City of London Group plc

Annual report and accounts 2014

City of London Group plc

2013/14 has been a tough year for the Group. However, since the start of 2014 we have made good progress in securing new capital both for COLG and its core platforms, as well as significantly cutting costs. This leaves us better positioned going forwards.

John Kent
Acting Chief Executive

City of London Group plc ("COLG" or "the Company") is a financial services group focused on providing finance to the SME and professional services sectors. It does this by financing trade and by providing asset-backed finance to SME's and working capital loans to professional practice firms.

Highlights

Key developments

- Operational strategy to focus on the SME market
- Trade Finance Partners has obtained access to up to £48m to finance growth
- Credit Asset Management has received conditional equity commitments for £10m and is now seeking £30m of debt to build a £40m portfolio
- Recent case wins for Therium Capital Management and decision since the year end to seek a buyer for COLG's stake
- Substantial cost savings in central overheads achieved with a target run rate of £500k p.a. by calendar year end (£2.7m in 2013/14)

Financial results

- Loss before tax £5.2m after exceptional items of £1.0m (2012/13: loss before tax £1.6m)
- Underlying loss before tax £3.9m* (2012/13: underlying loss before tax £2.7m*)
- NAV per share of the Company 47p (2012/13: 64p)
- NAV per share attributable to shareholders 34p (2012/13: 53p)

* Underlying loss before tax excludes exceptional items and profits and losses relating to 'available-for-sale' assets, which have been largely disposed of.

Reports
Pages 2 to 10 comprise the Strategic report, pages 16 to 27 the Directors' Remuneration report and pages 28 to 31 the Directors' report, all of which are presented in accordance with English company law. The liabilities of directors in connection with these reports shall be subject to the limitations and restrictions provided by such law. These reports are intended to provide information to shareholders and are not designed to be relied upon by any other party or for any other purpose.

Strategic report

1. Chief executive's statement

Overview

COLG's need for capital has been a major determinant of its results for the year, particularly in the second half. From late summer onwards COLG was unable to provide the necessary growth capital to its platforms and as a result they remained subscale. COLG's attempt to raise £17m of new equity from new investors towards the end of last calendar year did not reach financial close. This imposed additional costs on the Group and diverted management's attention from pursuing other options. The results for the year reflect these factors and the write off of a number of investments.

The Board's revised operational strategy is to focus solely on funding SME's, which remains an attractive segment of the market. Trade Finance Partners Limited ('TFPL') has been refinanced in conjunction with Macquarie Bank ('Macquarie') and now has access to up to £48m of facilities which should provide sufficient scope for growth and profitability over the next 18–24 months. As a result of the refinancing, COLG's fully-diluted shareholding was reduced to 43% and TFPL has therefore been deconsolidated in the financial statements. It remains, however, a key investment for the Group. Credit Asset Management Limited has conditional commitments for £10m of equity (of which £9m is in preference shares) and it is seeking £30m of debt which would enable it to build a £40m book of leases to SME's and loans to professional businesses, providing the necessary scale to generate positive cash flow and profitability. Discussions continue with a number of potential debt providers. In line with its operational strategy, the Group is seeking to simplify its activities by selling its litigation funding business, Therium Capital Management Limited. Alongside this operational strategy the Group has also been taking radical steps to cut central overheads which will limit cash leakage and protect value.

COLG has sufficient working capital and, if these plans are delivered over the next three to six months, it will become a simplified and streamlined holding company, able to harvest the growth of its two SME lending platforms, which, in turn, will provide a demonstrable underpinning of the Group's net assets.

Trade Finance Partners Limited ("TFPL")

Between September and mid-March TFPL was constrained by the amount of capital it was able to deploy and its profitability suffered as a consequence. Additionally its results have been hit by a number of accounting changes in respect of revenue recognition and effective interest rates which imposed a charge of £1.7m in the year. These have been offset by a profit of £1.7m on fair valuing the business at the point it became an associate. Overall, the business made a loss before tax of £1.1m (2012/13: profit before tax £0.2m).

Following the transaction with Macquarie announced on 19 March, TFPL now has in excess of £10m of subordinated and shareholder capital and its facility with Macquarie has been increased from £18m to £23m with further agreement in principle up to £48m and extended by two years to June 2017. The business has now started to make serious inroads into smaller scale commodity trades. Alongside this TFPL is recruiting additional sales staff for both the commodity and traditional SME segments. Both these segments are under-served by the financial market and should provide plenty of scope for growth in the future. Whilst trade finance is by its nature transaction related, the Board expects that TFPL will be able to build a significantly broader client base with more repeat business in the current financial year, leading to even higher quality earnings in future years.

As part of the transaction announced on 19 March, Macquarie invested £3.1m in TFPL equity and loan notes, exercised an option to convert existing loan notes and acquired the equity interest of a departing director, resulting in its fully diluted ordinary shareholding increasing from 20% to 33%. As a result of the transaction COLG's undiluted ordinary shareholding reduced from 60% to 44% and its fully diluted ordinary shareholding reduced from 44% to 43%. As a consequence COLG ceased to consolidate TFPL's results from the date of the transaction and TFPL's results up to 19 March are classified as 'discontinued operations' for accounting purposes. The remaining 44% ordinary shareholding is treated as an associate going forwards.

Credit Asset Management Limited and Professions Lending Limited ("CAML")

CAML has spent the year building its managed lease and loan portfolios for its joint investment with the Government and its institutional Swiss investor. Utilisation reached £11.6m by the year end out of the £19m of committed capacity at that point. Due to lack of equity capital, CAML's own book diminished from £5.9m to £3.9m. Whilst CAML's yields have held up well, the business remains subscale and its fees for managed portfolios are less than the margin it enjoys on its own book. This has led to a loss before tax of £0.9m for the year (2012/13: loss £0.6m).

CAML has a tried and tested management team and scalable systems but it is a capital intensive business and it needs access to reasonably priced capital. COLG has secured a conditional commitment from one of its principal creditors to invest £8m into CAML in the form of preference shares which, taken with a new investment from the Group of £2m in ordinary equity and preference shares, would provide £10m of equity capital, against which CAML is seeking to secure gearing at 3:1 (£30m), enabling it to build a £40m own book of well diversified SME leases and loans to professional businesses. This is not a high level of gearing for the sector historically and discussions are continuing with a number of potential debt providers, mainly banks, to provide the debt. It is still too early to predict the outcome of these discussions.

If the borrowings are secured then the business would be expected to achieve profitability. Without constraints on capital, CAML's management team would be able to accelerate business growth – having had experience of developing considerably larger portfolios. As part of CAML's proposed recapitalisation, COLG's new investment and the conversion of its existing preference shares would be expected to result in COLG increasing its ordinary shareholding in CAML from 51% to 85%.

Therium Capital Management Limited ("Therium")

Over the year Therium has had four litigation cases resolved, winning two and losing one with one case being withdrawn at a very early stage. These four cases have, however, been relatively small and many of Therium's larger cases are still ongoing. Therium has not recognised performance fees for the year and as a result it reported a loss before tax of £0.6m for the year (2012/13: loss £0.7m). COLG's investment in Therium of 50% has been accounted for as an associate under IFRS 10 whereas last year it was consolidated. Accordingly, the prior year has been restated. Since the year end Therium has had four cases resolved in its favour and has lost one case.

Therium has experienced continued delays in relation to its proposed international joint venture, which was intended to provide the scale necessary to generate profits without reliance on performance fees. This joint venture will not proceed as negotiations have been terminated by the parties. Other fund raising activities had been curtailed during these discussions and have only recently been resumed.

In the meantime Novitas, Therium's 50% owned associate, which extends secured lending to law firms and their clients, has been able to record a strong advance, increasing its loan book substantially over the year. The business is profitable and foresees continued growth with the introduction of new products.

Therium remains a business with strong management, good growth prospects and an excellent position in the marketplace. However, in line with its operational strategy of focusing on SME lending, COLG has decided not to inject further development capital into Therium and, since the end of the financial year, has reached agreement with the management of Therium to initiate a process to identify an alternative partner.

Other investments

The disposal of the natural resources investment portfolio has continued during the year and the portfolio had a valuation of £383k at the year end. As referred to in the interim statement the investment in Array Management Ltd of £207k has been written off.

COLG

On 28 November 2013 COLG secured a £4.8m working capital facility to meet its needs for the foreseeable future and on 17 February 2014 announced a £5m development facility comprising loan notes convertible into preference shares. The latter facility was subsequently reduced to £3m at the time of the TFPL transaction with Macquarie which involved the lender investing directly in £2m of TFPL loan notes. The remaining development facility will be available to COLG in respect of its potential investment into CAML in order to secure CAML's increased lease and loan portfolio.

The holding company results for the year reflect a number of exceptional costs but they also reflect an unsustainably high central overhead cost. With the establishment of firm foundations for the SME funding platforms and the simplification of the Group's portfolio, there will no longer be a need for a full time executive team at the Company. Accordingly, and to assist the transition, the executive team has agreed to a 60% reduction in salaries and working days with effect from 1 July 2014. As a result of this and other measures the central overhead should be reduced from £2.7m in 2013/14 to a run rate of around £500k p.a. by the calendar year end.

Strategic report continued

There have been a number of Board changes during the year. COLG currently has two executive directors and two non-independent non-executive directors but no Chairman. The intention is to defer further appointments until the Group has stabilised and the two platforms enter their next stage of growth.

Dividend

The Board does not recommend payment of a dividend.

Outlook

With TFPL refinanced the outlook for this investment is now positive. Securing £30m of debt against the £10m of equity that CAML has conditionally secured would give the business critical mass and significantly improve its outlook. The Group's other plans – to sell Therium and reduce Group costs significantly – are complementary. The implementation of these plans is subject to inevitable uncertainties but their successful delivery would bring about a much simpler, streamlined and profitable group focused on two SME funding platforms.

2. Overview of business activities

The Company is a closed-ended investment company and is fully listed on the London Stock Exchange plc (LSE symbol CIN). The Company invests in companies in financial services which provide finance to the SME and professional services sectors where major national and foreign banks have limited new lending to these borrowers.

The Company has developed three principal financing 'platforms' namely Trade Finance Partners Limited (TFPL) – a trade finance provider to the SME market, Credit Asset Management Limited (CAML) and Professions Funding Limited (PFL) – which respectively provide asset backed finance to SMEs and working capital loans to professional practice firms and finally Therium Capital Management Limited (Therium) – which provides third party litigation funding.

3. Business model

The business model of the Group has evolved to reflect changing market conditions and in particular the availability of capital. The basic model is that the holding company, COLG, provides seed capital to new or early stage 'platforms' using a combination of ordinary equity, preference equity, subordinated debt and working capital loans. The management teams in the platforms are incentivised with equity in those companies. The businesses raise external funds from a combination of bank and other debt and managed funds from third party investors which are invested in "real assets" in the form of loans, leases and trade finance to SME's and also in litigation funding. These investments then generate asset class returns to the platforms or, in the case of managed funds, asset class returns to the third party investors and management fees to the platform companies.

COLG receives a return on its investments in the form of interest and dividends on the debt and equity as well as a return from the growth in value of the equity of the underlying platforms.

4. Strategy

The current strategy is to focus efforts around growing the Group's two existing SME funding platforms, TFPL and CAML/PFL, and to initiate a process for the sale of its litigation funding platform, Therium. It is not planned to invest in any new platforms in the short term. The strategy is therefore to underpin the investments in these platforms such that they are both profitable, high growth and able to deploy funds in significant volumes. It is also proposed to significantly reduce head office costs to a level appropriate for the reduced size and focus of the Group. The Group will then be in a stronger position to consider other options for raising lower cost funds to fuel the next stage of growth in its platforms.

5. Financial review

Trade Finance Partners ceased to be a subsidiary on 19 March and its pre-tax loss to that date of £1.1m is shown in discontinued operations.

The table below shows a breakdown of the Group results:

	Loss before tax		Underlying loss before tax	
	2014 £k	**2013 £k**	**2014 £k**	**2013 £k**
Holding company	(2,822)	(142)	(1,774)	(1,258)
Litigation financing	(305)	(646)	(305)	(646)
Trade financing – TFPL	(1,085)	161	(1,085)	161
– Other	12	17	12	17
Lease and professions financing	(861)	(605)	(861)	(605)
Legal case funding	85	47	85	47
Other	(228)	(374)	(21)	(374)
	(5,204)	(1,542)	(3,949)	(2,658)

The underlying loss before tax excludes exceptional items and profits and losses relating to the 'available-for-sale' assets which have been largely disposed of.

The key performance indicators of each of the platforms are set out below in the platform reviews as appropriate but on a consolidated basis the key performance indicators are:

	31 March 2014	31 March 2013
Underlying profit/(loss) before tax	£(3,949)k	£(2,658)k
Consolidated net assets per share (attributable to owners of the parent)	34p	53p

The gross income of the holding company increased by £0.2m to £1.4m due to an increase in loans to the platforms. This is offset by higher borrowing costs of £0.2m (2012/13: £0.1m) to fund this additional investment. Other external dividends and interest were lower because the natural resources investment portfolio is considerably smaller following disposals during the year. There was a loss on these disposals in the year of £105k (2012/13: profit £1.4m). The holding company owns a number of direct litigation investments which were seed investments relating to the establishment of Therium. There were no results on these investments in the year (2012/13: £nil). The net operating costs were £2.7m (2012/13: £1.9m) and there were exceptional losses relating to a direct loan in connection with a litigation case (£507k) and an unsuccessful financing in December 2013 (£335k). The key performance indicators for the holding company are underlying profit before tax and Company net assets per share as follows:

	31 March 2014	31 March 2013
Underlying profit/(loss) before tax	£(1,774)k	£(1,258)k
Net assets per share	47p	64p

The underlying loss before tax of the holding company has increased mainly because of higher operating costs. As previously mentioned in this report, central overhead costs are planned to be substantially reduced from £2.7m to a run rate of £500k p.a. from the calendar year end. The net assets per share have reduced as a result of the losses referred to above.

Strategic report continued

£1.1m of the Groups underlying loss relates to the consolidated results of TFPL up to 19 March 2014 and is shown as 'discontinued operations'. TFPL remains a key investment of the Group but it ceased to be consolidated from 19 March 2014 when COLG no longer controlled the company and under the accounting standards its results are deemed to be 'discontinued operations'. The results of TFPL from 19 March 2014 are accounted for as an associate (with a 44% shareholding) in continuing operations although the results in this period are not material.

The results of Therium show a loss before tax of £0.6m (2012/13: loss £0.7m). COLG owns 50% of Therium and it had previously been consolidated. However, under IFRS 10 Therium has been accounted for as an associate and therefore a loss of £0.3m has been included in the consolidated accounts representing COLG's share of the losses. The comparatives for the previous year have been restated.

Finally, CAML shows a loss before tax of £0.9m (2012/13: £0.6m). COLG owns 51% of CAML and these results have been consolidated as in previous years.

6. Platform reviews

Trade Finance Partners Limited ("TFPL")

(a) Description of the business and business model

TFPL is a specialist provider of traditional trade finance targeted predominantly but not exclusively at UK-based businesses with revenues in the range of £3m to £200m. TFPL is also increasingly being approached concerning certain commodity trade finance transactions a number of which it has undertaken. It operates a trading model whereby it buys and sells goods, taking ownership of them and thus also taking on the inherent risk of owning those goods. It uses its own capital and the dedicated trade finance facilities provided by its banking partner, a division of the Macquarie Group of Companies which now owns 33% of TFPL.

TFPL's trading model is simple and efficient; it buys goods and owns them until such time as the end customer pays. The use of letters of credit to purchase goods in approximately 50% of cases and the use of credit insurance on the end customer plus various insurance products ensures multiple layers of risk mitigation are in place. Ultimately ownership of the goods also ensures that in the event of a transaction failing TFPL can sell the goods and greatly reduce its financial risk. Its income is derived from a margin on the goods sold and ancillary services associated with the opening of purchase commitments.

(b) Financial review

The TFPL results are shown as discontinued operations in the consolidated income statement. TFPL's loss of £1.1m (2012/13: profit £0.2m) is after accounting charges of £1.7m. This mainly relates to the new facility agreement which included some considerable changes to the existing agreement. The accounting standards required treating this as a new financial instrument resulting in the write off of all the previously capitalised facility costs of £1.3m. The effective interest rate calculated for the modified facility in accordance with IAS 39 is 9.9% as against 12.4% under the old facility, which is mainly due to lower arrangement fees and other transaction costs. This will have a positive impact on the accounting profits going forward. This accounting charge is offset by a gain of £1.7m arising on fair valuing the investment in TFPL in the Group accounts when it became an associate. With regard to the financial performance of the underlying business, whilst there has been modest growth in revenue, the gross profit is slightly lower than the previous year. This is because the mix of business has changed to include more commodity business which is at a lower gross margin. The operating costs have increased significantly which are partly one-off costs related to the refinancing and partly to gear up the infrastructure to facilitate future expansion of the business.

The key performance indicators for TFPL are the loan drawings from the Macquarie facility which whilst fluctuating significantly exhibited a clear rising trend throughout the year. The amount drawn at the year-end was £10.4m (2012/13: £5.1m). The other key performance indicator is EBITDA which was £(0.5)m (2012/13: £0.2m).

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL")

(a) Description of the business and business model

CAML is a business to business provider of lease finance to SME's. In addition it provides management services to two third-party funds and to PFL for the origination, underwriting, booking and portfolio management of leases to SME's and loans to professional businesses such as lawyers, accountants, doctors and dentists. CAML sources business for both disciplines through a national network of finance intermediaries. COLG owns 51% of CAML and the results continue to be consolidated into COLG.

(b) Financial review
CAML's results show a loss before tax of £0.9m (2012/13: loss £0.6m). This loss has increased from last year mainly because the own book has reduced from £5.9m to £3.9m as a result of equity capital constraints, which in turn has resulted in lower interest income. This has only partially been offset by higher management fees on the two managed accounts with the Government and with the institutional Swiss investor. Operating costs have increased by £0.2m.

The key performance indicators are book size and new business levels. The book size for the managed accounts increased from £5.6m to £11.6m (out of a total of £19m committed at 31 March 2014 but which reduces to £15m by August 2014) and the own book financed by block funders reduced from £5.9m to £3.9m by the year end because of the equity capital constraints. New business volumes overall increased from £14.8m to £24.6m.

Therium Capital Management Ltd ("Therium")

(a) Description of the business and business model
Therium is one of the leading third party litigation funders in the UK market, focusing on large commercial litigation and arbitration claims. It provides such funding for clients of leading national and international law firms. It raises third party funds which it invests predominantly in litigation and arbitration claims in the UK as well as funding more widely. It receives management fees on the funds under management and is entitled to performance fees based on profits of the third party funds.

Therium is led by lawyers and undertakes a detailed due diligence process prior to funding a case, considering the legal merits, the value of the claim and projected costs, the risks involved and the ability of the defendant to meet the costs of any judgment. Each fund is deployed in accordance with its client mandate across a diversified portfolio of cases.

The company sources potential cases for funding principally from solicitors, brokers, insolvency practitioners and other professionals advising on litigation as well as, occasionally, from in house counsel. The company has an existing and growing network of relationships with a wide range of firms of solicitors active in commercial litigation as well as strong links with a number of other relevant intermediaries in the third party funding area in the UK.

Through its 50% shareholding in Novitas Loans Limited the Company is also participating in the development of a market leading provider of loans to law firms and their clients, a strong complementary business. More than 400 firms are currently registered with the Novitas scheme.

(b) Financial review
With the application of the new IFRS 10 – Consolidated Financial Statements, COLG's 50% investment in Therium has been accounted for as an associate and the comparative figures have been restated accordingly. As required by the accounting standards, restated balance sheets at 31 March 2012 and 31 March 2013 have also been shown including Therium as an associate rather than being consolidated. It is considered that with the new definition of control in IFRS 10 consolidation is no longer appropriate.

The results of Therium show a loss before tax of £0.6m (2012/13: loss £0.7m) of which £0.3m has been included in the consolidated accounts as an associate representing COLG's share of the losses. The losses reflect the management fees of £441k (2012/13: £294k) earned on the funds under management of £23m less the operating costs which have only increased slightly over the previous year. No performance fees have been earned in the year.

Novitas, Therium's 50% owned associate, has increased its loan book significantly during the year ended 31 March 2014.

Therium's key performance indicators are:

(i) Profit/loss before tax: loss £0.6m (2012/13: loss £0.7m)

(ii) Funds under management: £23m (2012/13: £21m)

Other investments

The disposal of the natural resources investment portfolio has continued during the year and the portfolio had a valuation of £383k at the year end. As referred to in the interim statement the investment in Array Management Ltd totalling £207k has been written off.

Strategic report continued

7. Risk management

The principal risks of the Group are reviewed by the Board quarterly and a summary of the key risks are set out below together with their mitigation strategies.

(i) Credit risk

Credit risk particularly arises in CAML and TFPL. This is mitigated in a number of different ways. For the leasing business the exposure is reduced by ownership of the asset which can usually be resold. In the case of professional loans, personal guarantees are obtained wherever possible but in any event the professional reputation of the partners of the firm is at stake. In the case of trade finance the assets are also owned and the extent to which assets are readily realisable is a key factor in a decision to fund a transaction. The assets are insured and the credit risk of the ultimate customer is credit insured. In all cases there is a well-defined process for credit approval including credit committees with specific delegated powers.

(ii) Interest rate risk

Exposure to interest rate movements is minimised where borrowing and lending is relatively short term and matched as in the trade finance business. Any residual interest rate risk is passed on to the customer. Where lending is longer term as in professional lending or leasing then borrowing rates are fixed at the start to avoid interest rate exposure. Group borrowing is mainly at fixed rates.

