City of London Group

ANNUAL REPORT AND FINANCIAL STATEMENTS 2018

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Contents

"CITY OF LONDON GROUP PLC ('COLG' OR 'THE COMPANY') IS THE PARENT COMPANY OF A GROUP FOCUSED ON SERVING THE UK SME AND HOME REVERSION MARKETS THROUGH ITS TWO-PRONGED STRATEGY."

Highlights

Business developments

- Equity release provider, Milton Homes acquired in October 2017 for **£19.7m**, satisfied by **shares of £13.2m and cash of £6.5m**
- CAML's own book portfolio **£16.7m** at year end (2017: £13.8m) with new business volumes increasing in the second half of the year with a monthly peak of **£2.3m** in March
- Additional block funding facilities arranged for CAML to facilitate business development
- Process of applying for a UK banking licence began in February following the Company's acquisition of **73% equity interest** in Recognise, which had assembled an experienced team
- Group actively pursuing other opportunities to **increase its financial strength** and provide a platform for future development

Financial results

- **Shares with fair value of £24.65m** issued in year, including **£11.45m for cash. £6.5m cash** paid as part-consideration for Milton Homes with the balance, after meeting the expenses of the transactions, retained to provide general working capital
- **Loss before tax £1.1m** after absorbing costs of £1.1m associated with acquisitions and applying for UK banking licence (2017: loss before tax £1.2m)
- **Consolidated NAV per share attributable to shareholders 81p** (2017: 55p (restated for capital reorganisation))

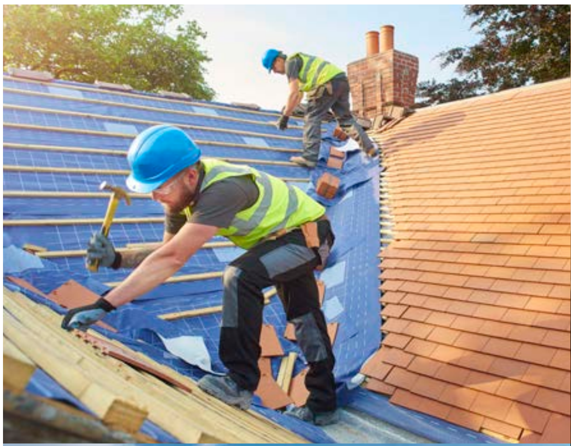
Reports

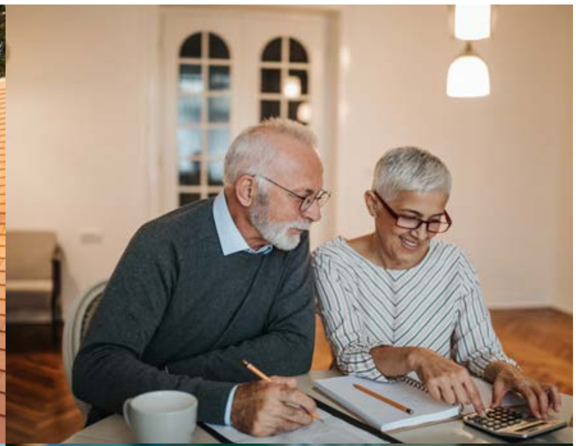
Pages 4 to 5 comprise the Chairman's statement, pages 6 to 10 the Strategic report, pages 15 to 17 the Directors' Remuneration report and pages 18 to 20 the Directors' report, all of which are presented in accordance with English company law. The liabilities of directors in connection with these reports 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.

