrued interest that had not been paid as Lothbury Financial Limited was placed into Administration on 29 March 2010 (see note 33).

	31 March 2010	31 March 2009
	£	£
Revenue		
	11,374	15,901
Cost of sales	-	-
Gross profit	11,374	15,901
Administrative expenses	(9,523)	14,580
(Loss)/profit on sale of trade	(108,329)	8,328
Operating profit	(106,478)	38,809
Financial expenses	(389)	-
Profit before tax	(106,867)	38,809
Income tax	(5,970)	(2,150)
(Loss)/profit for the year	(112,837)	36,659

8 Related party transactions and directors remuneration

Directors' emoluments are disclosed in the part of the directors' remuneration report subject to audit. The aggregate emoluments paid to directors during the year were £145,644 (2009: £90,873), awards under the incentive scheme totalled £152,529 (2009: £nil) and compensation for loss of office totalled £40,000 (2009: £177,426).

The directors consider Therium Capital Management Limited to be a related party by virtue of the fact that City of London Group plc owns 50% (2009: nil%) of the ordinary share capital of Therium Capital Management Limited and considers this gives it control of the company. At the year end an amount of £90,000 (2009: £nil) was due to City of London Group plc from Therium Capital Management Limited and City of London Group plc had invested £312,850 (2009: £nil) in funds managed by Therium Capital Management Limited. EE Anstee a director of City of London Group plc had at the year end an amount of £22,500 invested in funds managed by Therium Capital Management Limited which was increased to £30,000 after 31st March 2010.

A Summary of Total Remuneration is as follows:

	Salary	Benefits	Fees	Compensation for loss of office	Incentive Scheme		2010	2009
					Current	Deferred*		
Executive Chairman DR Walton Masters(a)	29,167	-	-	40,000	-	-	69,167	39,732
Non-executive Chairman H Lafferty (b)	-	-	37,967	-	-	-	37,967	12,500
Chief Executive EE Anstee (c)	38,500	-	-	-	26,772	59,826	125,098	-
Directors JCW Kent (d) PC Doye (e)	15,583 -	- -	- -	- -	21,977 -	43,954 -	81,514 -	- 67,814
Non-executive director JW Greenhalgh(f)	-	1,260	23,167	-	-	-	24,427	148,253
	83,250	1,260	61,134	40,000	48,749	103,780	338,173	268,299

*Non-cash award which will be settled in shares. The fair value of the award recognized in the period ended 31 March 2010 was £18,780 (2009: nil) of which £10,826 related to E E Anstee and £7,954 related to J Kent.

9 'Available-for-sale' financial assets

	2010	2009
	£	£
Listed securities:		
– Equity securities – Australia	1,282,660	1,019,018
– Equity securities – USA and Canada	536,766	317,880
– Equity securities – UK	2,737,497	1,539,099
– Debentures with fixed interest of 10% and maturity date in Cumulative non-redeemable preference shares – UK	14,519 50,250	14,519 -
Non-cumulative non-redeemable preference shares – UK	754,375	533,500
Equity fund – UK	413,748	294,176
Convertible loan stock – UK	344,000	225,000
	6,133,815	3,943,192
Unlisted securities – equity securities traded on inactive markets	159,532	275,154
	6,293,347	4,218,346

10 Called-up share capital

	31 March 2010	31 March 2009
	£	£
Allotted, called up and fully paid		
10,186,642 (2008: 10,186,642) ordinary shares of £0.10	1,018,663	1,018,663

The company holds in treasury 207,099 shares at 31 March 2010.

During the year the company sold 167,901 (2009: purchased 375,000) £0.10 ordinary shares with an aggregate nominal value of £16,790 (2009: £37,500). These shares are held in treasury. Distributable reserves have been increased by £60,746 (2009: reduced by £109,944) being the consideration recovered (2009: paid) for these shares.

Investment Policy

As an investment company under Chapter 15 of the Listing Rules, the Company's investment policy is to produce total returns at least equivalent to the higher of:

- 3% above UK RPI; or
- twice what could be earned on UK bank term deposit.

In each case, the returns would be measured on a 5-year rolling basis.

The Company meets this by investing in a portfolio comprising cash deposits, fixed or zero-income securities, convertibles, preference shares and stocks of micro, small, mid and large-capitalisation companies diversified over different countries, sectors and currencies ("the Investment Portfolio").

The proportions of the Investment Portfolio which can be invested in each of the above categories are as follows:

1. up to 100% between cash deposits in various currencies, fixed or zero income securities, convertibles, preference shares and stocks of large-capitalisation companies (including their equity options and warrants);
2. up to 50% between fixed or zero-income securities, convertibles, preference shares and stocks of micro, small and mid-capitalisation companies (including their equity options and warrants); and
3. up to 50% in fixed or zero-income securities, convertibles, preference shares and stocks of unquoted companies (including their equity options and warrants).

In each of the above categories, holdings will be spread between the UK and international markets both developed and emerging.

An emphasis will be given in each of the above categories to the mining, resource, property and financial service sectors where the Company has experience and knowledge.

For Balance Sheet purposes Investments will be divided between 'Available-for-sale' financial assets, Investments in legal funds and Operating investments.

The maximum exposure of the Investment Portfolio to different asset classes at any given time is intended to be:

Equities	85%
Cash Deposits	50%
Fixed and Zero-Income Securities	50%
Convertibles	25%
Currencies	30% in any one currency and 75% in total in different currencies outside of pound sterling
Individual holdings	No individual holding should represent more than 50%, at acquisition, of the total value of the Investment Portfolio both quoted and unquoted