(iii) Litigation funding

The Company has £672k of direct exposure to litigation funding arising from seed investments. The Group, however, does not have any new direct exposure to litigation funding as this risk (and corresponding rewards) are taken by third party investors. However, the litigation funding business is exposed indirectly as its performance fees are dependent on successful outcomes of its litigation investments. One of the associated risks which has materialised is the risk of delays in case resolutions and the need to fund costs in the meantime. This is an inherent risk of the business and is managed as far as possible by selecting cases which are expected to mature over a range of timescales. The risk of failure of cases is managed by the careful case selection process but again the performance of this is an inherent risk of the business.

(iv) Regulatory compliance

This risk arises in various ways but the risk of non-compliance with FCA regulations is considered low as there is very limited business performed that falls within this environment – only the activity of 'Operator' to Therium LLP funds and CAML limited partnerships which generates income of a few tens of thousands of pounds. Accordingly the regulated business (City of London Financial Services Limited) is ranked in the lowest risk category by the FCA. It should be noted however that the credit regulation which regulates the leasing and loans business has recently been transferred under the FCA. The risk is mitigated by the use of external specialist regulatory advisers. Advice on compliance with the listing, disclosure and transparency rules is sought from the Company's advisers.

(v) Cash flow

There is a risk that the platforms do not develop as planned and require further working capital funding from COLG. Each platform has an annual budget including a budgeted funding requirement. There are some mitigations which the platforms can invoke to reduce the working capital including cost cutting and managing the portfolio growth. COLG also has some headroom in its funding facilities to provide working capital.

(vi) Competition

There is a risk that the Group may become subject to increased competition in sourcing and making investments in the event that liquidity comes back into the SME market from the high street banks and other investors. This could lead to the platforms finding it difficult to invest at the planned yields. This risk is mitigated by the specialist expertise that can be provided by the trade finance business and by increased sales and marketing activity. In the case of the leasing and loans business the speed of credit decisions and the quality of operations is a key differentiator.

(vii) Business continuity

This is the risk that the business premises are unavailable due to fire or other disasters or of failure of IT systems. The consequential risk is the loss of key documentation and the inability to enter the business premises. This is mitigated by the ability of staff to work remotely from home and a disaster recovery plan. Key documents are held electronically and also separately with our lawyers. IT systems and data are backed up remotely and can be restored within acceptable timescales.

(viii) Governance

There is a significant risk, which in a number of respects has materialised, of non-compliance with the UK code on corporate governance. These issues were discussed with a number of major shareholders in January 2014 and they expressed the view that the Company should deal with them after addressing the strategic issues arising following the unsuccessful fund raise.

8. Going concern

The directors have reviewed in detail the monthly cash flow forecast for the period to 31 July 2015. They have also considered the inherent uncertainties in market conditions and the potential impact of the risks on the financial position of the Group. An explanation of the key aspects for the Company and of each of the main subsidiaries is set out below.

(a) COLG

As at the end of July 2015 there is expected to be available working capital headroom of c.£500k comprising cash and undrawn facilities. The debt facilities of the company currently comprise:

(i) a £4.8m loan facility of which £3.2m is currently drawn. This facility has been extended to 30 September 2015 and it is assumed that it will be rolled or refinanced beyond that date;

(ii) a loan of £325k which is due to be repaid on 10 October 2014 from funds drawn on the facility in (i) above;

(iii) a loan from City of London SME Leasing Ltd of £2m of which £1m will also be repaid in the period from the facility in (i) above;

(iv) an overdraft facility from Lloyds Bank which is constrained to a maximum of 50% of the value of listed securities held by them on our behalf (a facility of some £45k). It is not proposed to renew this facility when it expires at the end of October 2014; and

(v) an undrawn convertible loan facility of £3m for funding growth of the platforms (£2m of which is planned to be used to invest in CAML – see (d) below).

The key assumptions around the cashflow forecast include the disposal of the remaining share portfolio at a 20% discount to current prices, repayment of 80% of the remaining loans made to Novitas plus interest, the spare office accommodation is sublet and central overheads are very substantially reduced. No receipts have been assumed on the direct legal investments held by the company of £672k. Comments on the working capital requirement assumptions of the platforms are set out below:

(b) Therium

The base case has assumed a working capital requirement of £40k per month up to August. Given that it is the intention to dispose of this investment the cash impact of disposal would be upside.

(c) TFPL

With the new subordinated debt and extended facilities recently put in place, it is assumed that TFPL will have no further working capital requirements in the period. The forecast does not assume TFPL pays interest to COLG on the subordinated debt until July 2015 but it does assume that accommodation charges are paid.

(d) CAML/PFL

It is assumed that CAML/PFL receive the go ahead for the planned £40m funding in the period which will make the business profitable. Accordingly, no further working capital requirements have been assumed to come from COLG in the period. However, as part of the new fund it is assumed that £2m is drawn from a convertible loan facility to be invested in CAML ordinary and preference shares. It is also assumed that the cash impact of this is neutral.

Strategic report continued

(e) Risk factors

The main risk factors around the cash flow forecast are as follows:

- The non-repayment of loans from Novitas. The loans are mainly secured on property and the risk is more around delay than non-repayment.
- The inability to dispose of the share portfolio at the assumed prices. A number of the shares are traded on illiquid markets and cannot be sold quickly without affecting the price. A discount of 20% has been assumed but the risk is that sales at a higher discount may be necessary particularly if they need to be sold quickly.
- CAML/PFL does not receive the go-ahead in the period for the planned £40m funding.
- Further funding required by Therium if the business is not sold. Alternative scenarios have been examined but performance fees are likely to mitigate the funding requirement.
- Not achieving the significant cost reductions. The plans are fairly well advanced.
- Not being able to sublet the spare accommodation. The plans are fairly well advanced.

(f) Conclusion

After consideration of the above cash flow risk factors and the projected available surplus of c£500k together with possible mitigations, the directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the annual report and accounts.

9. Corporate responsibility

Environment

Given the nature of its activities, there is limited scope for the Group to have a major impact on environmental matters. However, the directors are mindful of their responsibilities in this regard and in particular are conscious of energy conservation and waste management. Energy consumption statistics for greenhouse gas emissions are shown in the Directors' report.

Health and Safety

The Group aims to provide and maintain a safe working environment for all its employees.

Directors and employees

The Company has four male directors. It has four male senior managers (including two male directors of subsidiaries) and two female employees.

Information on social, community and human rights matters are not included as such information is not considered necessary for an understanding of the company's development, performance or position.

10. Preparation of Strategic report

This Strategic report has been prepared to provide additional information to enable shareholders to assess the Group's strategy and the potential for that strategy to succeed. The Strategic report contains certain forward looking statements. These statements are made by the directors in good faith based on the information available to them up to the time of their approval of this report and such statements should be treated with caution due to the inherent uncertainties underlying such forward looking statements.

Signed on behalf of the Board

John Kent

Acting Chief Executive

2 July 2014

Directors' biographies

John Kent – Acting Chief Executive

John Kent was appointed to the Board as Corporate Development Director in November 2009, becoming Deputy Chief Executive in February 2012 and Acting Chief Executive in November 2013. He is a corporate development specialist with a background in government, the City and industry and he has led strategy and corporate finance/development for three FTSE 100 Groups in the energy and financial services sectors. He is currently Chairman of Penta Capital Partners, a private equity firm and has acted as corporate development consultant to companies such as Close Bros, Filtronic plc and Aga Rangemaster Group plc. He is a former non-executive director of TTT Moneycorp.

Howard Goodbourn – Finance Director

Howard Goodbourn was appointed to the Board as Group Finance Director in October 2011. He was previously Group Finance Director at Southern Water Services and Chairman of the Southern Water defined benefit pension scheme. Howard has a wealth of experience in managing finance functions having worked in senior finance and treasury roles for Eon UK, TXU, The Energy Group plc and Eastern Group plc. He has also worked in corporate finance for Deloitte and Charterhouse Bank Ltd and in corporate treasury. Howard is a Fellow of the ICAEW.

Andrew Crowe – Non-executive (non-independent)

Andrew was appointed to the Board in December 2013. He started his career with Coopers & Lybrand in 1995, moving into Transaction Services shortly after qualifying with the ICAEW in 1998. He spent the next seven years advising corporate and private equity clients on large and small transactions across diverse sectors. In 2005 he joined Meggitt plc as Group M&A Manager to support the Group's aggressive acquisition strategy, also successfully disposing of some non-core businesses. He moved into an operational finance role in 2008, as Finance Director in a number of business units in California and most recently as Divisional Finance Director for the Control Systems division. He left Meggitt in November 2013 to pursue other business interests.

Paul Milner – Non-executive (non-independent)

Paul was appointed to the Board in November 2013. Since July 2013 he has been chief executive of a privately owned group of property companies associated with the Company's principal creditor. Paul qualified as a solicitor in 1986 but has spent most of his career in the property, construction and private finance industries. In recent years he has played key roles in raising senior debt and equity finance for infrastructure projects. From 2005 to 2012 he worked in central government leading a commercial team tasked with delivery of infrastructure programmes and projects. From 2012 to June 2013 he was with UPP Group Ltd where he played a key role in the successful bond refinancing of a number of student accommodation projects.

Corporate governance statement

Introduction

The directors recognise the importance of sound corporate governance, while taking into account the Company's size and stage of development. The rules of the UK Listing Authority require listed companies to disclose how they have applied the main principles and complied with the provisions of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council in September 2012. The Code can be found at www.frc.org.uk.

The Company has undergone significant changes in the last financial year as noted in the Strategic report in this annual report. It is currently in a transitional phase and so does not comply with the Code fully. This is mainly due to the reduced size of the Board of directors. Further details are given below. It is the Board's intention that as the Company's situation becomes clearer, measures will be taken to improve compliance with the Code.

Application of main principles

The Company has applied the main principles of the Code as follows:

Leadership

Since 23 December 2013 the board has been comprised of four directors, two executive and two non-independent non-executive directors. There is currently no Board Chairman. The chairing of Board meetings is rotated between all of the directors. John Kent is the Acting Chief Executive. The division of responsibilities between the Chairman and Chief Executive is set out in writing and has been approved by the Board. Therefore when a new Chairman is appointed the roles will be clearly defined. The Chairman is responsible for managing the Board and ensuring it functions effectively while the Chief Executive is responsible for running the business within the framework of authority determined by the Board. The other executive director is Howard Goodbourn (Finance Director). Andrew Crowe and Paul Milner are both non-independent non-executive directors. Therefore since 23 December 2013 the Company has not complied with the Code provision that companies below the FTSE 350 should have at least two independent non-executive directors. Prior to that date it did comply.

Tony Brierley was the senior independent director (SID) up until 1 November 2013, when he became Chairman. As the SID, he was available for communications with investors should they have considered that they were unable to approach their normal contact at the Company. As noted above, there are currently no independent directors.

The directors have a duty to promote the success of the Company and to this end the Board has clearly defined responsibilities set out in a formal schedule of matters reserved to it which includes setting the Company's strategy; approving any major changes to the Group's structure or share capital; approving the annual report and accounts and shareholder communications; ensuring a sound system of internal controls and risk management; approving major contracts; determining the remuneration policy (on the recommendation of the remuneration committee and subject to shareholder approval); and making appointments to the Board and other offices. The Board has delegated certain functions to the audit and risk committee, remuneration committee and nominations committee. Terms of reference for these committees are available on the Company's website at www.cityoflondongroup.com.

Further details of the committees are given below.

Effectiveness

The directors

Biographical details of the directors are set out on page 11. The directors have a broad range of skills and experience. New directors receive a tailored induction programme which includes presentations by and meetings with, the heads of the Group's key business platforms; briefings on the work of the Board committees and meetings with some of the Company's advisers. All directors also receive updates on relevant legal and regulatory changes.

Board procedures

The Board meets each month. Prior to each meeting, comprehensive papers, which include regular business updates and management accounts, are prepared and issued. Discussion papers are issued in advance of the need for Board approval to allow sufficient time for considered debate and decision. All significant decisions are taken at Board level. Additional board meetings are convened between the scheduled meetings if required.

There is an agreed procedure for directors to take independent professional advice if necessary at the Company's expense. This is in addition to them having access to advice from the company secretary. Concerns relating to the executive management of the Company or the performance of the non-executive directors can be raised with the Board Chairman, or the SID, when these are in place.

A register of directors' interests (including any actual or potential conflicts of interest) is maintained and reviewed regularly to ensure all details are kept up to date. Directors' declarations of interest is a regular Board agenda item. Authorisation is sought prior to a director taking on a new appointment or if any new conflicts or potential conflicts arise.

Performance evaluation

The Board evaluates its own performance and that of its committees and individual directors. Because of the changes at the Company, there was no such performance evaluation during the year.

All directors will retire and stand for re-election at the AGM. Details of the service contracts of the executive directors are provided in the Directors' Remuneration report. The non-executive directors have letters of appointment, which are not service contracts and which can be made available on request. The Board confirms that each of the directors to be proposed for re-election at the AGM continues to demonstrate the necessary commitment and to be a fully effective member of the Board.

Audit and risk committee report

Composition and terms of reference

Until 23 December 2013, the committee comprised the independent non-executive directors. Since then, Andrew Crowe and Paul Milner have been members of the committee. The committee is chaired by Andrew Crowe, who has recent and relevant financial experience.

Financial results

The committee reviews the full and half year financial results before they are considered by the Board for release to the market, including the going concern statement and the information to support it. The committee is responsible for considering and reporting on any significant risks that arise in relation to the audit of the financial statements and considered the following significant risks that it had identified with the auditors:

- Recognition of revenue (interest income), where there is a risk that revenue may be overstated. Testing confirmed income had been recognised in the correct accounting period.
- Going concern, where there are risk factors around the cash flow forecasts and the Group has taken action to preserve liquidity and finance.
- Accounting for TFPL's new extended bank facility with Macquarie, which could significantly affect the income statement. The accounting treatment, determined by IAS 39 requirements, requires management to estimate net future cash flows, with the risks that such estimates are materially mis-stated and, accordingly, the incorrect accounting treatment may be adopted.
- Valuation of investments in litigation cases, where the valuation is heavily dependent on management judgement and this judgement may have a material impact on the carrying value
- Impairment of carrying value in subsidiaries and associates, including equity and loans provided, which would reduce the net asset value of the Company and Group. The review of future projections and cash flow forecasts concluded that no provisions for impairment were required.

These were discussed with the auditors at the audit and risk committee.

Internal controls and risk management

During the year, the committee reviewed the effectiveness of the Group's internal control environment, including the procedures and controls within the business platforms, through presentations by the heads of those businesses and discussions with them. Consideration was given to cash management controls during the year. These were found to be satisfactory, however, the committee suggested some ways in which they could be further improved.

The committee regularly discusses the risk register which is updated as necessary to reflect changing circumstances. The Board as a whole also considers risk on a regular basis, both in terms of overall risks facing the Group as well as specific risks relating to the individual businesses and proposed transactions.

External auditors

The committee considers the scope and findings of the external audit as well as the independence and objectivity of the external auditors. The committee has agreed the policy for the provision of non-audit services by the auditors. The committee does not regard the non-audit fees, compared to the audit fees, as being at a level that could influence the auditors' objectivity. The split between audit and non-audit fees for the year under review appears in note 6 on page 54. The committee noted that non-audit fees were greater than audit fees for the year to 31 March 2014, for which relevant safeguards were put in place by the auditors and committee.

The audit and risk committee normally meets with the external auditors without management being present, at least once a year at the time of the approval of the full year results. BDO were appointed auditors in the year to 31 March 2013 after a tender process.

Corporate governance statement continued

Internal audit

The audit and risk committee, having reviewed the need for internal audit, had previously recommended that this be carried out. However, due to the pressing needs of the business during the year, this was not progressed. The issue will be considered again in due course. Some review work was done internally on client asset management and cash controls in each of the platform businesses. These were the areas which had been planned for the first year's internal audit review.

Board review of internal controls and risk management

The Board confirms that it has procedures in place implementing the FRC guidance on internal controls. There is an ongoing process, which is kept under regular review by the Board, for identifying, evaluating and managing, rather than eliminating, the significant risks faced by the Group. The Board believes that the Group's system of internal controls outlined below, continues to be sufficient for the business.

The directors acknowledge their responsibility for the Group's system of internal and financial controls, including suitable monitoring procedures, in order to provide reasonable, but not absolute, assurance of the maintenance of proper accounting records and the reliability of the financial information used within the business. The Board has reviewed the effectiveness of the system of internal financial controls which operated during the period covered by this directors' report and accounts.

The key controls are:

- Clearly defined organisational responsibilities and limits of authority.
- Established procedures for authorisation of capital expenditure and investment of cash resources.
- Production of monthly management accounts which are compared to budget, and regular reporting of key information to the Board including the monitoring of performance of investments.
- The maintenance of a detailed risk register which includes analysis of all of the key risks facing the Group. This is reviewed by both the audit and risk committee and the full Board.

The respective responsibilities of the directors and the auditors in connection with the financial statements are explained on pages 77 to 80. The directors' statement on going concern is on page 10.

Remuneration committee

The role, composition and activities of the remuneration committee and details of how the Company applies the principles of the Code in respect of directors' remuneration are set out in the Directors' Remuneration report on pages 16 to 27.

No director is involved in discussions or decisions on their own remuneration. The remuneration committee, which determines the remuneration packages of the executive directors, was made up of the independent non-executive directors – John Williams (Committee Chairman), Tony Brierley and Nigel Sidebottom and the Chairman of the Board, Henry Lafferty until those directors resigned in 2013. The remuneration committee has not needed to meet since then, however Andrew Crowe and Paul Milner have been appointed as members of the remuneration committee.

Remuneration of non-executive directors is determined by the Board. Non-executive directors abstain from discussions or voting concerning their own remuneration. A statement of the Company's remuneration policy together with details of directors' remuneration appears in the Directors' Remuneration report. In the current transition, the committee will be made up of the non-independent non-executive directors until such time as new independent non-executive directors are appointed to the Board.

Nominations committee

The nominations committee comprises the full Board. The committee considers matters such as Board and director effectiveness and succession planning. The committee did not meet during the year.

Attendance at meetings

Directors' attendance at Board and committee meetings during the year is summarised in the table below.

	Board		Audit & Risk committee		Remuneration committee	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
A Crowe (a)	7	7	–	–	–	–
H Goodbourn	30	34	–	–	–	–
J Kent	32	34	–	–	–	–
P Milner (b)	11	13	–	–	–	–
E Anstee	19	21	–	–	–	–
A Brierley	19	21	6	6	9	9
J Greenhalgh	0	8	–	–	–	–
H Lafferty	14	16	6	6	5	6
N Sidebottom	22	26	6	6	9	9
J Williams	23	27	6	6	9	9

(a) Appointed 23 December 2013

(b) Appointed 29 November 2013

Relations with Shareholders

The annual report is sent to all shareholders and, on request, to other parties who have an interest in the Group's performance. The Company endeavours to send the notice of AGM and supporting papers to shareholders at least 20 working days before the meeting and responds promptly to any enquiries received from shareholders. All shareholders have the opportunity to put forward questions at the Company's AGM. Dialogue is maintained with major investors and their views are communicated to the Board.

Compliance with the Code provisions

As noted above, due to the changes in Board composition during the year there are several areas of non-compliance with the Code as follows:

There are currently no independent non-executive directors. There is no Chairman and no SID. The committees are made up of either all of the directors or the non-independent non-executive directors, as set out above. There has been no board evaluation or individual director performance review during the year. The individual training and development needs of each director have not been reviewed.

L E Young

Company Secretary

2 July 2014

Directors' Remuneration report

Introduction

This report has been prepared in accordance with Schedule 8 (Quoted Companies: Directors' Remuneration Report) to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"). This is the first time the Company has prepared the report in accordance with the amended Regulations. The report is split into three main areas: the statement by the remuneration committee, the annual report on remuneration and the policy report.

The policy report will be subject to a binding shareholder vote at the 2014 AGM and the policy will take effect from 1 October 2014. The annual report on remuneration provides details on remuneration in the period and some other information required by the Regulations. The report will be subject to an advisory vote at the 2014 AGM.

The auditors are required to report on the auditable part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The parts of this report that are subject to audit are indicated in this report. The statement by the remuneration committee and the policy report are not subject to audit.

Annual statement from the remuneration committee

The information in this part of the Directors' Remuneration report is not subject to audit.

City of London Group plc experienced a rapid period of change during the last year. Over this year, as in previous years, remuneration of directors continued to be tied closely to the overall performance of the Group. On behalf of the Board, I wish to assure shareholders that the Company will continue to follow its existing principles on remuneration. It is the intention to maintain the existing remuneration policy for directors, until such time as it becomes appropriate to realign it with the focus of the business. The existing remuneration policy will therefore be put to a vote at the AGM in September 2014. The third section of this report sets out the current policy with some additional information as required by the regulations.

During the year changes were made to the remuneration structure with the introduction of a bonus plan and amendments to the deferred incentive plan. Major shareholders were consulted about these changes and shareholders approved the incentive plan amendments at the AGM in 2013.

No bonus payments were made during the year and no awards vested under the deferred incentive plan.

On behalf of the Board, I would like to thank shareholders for their continued support.

Andrew Crowe

Non-executive director

2 July 2014

Annual Report on Remuneration

Remuneration committee

The remuneration committee is responsible for developing policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors. The committee members during the year (until their resignations as directors) were John Williams (Committee Chairman), Tony Brierley, Henry Lafferty and Nigel Sidebottom. The remuneration committee is formally constituted with written terms of reference which set out its full remit. A copy of the terms of reference is available on the Company's website www.cityoflondongroup.com. The remuneration committee met nine times during the year.