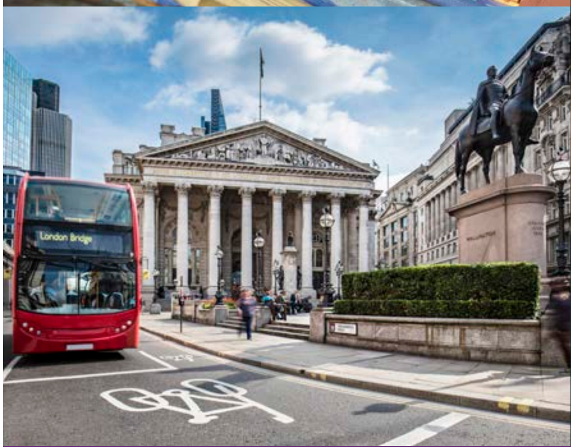
Disclaimer

This annual report and accounts may contain certain statements about the future outlook for City of London Group plc and its subsidiaries and associates. Although we believe our expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.

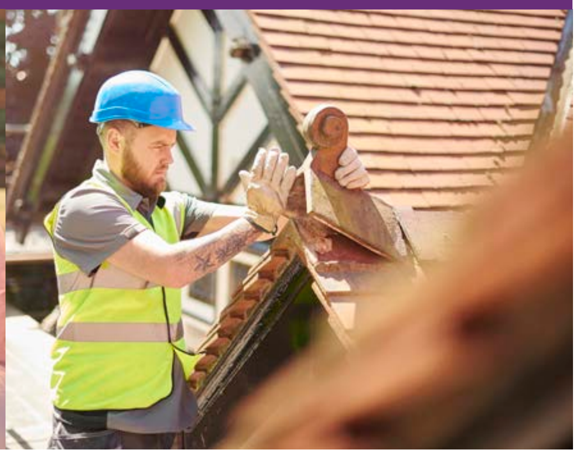
Overview







CITY OF LONDON GROUP IS A FORWARD-THINKING ORGANISATION FOCUSED ON SERVING TWO KEY SEGMENTS, THE UK SME MARKET AND HOME REVERSION. WHILE GROUNDED WITH TRADITIONAL VALUES, THROUGH THE STRENGTH AND DEPTH OF EXPERTISE IN ITS EXPANDING TEAM, IT IS NOW PRIMED FOR FUTURE GROWTH THROUGH ITS TWO-PRONGED STRATEGY.



THE GROUP'S EXPERTISE COVERS FINANCE AND SERVICES FOR THE SME SECTOR AND HOME REVERSION.

COLG ENSURES ITS SERVICES ARE ALWAYS DELIVERED WITH A PERSONAL TOUCH, SO CLIENTS KNOW THAT THEY ARE MORE THAN A CUSTOMER AND HAVE A PARTNER THAT WILL WORK WITH THEM AS THEY LOOK TOWARDS THE FUTURE.

SME services

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

CAML is a business to business provider of debt finance to SMEs. In addition, it provides management services to a third-party fund and to its wholly owned subsidiary PFL for the origination, underwriting, booking and portfolio management, providing commercial loans and asset backed finance to SMEs and loans to professional practice firms who they believe are not being adequately supported by the traditional banking community. CAML sources business for both disciplines through a national network of finance intermediaries.

Recognise

In 2018, COLG acquired Echo Financial Services Ltd which has been rebranded as "Recognise". Recognise was formed to provide financial services to the UK SME sector and the retail and business deposits market. Subject to the successful granting of a banking licence from the Regulator, it will target an underserved but growing business customer population seeking greater human contact, better speeds of response and execution, flexibility of structuring and continuity of management. If successful, we will expect to raise new capital (likely equity) to grow the loan book. The executive team has extensive experience of operating in the regulated banking sector, they have faced the challenges of building SME banking portfolios, both lending and savings, and consequently have a good understanding of the market dynamics and the associated threats and opportunities.

Property & Funding Solutions Ltd

Property & Funding Solutions Ltd ("PFS") offers property loans for acquisitions, refinancing, refurbishments and developments to its customers. The business always ensures customers receive a consistent and reliable point of contact with a manager and access to decision makers. Loan terms are always structured to fit individual business plans, personal to the customer.