The remuneration committee is only involved in setting pay for the executive directors and senior managers of the Company, however it is aware of pay and conditions for other staff in the Company and for the senior managers in the business platforms when making these decisions.

Responsibility for the remuneration policy of subsidiaries is devolved to local management.

The current committee members are Andrew Crowe and Paul Milner both of whom are non-independent, non-executive directors. The committee has not met since these directors were appointed.

The committee was advised during the year by Meis. Fees of £12,000 were paid to them by the Company for the work carried out. This firm has no other connection with the Company.

During the year the committee made awards to the executive directors under the deferred incentive plan. Details of these awards are set out below.

Remuneration policy overview

The remuneration committee has adopted a remuneration policy so that total levels of compensation encourage and reward high performance and attract and retain individuals of the right calibre to ensure the Company meets its objectives. It is the opinion of the remuneration committee that shareholders' interests are best served by focusing a greater proportion of total remuneration on performance-related compensation.

Short and long-term incentives are structured so as to align directors' interests with those of shareholders by rewarding them for enhancing shareholder value, over a benchmark return for shareholders. During the year the remuneration committee has reviewed the structure of executive remuneration and changes were outlined in this report last year. It is the current intention of the Company to maintain this revised policy on directors' remuneration.

Base salary

The remuneration committee's policy for senior management is to set base salaries at lower quartile levels. Salaries are reviewed annually. When determining the salary of the executive directors, the remuneration committee takes into consideration the levels of base salary for similar positions with comparable status, responsibility and skills, in organisations of broadly similar size and complexity. These factors are considered in parallel with the following:

- The management's long term incentive scheme
- The individual executive director's experience and responsibilities: and
- Pay and conditions throughout the Group

Annual performance-related bonus

As detailed in the remuneration committee's report last year, an annual bonus plan was introduced during the year. The plan allows for a maximum potential of 75% of base salary and the performance criteria will be based on the delivery of financial and non-financial performance criteria including the growth of the platforms in terms of revenue, earnings and customers, development of the management team and succession planning. The plan did not operate during the year.

Deferred incentive plan

This plan was adopted in February 2010 and amendments to it were approved at last year's AGM. It is used to provide cash and equity incentives over ordinary shares of 10 pence each in the capital of the Company. This plan is available to the executive directors and certain senior employees to provide a remuneration package that over time best aligns the interests of executives with those of the Company's shareholders.

Allocations are made to participants in the incentive plan from a bonus pool. For awards made before 2013, the value of the bonus pool depended on a minimum annual growth in the Company's net asset value (NAV) or total shareholder return (TSR). The bonus pool in respect of each financial year is calculated as 20% of the higher of the NAV or TSR growth during this financial year, which exceeds 8% a year. Any bonus due from the pool is paid as one-third in cash immediately, one-third after 12 months and the final third after 24 months. The second and third payments are made in the form of shares and there is a clawback provision. These deferred payments are settled by an option over the equivalent number of ordinary shares held in an Employee Benefit Trust (EBT) granted following the full year results' announcement, based on the average of the closing share prices for the three consecutive dealing days immediately following the announcement.

Directors' Remuneration report continued

Any deferred award will vest in two equal instalments. The first will be at the end of the first anniversary of the grant and the remainder on the second anniversary of the grant, provided that the remuneration committee is satisfied that the NAV or TSR of the Company achieved at the end of the financial period relevant to the bonus pool has been sustained over the following financial year(s) comprised in the calculation and that employment conditions are fulfilled to the date of vesting.

For each of the financial years ended 31 March 2014 and 31 March 2013 there was no available bonus pool as neither TSR nor NAV grew by more than 8% per annum over the previous year.

Amended deferred incentive plan

Following the amendments to the plan which were approved at the 2013 AGM, the value of the bonus pool will be calculated by reference to the increase in TSR over the performance period, which has been increased from one year to three years for new awards. For the purpose of calculating TSR, the share price is averaged over the three months prior to the start and end of the performance period. The start of each performance period will be the start of a financial year. The pool value will be 20% of the value over and above a threshold return of the base lending rate plus 5% per annum.

Participants will be awarded a number of points which will give them an entitlement to a percentage of any bonus pool. That amount will then be converted into shares.

A new limit on the value of benefits that may be received by an individual under the plan has been introduced. This limits the total benefit to any individual under the plan during the plan life to 10 times average salary.

The committee may take such steps as it considers appropriate to reduce the number of points which are the subject of an award (to nil if appropriate) and/or impose further conditions on the award in certain circumstances such as a material misstatement of the Company's audited financial results; a serious failure of risk management by the Company, any Group member or a relevant business unit; or reputational damage to the Company, any Group member or a relevant business unit as a result of the participant's misconduct or otherwise.

In accordance with IFRS 2, the fair value of the share options awarded in respect of the deferred element of the original plan will be spread over the period to which the non-market performance conditions, being continued employment with the Company, apply.

The Company was advised by Norton Rose LLP on the design of the original incentive scheme and by Meis on the 2013 amendments.

Share option schemes

Fixed price options

Fixed price options have been awarded to executive directors and senior managers. Details of awards to directors are given in the table on page 20.

The information provided in the following part of the Directors' Remuneration report is subject to audit.

Single total figure of remuneration for each director

Directors' remuneration as a single figure for years ended 31 March 2013 and 2014.

Executive directors

					Former Director	
	John Kent		Howard Goodbourn		Eric Anstee	
	2014 £	2013 £	2014 £	2013 £	2014 £	2013 £
Salary	153,375	137,319	138,038	126,250	112,062	150,648
All taxable benefits	1,178	–	2,064	224	1,811	468
Annual bonus / short term incentives	–	–	–	–	–	–
LTIPs	–	25,012	–	–	–	34,044
Pension	–	–	3,793	4,537	–	–
Total	154,553	162,331	143,895	131,011	113,873	185,160

Note: The amount shown for Eric Anstee for the year ending 31 March 2014 is the total received up to his leaving date of 28 November 2013. The benefits comprise health cover which began in February 2013.

Fees
John Kent is Chairman of Penta Capital Partners. He retains the fees of £16,250 pa payable in relation to this appointment.

Non-executive directors

	Year ended 31 March 2014 £	Year ended 31 March 2013 £
Current Directors		
Andrew Crowe	6,875	N/A
Paul Milner	9,167	N/A
Past Directors		
Anthony Brierley	21,667	31,875
John Greenhalgh	7,490	26,169
Henry Lafferty	52,250	61,875
Nigel Sidebottom	20,625	9,167
John Williams	24,375	31,875

Paul Milner and Andrew Crowe were appointed during the year, accordingly there is no comparative figure for 2013.

Nigel Sidebottom was appointed on 1 December 2012.

For each of the past directors, the remuneration in the 2014 column is shown up to the date their appointments ceased.

Deferred incentive scheme interests awarded during the financial year
Conditional equity – to vest in future years, subject to performance.

Performance awards are made to executive directors, with vesting after three years dependent upon performance during the period. The key measure for performance is Total Shareholder Return (TSR). If performance exceeds the threshold of 5% over the bank base rate, then 20% of that increase will be added to the bonus pool. Once the threshold performance is achieved then the vesting commences and increases based upon the increase in the value of total shareholder return delivered to shareholders.

					Former director	
Director	**John Kent**		**Howard Goodbourn**		**Eric Anstee**	
Performance period	2012 to 2015	2013 to 2016	2012 to 2015	2013 to 2016	2012 to 2015	2013 to 2016
Face value	38 points	38 points	25 points	25 points	49 points	49 points
% of award vesting for minimum performance	At minimum performance of an increase in the return to shareholders of 5% above base rate, because of the nature of the plan, there will be full vesting of the award but there will be no benefit. Only to the extent that the return exceeds the threshold will there be value created for participants which will be 20% of the excess which will then form the bonus pool for distribution to the participants.					
Length of vesting period	3 years	3 years	3 years	3 years	3 years	3 years

Notes:
As the annual and deferred incentive plan was amended and approved by shareholders at the AGM in 2013, no awards were made before that date.

The awards made to Eric Anstee lapsed when he left the Company.

Based on the current share price, these awards would not vest.

Governance

Directors' Remuneration report continued

Payments to past directors

On the termination of his contract with the Company, Eric Anstee was entitled to receive one year's salary in lieu of notice, amounting to £169,950 together with taxable benefits of £3,061. Provision for the total cost has been included in the accounts for the year ended 31 March 2014 although the payments are being made over a 12 month period to November 2014. The amount he received during the year in respect of these payments was £56,650 together with taxable benefits of £974.

Payments for loss of office

Eric Anstee received a payment of £30,000 as compensation for loss of office.

Statement of directors' share interests

The directors' interests in the ordinary share capital of the Company are set out below. There is no requirement for the directors to hold shares in the Company.

	At 1 April 2013 (or date of appointment if later)	At 31 March 2014	At 2 July 2014
A Crowe*	69,030	69,030	69,030
H Goodbourn	54,285	54,285	54,285
J Kent	233,275	233,275	233,275
P Milner	20,000	20,000	20,000
Former directors		**At date of resignation**	
E Anstee	483,761	483,761	
A Brierley	14,285	14,285	
J Greenhalgh*	2,662,818	2,662,818	
H Lafferty	94,405	94,405	
N Sidebottom	75,000	75,000	
J Williams	14,285	14,285	

* A Crowe is executor and one of the beneficiaries of John Greenhalgh's estate.

Shares held by EBT

426,996 shares were held by the Employee Benefit Trust at 31 March 2014 (2013: 426,996).

Share options

The directors' interests in fixed price share options are as follows:

	Date of Grant	At 01/04/2013	Granted in year	Exercised in year	At 31/03/2014	Exercisable from	Exercisable to	Exercise price
E Anstee *	11/02/2010	100,000	–	–	100,000	11/11/2012	11/11/2019	55.8p
H Goodbourn	30/11/2011	143,267	–	–	143,267	30/11/2014	30/11/2021	69.8p
J Kent	11/02/2010	70,000	–	–	70,000	11/11/2012	11/11/2019	55.8p

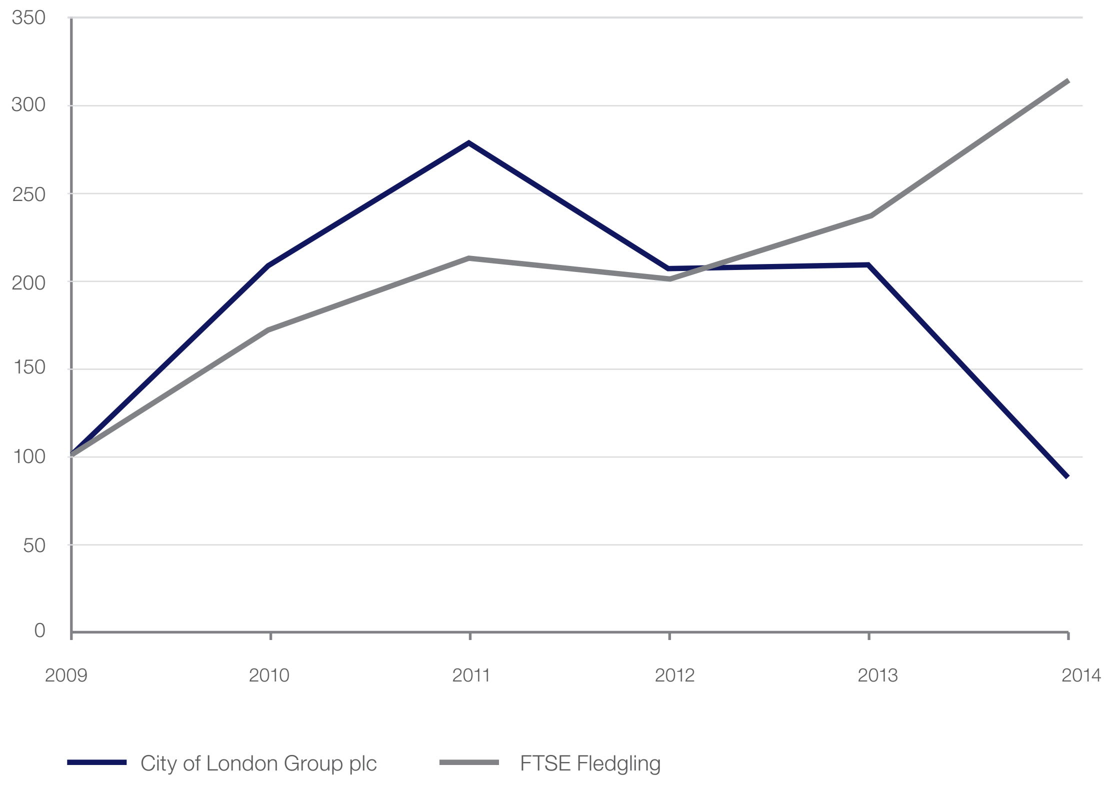
* Eric Anstee's options lapsed on 28 May 2014.

The market price of the Company's ordinary shares on 31 March 2014 was 28.0p (2013: 67.5p) and the average price for the year was 55.2p. During the year the highest price reached was 71.5p and the lowest was 26.0p.

Performance graph

The performance graph below shows the total shareholder return delivered by the Group over the five years ended 31 March 2014, in comparison to the total shareholder return delivered by the FTSE Fledgling Index. The Board selected the FTSE Fledgling Index to take into account both the size of the Group and the range of operating activities and investments over the period.

Total return graph 2009 to 2014 indexed to 100



History of CEO remuneration

Year to 31/03	CEO	Total remuneration (£)	Annual bonus payout against maximum opportunity %	Long term incentive vesting rates against maximum opportunity %
2014	John Kent (from 29/11/13)	51,826	Nil	Nil
	Eric Anstee (to 28/11/13)	113,873	Nil	Nil
2013	Eric Anstee	185,160	N/A	N/A
2012	Eric Anstee	146,335	N/A	N/A
2011	Eric Anstee	175,626	N/A	N/A
2010	Eric Anstee	125,098	N/A	N/A

In the years up to 2013 there was no annual bonus plan but an annual and deferred long term incentive plan.

It is not possible to provide a % vesting for the long term incentive plan because of the nature of that plan.

Directors' Remuneration report continued

Percentage change in remuneration of director undertaking the role of CEO

Comparing year ended 31 March 2014 to the year ended 31 March 2013	Salary	Benefits	Bonus
% Change in CEO remuneration	(11.4)%	356.6%	N/A
% Change in comparator group remuneration	33.5%	N/A	N/A

Benefits relate to health care cover and were receivable for only 2 months in the year to 31 March 2013 (2013/14: £2,137; 2012/13: £468).

Relative importance of spend on pay

Key expenditure areas	Year ended 31 March 2014 (£)	Year ended 31 March 2013 (£)	% change
Remuneration paid to all employees	3,551,000	2,538,000	39.9%
Distributions to shareholders (total)			
• Dividends	–	155,000	(100)%
• Buybacks	–	–	–

Statement of implementation of remuneration policy in the current year

This is the first year of implementation of the regulations on approval of the directors' remuneration policy. As set out in the policy section of this report it is intended that the existing policy will continue to have effect after the 2014 AGM. Details of the existing policy are given above under 'Remuneration policy overview.'

Statement of voting at general meeting

The shareholder vote from the 2013 AGM on the remuneration report is shown below.

Year	% vote for	% vote against	Votes withheld
2013	99.91	0.09	0

Service contracts

Details of executive directors' service contracts are shown below. The executive directors' service contracts are available for inspection at the Company's registered office during business hours.

Director	Date of contract	Unexpired term	Notice period	Compensation payable on early termination
H Goodbourn	October 2011	3 months	2 weeks	contractual
J Kent	December 2010	3 months	1 month	contractual

From 1 July 2014 the following provisions have been made, via deeds of variation, to amend the service contracts for both H Goodbourn and J Kent:

- From 1 July the hours of work have decreased to 2 days per week in aggregate over any 4 week period with a corresponding salary reduction.
- The period from 1 July 2014 to 30 September 2014 shall be a fixed period of employment during which notice may not be given by either party. This shall not prevent the Company from lawfully exercising its right to terminate the employment of either director by summary notice in the circumstances specified in the service contract.
- With effect from 1 October 2014 the employment of both directors will continue unless and until terminated by the Company giving not less than two weeks' notice in writing ('Termination'). J Kent shall give one month's notice in writing and H Goodbourn shall give two weeks' notice in writing.

- In the event of Termination, the director is entitled to receive (i) a payment of £30,000 as compensation for loss of office ('ex-gratia payment') and (ii) a set payment, representing payment in lieu of outstanding notice that would have applied prior to the deeds of variation being signed and shall include payment in lieu of any entitlement to accrued but unused statutory notice.
- The ex-gratia payment is to be accepted by the director in full and final settlement of any rights they may have against the Company in respect of the termination of employment.

The non-executive directors have letters of appointment, details of which are shown below. These are also available for inspection at the Company's registered office during business hours.

Director	Date of letter of appointment	Unexpired term	Notice period	Compensation payable on early termination
A Crowe	December 2013	30 months	1 month	None
P Milner	December 2013	See note below	1 month	None

Paul Milner's appointment is expected to continue until the repayment of certain loans made to the Company.

Policy Report

The information provided in this part of the Directors' Remuneration report is not subject to audit.

It is intended to maintain the existing remuneration policy for the Company. In line with the Regulations, further information about the policy is set out in the following part of the report.

Remuneration Policy

The total remuneration for each executive director comprises:

Salary + Benefits + Annual Bonus + Long Term Incentives + Pension = Total Remuneration

The remuneration committee may, in specific circumstances, and in line with stated principles, apply clawback which it determines is appropriate.

Future Policy Table

The Company's remuneration policy from 1 October 2014 in respect of each of the above elements is outlined in the table below:

Salary	
Purpose and link to strategy	
Operation	Base salaries are set at lower quartile levels. Salaries are reviewed annually. When determining the salary of executive directors, the remuneration committee takes into consideration the levels of base salary for similar positions with comparable status, responsibility and skills.
Opportunity	There is no formal maximum limit, however increases will be broadly in line with average increases for the Group's workforce. There may be increases if the role were to change, or to reflect the individual's responsibilities and experience.
Performance measures	The overall performance of the individual is a key consideration when determining salary increases.

Benefits	
Purpose and link to strategy	Levels are set to recruit and retain high calibre individuals to execute the business strategy.
Operation	Health insurance cover is provided.

Directors' Remuneration report continued

Opportunity	Pension and benefits shall not exceed 10% of base pay, however, it is not anticipated that the current level of benefits will change in the foreseeable future.
Performance measures	N/A

Annual bonus

Purpose and link to strategy	The purpose is to incentivize the executive directors to achieve the delivery of short term performance and goals.
Operation	Remuneration committee sets the targets for the year and judges whether they have been achieved.
Opportunity	The plan allows for a maximum potential of 75% of base salary.
Performance measures	Performance criteria are based on the delivery of financial and non-financial criteria including the growth of the platforms in terms of revenue, earnings and customers, development of the management team and succession planning.

Long term incentives

Purpose and link to strategy	Long term incentives are available to executive directors and certain senior employees to provide a remuneration package that over time best aligns the interests of executives with those of the Company's shareholders.
Operation	Based on delivery of long term shareholder value, measured in relation to TSR improvement.
Opportunity	There is a threshold level set in the plan rules, and an award if this is exceeded. There is a maximum level of awards over the life of the plan of 10 times average salary.
Performance measures	Based on TSR.

Pension

Purpose and link to strategy	Levels are set to recruit and retain high calibre individuals to execute the business strategy.
Operation	Contributions are made to the Company's pension plan.
Opportunity	It is not anticipated that these arrangements will change in the foreseeable future.
Performance measures	N/A

Clawback and Malus

The deferred incentive plan rules allow for the remuneration committee to determine in its absolute discretion if any events as stated in the rules (eg material misstatement of the Company's financial results, an error in determining the extent to which any performance condition has been satisfied, the discovery by the committee that the participant has engaged in misconduct), have occurred and if so whether all or any of the award will be reduced or cancelled or the performance conditions amended. The committee, in its discretion, may apply a different treatment under this rule for different participants.

Approach to Recruitment Remuneration

The committee determines the remuneration package of new executive directors on a case by case basis, depending on the role and their experience. Total remuneration levels will be set by reference to a relevant pay comparator group and, where appropriate, will allow for future development in the role.

It is expected that new executive directors will participate in short and long term incentive plans on the same basis and subject to the same limits as indicated in the policy. Other benefits will be provided in line with the policy for existing executive directors. Pension arrangements will also be decided on a case by case basis but would not exceed 10% of base pay. The committee may make additional awards on appointing an executive director to 'buy-out' remuneration arrangements forfeited on leaving a previous employer. Any such payments would be structured so as to reflect both the amount, timing and performance criteria (as far as practical) of the award from the former employer. Such buy-out awards will be made under the existing incentive arrangements as far as possible, although buyout awards may also be granted outside of the scheme and as permitted under the Listing Rules.

The remuneration arrangements for any newly appointed executive director will be disclosed as soon as practicable after the appointment.

Chairman

Fees will be set at a level based on the size and complexity of the Company.

Non-executive directors

Fee levels for new non-executive directors will be set on the same basis as for existing non-executive directors of the Company.

In the event of a non-executive director with a different role and responsibilities being appointed, fee levels will be benchmarked and set by reference to comparable roles in companies of equivalent size and complexity.

Loss of office payment policy

Policy	
Duration of contracts	The contracts for each of the executive directors are normally set as a 12 month rolling contract. Details on existing contracts for executive directors are set out on page 22.
Notice period	Notice period on termination by the employing company or executive director is normally 6 calendar months.

Termination of employment

In the event that an executive director's employment with the Company terminates, the following policies and payments will apply.

Element of remuneration	Loss of office payment policy
Termination payment	The Company reserves the right in its absolute discretion to give executive directors pay in lieu of all or any part of the notice of termination (whether given by the Company or the executive director). A dismissal without notice shall not constitute or imply that this will automatically apply.
Benefits	Pay in lieu of notice will exclude any benefits for the relevant period of notice.
Annual bonus	The executive director shall not be entitled to receive a bonus if on the date the bonus is declared he is no longer employed, or is under notice.
Long term incentive plan	By participating in any share scheme an executive director waives all and any rights to compensation or damages in consequence of the termination of his office or employment with any Group Company for any reason whatsoever (whether lawful or unlawful); insofar as those rights arise or may arise from him losing, or failing to receive, any rights or benefits under the scheme or from the loss or diminution in value of such rights or benefits as a result of such termination.

Note on termination by mutual agreement: In certain circumstances it can be in the best interests of the Company for the Board to manage succession planning proactively. In such circumstances, the Board may therefore agree that an executive's departure will be by mutual agreement.

Directors' Remuneration report continued

The committee does not anticipate the exercise of discretion provided by the deferred incentive plan rules in respect of termination payments. However, there may be unforeseen circumstances where this is in the best interests of the Company and its shareholders. Where it is necessary to exercise discretion, explanations will be provided.

Where an executive director leaves the Company, the committee will carry out an assessment of the individual's performance and conduct over their time in the role. If it is determined that the individual's performance or conduct was contrary to the legitimate expectations of the Company, the committee reserves the right to apply appropriate mechanisms such as clawback or reduction or lapsing of outstanding incentive awards ('malus') to ensure that any termination payments are in the best interests of the Company and its shareholders.

Service contracts

Details of current service contracts and letters of appointment for non-executive directors are set out in the report on remuneration on pages 22 and 23.

Differences between remuneration policy for executive directors and other employees

When setting remuneration levels for the executive directors, the committee considers the prevailing market conditions, the competitive environment (through comparison with the remuneration of executives at companies of similar size and complexity) and the positioning of pay across the broader Company workforce.

The remuneration offered to executive directors under this policy has a stronger emphasis on performance related pay than that offered to other employees in the Group.

Non-executive directors

Element	Purpose and link to strategy	Overview
Chairman's fee	To provide an inclusive flat rate fee that is appropriate for the size and complexity of the Company.	There is no formal maximum, fees are reviewed annually and set by reference to a review of the Chairman's performance and independently sourced market data. The remuneration committee is responsible for evaluating and making recommendations to the Board on the fees payable to the Chairman. The Chairman does not participate in discussions in respect of his fees.
Basic fee		There is no formal maximum, however, fees are reviewed annually and set by reference to independently sourced market data. The Chairman and CEO are responsible for evaluating and making recommendations to the Board on the fees payable to the Company's non-executive directors.
Supplemental Fees	To provide additional compensation for non-executive directors (excluding the Chairman) taking on additional Board responsibilities.	There are currently no additional fees payable for chairing committees.
Letter of Appointment	Non-executive directors' and the Chairman's terms of engagement are set out in letters of appointment and details are given on page 23.	Non-executive directors will be subject to annual election or re-election and will normally serve no longer than nine years from the date of first election by shareholders at a general meeting. The Chairman will be subject to annual appointment by shareholders and may serve longer than nine years from the date of first election by shareholders at general meeting.

Statement of consideration of shareholder views

Prior to the 2013 AGM when formulating changes to the annual and long term incentive plan there were a series of discussions held with investors and the Chairman of the remuneration committee in order to communicate the proposed amendments and to seek feedback on them. The amendments to the plan were approved by over 99% of shareholders.

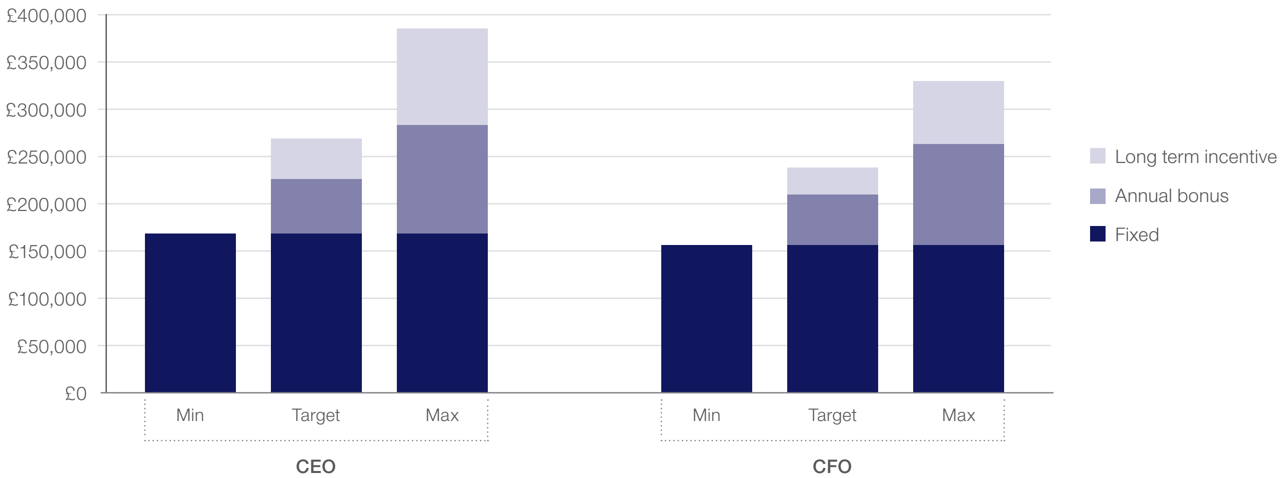
The Board and remuneration committee remain committed to engaging with investors on matters of remuneration.

Scenarios for future total remuneration

The charts below provide illustrations of the future total remuneration for each of the executive directors in respect of the remuneration opportunity granted to each of them in 2014 under the policy. A range of potential outcomes is provided for each executive director and the underlying assumptions are set out below.

All scenarios:

- Base salary of £153,000 has been used for the CEO and £142,000 for the CFO.
- Benefits and pension figures are assumed as 10% of base pay, being the maximum under the policy.
- Annual bonus is assumed to be 0% at the minimum, 37.5% of base pay for target performance and 75% of base for maximum performance.
- Long term incentive is based on the assumption that at minimum there is no value, for on target performance there is annual growth in TSR of 10% and at the maximum growth of 15%.



The graphs have been produced on the full-time equivalent remuneration figures for the executive directors.

The Directors' Remuneration report has been approved by the Board of Directors and signed on its behalf by

Andrew Crowe

Non-executive director

2 July 2014

Directors' report

This is the Directors' report for the year to 31 March 2014.

Results and dividends

The results for the Group are set out on page 32. No dividends were declared during the year (2013: interim dividend of 0.33p per ordinary share).

Events since the year end

There have been no significant events since the year-end.

Investment policy

The Company is an investment company for the purposes of chapter 15 of the Listing Rules. Since 2009 the focus has been on establishing specialist businesses targeting the professional services and SME sectors. The Board believes there are particular opportunities in these sectors.

As the directors believe that, on occasion, it may be more cost effective to raise debt funding at holding company level, even though the use of the debt funding may be targeted at particular platforms or asset categories, the Company's investment policy has been changed to increase the borrowing limit to 100% of total gross assets.

Regulation

City of London Financial Services Limited, a subsidiary of the Company, is authorised and regulated by the Financial Conduct Authority under the Financial Services and Markets Act 2000 (as amended).

Directors and their interests

Details of directors who served during the year are as follows:

A Crowe (alternate to J Greenhalgh from 2 April 2013 to 22 July 2013 and appointed as a director on 23 December 2013)
H Goodbourn
J Kent
P Milner (appointed 29 November 2013)
E Anstee (resigned 28 November 2013)
A Brierley (resigned 28 November 2013)
J Greenhalgh (died 22 July 2013)
H Lafferty (resigned 31 October 2013)
N Sidebottom (resigned 23 December 2013)
J Williams (resigned 23 December 2013)

Biographical details of the current directors are given on page 11.

Directors' interests in the shares of the Company are shown in the Directors' Remuneration report on page 20.

Share capital

There were no changes to the issued share capital of the Company during the year. The issued share capital of the Company at the beginning and end of the financial year was 20,206,617 ordinary shares of 10p each.

At the AGM on 24 September 2013, the directors were authorised to repurchase up to 2,020,600 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 9 August 2013) until the Company's AGM in 2014 or 30 September 2014, if earlier. This authority was not exercised in the year.

Major interests in ordinary shares

Notifications of the following interests in the Company's ordinary share capital carrying voting rights have been received by the Company under the FCA's Disclosure and Transparency Rules:

	Number of ordinary shares at 31 March 2014	%	Number of ordinary shares at 2 July 2014	%
Helium Special Situations Fund	2,896,428	14.33	2,896,428	14.33
John Greenhalgh's estate*	2,662,818	13.18	2,662,818	13.18
AXA IM UK	1,506,024	7.45	1,506,024	7.45
The BL & RB Foundation	1,325,000	6.56	1,325,000	6.56
Jupiter Asset Management	1,204,819	5.96	1,204,819	5.96
Mr James Kerr	1,061,000	5.25	1,061,000	5.25
Henderson Global Investors	1,003,614	4.97	1,003,614	4.97

*Andrew Crowe is the executor and one of the beneficiaries of John Greenhalgh's estate.

Takeover Directive disclosure

The following disclosure is required under Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, introduced by the Takeover Directive.

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2014 is set out below. Holders of ordinary shares have the rights given to them under the articles of association of the Company and under the laws of England and Wales. Any share may be issued with or have attached to it such rights and restrictions as determined by ordinary resolution of the Company, or failing such resolution as the Board may decide.

The directors have the power to allot and issue new shares, subject to the provisions of the statutes and the Company's articles.

Voting

Holders of ordinary shares are entitled to attend, speak and vote at general meetings of the Company and to appoint proxies and, in the case of corporate shareholders, appoint corporate representatives to attend, speak and vote at such meetings on their behalf. On a poll, holders of ordinary shares are entitled to one vote for each share held. Holders of ordinary shares are entitled to receive the Company's annual report and accounts, to receive such dividends and other distributions as may lawfully be paid or declared on such shares and, on any liquidation of the Company, to share in the surplus assets of the Company after satisfaction of the entitlements of the holders of any other shares with preferred rights which may then be in issue.

To attend and vote at a general meeting a shareholder must be entered on the register of members at such time (not being earlier than 48 hours (which may exclude any part of a day which is not a working day) before the meeting) as stated in the notice of general meeting. There are no shares carrying special rights with regard to control of the Company. There are no restrictions placed on voting rights of fully paid shares, save where in accordance with article 13.1 of the Company's articles of association a notice has been served by the Company in respect of shares for failure to comply with statutory notices or where a transfer notice (as described below) has been served in respect of shares and has not yet been complied with.

Directors' report continued

Restrictions on share transfers

There are no restrictions on the transfer of fully paid shares in the Company, save as follows. The directors may, in their absolute discretion, decline to register a transfer of shares which are not fully paid or over which the Company has a lien. The Board may also refuse to register any transfer which is not in respect of only one class of share; which is to more than four joint holders; which is not accompanied by the certificate for the shares to which it relates and such other evidence which the Board may reasonably require to show the right of the transferor to make the transfer; which is lodged at a place other than that which the Board has determined; which is not duly stamped in circumstances where a duly stamped instrument is required; or where in accordance with section 794 of the Companies Act 2006 a notice (under section 793 of that Act) has been served by the Company on a shareholder who has then failed to give the information required within the specified time. In the latter circumstances the Company may make the relevant shares subject to certain restrictions (including in respect of the ability to exercise voting rights, to transfer the shares validly and, except in the case of a liquidation, to receive the payment of sums due from the Company).

Shares may not be transferred to a minor; a bankrupt or (in certain circumstances) a person who is or may be suffering from mental disorder.

The Company is not aware of any agreements between holders of its securities that may restrict the transfer of shares or exercise of voting rights.

Appointment and re-election of directors

In accordance with best practice under the UK corporate governance code, non-executive directors are normally appointed for an initial period of three years. Before the third and sixth anniversaries of a non-executive director's first appointment, the Chairman and the nomination committee will consider, with the director, whether it is appropriate for them to remain in office for a further three year term. All directors offer themselves for re-election at each annual general meeting.

The Company's articles of association provide that:

(a) the minimum number of directors (other than alternate directors) is two and there is no maximum number (unless otherwise determined by the Company by ordinary resolution);

(b) Directors may be appointed by ordinary resolution of the Company's shareholders in general meeting or by the Board;

(c) Directors due to retire by rotation at an AGM may offer themselves for re-election by shareholders.

Any director who has been appointed by the Board since the preceding AGM is required to retire and be reappointed by the members. In addition, each year any director who has not been appointed or reappointed at one of the two preceding AGMs is required to retire by rotation and offer themselves for re-election.

(d) Directors may resign from office. Shareholders have the power to remove any director by ordinary resolution of which special notice has been given under section 312 of the Companies Act 2006. The office of director may also be vacated if the director becomes bankrupt or is prohibited by law from being a director; or is disqualified from acting as a director; or where the director is suffering from mental ill-health; or (if the Board so resolves) being absent from Board meetings for six consecutive months without the Board's permission; or if they are requested to resign by notice in writing from all of the other directors; or they are convicted of an indictable offence and the directors resolve that it is undesirable that they remain a director of the Company; or they are in breach of their contract of employment or engagement and it is terminated.

The Board's recommendation for the reappointment of directors is set out in the 2014 Notice of AGM.

Amendment of articles

The amendment of the Company's articles of association is governed by relevant statutes. The articles may be amended by special resolution of the shareholders in general meeting.

Agreements

The long term incentive plan would crystallise on change of control. Further details of the plan are set out in the Directors' Remuneration report.

Global greenhouse gas emissions data

Emissions from:	2014 Tonnes of CO_2e	2013 Tonnes of CO_2e
Combustion of fuel & operation of facilities	–	–
Electricity, heat, steam and cooling purchased for own use	21.37	22.27
Total emissions	21.37	22.27
Company's chosen intensity measurement:		
Emissions reported above normalised to per FTE employee (Tonnes of CO_2e / FTE)	0.52	0.53
Emissions reported above normalised to per square metre of gross internal area of our facilities (Tonnes of CO_2e / m2)	0.03	0.03
Emissions reported above normalised to per £million of revenues (Tonnes of CO_2e / £m turnover)	3.72	4.31

Directors' indemnities and insurance

The Group has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report. It also has directors' and officers' liability insurance in place.

Statement of directors' responsibilities

A statement of directors' responsibilities is set out on page 80 of this annual report and is incorporated into the Directors' report by reference.

Financial instruments

Details of the financial instruments to which the Group is a party are included in note 31 to the financial statements.

Audit information

In accordance with section 418 Companies Act 2006, each of the directors confirms that:

(i) so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware; and

(ii) they have taken all steps they ought to have taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of such information.

Auditors

BDO LLP have indicated their willingness to continue in office and a resolution proposing their reappointment as auditors will be put to members at this year's AGM.

Annual General Meeting

The 2014 annual general meeting will be held at 10.00 am on Tuesday 23 September 2014 at the offices of Addleshaw Goddard LLP, Milton Gate, 60 Chiswell Street, London EC1Y 4AG. The notice of meeting and details of the business to be transacted are contained in a separate document.

By order of the Board

L E Young

Company Secretary

2 July 2014

Consolidated income statement
for the year ended 31 March 2014

	Note	31 March 2014 £'000 Continuing operations	31 March 2014 £'000 Discontinued operations*	31 March 2013 £'000 (restated) Continuing operations	31 March 2013 £'000 (restated) Discontinued operations*
Revenue	4	2,757	2,908	2,195	2,722
Cost of sales	4	(984)	(950)	(768)	(599)
Gross profit		1,773	1,958	1,427	2,123
Administrative expenses	6				
Central loan – provision for bad debt		(507)	–	–	–
Costs of unsuccessful fund raising		(335)	–	–	–
System development costs written off		(207)	–	–	–
Other		(4,142)	(2,414)	(3,583)	(1,155)
		(5,191)	(2,414)	(3,583)	(1,155)
(Loss)/ profit on sale of investments	7	(105)	–	1,391	–
Provision for impairment of investments	7	(101)	–	(275)	–
Net loss on legal cases	7	(15)	–	(108)	–
Profit on loss of control of discontinued operations	17	–	1,791	–	–
Share of profits and losses of associates	17	(172)	–	(639)	–
Other income	8	106	219	190	134
(Loss)/profit from operations		(3,705)	1,554	(1,597)	1,102
Finance expense	10	(445)	(2,608)	(196)	(851)
(Loss)/profit before tax		(4,150)	(1,054)	(1,793)	251
Corporation tax	11	–	49	(168)	(49)
(Loss)/profit after tax		(4,150)	(1,005)	(1,961)	202
(Loss)/profit after tax from discontinued operations		(1,005)		202	
Loss for the year		(5,155)		(1,759)	
Loss for the year attributable to:					
Equity holders of the parent		(3,546)	119	(1,672)	121
Non-controlling interests		(604)	(1,124)	(289)	81
		(4,150)	(1,005)	(1,961)	202
		(1,005)		202	
Loss for the year		(5,155)		(1,759)	
Basic and diluted earnings per share attributable to equity holders of the parent:					
Continuing operations	13	(17.93p)		(8.87p)	
Discontinued operations	13	0.60p		0.64p	
Total	13	(17.33p)		(8.23p)	

* These represent the consolidated results of TFPL up to 19 March 2014 when that subsidiary became an associate. The results of TFPL from 20 March to 31 March are included in continuing operations within Share of profits and losses of associates.

Consolidated statement of comprehensive income

For the year ended 31 March 2014

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Loss for the year from continuing operations	(4,150)	(1,961)
Loss/ profit for the year from discontinued operations	(1,005)	202
Total loss for the year	(5,155)	(1,759)
Other comprehensive income/(expense) from continuing operations		
Items that will or may be reclassified to profit or loss		
'Available-for-sale' financial assets		
– Valuation gains/(losses) taken on equity investments	(308)	(501)
– Provision for impairment transferred to income statement	85	129
– Loss/ (profit) on sale transferred to income statement	115	(1,365)
– Deferred tax provision	–	159
Other comprehensive income/(expense) from continuing operations	(108)	(1,578)
Total other comprehensive income/(expense)	(108)	(1,578)
Total comprehensive income/(expense) from continuing operations	(4,258)	(3,539)
Total comprehensive income/(expense) from discontinued operations	(1,005)	202
Total comprehensive income/(expense)	(5,263)	(3,337)
Total comprehensive income/(expense) attributable to:		
Equity holders of the parent	(3,535)	(3,129)
Non-controlling interests	(1,728)	(208)
	(5,263)	(3,337)

Consolidated statement of changes in equity

	Attributable to owners of the parent company						Attributable to minority interest	Total equity
	Fair value reserve £'000	Derivative Reserve £'000	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000	£'000	£'000
At 31 March 2012 (as previously reported)	1,493	(197)	(1,237)	10,424	1,837	12,320	(1,173)	11,147
Adjustment on restatement (see note 2.3)	–	–	–	–	–	–	977	977
At 31 March 2012 (as restated)	1,493	(197)	(1,237)	10,424	1,837	12,320	(196)	12,124
'Available-for-sale' investments								
– Valuation gains/(losses) taken to equity	(501)	–	–	–	–	(501)	–	(501)
– Provision for impairment transferred to income statement	129	–	–	–	–	129	–	129
– Profit on sale transferred to income statement	(1,365)	–	–	–	–	(1,365)	–	(1,365)
– Deferred tax provision	159	–	–	–	–	159	–	159
Net income recognised directly in equity	(1,578)	–	–	–	–	(1,578)	–	(1,578)
Loss for the year (as restated)	–	–	(1,551)	–	–	(1,551)	(208)	(1,759)
Total comprehensive income	(1,578)	–	(1,551)	–	–	(3,129)	(208)	(3,337)
Value of employee services	–	–	(5)	–	–	(5)	–	(5)
Arising on business combination	–	197	–	–	–	197	193	390
Transfer to investment in associate (as restated)	–	–	–	–	–	–	9	9
Dividends paid	–	–	(155)	–	–	(155)	–	(155)
Issue of shares	–	–	–	1,042	184	1,226	–	1,226
Sale of treasury shares (see note 25)	–	–	38	–	–	38	–	38
At 31 March 2013	(85)	–	(2,910)	11,466	2,021	10,492	(202)	10,290
'Available-for-sale' investments								
– Valuation gains/(losses) taken to equity	(308)	–	–	–	–	(308)	–	(308)
– Provision for impairment transferred to income statement	85	–	–	–	–	85	–	85
– Profit on sale transferred to income statement	115	–	–	–	–	115	–	115
Net income recognised directly in equity	(108)	–	–	–	–	(108)	–	(108)
Loss for the year – continuing operations	–	–	(3,546)	–	–	(3,546)	(604)	(4,150)
Loss for the year – discontinued operations	–	–	119	–	–	119	(1,124)	(1,005)
Total comprehensive income	(108)	–	(3,427)	–	–	(3,535)	(1,728)	(5,263)
Value of employee services	–	–	40	–	–	40	–	40
Acquisition of minority interest	–	–	(215)	–	–	(215)	149	(66)
Transfer on loss of control of discontinued operations	–	–	–	–	–	–	795	795
Adjustment to share issue costs	–	–	–	31	–	31	–	31
At 31 March 2014	(193)	–	(6,512)	11,497	2,021	6,813	(986)	5,827

(i) The fair value reserve shows the movement in the fair value of the 'available-for-sale' financial assets.

Company statement of changes in equity

	Fair value reserve £'000	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000
At 31 March 2012	1,493	181	10,425	1,837	13,936
'Available-for-sale' investments					
– Valuation gains / (losses) taken to equity	(501)	–	–	–	(501)
– Transferred to provision for impairment	129	–	–	–	129
– Transferred to profit or loss on sale	(1,365)	–	–	–	(1,365)
– Deferred tax provision	159	–	–	–	159
Net income recognised directly in equity	(1,578)	–	–	–	(1,578)
Loss for the year	–	(677)	–	–	(677)
Total income and expense for the year	(1,578)	(677)	–	–	(2,255)
Value of employee services	–	(5)	–	–	(5)
Dividends paid	–	(148)	–	–	(148)
Issue of shares	–	–	1,041	184	1,225
At 31 March 2013	(85)	(649)	11,466	2,021	12,753
'Available-for-sale' investments					
– Valuation gains / (losses) taken to equity	(308)	–	–	–	(308)
– Transferred to provision for impairment	85	–	–	–	85
– Transferred to profit or loss on sale	115	–	–	–	115
Net income recognised directly in equity	(108)	–	–	–	(108)
Loss for the year	–	(3,413)	–	–	(3,413)
Total income and expense for the year	(108)	(3,413)	–	–	(3,521)
Value of employee services	–	40	–	–	40
Adjustment to share issue costs	–	–	31	–	31
At 31 March 2014	(193)	(4,022)	11,497	2,021	9,303

Consolidated balance sheet
as at 31 March 2014

	Notes	31 March 2014 £'000	31 March 2013 £'000 (restated)	31 March 2012 £'000 (restated)
Assets				
Non-current assets				
Intangible assets	14	48	688	683
Property, plant and equipment	15	100	160	106
'Available-for-sale' financial assets	16	383	1,924	5,237
Interests in associates	17	1,127	417	448
Operating investments	17	–	18	–
Investments in legal cases	18	672	694	915
Loans	19	10,147	2,648	1,172
Finance leases	19	832	1,233	1,169
Total non-current assets		13,309	7,782	9,730
Current assets				
Loans	19	2,134	4,381	3,469
Finance leases	19	1,031	1,094	542
Trade and other receivables	20	2,025	11,399	8,209
Cash and cash equivalents	21	3,783	4,437	1,812
Total current assets		8,973	21,311	14,032
Total assets		22,282	29,093	23,762
Current liabilities				
Borrowings	22	(2,274)	(10,577)	(6,072)
Trade and other payables	22	(5,112)	(5,047)	(3,286)
Total current liabilities		(7,386)	(15,624)	(9,358)
Non-current liabilities				
Borrowings	23	(9,069)	(3,179)	(2,036)
Derivative		–	–	(244)
Total non-current liabilities		(9,069)	(3,179)	(2,280)
Total liabilities		(16,455)	(18,803)	(11,638)
Net assets		5,827	10,290	12,124
Equity				
Share capital	25	2,021	2,021	1,837
Share premium		11,497	11,466	10,424
Retained earnings		(6,512)	(2,910)	(1,237)
Fair value reserve		(193)	(85)	1,493
Derivative reserve		–	–	(197)
Equity attributable to owners of the parent		6,813	10,492	12,320
Non-controlling interests	26	(986)	(202)	(196)
Total equity		5,827	10,290	12,124

The notes on pages 41 to 76 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 2 July 2014.

They were signed on its behalf by

H Goodbourn

Director

Company balance sheet
as at 31 March 2014

	Notes	31 March 2014 £'000	31 March 2013 £'000 (restated)
Assets			
Non-current assets			
Property, plant and equipment	15	97	143
'Available-for-sale' financial assets	16	383	1,924
Investment in subsidiary companies	17	3,119	3,100
Interests in associates	17	1,767	1,767
Operating investments	17	–	18
Investments in legal cases	18	672	694
Loans	19	1,010	535
Total non-current assets		7,048	8,181
Current assets			
Loans	19	222	1,180
Trade and other receivables	20	7,502	5,667
Cash and cash equivalents	21	441	26
Total current assets		8,165	6,873
Total assets		15,213	15,054
Current liabilities			
Borrowings	22	(825)	(345)
Trade and other payables	22	(2,835)	(1,956)
Total current liabilities		(3,660)	(2,301)
Non-current liabilities			
Borrowings	23	(2,250)	–
Total non-current liabilities		(2,250)	–
Net assets		9,303	12,753
Equity			
Share capital	25	2,021	2,021
Share premium		11,497	11,466
Retained earnings		(4,022)	(649)
Fair value reserve		(193)	(85)
Total equity		9,303	12,753

The notes on pages 41 to 76 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 2 July 2014.

They were signed on its behalf by

H Goodbourn

Director

Consolidated statement of cash flows
for the year ended 31 March 2014

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Cash flows from operating activities		
Loss before taxation	(5,204)	(1,542)
Adjustments for:		
Depreciation and amortisation	374	133
Share-based payments	40	(5)
Impairment of 'available-for-sale' financial assets	101	275
Profit on loss of control of discontinued operations	(1,791)	–
Loss/(profit) on disposal of investments	105	(1,391)
Loss on legal cases	15	108
Share of profits and losses of associates	172	639
Provision for central loan	325	–
Interest payable	3,053	1,047
Changes in working capital:		
(Increase) in trade and other receivables	(7,922)	(3,187)
Increase in trade and other payables	7,431	1,979
Purchase of non-current investments	(35)	(849)
Proceeds from sale of 'available-for-sale' financial assets	1,269	2,826
Proceeds from sale of investments	–	57
Leases advanced	(827)	(1,646)
Leases repaid	1,291	1,030
Loans advanced	(7,319)	(6,629)
Loans repaid	4,663	4,379
Cash used in operations	(4,259)	(2,776)
Corporation tax	–	(6)
Net cash used in operating activities	(4,259)	(2,782)
Cash flow from investing activities		
Purchase of intangible assets	(27)	(88)
Purchase of property, plant and equipment	(37)	(132)
Loss of control of subsidiary	(2,510)	–
Acquisition of minority interest in subsidiary	(66)	–
Net cash used in investing activities	(2,640)	(220)
Cash flow from financing activities		
Interest paid	(2,915)	(1,318)
Investment by non-controlling interest	–	189
Dividends paid to Company's shareholders	–	(155)
Loans drawn down	13,918	15,314
Repayment of loans	(4,408)	(8,949)
Proceeds from issue of ordinary shares	–	1,226
Sale of shares by Employee Benefit Trust	–	38
Net cash from financing activities	6,595	6,345
Net (decrease)/ increase in cash and cash equivalents	(304)	3,343
Cash and cash equivalents brought forward	4,087	744
Net cash and cash equivalents	3,783	4,087
Cash and cash equivalents	3,783	4,437
Bank overdraft	–	(350)
Net cash and cash equivalents	3,783	4,087

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Operating, investing and financing activities are categorised as follows:		
Net cash used in operating activities		
Continuing operations	3,349	546
Discontinued operations	(7,608)	(3,328)
	(4,259)	(2,782)
Net cash used in investing activities		
Continuing operations	(103)	(129)
Discontinued operations	(2,537)	(91)
	(2,640)	(220)
Net cash from financing activities		
Continuing operations	1,238	189
Discontinued operations	5,357	6,156
	6,595	6,345

Company statement of cash flows
for the year ended 31 March 2014

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Cash flows from operating activities		
Loss before taxation	(3,413)	(518)
Adjustments for:		
Depreciation	81	69
Share based payments	40	(5)
Provision for losses in subsidiaries	345	377
Impairment of 'available-for-sale' financial assets	101	275
Loss/ (profit) on disposal of investments	105	(1,393)
Loss on legal cases	15	108
Provision for central loan	325	–
Provision for amounts owed by related parties	248	–
Interest payable	247	122
Changes in working capital:		
(Increase) in trade and other receivables	(1,025)	(36)
Increase in trade and other payables	201	1,361
Purchase of non – current investments	(35)	(1,575)
Proceeds from sale of 'available-for-sale' investments	1,269	2,983
Loans advanced	(5,429)	(935)
Loans repaid	3,148	30
Net cash used in operating activities	(3,777)	863
Cash flow from investing activities		
Purchase of property, plant and equipment	(35)	(125)
Disposal of subsidiary	47	–
Acquisition of minority interest in subsidiary	(66)	–
Net cash used in investing activities	(54)	(125)
Cash flow from financing activities		
Interest paid	(167)	(118)
Dividends paid	–	(148)
Loans drawn down	5,350	–
Loans and notes repaid	(592)	(1,000)
Shares issued	–	1,225
Net cash from financing activities	4,591	(41)
Net increase in cash and cash equivalents	760	697
Cash and cash equivalents brought forward	(319)	(1,016)
Net cash and cash equivalents	441	(319)
Cash and cash equivalents	441	26
Bank overdraft	–	(345)
Net cash and cash equivalents	441	(319)

Notes to the financial statements

1 General information

City of London Group plc is a Company incorporated in the United Kingdom under the Companies Act 2006. The address of its registered office is 30 Cannon Street, London, EC4M 6XH. The Company is listed on the London Stock Exchange.

City of London Group plc is a closed-ended investment company with a number of operating investments in the financial services sector and a portfolio of 'available-for-sale' investments. Details of the activities of the Group are given in the Strategic report.

These consolidated and separate financial statements have been approved for issue by the Board of directors on 2 July 2014.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated and separate financial statements of City of London Group plc have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The consolidated and separate financial statements have been prepared under the historical cost convention, as modified by the revaluation of 'available-for-sale' financial assets (including operating investments and investments in legal funds). These financial assets and instruments are carried at fair value except where it is not possible to determine a reliable fair value in which case they are carried at cost.

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 2006. The Company has taken advantage of section 408 of the Companies Act 2006, and the Statement of Income and the Statement of Comprehensive Income of the parent company is not presented. The parent company's loss after taxation for the financial year amounts to £3,413,000 (2013: loss £677,000).

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. The Group's going concern position is further discussed in the Strategic report on pages 9 and 10.

Changes in accounting policies that have been adopted in these financial statements are set out in note 2.2 below.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. The standards are effective for annual periods beginning on or after 1 January 2014 unless otherwise stated, with early adoption permitted in all cases.

IAS 32 – (Amendments) – Offsetting Financial Assets and Financial Liabilities

IAS 36 – (Amendments) – Recoverable amounts disclosures for non-financial assets.

IFRS 9 – Financial Instruments – The mandatory date on which the standard is effective has to be confirmed.

The Group considers that none of these amendments and revised standards will have a material impact on the disclosures and presentation of information in the financial statements.

2.2 Adoption of new standards and interpretations

A number of new standards, interpretations and amendments to existing standards which became effective for the first time for accounting periods beginning on or after 1 January 2014, unless otherwise stated, have been adopted in these financial statements. The nature and effect of adopting these is given below.

IAS 1 – Presentation of items of Other Comprehensive Income – Amendments to IAS 1
The amendment requires that items of other comprehensive income must be grouped together in two sections – those that will or may be reclassified into profit or loss and those that will not.

The amendment affects presentation only and hence there is no effect on the Group's financial position.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

2.2 Adoption of new standards and interpretations continued

IFRS 10 – Consolidated Financial Statements (Adopted early)
IFRS 10 supersedes IAS 27 (2008) Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purpose Entities, and introduces a single 'control model' for all entities, whereby control exists when all of the following conditions are present:

- power over investee
- exposure, or rights, to variable returns from investee
- ability to use power over investee to affect the entity's returns from investee

An entity is required to consider all relevant facts and circumstances when assessing whether it controls the investee.

Other changes introduced by IFRS 10 include:

- The introduction of the concept of 'de facto' control for entities with less than a 50% ownership interest in an entity, but which have a large shareholding compared to other shareholders
- Potential voting rights are only considered when determining if there is control when they are substantive (holder has practical ability to exercise) and the rights are exercisable when decisions about the investee's activities that affect the investor's return will or can be made.

Following the adoption of IFRS 10, the Board reassessed the status of its investment in Therium Capital Management Limited ("Therium") in which it holds a 50% interest and concluded that, having regard to all relevant facts and circumstances, including the disposition of shareholdings, it did not meet the control criteria in the standard. Accordingly, Therium should be considered as an associate rather than a subsidiary of the Group. The figures in the financial statements for the year ended 31 March 2013 have been restated (see below).

IFRS 12 Disclosure of interests in Other Entities (Adopted early)
IFRS 12 sets out the disclosure requirements relating to an entity's interests in subsidiaries and associates. The standard requires a reporting entity to disclose information that helps users to assess the nature and financial effects of the reporting entity's relationship with other entities. As the new standard affects only disclosure, there is no effect on the Group's financial position or performance.

IFRS 13 Fair Value Measurement (Effective for accounting periods beginning on or after 1 January 2013)
IFRS 13 sets out the framework for determining the measurement of fair value and the disclosure of information relating to fair value measurement, when fair value measurements and/or disclosures are required or permitted by other IFRSs.

While there has been some rewording of the previous guidance, there are few changes to the previous fair value measurement requirements. IFRS 13 is intended to clarify the measurement objective, harmonise the disclosure requirements, and improve consistency in application of fair value measurement.

IFRS 13 did not materially affect any fair value measurements of the Group's assets or liabilities, with changes being limited to presentation and disclosure, and therefore has no effect on the Group's financial position or performance. See note 3 for more details on the bases used for the assessments of fair value.

IAS 27 – Separate Financial Statements (Amendments adopted early)
IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates, when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with the applicable financial instruments standard. The adoption of this standard has no impact on the Company's financial position or performance as the Company already accounts for these investments at cost.

IAS 28 – Investments in Associates and Joint Ventures (Amendments adopted early)
IAS 28 defines "associate" and sets out the required accounting for both associates and joint ventures. The standard requires investments in associates and joint ventures to be accounted for on the equity method of accounting in consolidated accounts. Where an entity prepares separate financial statements, investments in associates and joint ventures must be accounted for at cost or at fair value in accordance with IAS 39. The adoption of this standard has had no effect on either the Group's or Company's financial position or performance as the equity method of accounting is used in the consolidated financial statements and the Company accounts for these investments at cost.

2.3 Presentation changes

(a) Discontinued operations

As described in Note 17 and in the Strategic report, the Group's equity shareholding in Trade Finance Partners Limited ("TFPL") reduced from 60.3% to 44.1% (44% to 43% on a fully diluted basis) on the issue of new shares by TFPL on 19 March 2014. At that date TFPL ceased to be a subsidiary of the Group and became an associate. As the Group then ceased to control TFPL, under IFRS 5 TFPL is required to be classified as a "discontinued operation" in the consolidated financial statements. The results of TFPL for both the current year (up to the date when it ceased to be a subsidiary) and the preceding year have been classified as discontinued operations and are shown separately in the consolidated income statement.

(b) Restatement of prior period figures

As stated above, following the adoption of IFRS 10, the Board considered the status of its investment in Therium Capital Management Limited ("Therium") in which it holds a 50% interest and, having regard to all relevant facts and circumstances, concluded that Therium should be considered an associate and not a subsidiary. The figures in the financial statements for the year ended 31 March 2013 have accordingly been restated on this basis. The table below shows changes in the individual balance sheet figures at 31 March 2013 as a result of the restatement. The restatement does not change the amount of the loss attributed to the equity holders of the parent company previously reported nor the equity attributed to the equity holders of the parent company at either 31 March 2013 or 31 March 2012. Accordingly, there is no change in the basic or diluted earnings per share previously reported.

	31 March 2013 £'000 As reported	31 March 2013 £'000 As restated	£'000 Change
Assets			
Non-current assets			
Intangible assets	1,300	688	(612)
Property, plant and equipment	162	160	(2)
Interests in associates	5	417	412
Investments in legal cases	6,872	694	(6,178)
Current assets			
Loans	3,946	4,381	435
Trade and other receivables	11,623	11,399	(224)
Cash and cash equivalents	6,265	4,437	(1,828)
Current liabilities			
Borrowings	(11,114)	(10,577)	537
Trade and other payables	(13,513)	(5,047)	8,466
Equity			
Non-controlling interests			
At 31 March 2012	(1,173)	(196)	977
Acquisition and additional investment in subsidiaries			
Share of net assets	162	162	–
Share of derivative put option	31	31	–
Share of loss for year	(228)	(208)	20
Transferred to investment in associate	–	9	9
At 31 March 2013	(1,208)	(202)	1,006

Notes to the financial statements continued

2 Summary of significant accounting policies continued

2.4 Consolidation

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee, and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

De-facto control exists in situations where the Company has the practical ability to direct the relevant activities of the investee without holding the majority of the voting rights. In determining whether de-facto control exists the Group considers all relevant facts and circumstances, including the size of the Group's voting rights relative to both the size and dispersion of other parties who hold voting rights, substantive potential voting rights held by the Group and by other parties, other contractual arrangements and historic patterns in voting attendance.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. In accordance with IAS 27, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets on a transaction by transaction basis.

2.5 Associates

An associate is an entity over which the Group is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

Any excess of the cost of acquisition over the Group's share of the book values of the identified net assets of the associate at the date of acquisition is recognised as goodwill.

Where the Group ceases to control a subsidiary but retains an investment in that company, it recognises the investment retained at its fair value as at the date on which it ceases to control that company. Where the former subsidiary is now an associate, the fair value is deemed to be the cost on initial recognition of the investment in the associate. Any excess of the fair value over the book values of the identified net assets of the associate is credited to the consolidated income statement. Where there is objective evidence that the investment in an associate has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.6 Business combinations

The Group uses the acquisition method of accounting to account for business combinations. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition related expenses are expensed as incurred. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interests in the fair value of the net identifiable assets, liabilities and contingent liabilities recognised.

On an acquisition by acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interests proportional share of the acquiree's net assets. The Group treats transactions with the non-controlling interest as transactions with equity owners of the Group. For purchases from non-controlling interests the difference between the consideration paid and the relevant share of net assets acquired is recorded in equity.

2.7 Intangible assets

Goodwill arising on consolidation represents the excess of the cost at acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually or more frequently when there is an indication it may be impaired. For the purposes of assessing impairment, goodwill is allocated to the cash-generating units expected to benefit from the synergies of the combination. Any impairment is recognised immediately in profit and loss and is not subsequently reversed.

Other intangible assets are stated at historical cost less accumulated amortisation and impairment losses. Amortisation is provided to write off the cost less the estimated residual value of intangible assets by equal annual instalments over their estimated useful economic lives as follows:

Systems development	3 years straight-line

The amortisation is charged to administrative expenses in the profit and loss account. The other intangible assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.8 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Depreciation is provided to write off the cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

Fixtures, fittings & equipment	3 years straight-line

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.9 Impairment of non-financial assets

The carrying value of the non-current assets is reviewed on an on-going basis to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount of property, plant and equipment is the greater of its fair value less costs to sell and value in use. The recoverable amount of goodwill is its value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.10 Financial assets

The Group and the Company classify financial assets in the following categories: loans receivable, trade and other receivables, leases receivable, 'available-for-sale' financial assets, operating investments, investments in associates and investment in legal cases. The classification depends on the purpose for which the financial assets were acquired.

(a) Loans, trade and other receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date which are classified as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group or Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency on payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'administrative expenses'.

(b) Finance leases receivable

Where the Group leases out equipment and there is a transfer of substantially all of the risks and rewards of ownership to the lessee, the lease is accounted for as a finance lease and the net investment is included in interest-bearing leases receivable.
In accordance with IAS 17, costs which are incremental to the initiation of new business (Initial Direct Costs or "IDC") are capitalised and amortised over the expected life of the leases to which they relate. The IDC is included in lease receivables. The capitalisation of IDC relates to expenses which are incremental and directly attributable to negotiating and arranging a lease or loan. The IDC amortisation is netted off against interest income and similar income in the income statement.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

2.10 Financial assets continued

(c) 'Available-for-sale' financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories specified by IAS 39 Financial Instruments: Recognition and Measurement.

Purchases and sales of investments are recognised on the trade date – the date on which the Group or Company commits to purchase or sell the asset. Investments are initially recognised at fair value, including directly attributable transaction costs. 'Available-for-sale' financial assets are subsequently carried at fair value and gains and losses arising from changes in fair value are recognised directly in other comprehensive income. They are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group or Company has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'profit on sale of investments' and 'provision for impairment of investments' respectively. Interest accrued on available-for-sale securities carrying a fixed interest rate is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group and Company's right to receive payments is established.

The fair values of quoted investments are based on closing bid prices prevailing at the balance sheet date. If the market for a financial asset is not active (and for unlisted securities), the Group and Company establish fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as 'available-for-sale', a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not subsequently reversed in the income statement unless the underlying instrument is derecognised.

(d) Operating investments

Operating investments are substantial investments (typically below 20% of the equity of the investee company) that the Group intends to hold for the foreseeable future. Operating investments are initially recorded and subsequently measured in accordance with the principles laid out above for available-for-sale financial assets but are separately disclosed on the face of the balance sheet, as the associated financial risks differ from the portfolio of 'available-for-sale' financial assets.

(e) Investment in subsidiaries – separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes directly attributable costs of investment.

(f) Investment in associates – separate financial statements

Investments in associates are accounted for at cost less impairment. Cost also includes directly attributable costs of investment. Where an associate was formerly a subsidiary, the fair value determined at the date of losing control is regarded as the cost on initial recognition of the investment in the associate.

(g) Investments in legal cases

Seed funding is made into funds which are used to fund legal cases. Initial recognition of an investment is made when payment to the fund is made. The investments are subsequently carried at fair value and gains and losses arising from changes in fair value of each fund are recognised in other comprehensive income. De-recognition occurs when funds are returned and any profits or losses are taken to the profit and loss account at this time.

The principal assumptions used when assessing the fair value are as follows:

- best estimate of duration of each claim; and
- best estimate of anticipated outcome.

The value will be adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants may take into account when entering into a transaction. Valuation adjustments are recorded to allow for factors relating to each case. Management believes the valuation adjustments are necessary and appropriate to fairly state financial instruments at fair value on the balance sheet. It is management's further belief that the techniques employed when estimating the fair value of an investment in each claim should incorporate irrevocable evidence as to the success of the claim as a fundamental input. Should this input not be available then it is expected that the fair value will equate to the amounts funded given the fundamental uncertainty as to the case outcome.

2.11 Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, call deposits with maturity of three months or less from the date of inception. Bank overdrafts are included in borrowings under current liabilities.

2.12 Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual obligations entered into.

An equity instrument is any contract which evidences a residual interest in the assets of the Group after deducting all of its liabilities.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

When the Group purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable issue costs, is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. When such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs is included in equity attributable to the Company's equity holders.

2.14 Dividends

Dividends declared on the Company's equity share capital are recognised as a liability when an irrevocable obligation to pay the dividends is established. In the case of interim dividends this arises when the dividend is paid. In the case of final dividends this is the date at which the dividends are approved at a shareholders' general meeting.

2.15 Preference shares

Preference shares held by non-controlling interests in subsidiary companies are included as borrowings in non-current liabilities. The dividends on these preference shares are recognised in the income statement as an interest expense.

2.16 Trade payables

Liabilities are recognised as trade payables when an invoice is received. Expenses incurred for which an invoice has not yet been received are included in accruals. Trade payables are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest rate method.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

2.18 Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

2.19 Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of the Company.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

2.20 Revenue

Revenue comprises dividend and interest income and investment management fees, arrangement fees, and trade finance fees. Dividend income is recognised when the right to receive payment is established. Interest income is recognised on an accruals basis using the effective interest rate method. Management fees and arrangement fees are recognised as the underlying services are provided. The trade finance fees are spread over the period of the contract on an effective interest rate basis.

Revenue includes only the gross inflows of economic benefits received and receivable by the Group on its own account. Amounts collected on behalf of third parties are not economic benefits to the Group and do not result in an increase in equity. In an agency relationship, the gross inflows of economic benefits include amounts collected on behalf of the principal and do not result in increases in equity for the Group. The amounts collected on behalf of the principal are not recognised as revenue. Instead, revenue is the amount of fees and commission.

The Group is acting as a principal when it has exposure to the significant risks and rewards associated with the sale of goods or the rendering of services. The Group is acting as an agent when it does not have exposure to the significant risks and rewards associated with the sale of goods or the rendering of services.

2.21 Foreign currencies

The functional currency of the Company and its subsidiaries and associates is determined by the primary economic environment in which the entity operates. The functional and presentational currency of the Company and its subsidiaries is pound sterling (£). Transactions denominated in foreign currencies have been translated into sterling at the actual rates of exchange ruling at the date of the transaction or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary financial assets, such as equities classified as 'available-for-sale', are included in other comprehensive income.

2.22 Employee benefits

Share based payment
The Group operates a number of equity-settled share-based payment compensation plans under which the entity receives services from employees as consideration for equity instruments of the Group.

The fair value of the employee services received by the Group is recognised as an expense. The total value of the expense is determined by reference to the fair value of the equity award granted including any market performance conditions, but excluding non-market conditions such as continued employee service periods. Non-market conditions are included in the assumptions about the number of equity awards that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all the specified vesting conditions are to be satisfied. Where the employee services are received in advance of the formal grant date of the equity award, as is the case with the deferred element of the Group's long term incentive plan, the fair value of the award is estimated at each reporting date preceding the grant date and the cumulative recognised charge is adjusted as appropriate when the fair value is ultimately calculated on grant. At each reporting date the Group updates its estimate of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in the income statement with a corresponding adjustment to equity.

Where relevant the social security contributions payable in connection with the grant of equity awards is considered an integral part of the grant itself and are charged to the income statement at the time of vesting of the awards.

Annual and deferred incentive scheme
The Group recognises a liability and an expense for bonuses and profit sharing based on the increase in the higher of total shareholder return or increase in net assets per share against a benchmark of 8% per annum. The scheme applies to certain directors and employees of the Company. Under the scheme the first one-third of the award is payable in cash immediately and two thirds are deferred and payable in shares at the first and second anniversary. The liability is recognised where there is either a contractual obligation or past practice has established a constructive obligation. Deferred incentive scheme bonuses are treated as equity-settled share-based payments, as they are payable only in shares, in accordance with the policy outlined above.

2.23 Employee Benefit Trust (EBT)

The assets and liabilities of the EBT are held separately from the Company and are fully consolidated in the consolidated balance sheet. The cost of purchasing own shares held by EBT are shown as a deduction against equity in the Group balance sheet. The proceeds from the sale of own shares held increase equity. Neither the purchase nor sale of own shares leads to a gain or loss being recognised in the consolidated income statement.

2.24 Corporation tax

Taxation on the result for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity.

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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 substantially enacted at the balance sheet date.

Deferred income tax assets are recognised to the extent that it is possible that future taxable profits will be available against which the temporary differences can be utilised.

2.25 Loss of control

When control in a subsidiary is lost, the Group de-recognises the assets and liabilities of the former subsidiary from the consolidated balance sheet, recognises any investment retained in the former subsidiary at its fair value when control is lost and subsequently accounts for it in accordance with relevant IFRSs. If the former subsidiary is determined to be an associate or a joint venture, the fair value determined on loss of control is regarded as the cost on initial recognition of the investment in the associate or joint venture. These result in a gain or loss associated with the loss of control attributable to the former controlling interest which is recognised in the income statement.

3 Judgements and estimates

The preparation of financial information in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of 'available-for-sale' financial assets

The Group and the Company follow the guidance from IAS 39 when determining whether an investment is other than temporarily impaired. This determination requires significant judgement. In making this judgement, the Group and Company evaluate, among other factors, the duration or extent to which the fair value of an investment is less than its cost; and the financial health and near–far business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

If the impairments that were considered temporary had been considered permanent, retained earnings would be reduced and the revaluation reserve increased by £296,000 (2013 - £549,000). There would be no overall effect on the net assets of the Group or Company.

Assessing fair value of unlisted 'available-for-sale' financial assets

Fair values of unlisted 'available-for-sale' financial assets are determined using valuation techniques. The Group and the Company use their judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

Notes to the financial statements continued

3 Judgements and estimates continued

Assessing impairment of investments in subsidiaries and associates and operating investments

Investments in subsidiaries and associates and operating investments are valued at cost less impairment. Where there has been a reduction in the Group's shareholding in a subsidiary such that it ceased to be a subsidiary and moved to being an associate, the cost of the investment retained by the Group is deemed to be the fair value of that investment as at the date it ceased to be a subsidiary, as required by IFRS 10.

As at 31 March 2014, two of the Group's investment platforms were associates. TFPL, a former subsidiary, became an associate on 19 March 2014 (see note 17) and Therium, where the Group has a 50% interest (see below). The opportunity and risk profile for each business, which has its own management and operations, is unique to it.

The fair value of the Group's investment in TFPL was assessed as at the date it became an associate on 19 March 2014 as required by IFRS 10. The assessment was based on profit projections for the three years to 2016/17 that reflect the substantial business growth that is possible by TFPL's access to increased facilities now available. The valuation of the equity in the business was assessed by applying a prudent multiple to EBITDA to reflect the uncertainties inherent in the substantial growth envisaged. The fair value was unchanged at the year end.

The fair value of the Group's investment in Therium has been assessed based on profit projections for the three years to 2016/17, on the basis of the existing funds under management plus one known additional fund using standard performance and management fee rates and the expected win rate. The calculations take account of the estimated time to resolve cases. The projections have been discounted at 15% per annum to take account of appropriate risks.

CAML, the only investment platform that is a subsidiary, has its own management and operations, and an opportunity and risk profile unique to its business. In determining its fair value, an appropriate valuation was determined based on profit projections for the three years to 2016/17, assuming the availability of a fund of £40m. These projections have been discounted at 15% per annum to reflect the risk around the projections.

The directors consider fair valuation of each underlying investment platform, whether it is a subsidiary or an associate, to be an important measure of the growth of their operating businesses. Where necessary the Group hires consultants who are experts in performing business valuations for the purpose of monitoring and tracking the fair values of its investment platforms.

Impairment losses of continuing operations are recognised in the income statement in expense categories consistent with the function of the impaired asset.

As stated above, the judgement as to the impairment of its investments in subsidiaries and associates is based on the forecast profitability of the underlying investments in the foreseeable future. Actual results may deviate from these expectations, and as noted above, there is a risk of increased volatility arising in the Group's operating results from a provision for impairment if results are lower than anticipated.

Based on their knowledge of the investee companies, management has concluded that no write down of value is appropriate in respect of these investments.

Assessing fair value of investments in legal funds

The fair value of investment in legal funds is inherently based on the potential value of the underlying legal claims for which the funds have provided financing. While advice is taken on an on-going basis from legal counsel and extensive due diligence is carried out by the funds prior to providing finance for specific cases, there is an unavoidable risk that the ultimate outcome of the underlying cases will differ from expectations which could adversely affect the fair value of the overall investment. Cases are assessed on a case by case basis and impaired if considered necessary. Events that may trigger changes to the fair value of each investment in a claim include the following:

- Successful judgement in a claim in which the Company has an investment;
- Discontinuance of a claim in which the Company has an investment;
- An adverse judgement in a claim in which the Company has an investment;
- Unilateral withdrawal by the Company from a claim in which the Company has an investment; and
- Settlement of a claim out of Court by a binding agreement.

A fair value decrease corresponds to a perceived impairment in the success of a claim. A fair value increase corresponds to a successful claim or evidence that recovering on the claim is highly probable and that the amount recoverable can be reliably estimated.

Impairment of loans and leases

For loans and leases the provision for impairment is determined on an individual basis by reference to past default experience and other recoverability information relating to the specific lease or loan. Recoverable amounts are assessed with reference to the expected future cash flows on the lease arrangements. If there is no evidence of impairment on an individual basis, a collective impairment review is undertaken whereby the assets are grouped together, on the basis of similar credit risk characteristics, in order to calculate a collective impairment loss. This process accounts for impairments existing at the balance sheet date that are not evident until a future date.

Goodwill impairment

The Group's goodwill of £46,000 at the balance sheet date does not relate to its investment platforms but to other subsidiaries.

Goodwill is calculated as the difference between the cost of acquisition and the calculation of the fair values of identifiable assets and liabilities existing in the acquiree. Goodwill is not amortised but is instead subject to annual impairment review. Further details are set out in note 14.

The Group assesses, at each reporting date, whether there is an indication that goodwill may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

No provision for impairment is considered necessary.

Taxation

The corporation tax charge for the year is based on estimates and may be subject to adjustment when the corporation tax returns are completed.

4 Revenue and cost of sales

Revenue	31 March 2014 £'000	31 March 2013 £'000 (restated)
Dividends receivable	23	40
Interest receivable	556	291
Income from investments	579	331
Investment management fee income	236	44
Lease and loan interest	763	991
Arrangement fees	15	479
Trade finance fees	1,164	350
Total from continuing operations	2,757	2,195
Total from discontinued operations	2,908	2,722
Total revenue	5,665	4,917

Cost of sales	31 March 2014 £'000	31 March 2013 £'000 (restated)
Commissions and introduction fees	726	501
Other costs	258	267
Total from continuing operations	984	768
Total from discontinued operations	950	599
Total cost of sales	1,934	1,367

Notes to the financial statements continued

5 Segmental reporting

The Executive Committee, which is considered the Group's chief operating decision maker, manages the Group by each operating platform namely: SME trade finance, SME leasing and lending to professional firms, and litigation funding. A description of the activities of each of these platforms is given in the Strategic report. The COLG segment includes the Group's central functions and an energy and mining investment portfolio.

A reportable segment is identified based on the nature and size of its business and risk specific to its operations.

Pre-tax profit and loss

For the year ended 31 March 2014

		Revenue £'000	Operating profit/(loss) £'000	Share of profits and losses of associates £'000	Financial expenses £'000	Pre-tax profit/(loss) £'000
COLG	Investment portfolio	–	(206)		–	(206)
	Legal cases	–	(15)		–	(15)
	Intra-Group	930	930			930
	Other	218	(3,284)		(247)	(3,531)
		1,148	(2,575)		(247)	(2,822)
Platforms	Litigation financing	–	–	(305)	–	(305)
	Trade financing – TFPL	2,937	1,606	(24)	(2,667)	(1,085)
	Trade financing – other	1,155	198	–	(186)	12
	Lease and professions financing	1,208	(189)	74	(746)	(861)
	Legal case funding	140	132	83	(130)	85
	Other	7	(221)	–	(7)	(228)
	Intra-Group	(930)	(930)	–	930	–
		5,665	(1,979)	(172)	(3,053)	(5,204)
	Continuing operations	2,757	(3,533)	(172)	(445)	(4,150)
	Discontinued operations	2,908	1,554	–	(2,608)	(1,054)
		5,665	(1,979)	(172)	(3,053)	(5,204)

Pre-tax profit and loss

For the year ended 31 March 2013 (restated)

		Revenue £'000	Operating profit/(loss) £'000	Share of profits and losses of associates £'000	Financial expenses £'000	Pre-tax profit/(loss) £'000
COLG	Investment portfolio	–	1,118		–	1,118
	Legal cases	–	(108)		–	(108)
	Intra-Group	774	957		(18)	939
	Other	133	(1,990)		(101)	(2,091)
		907	(23)		(119)	(142)
Platforms	Litigation financing	–	–	(646)	–	(646)
	Trade financing - TFPL	2,414	1,001	–	(840)	161
	Trade financing - other	1,119	38	–	(21)	17
	Lease and professions financing	1,017	63	(16)	(652)	(605)
	Legal case funding	214	211	23	(187)	47
	Other	20	(354)	–	(20)	(374)
	Intra-Group	(774)	(792)	–	792	–
		4,917	144	(639)	(1,047)	(1,542)
	Continuing operations	2,195	(958)	(639)	(196)	(1,793)
	Discontinued operations	2,722	1,102	–	(851)	251
		4,917	144	(639)	(1,047)	(1,542)

Consolidated Net Assets

For the year ended 31 March 2014

		£'000	Total £'000
COLG	'Available-for-sale' financial assets		383
	Investments in legal cases		672
Platforms	Litigation financing	2,677	
	Trade financing	5,967	
	Lease and professions financing	2,700	
	Legal case funding	764	
	Other	150	
			12,258
	Net liabilities		(4,010)
Net assets per entity balance sheet			9,303
Other net liabilities of subsidiary companies			(3,476)
Consolidated net assets			5,827

Consolidated Net Assets

For the year ended 31 March 2013

		£'000	Total £'000 (restated)
COLG	'Available-for-sale' financial assets		1,924
	Investments in legal cases		694
Platforms	Litigation financing	2,162	
	Trade financing	3,648	
	Lease and professions financing	2,400	
	Legal case funding	1,568	
	Other	249	
			10,027
	Other net assets		108
Net assets per entity balance sheet			12,753
Other net liabilities of subsidiary companies (restated)			(2,463)
Consolidated net assets (restated)			10,290

The Board reviews the assets and liabilities of the Group on a net basis.

Notes to the financial statements continued

6 Administrative expenses

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Staff costs		
Payroll incentive award (see note 9)	–	14
Other payroll (see note 9)	3,551	2,524
Other staff costs	104	60
Establishment costs		
Property costs	295	201
Other	1,191	662
Auditor's remuneration (see below)	160	106
Legal fees	300	444
Consultancy fees	377	335
Other professional fees	387	373
Depreciation	89	77
Amortisation	78	56
Unsuccessful fund raising costs	335	–
System development costs written off	207	–
Central loan – provision for bad debt	507	–
Foreign exchange loss / (gain)	24	(114)
Total	7,605	4,738
Total from continuing operations	5,191	3,583
Total from discontinued operations	2,414	1,155
Total administrative expenses	7,605	4,738

Directors' emoluments are shown in the Directors' Remuneration report on pages 18 to 20.

Auditor's remuneration	31 March 2014 £'000	31 March 2013 £'000 (restated)
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	38	35
Fees payable to the Company's auditors for other services:		
The audit of subsidiaries pursuant to legislation	80	47
Audit related assurance services	42	17
	160	99
Paid to other auditors	–	7
	160	106
Corporate finance (a)	100	–
Total	260	106
Continuing operations	245	89
Discontinued operations	15	17
Total fees	260	106

(a) Included within Unsuccessful fund raising costs of £335,000.

7 (Losses)/gains on financial assets

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Profit on sale of investments	10	26
Fair value reserve transfer from equity on sale of investments	(115)	1,365
Provision for impairment of investments during the year	(16)	(146)
Fair value reserve transfer from equity on impairment of investments	(85)	(129)
Loss on legal cases	(15)	(108)
Total from continuing operations	(221)	1,008

The impairment losses of £101,000 (2013: £275,000) include the write down of investments in Jubilee Platinum and Kilo Goldmines (2013: Merchant House, Jubilee Platinum and Agenix).

8 Other income

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Director services	1	2
Consultancy	23	22
Sundry income	301	300
Total	325	324
Total from continuing operations	106	190
Total from discontinued operations	219	134
Total Other income	325	324

9 Employee numbers and costs

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

Group	31 March 2014	31 March 2013 (restated)
COLG	13	13
Lease and professions financing	10	10
Trade financing	18	11
	41	34
Continuing operations	23	23
Discontinued operations	18	11
Total	41	34

The aggregate payroll costs of these employees were as follows:

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Wages and salaries	3,114	2,071
Social security costs	325	273
Pensions	72	46
Incentive scheme – deferred	–	14
Share option scheme	40	50
	3,551	2,454
Initial direct costs relating to leases	–	84
	3,551	2,538
Continuing operations	1,973	1,725
Discontinued operations	1,578	813
Total	3,551	2,538

Notes to the financial statements continued

10 Finance expense

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Bank interest	37	44
Loan interest	408	152
Total from continuing operations	445	196
Total from discontinued operations	2,608	851
Total finance expense	3,053	1,047

Bank and loan interests are measured at amortised cost using the 'Effective interest rate' method.

11 Corporation tax

	31 March 2014 £'000	31 March 2013 £'000 (restated)
UK corporation tax		
Current year charge	–	7
Under provision from prior years	–	2
Total for continuing operations	–	9
Total for discontinued operations	(49)	49
Total UK corporation tax	(49)	58
Deferred tax		
Reversal of timing differences – continuing operations	–	159
Total for continuing operations	–	168
Total for discontinued operations	(49)	49
Total tax (credit) / charge	(49)	217

Factors affecting the tax charge for the year

The tax charge for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK, which is 23% (2013: 24%). The differences are explained below.

Tax reconciliation	31 March 2014 £'000	31 March 2013 £'000 (restated)
Loss before tax	(5,204)	(1,542)
At standard rate of corporation tax in the UK:	(1,197)	(370)
Effects of		
Depreciation in excess of capital allowances	19	7
Expenses not deductible for tax purposes	113	81
Under provision from prior years	–	2
Non-taxed dividend income	(14)	(6)
Movement on unrecorded deferred tax asset	1,030	503
	(49)	217

Deferred tax recognised in income

The elements of deferred taxation provided are as follows:

	31 March 2014 £'000	31 March 2013 £'000
Excess management charges	–	159

Deferred tax recognised in equity

The elements of deferred taxation provided are as follows:

	31 March 2014 £'000	31 March 2013 £'000
Difference between cost and valuation of 'available-for-sale' investments	–	(159)

12 Dividends

Paid and recognised during the year	31 March 2014 £'000	31 March 2013 £'000
Final 2013 dividend of nil (2012: 0.5p) per ordinary share	–	83
Interim 2014 dividend of nil (2013: 0.33p) per ordinary share	–	65
Total	–	148
Received from Employee Benefit Trust	–	7
Total	–	155

The directors do not recommend payment of a final dividend (2013: nil).

13 Earnings per share

Basic and diluted

Basic and diluted earnings per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year less those held in treasury and in the Employee Benefit Trust (see note 25).

	31 March 2014	31 March 2013 (restated)
Loss attributable to equity holders (£000)		
Continuing operations	(3,546)	(1,672)
Discontinued operations	119	121
Total	(3,427)	(1,551)
Weighted average number of ordinary shares in issue ('000)	19,780	18,839
Basic and diluted earnings per share		
Continuing operations	(17.93p)	(8.87p)
Discontinued operations	0.60p	0.64p
Total	(17.33p)	(8.23p)

Notes to the financial statements continued

14 Intangible assets

Group	Goodwill £'000	Systems development costs £'000	Total £'000
Cost			
At 1 April 2012 (restated)	486	336	822
Additions	–	88	88
Disposals	(27)	(1)	(28)
At 31 March 2013 (restated)	459	423	882
Additions	–	27	27
Disposals	(413)	(436)	(849)
At 31 March 2014	46	14	60
Accumulated amortisation and impairment			
At 1 April 2012	113	26	139
Disposals	–	(1)	(1)
Charge in year	–	56	56
At 31 March 2013	113	81	194
Disposals	(113)	(147)	(260)
Charge in year	–	78	78
At 31 March 2014	–	12	12
Carrying amount			
At 31 March 2014	46	2	48
At 31 March 2013	346	342	688

15 Property, plant and equipment

	Group		Company	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000 (restated)
Cost				
At 1 April	308	180	281	156
Additions	37	131	35	125
Disposals	(19)	(3)	(1)	–
At 31 March	326	308	315	281
Depreciation				
At 1 April	148	74	138	69
Charge for the year	89	77	81	69
Disposals	(11)	(3)	(1)	–
At 31 March	226	148	218	138
Net book value				
At 31 March	100	160	97	143

Property, plant and equipment comprises mainly office furniture and equipment.

16 'Available-for-sale' financial assets

Group and Company	31 March 2014 £'000	31 March 2013 £'000
At 1 April	1,924	5,237
Additions	2	132
Disposals	(1,229)	(2,826)
Revaluation surplus recognised in equity	(213)	(344)
Written off to income statement	(101)	(275)
At 31 March	383	1,924
Historic cost (net of provisions) of disposals	1,334	1,799

Securities	31 March 2014 £'000	31 March 2013 £'000
Listed		
Equity securities – UK	330	914
Equity securities – USA and Canada	5	21
Equity securities – Australia	–	107
Non-cumulative non-redeemable preference shares – UK Equity fund – UK	–	455
Total listed	335	1,497
Unlisted securities		
Equity securities traded on inactive markets	48	427
Total unlisted	48	427
	383	1,924

Notes to the financial statements continued

17 Investments

Group	Investment in associates £'000	Operating Investments £'000
As at 31 March 2012 (restated)	448	–
Additions in year	665	18
Share of loss of associates	(639)	–
Disposals in year	(57)	–
As at 31 March 2013 (restated)	417	18
Addition – Trade Finance Partners Limited at fair value (b)	882	
Share of profits and losses of associates	(172)	–
Disposals in year	–	(18)
As at 31 March 2014	1,127	–

Company	Investments in subsidiaries £'000	Interests in associates £'000	Operating Investments £'000
As at 31 March 2012 (restated)	3,020	1,159	–
Additions in year	725	657	18
Converted into loan notes	–	(49)	–
As at 31 March 2013 (restated)	3,745	1,767	18
Additions in year	67	–	–
Disposal in year	(593)	–	(18)
As at 31 March 2014	3,219	1,767	–
Provision for impairment			
As at 31 March 2012	516	–	–
Provided in year	129	–	–
As at 31 March 2013	645	–	–
Disposal in year	(545)	–	–
As at 31 March 2014	100	–	–
Carrying amount			
As at 31 March 2014	3,119	1,767	–
As at 31 March 2013	3,100	1,767	18

(a) Following a reassessment of the status of the Company's 50% equity investment in Therium Capital Management Limited ("Therium"), the Board of directors concluded that under IFRS 10 Therium should be considered an associate and not a subsidiary. Therium has been included in the financial statements on this basis with figures for prior periods being restated as appropriate.

(b) On 19 March 2014, Trade Finance Partners Limited ("TFPL") ceased to be a subsidiary of the Group when the Group's equity interest was reduced from 60.3% to 44.09% by the issue by TFPL of new ordinary shares as part of the refinancing arrangements agreed on that date. TFPL is now an associate of the Group.

In accordance with the requirements of IFRS 5, TFPL has been classified as a "discontinued operation" in the consolidated financial statements and its results for both the current year (up to the date when it ceased to be a subsidiary) and the preceding year have been classified as discontinued operations and shown separately in the consolidated income statement.

As required under IFRS 10, the Group's remaining interest in TFPL as at 19 March 2014 has been included in the consolidated accounts at its fair value, which is deemed to be the cost on initial recognition of the associate.

The fair value of the Group's equity interest has been determined by reference to the imputed value attributed to TFPL in the March 2014 transactions, which has then been discounted to take account of both the illiquid nature of the investment and the fact it is a minority shareholding. The inclusion of the Group's equity interest as at 19 March 2014 at this fair value of £881,800 gives rise to a profit of £1,791,000 which has been credited to the consolidated income statement.

The table below compares the fair value of the Group's continuing equity interest of 44.09% with the net assets attributable to it in the consolidated financial statements as at the date when the Group lost control.

	£'000
Fair value of the Group's equity interest at the date TFPL became an associate	882
Net assets attributable to the Group's investment in TFPL at the date it ceased to be a subsidiary	(909)
Profit on the loss of control included in consolidated income statement	1,791

(c) At the year end, the Group had interests in the following associates which have been included in the consolidated financial statements using the equity method:

Therium Capital Management Limited (50%)
Trade Finance Partners Limited (44.09%)
COLG SME LP (50%)
COLG SME Loans LP (50%)

Summarised financial information on the associates is set out below:

Year ended 31 March 2014	**TFPL (i) £'000**	**Limited partnerships £'000**	**Therium £'000**
Non-current assets	89	3,209	14,269
Current assets	28,110	3,996	3,295
Current liabilities	(18,613)	(188)	(17,044)
Non-current liabilities	(10,667)	(6,900)	(1,592)
Net liabilities	(1,081)	117	(1,072)
Revenue	126	774	507
(Loss)/ profit from continuing operations	(54)	147	(445)
Total comprehensive income/ (expense)	(54)	147	(445)

Year ended 31 March 2013	**Limited partnerships £'000**	**Therium £'000**
Non-current assets	–	6,637
Current assets	1,969	2,391
Current liabilities	–	(9,219)
Non-current liabilities	(2,000)	(435)
Net liabilities	(31)	(626)
Revenue	–	507
(Loss) from continuing operations	(31)	(445)
Total comprehensive income/ (expense)	(31)	(445)

(i) TFPL was a subsidiary of the Group until 19 March 2014. The revenue shown is that for the period from 20 to 31 March 2014.

(d) In March 2014, the Company purchased the 13% of the issued share capital in City of London Confirming House Limited not already held by it for a cash consideration of £66,000. In the consolidated accounts, as required under IFRS 10, the excess of the consideration paid over the net assets attributable to the minority in the consolidated accounts at the date of the acquisition of £215,000 has been charged direct to equity (see Consolidated statement of changes in equity on page 34).

Notes to the financial statements continued

17 Investments continued

Details of investments are as follows:

Name of company subsidiary undertaking	Holding	Proportion held directly by City of London Group plc	Proportion held indirectly	Nature of business
City of London Confirming House Limited	Ordinary Shares	100%		Holding company
City of London SME Leasing Limited	Ordinary Shares	100%		Holding company
COLG SME (GP) Limited	Ordinary Shares	100%		Holding company
City of London Financial Services Limited	Ordinary Shares	100%		General financial
City of London Law Funding Limited	Ordinary Shares	100%		Legal case funding
COLG Trade Finance Limited	Ordinary Shares	100%		Finance company
TFP Trading Company Limited	Ordinary Shares	51%	21.56%	Trade Finance
Credit Asset Management Limited	Ordinary Shares	51%		Leasing
Professions Funding Limited	Ordinary Shares	100%		Professions funding
SHFLF 1 PLC	Ordinary Shares		100%	Professions funding
SHFLF 2 Limited	Ordinary Shares		100%	Professions funding
City of London Public Relations Limited	Ordinary Shares	100%		Dormant
Array Management Limited	Ordinary Shares	51%		Dormant
Affinia Capital (General Partner) Limited	Ordinary Shares	100%		Services
Associate investments				
Trade Finance Partners Limited	Ordinary Shares		(a) 44.09%	Trade Finance
Therium Capital Management Limited	Ordinary Shares	50%		Litigation funding
Therium (UK) Holdings Limited	Ordinary Shares		(b) 100%	Litigation funding
Therium Holdings Limited	Ordinary Shares		(b) 100%	Holding company
Therium ATE Limited	Ordinary Shares		(b) 100%	Dormant
Therium Litigation Funding Limited	Ordinary Shares		(b) 100%	Litigation funding
Novitas Loans Limited (formerly Novitas Asset Management Limited)	Ordinary Shares		(b) 50%	Legal case funding
Novitas Futures Limited	Ordinary Shares		(b) 50%	Legal case funding
COLG SME Loans LP			(c) 50%	Professions funding
COLG SME LP			(c) 50%	Leasing

(a) Proportion held by City of London Confirming House Limited. The same proportion is held indirectly by the Company.

(b) The proportions shown are those held directly or indirectly by Therium Capital Management Limited. The Company's indirect interest in these companies is 50% of the percentages shown.

(c) Proportion held by City of London SME Leasing Limited. The same proportion is held indirectly by the Company.

All subsidiaries and associates have a 31 March year end.

All subsidiaries and associates are registered in England and Wales with the exceptions of Therium Holdings Limited, Therium ATE Limited and Therium Litigation Funding Limited which are registered in Guernsey.

The Company established COLG Trade Finance Limited during the year.

18 Investments in legal cases

	Group		Company	
	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
As at 1 April	694	915	694	915
Additions	33	43	33	43
Return of seed investment	(40)	–	(40)	–
Net loss on legal cases	(15)	(108)	(15)	(108)
Transferred to loans receivable	–	(156)	–	(156)
As at 31 March	672	694	672	694

19 Loans and leases receivable

	Group		Company	
Non-current	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000 (restated)
Loans	545	1,648	100	100
Loans to related parties (note 29)	9,602	1,000	910	435
	10,147	2,648	1,010	535
Finance leases	832	1,233	–	–
	10,979	3,881	1,010	535

	Group		Company	
Current	31 March 2014 £'000	31 March 2013 £'000	31 March 2014 £'000	31 March 2013 £'000
Loans	1,742	2,948	50	765
Loans to related parties (note 29)	392	1,433	172	415
	2,134	4,381	222	1,180
Finance leases	1,031	1,094	–	–
	3,165	5,475	222	1,180

The gross amounts receivable by the Group under finance lease contracts are shown below:

	31 March 2014		31 March 2013	
	Minimum lease payments £'000	Present value of minimum lease payments £'000	Minimum lease payments £'000	Present value of minimum lease payments £'000
Gross amounts receivable:				
Less than one year	1,230	1,031	1,374	1,094
More than one year, less than five	948	832	1,386	1,233
	2,178	1,863	2,760	2,327
Less: unearned finance income	(315)	–	(433)	–
	1,863	1,863	2,327	2,327

There were no finance lease receivables in respect of the Company (2013: nil).

Notes to the financial statements continued

19 Loans and leases receivable continued

During the year ended 31 March 2013 the Group sold a portfolio of loans and leases of £1,418,000 to COLG SME LP and COLG SME Loans LP, which are equity accounted in these financial statements (see note 17). The disposal took place in March 2013 at carrying value with no gains or losses recognised during the year.

The Group has a continued involvement with the assets transferred through its subsidiary Credit Asset Management Limited which acts as an investment manager to these limited partnerships. The investment management fee earned during the year from them amounted to £126,000 (2013: nil).

The Group's maximum exposure to loss due to its continuing involvement with the underlying assets held by these limited partnerships is limited to its share of 50% of any losses. Both limited partnerships had cumulative profits at the balance sheet date (2013: loss of £16,000).

20 Trade and other receivables

	Group		Company	
Current assets	**31 March 2014 £'000**	**31 March 2013 £'000 (restated)**	**31 March 2014 £'000**	**31 March 2013 £'000 (restated)**
Trade receivables	75	9,591	47	20
Other debtors	1,425	1,200	22	25
Less provisions for bad debts	(409)	(198)	–	–
Prepayments and accrued income	785	594	454	296
Amounts owed by related companies	149	212	85	43
Amounts owed by subsidiaries	–	–	6,894	5,283
	2,025	11,399	7,502	5,667

In 2013, Group trade receivables included £9,572,000 in relation to Trade Finance.

21 Cash and cash equivalents

	Group		Company	
	31 March 2014 £'000	**31 March 2013 £'000 (restated)**	**31 March 2014 £'000**	**31 March 2013 £'000**
Cash at bank	3,783	4,437	441	26

Within the Group cash balance of £3,783,000 (2013: £4,437,000), there is £1,997,000 (2013: £500,000) of restricted cash.

22 Borrowings, trade and other payables: due within one year

	Group		Company	
Borrowings	**31 March 2014 £'000**	**31 March 2013 £'000 (restated)**	**31 March 2014 £'000**	**31 March 2013 £'000**
Bank overdraft	–	350	–	345
Loans	2,274	10,227	825	–
	2,274	10,577	825	345
Trade and other payables				
Trade payables	2,852	3,548	172	284
Dividends payable	1	1	1	1
Corporation tax	–	49	–	–
Other taxation and social security	56	102	32	54
Other creditors	30	853	–	–
Amounts owed to subsidiaries	–	–	2,105	1,355
Amounts owed to related parties	380	–	–	103
Accruals and deferred income	1,793	494	525	159
	5,112	5,047	2,835	1,956

The Company's overdraft in 2013 of £345,000 was secured on the UK listed share portfolio.

23 Non-current liabilities

	Group		Company	
	31 March 2014 £'000	**31 March 2013 £'000**	**31 March 2014 £'000**	**31 March 2013 £'000**
Borrowings				
Preference shares of subsidiary	–	420	–	–
Loans	9,069	2,759	2,250	–
Total	9,069	3,179	2,250	–

Notes to the financial statements continued

24 Deferred tax assets and liabilities

Group and Company	Fair value gains £'000	Tax losses £'000	Total £'000
Liability/(asset) at 31 March 2012	159	(159)	–
Debit to income statement	–	159	159
Credit to other comprehensive income	(159)	–	(159)
Liability/(asset) at 31 March 2013 and 31 March 2014	–	–	–

	Group		Company	
Unrecognised deferred tax assets	**31 March 2014 £'000**	**31 March 2013 £'000 (restated)**	**31 March 2014 £'000**	**31 March 2013 £'000**
Differences between tax and accounting base of:				
'Available-for-sale' assets	277	308	277	308
Investment in associates	(376)	–	–	–
Trading losses	206	174	–	–
Excess management charges	1,058	442	1,058	442
Timing differences	(18)	(10)	(18)	(10)
Total	1,147	914	1,317	740

25 Called-up share capital

Allotted, called up and fully paid	31 March 2014 £'000	31 March 2013 £'000
20,206,617 (2013: 20,206,617) ordinary shares of £0.10	2,021	2,021

The Company did not hold any shares in treasury at 31 March 2014 (2013: nil). 426,996 shares were held by the Employee Benefit Trust ("EBT") at 31 March 2014 (2013: 426,996). The Company did not purchase any shares from the Trust during the year (2013: 45,890 shares were purchased by the Company and used to fulfill its obligations under the long-term incentive scheme). The fair value of shares held by the EBT at the balance sheet date amounted to £123,000 (2013: £347,000): these are deducted from equity in accordance with note 2.23.

	Shares in issue Number	Shares in issue £'000
As at 31 March 2012	18,369,657	1,837
Issued in year	1,836,960	184
As at 31 March 2013	20,206,617	2,021
Issued in year	–	–
As at 31 March 2014	20,206,617	2,021

In September 2012, the Company issued 1,836,960 shares with a nominal value of £83,696 for £1,285,882. Costs of £30,000 incurred in relation to the issue of those shares were offset against the Company's share premium.

26 Non-controlling interests

	31 March 2014 £'000	31 March 2013 £'000 (restated)
At 1 April	(202)	(196)
Acquisition of and additional investment in subsidiaries:		
Share of net assets	–	162
Share of derivative put option	–	31
Share of loss	(1,728)	(208)
Transferred to investment in associates	–	9
Transferred to equity on acquisition of minority interest	149	–
Transferred on loss of control of discontinued operations	795	–
At 31 March	(986)	(202)

Credit Asset Management Limited, a 51% owned subsidiary of the Company, is the only subsidiary at 31 March 2014 that has material non-controlling interests (NCI). Summarised financial information in relation to the NCI of Credit Asset Management Limited, before intra-group eliminations, is given below:

For the year ended 31 March	2014 £'000	2013 £'000
Revenue	592	697
Costs	(1,480)	(1,231)
Loss before and after taxation	(888)	(534)
Loss allocated to NCI	(435)	(262)
Other comprehensive income allocated to NCI	–	–
Total comprehensive income allocated in NCI	(435)	(262)
Cash flows from operating activities	1,838	(108)
Cash flows from financing activities	(204)	398
Net cash inflows	1,634	290
As at 31 March		
Assets and liabilities attributable to NCI		
Non-current assets	407	605
Current assets	1,671	1,071
Current liabilities	(2,257)	(1,197)
Non-current liabilities	(811)	(1,034)
Accumulated non-controlling interests	(990)	(555)

Notes to the financial statements continued

27 Operating lease commitments

	Group		Company	
	31 March 2014 £'000	31 March 2013 £'000 (restated)	31 March 2014 £'000	31 March 2013 £'000
Minimum lease payments under operating leases recognised in expense for the year	146	141	146	132

The outstanding commitments for future minimum lease payments under non-cancellable operating leases, the majority of which related to buildings, fall due as follows:

	Group		Company	
	31 March 2014 £'000	31 March 2013 £'000 (restated)	31 March 2014 £'000	31 March 2013 £'000
Less than one year	146	146	146	146
Between one and five years	266	411	266	411
Greater than five years	–	–	–	–
	412	557	412	557

28 Commitments, contingent liabilities and guarantees

(i) Funding Commitments

	Group		Company	
	31 March 2014 £'000	31 March 2013 £'000 (restated)	31 March 2014 £'000	31 March 2013 £'000
Loans	1,700	4,182	–	–
Trade finance	–	1,357	–	–
	1,700	5,539	–	–

The Trade finance commitments in 2013 related to purchasing commitments on behalf of trade finance clients by way of Letters of Credit.

(ii) The Company has committed to provide funds of up to £240,000 to its associate, Therium.

29 Related party transactions

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 £757,781 (2013: £639,463) and there were no awards under the incentive scheme for 2013/14 (2013: nil). There are no other persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Accordingly, the aggregate amounts payable to directors equate to the aggregate compensation to key management personnel. As all directors' emoluments are paid by the Company, the figure relates both to the Company and the Group.

The Company's related party transactions included:

	Charged by City of London Group plc in year (prior year) £'000	Charged to City of London Group plc in year (prior year) £'000	Loans due to City of London Group plc at 31 March 2014 (31 March 2013) £'000	Other amounts due to City of London Group plc at 31 March 2014 (31 March 2013) £'000	Due from City of London Group plc at 31 March 2014 (31 March 2013) £'000	City of London Group plc investments in funds managed by associate at 31 March 2014 (31 March 2013) £'000
City of London Confirming	319	–	3,004	(11)	–	–
House Limited	(302)	–	(2,451)	(222)	–	–
COLG Trade	7	–	2,325	7	–	–
Finance Limited	–	–	–	–	–	–
TFP Trading Limited	202	–	–	–	–	–
	(22)	–	(625)	(21)	–	–
Trade Finance Partners Limited	112	135	–	12	–	–
	(78)	–	–	–	–	–
City of London Law	124	44	566	139	–	–
Funding Limited	(159)	(16)	(1,568)	((116))	–	–
Professions Funding Limited	115	–	20	200	–	–
	(1)	–	(20)	((44))	–	–
Credit Asset Management Limited	218	–	350	337	–	–
	(50)	–	–	((10))	–	–
City of London SME Leasing Ltd	–	112	–	(38)	2,000	–
	–	–	–	–	(252)	–
City of London Financial	2	–	–	16	105	–
Services Limited	(5)	(6)	–	(16)	(105)	–
Therium Capital	115	30	910	441	–	672
Management Limited	(119)	(30)	(395)	(238)	(102)	(694)
Array Management Limited	–	–	–	–	–	–
	–	–	(280)	–	–	–
City of London Public	–	65	–	–	–	–
Relations Limited	–	–	–	(248)	–	–

The amounts reported above include the Company's charges for:

- loan interest charged to City of London Confirming House Limited, City of London Law Funding Limited, COLG Trade Finance Limited, Credit Asset Management Limited, Professions Funding Limited, TFP Trading Limited and Therium Capital Management Limited;
- preference share dividends accrued from Credit Asset Management Limited, Professions Funding Limited and Therium Capital Management Limited;
- office space and the use of equipment to Credit Asset Management Limited and Trade Finance Partners Limited;
- directors' services to Trade Finance Partners Limited; and
- consultancy to Therium Capital Management Limited.

Notes to the financial statements continued

29 Related party transactions continued

Group related parties

The transactions of other Group companies with related parties included:

	Interest charged by Group in year (prior year) £'000	Loans and lease portfolios transferred from Group in year (prior year) £'000	Loans due to Group at 31 March 2014 (31 March 2013) £'000	Other amounts due to/(from) Group at 31 March 2014 (31 March 2013) £'000
Trade Finance Partners Limited	319	–	5,242	(19)
	(294)	–	(2,364)	(214)
Novitas Futures Limited	90	–	343	10
	(177)	–	(949)	–
Novitas Loans Limited	–	–	49	–
	–	–	(49)	–
COLG SME Loans LP	93	–	1,500	21
	–	(885)	(666)	(142)
COLG SME LP	100	–	1,950	35
	–	(533)	(334)	(70)

In addition, a Group company owed Trade Finance Partners Limited £353,000 (2013: £353,000) for management services provided.

30 Share-based payments

Share options are granted to directors and to selected employees. The exercise price of these fixed price options is equal to the market price of the shares at the date of grant. These options are conditional on the employee completing three years' service (the vesting period). The options have a contractual option term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding are as follows:

	Date of Grant	01/04/13	Granted in year	Lapsed in year	31/03/14	Exercisable from	Exercisable to	Exercise price
E Anstee (a)	11/02/10	100,000	–	–	100,000	11/11/12	11/11/19	55.80p
H Goodbourn	30/11/11	143,267	–	–	143,267	30/11/24	30/11/24	69.80p
J Kent	11/02/10	70,000	–	–	70,000	11/11/12	11/11/19	55.80p
Other staff	05/07/05	58,252	–	–	58,252	05/07/08	04/07/15	55.50p
	11/02/10	60,000	–	–	60,000	11/11/12	11/11/19	55.80p
	13/09/11	432,786	–	–	432,786	13/09/14	13/09/24	76.25p
		864,305	–	–	864,305			

(a) E Anstee's options lapsed on 28 May 2014.

Movements in the number of share options outstanding for 2012/13 were as follows:

	Date of Grant	01/04/12	Granted in year	Lapsed in year	31/03/13	Exercisable from	Exercisable to	Exercise price
E Anstee	11/02/10	100,000	–	–	100,000	11/11/12	11/11/19	55.80p
H Goodbourn	30/11/11	143,267	–	–	143,267	30/11/24	30/11/24	69.80p
J Kent	11/02/10	70,000	–	–	70,000	11/11/12	11/11/19	55.80p
Other staff	20/06/02	11,300	–	11,300	–	20/06/05	19/06/12	104.00p
	05/07/05	58,252	–	–	58,252	05/07/08	4/07/15	55.50p
	11/02/10	60,000	–	–	60,000	11/11/12	11/11/19	55.80p
	13/09/11	432,786	–	–	432,786	13/09/14	13/09/24	76.25p
		875,605	–	11,300	864,305			

City of London Group plc's share price as at 31 March 2014 was 28.0p (2013: 67.5p). The average for the year to 31 March 2014 was 55.2p (2013: 72.0p)

The Company will use the shares in the Employee Benefit Trust to cover the deferred incentive scheme awards.

31 Financial instruments

The Company's and the Group's financial instruments comprise 'available-for-sale' financial assets, trade debtors and other receivables, cash and cash equivalents and trade and other payables. The following tables analyse the Group and Company's financial assets and financial liabilities in accordance with the categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are not included in the table below.

	As at March 2014			As at March 2013 (restated)		
Group	**Available-for-sale financial investments £'000**	**Loans and receivables £'000**	**Total £'000**	**Available-for-sale financial investments £'000**	**Loans and receivables £'000**	**Total £'000**
Assets						
'Available-for-sale' financial assets	383	–	383	1,924	–	1,924
Investments in legal cases	672	–	672	694	–	694
Loans	–	12,281	12,281	–	7,029	7,029
Finance leases	–	1,863	1,863	–	2,327	2,327
Trade and other receivables	–	2,025	2,025	–	11,399	11,399
Cash and cash equivalents	–	3,783	3,783	–	4,437	4,437
	1,055	19,952	21,007	2,618	25,192	27,810
Liabilities						
Interest in loans and borrowings			11,343			13,336
Preference shares			–			420
Trade and other payables			5,112			5,047
			16,455			18,803

All financial liabilities in the above table are reflected at amortised cost.

	As at March 2014			As at March 2013 (restated)		
Company	**Available-for-sale financial investments £'000**	**Loans and receivables £'000**	**Total £'000**	**Available-for-sale financial investments £'000**	**Loans and receivables £'000**	**Total £'000**
Assets						
'Available-for-sale' financial assets	383	–	383	1,924	–	1,924
Investments in legal cases	672	–	672	694	–	694
Loans	–	1,232	1,232	–	1,715	1,715
Trade and other receivables	–	7,502	7,502	–	5,667	5,667
Cash and cash equivalents	–	441	441	–	26	26
	1,055	9,175	10,230	2,618	7,408	10,026
Liabilities						
Interest bearing loans and borrowings			3,075			345
Trade and other payables			730			498
Amounts owed to subsidiaries			2,105			1,355
Amounts owed to associates			–			103
			5,910			2,301

The directors believe that the carrying value of the financial instruments of the Group and the Company approximates their fair value.

Notes to the financial statements continued

32 Financial risk management

The financial risks faced by the Company include market risk (including price risk, foreign exchange risk and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Board reviews and agrees policies for managing each of these risks. Neither the Company nor the Group uses derivative financial instruments for trading purposes.

(i) Credit risk

Credit risk is the risk of the financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The scale of risk to the Group is set out in the table below;

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Loans	2,287	4,596
Loans to related parties	9,994	2,433
Leases	1,863	2,327
Trade finance receivables	–	9,572
Trade and other receivables	2,025	1,827
Cash and cash equivalents	3,783	4,437
Total	19,952	25,192

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer loan, lease or receivable. Each new customer is analysed individually for creditworthiness before payment is made. The conduct of customer accounts is reviewed regularly.

The leases are all secured by the underlying assets leased.

Loans are to professional firms including doctors, dentists, vets, lawyers and accountants and are unsecured but benefit from personal guarantees as management considers necessary.

In 2013, £8,458,000 of the Trade finance receivables were credit insured, as is customary in trade finance before a trade is entered into.

The Group establishes an allowance for impairment on the basis set out in note 2.

Receivables include the following that are wholly or partly in arrears.

	31 March 2014 £'000	31 March 2013 £'000
Loans	505	137
Leases	100	136
Trade and other receivables	423	424
	1,028	697
Provisions made in respect of above	916	198

The Group limits its credit exposure to cash and cash equivalents by only depositing funds with highly rated institutions.

(ii) Foreign exchange risk

The Group's earnings and liquidity are affected by fluctuations in foreign currency exchange rates in respect of the 'available-for-sale' financial assets denominated in overseas currencies. The table below shows the carrying amounts of the Company's 'available-for-sale' financial assets analysed by the currency in which they are held.

Currency	31 March 2014 £'000	31 March 2013 £'000
Sterling	378	1,796
Australian dollars	–	107
Canadian dollars	5	21
Total	383	1,924

The carrying value of the Group's investments in legal funds is set out below:

Currency	31 March 2014 £'000	31 March 2013 £'000 (restated)
Sterling	672	694
Total	672	694

The carrying amounts of the Group's cash and cash equivalents are denominated in the following currencies:

	31 March 2014			31 March 2013 (restated)		
Currency	**Cash at bank and in hand £'000**	**Short-term investments £'000**	**Total £'000**	**Cash at bank and in hand £'000**	**Short-term investments £'000**	**Total £'000**
Sterling	3,773	–	3,773	3,560	–	3,560
US dollars	5	–	5	840	–	840
Euros	3	–	3	28	–	28
Australian dollars	2	–	2	9	–	9
Total	3,783	–	3,783	4,437	–	4,437
Floating rate	3,783	–	3,783	4,437	–	4,437
Fixed rate	–	–	–	–	–	–
Total	3,783	–	3,783	4,437	–	4,437

Sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in £/US$ exchange rate with all other variables held constant.

	31 March 2014 £	31 March 2013 £
Change in US$ rate (+/-2.5%)	+/-100	+/-21,000
Change in US$ rate (+/-5%)	+/-300	+/-42,000

Notes to the financial statements continued

32 Financial risk management continued

(iii) Liquidity risk

The Company has sufficient cash to meet its current requirements. At 31 March 2014 the Company had a £1,000,000 (2013: £1,000,000) bank overdraft facility. The total amount drawn on these facilities at the 31 March 2014 was nil (2013: £345,000). The overdraft facility expires in October 2014. The Company intends to continue selling its portfolio of energy and mining investments during the year.

Year ended 31 March 2014	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowing	–	956	2,034	8,353	–	11,343
Trade and other payables	–	5,112	–	–	–	5,112
	–	6,068	2,034	8,353	–	16,455

Year ended 31 March 2013 (restated)	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest-bearing loans and borrowing	1,250	1,830	7,497	3,179	–	13,756
Trade and other payables	–	4,998	49	–	–	5,047
	1,250	6,828	7,546	3,179	–	18,803

(iv) Interest rate risk

The Company has interest-bearing assets and liabilities mostly at fixed interest rates. The Group and Company had no floating rate borrowings at 31 March 2014 (2013: bank overdraft of the Company of £345,000 with interest linked to Bank of England base rate). With all other variables held constant the profit before tax of the Group and Company will be affected by change in the Bank of England rate as follows:

	31 March 2014 £'000	31 March 2013 £'000
Change of interest rate by 2.5%	–	8
Change of interest rate by 5%	–	16

(v) Price risk

The Group is subject to price risk on its 'available-for-sale' financial assets, including its operating investments and investments in legal funds as well as its portfolio of financial assets. The Group spreads its market risk in respect of the portfolio through diversification. The Group holds fixed income, preference shares and stocks of micro, small, mid and large capitalisation companies. There is a concentration risk in the energy and mining sectors as the majority of the investment portfolio of £383,000 is invested in these sectors. At 31 March 2014, 12% of the Group's portfolio was invested in unlisted equity securities. Price risk in respect of investments in unlisted operating investments and legal funds is managed by the Group having an overall investment portfolio which limits its exposure to unlisted investments individually and collectively.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The fair value of listed financial assets is established by reference to current bid market prices.

The fair value of unlisted investments is determined using valuation techniques as described in note 3.

The fair value of investments in legal funds is taken to be cost, as at the balance sheet date there was not a sufficient track record on which to base a valuation. Due to their short maturity profiles, management is of the opinion that there is no material difference between the fair value and carrying value of trade and other receivables, cash and cash equivalents, and trade and other payables. The directors therefore consider that the carrying value of financial instruments equates to fair value.

The following table presents the Group's assets that are measured at fair value at 31 March 2014.

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
'Available-for-sale' financial assets				
Equity securities	335	–	48	383
Investments in legal cases	–	–	672	672
	335	–	720	1,055

The following table presents the Group's assets that are measured at fair value at 31 March 2013 (as restated).

	Level 1 £'000	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
'Available-for-sale' financial assets				
Equity securities	1,042	455	427	1,924
Operating investments	–	–	18	18
Investments in legal cases	–	–	694	694
	1,042	455	1,139	2,636

Level 1 assets are quoted ordinary shares, non-redeemable preference shares and debentures.

Level 2 asset is a UK equity fund.

The movement on level 3 assets is as follows:

	£'000
Balance at 1 April 2013 (restated)	1,139
Additions	35
Disposals	(72)
Transfer to level 1 assets on unlisted investment becoming listed	(382)
Balance at 31 March 2014	720

£400,000 of the investments in legal cases has been invested directly in case funding while the balance of £272,000 is invested in a portfolio of cases. The value of the direct investment is dependent on the final outcome of the cases and, in the event of adverse rulings, the loss could be up to 100% of the carrying value: conversely, favourable rulings might generate significantly more than the carrying value. The investment in a portfolio of legal cases is carried at cost of acquisition with no significant judgements involved and therefore no sensitivity analysis is required.

Notes to the financial statements continued

32 Financial risk management continued

(vi) Capital Management

The primary objective of the Company's capital management is to ensure that it has sufficient funding capacity for itself and to support the growth and development of its two main SME lending platforms. The Company intends to significantly reduce its head office costs so that the capital requirements of the Company are reduced. The main funding sources for the platforms will continue to be from third party sources. The Company seeks to optimise the mix of debt and equity funding sources to maintain the balance of a robust financial structure whilst creating shareholder value through an appropriate debt equity mix of the Company and the platforms.

Debt equity ratio is shown below:

	31 March 2014 £'000	31 March 2013 £'000 (restated)
Third-party borrowings	3,075	345
Loans from subsidiaries	2,105	1,355
Loan from associate	–	103
Cash	(441)	(26)
Net Debt	4,739	1,777
Equity	9,303	12,753
Gearing	50.9%	13.9%

As an investment company the management only monitors the Company's capital structure instead of the Group structure.

33 Post balance sheet events

There are no post balance sheet events.

Independent Auditor's report

to the members of City of London Group plc

We have audited the financial statements of City of London Group Plc for the year ended 31 March 2014 which comprise the group statement of comprehensive income, the group and company statement of financial position, the group and company statement of changes in equity, the group and company statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Company's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and the Company's affairs as at 31 March 2014 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied by the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Our assessment of risks of material misstatement and an overview of the scope of our audit

We identified the following risks that we believe have had the greatest impact on our audit strategy and scope:

- Recognition of revenue, which consists of interest income: Overstatement of revenue is considered to be a significant audit risk as it is the key driver of returns to investors.

  We evaluated and tested the controls relating to revenue recognition. Analytical procedures were performed linking the revenue recorded during the year to the receivable balance at the year end. Further substantive tests were performed checking the receipt of interest payments to the bank statements. The cut-off around the year end was tested to check income is recognised in the correct accounting period.

- Going concern assumption: The group has incurred operating losses during the period and is reliant on the continuation of certain loan facilities. Whilst the Group has instituted measures to preserve liquidity and the necessary finance, there are risk factors around the cash flow forecasts. These are set out on page 10.

  We reviewed management's assessment of going concern and the assumptions made and compared to funding facilities and terms of other arrangements put in place. We reviewed cash flow forecasts and compared with historic cash inflows and outflows and current working capital requirements in light of developments to the date of approval of the financial statements. We challenged the judgements made by management and analysed sensitivities of projections.

- Accounting for Macquarie facility: There were modifications to the facility in March 2014 which, had an impact on the future cash flows under the modified terms. IAS 39 requires significant modification to be accounted for as a new financial instrument thereby requiring an accelerated charge of £1.3m to the income statement in respect costs capitalised under the original facility. The change is considered significant if the net present value of future cash flows under the modified terms change by 10% or more. Due to the significance of the income statement impact, there is a risk of management bias in estimating the future cash flows.

  We reviewed the calculations of financial liability and financial charge under the effective interest rate method and checked for arithmetical accuracy and compliance with IAS 39. The cash flow forecasts used in the effective interest rate calculation were compared with historic trend of facility drawdowns and budgets agreed with Macquarie. The modification was considered as significant and a charge of £1.3m was recognised in the income statement.

- Valuation of investment in litigation cases: This is based on legal developments of individual cases which can involve judgements by the management and the potential impact on the carrying value of these investments as a result of a change in the circumstances of the cases can be material.

  We obtained updates and assessments on individual cases from management and compared these with solicitors' correspondence and external information in relation to developments and anticipated outcomes on each case and assessed the adequacy of provisions and adjustments to the carrying value of investments in light of developments to the date of approval of the financial statements. We also performed independent search of press releases on individual cases to assess whether those facts and developments have been factored in the management's assessment of fair value and impairment.

Independent Auditor's report continued

to the members of City of London Group plc

- Impairment of carrying value of investment in subsidiaries: The company balance sheet has an amount of £4.9m which relates to cost of investment in subsidiaries and associates. The balance includes equity and debt that has been provided to individual investment platforms. Potential impairment of these investments is considered a significant risk.

  We reviewed the subsidiary and associates platform valuations prepared by management, and approved by the board, for any potential impairment indicators and have considered management's findings in their evaluation of any potential impairment. We reviewed management's cash flow forecasts supporting their valuations and compared these with historic trends, profitability and financial statements, where available, to understand how the future cash flow forecasts compare with historic performance. We have challenged the key assumptions used in the cash flow projections, and where appropriate compared the discount rate and income multiples to those in comparable companies. We assessed the current cash flow forecasts against those provided by management in prior year to assess for reliability of the information provided and have performed sensitivity analysis.

  The Audit Committee's consideration of these judgements is set out on page 13.

Purpose of this report

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements on our audit and on the financial statements. We define planning materiality as the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. We also determine a level of performance materiality which we use to determine the extent of testing needed to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

We determined planning materiality for the financial statements as a whole to be £142,860. In determining this, we based our assessment on a level of 1% of gross assets. On the basis of our risk assessment, together with our assessment of the group's control environment, our judgement is that performance materiality for the financial statements should be 75% of planning materiality, namely £107,145. Our objective in adopting this approach is to ensure that total detected and undetected audit differences do not exceed our planning materiality of £142,860 for the financial statements as a whole.

We agreed with the Audit Committee that we would report all audit differences in excess of £7,143, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 13 and 14 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 10, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

We have nothing to report in respect of these matters.

Neil Fung-On (senior statutory auditor)

For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

2 July 2014

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations. Having taken advice from the audit and risk committee, the directors consider the Annual Report and Accounts, taken as a whole, to be fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors are required to prepare the Group financial statements and have elected to prepare the Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates which are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the European Union subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business; and
- prepare a directors' report, directors' remuneration report, strategic report and an audit and risk committee report which comply with the requirements of the Companies Act 2006.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and as regards the Group financial statements, Article 4 of the IAS Regulations. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Website publication

The directors are responsible for ensuring the annual report and the financial statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained on the website.

Directors' statement pursuant to DTR4

The directors confirm to the best of their knowledge:

- the Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Strategic report and the Directors' report contained in the Annual Report include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

John Kent

Acting Chief Executive

2 July 2014

Investor information and advisers

Financial calendar

We will hold our Annual General Meeting at the offices of Addleshaw Goddard LLP, Milton Gate, 60 Chiswell Street, London, EC1Y 4AG at 10.00am on Tuesday 23 September 2014 and hope that many shareholders will attend.

Q1 IMS	August 2014
Half-year results (available online only)	November 2014

Trading record

For the year ended 31 March	2010	2011	2012	2013	2014
Shareholders' attributable net profit/(loss) (£'000)	143	13	(1,433)	(1,551)	(3,427)
Earnings per share	1.45p	0.12p	(8.24)p	(8.23)p	(17.33)p
Dividends interim paid	0.00p	0.50p	0.50p	0.33p	0.00p
Dividends final proposed	0.50p	1.00p	0.50p	0.00p	0.00p
NAV per share attributable to shareholders	80.10p*	92.50p*	68.80p*	53.00p	34.40p

*before final dividend

NAV per share is calculated on the number of shares in issue less those held in treasury and in the Employee Benefit Trust.

Share price information

The latest City of London Group plc share price can be found on www.londonstockexchange.com code CIN or via a link from our own website www.cityoflondongroup.com.

Announcements

Company announcements are carried on the Company's website at www.cityoflondongroup.com.

Registered office and general enquiries

30 Cannon Street
London
EC4M 6XH
Tel: 020 7628 5518
Fax: 020 7628 8555
Company number: 01539241
Email: office@cityoflondongroup.com
Website: www.cityoflondongroup.com

Company Secretary

Lorraine Young
190 High Street
Tonbridge
Kent
TN9 1BE

Brokers

N+1 Singer
One Bartholomew Lane
London
EC2N 2AX

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Bankers

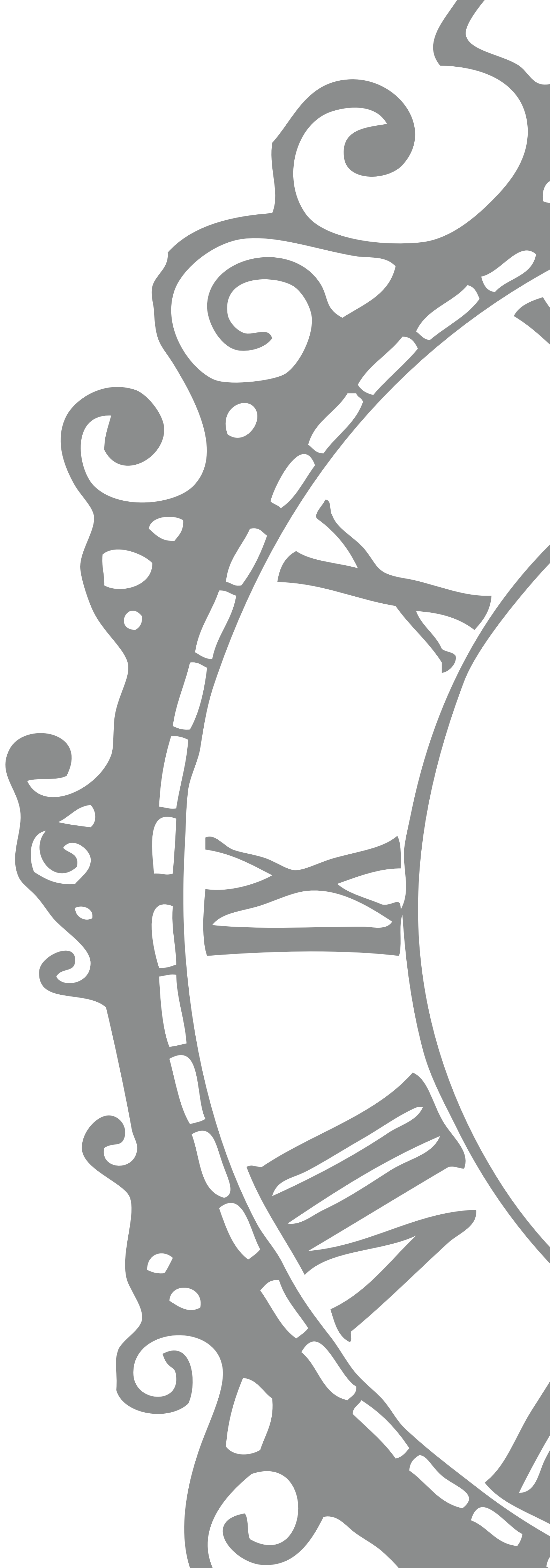
Lloyds Bank plc
2nd Floor
25 Gresham Street
London
EC2V 7HN

Registrar and transfer office

For shareholder administration enquiries, including changes of address, please contact:

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Designed and produced by
ACCRUE FULTON
www.accruefulton.com



City of London Group plc
30 Cannon Street
London EC4M 6XH
Phone: 020 7628 5518
Fax: 020 7628 8555
Email: **office@cityoflondongroup.com**