Home Reversion

Milton Homes

The Milton Homes business arranges, administers and provides home reversion plans. Established in 2004, Milton Homes is a significant force, in terms of both assets managed and market share, in the home reversion market. With its experienced management team, strong infrastructure and dedication to fulfilling customer needs the Group plans to develop significant long-term exposure to the UK residential property market through the home reversion market. To unlock the capital tied up within properties, many believe they must move or downsize. Milton Homes provides home reversion plans based on either traditional or innovative models.

Chairman's statement

> IN THE YEAR WE HAVE POSITIONED THE COMPANY WELL FOR THE FUTURE… AND A SUBSTANTIAL INCREASE IN THE GROUP'S FINANCIAL STRENGTH.

I am pleased to report a year of considerable and positive activity within City of London Group. In the year we have positioned the Company well for the future in line with our update to shareholders in September 2017, making good progress in implementing our two-pronged growth strategy in which we are focused on serving two key segments, the UK SME market and home reversion. In addition I can report the achievement of a substantial increase in the Group's financial strength.

Following its share capital reorganisation in October, the Group entered the equity release business through the purchase of its subsidiary Milton Homes Limited ("Milton Homes"). In January 2018, the Company made a second strategic acquisition when it acquired a 73% equity interest in Echo Financial Services Limited (now branded as "Recognise") which, as planned, has commenced the process of applying for a UK banking licence. If successful, we will expect to raise new capital (likely equity) to grow the loan book. Finally, the Group has continued to grow its loans and leasing business CAML, which increased its "own book" portfolio by 21% over the year.

The Group's newly-formed property bridging finance company, Property & Funding Solutions Ltd ("PFS"), made its first loans after the year end.

Costs of £1,075k relating to both the acquisitions of Milton Homes and Recognise, and the preparation of the UK banking licence application, have been expensed in the year. These costs account for the Group's loss before tax for the year of £1,055k (2017: loss of £1,187k).

Recognise

Recognise has been formed to provide financial services to the UK small and medium-sized business market, subject to the successful granting of a banking licence from the Regulator.

The growth of the banking sector has accelerated over the last decade and it continues to evolve. At the same time, the SME sector – now with over 5.7m businesses – is witnessing change when it comes to securing funding and savings needs.

The large and well-established banks have, in recent years, moved away from small business relationship management and the experience of personal touch and understanding. By contrast, the challenger banks, in all their various forms, have seized the opportunity and finally gained the traction they needed to fill this void. Recognise has validated this approach through primary external market research of SME owners and the important commercial broker network.

A typical target lending customer for Recognise will be an established business with at least 2 years profitable trading, likely turnover up to £2m and a borrowing requirement of between £100k and £1m (with exceptions up to £2.5m). They may also be a professional landlord. On the deposits side (subject to Regulatory approval), we will be targeting retail and business deposits with amounts up to £85k, minimum £1k.

Should the business be awarded a banking licence, we believe Recognise will be strongly placed to succeed based on a combination of factors which, together, will create a robust platform for future growth and profitability.

COLG has positioned Recognise and its application for a banking licence at the heart of its new corporate strategy, one designed to build a safe, profitable bank while at the same time bringing a new choice to the business banking market. To support this new strategic direction, the Group has worked closely with its advisors to create a new operating structure for the Group, specifically designed to reduce complexity and to underpin Recognise's transition to a fully licensed bank.

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

CAML achieved a 21% increase in its "own book" portfolio in the year, benefiting from strong new business volumes in the second half of the year, peaking at £2.3m in March. However, due to a reduction in managed fund fee income and pressure on yields as a result of increased competition in the SME lending sector, its revenue declined by 11% to £2.1m. The effect of the reduction in yields was mitigated by the re-financing of block funding facilities during the year. CAML is continuing to implement a re-financing programme during the current year.

The consolidated results of CAML and PFL for the year improved marginally, showing a loss of £163k (2017: loss £171k), notwithstanding the pressure on yields. CAML maintained its strict control over costs during the year.

CAML strengthened its balance sheet in March 2018 when it issued £2,465k of ordinary share capital to COLG, after redeeming £2m 7% Preference shares held by COLG.

Milton Homes

The equity release market is dominated by lifetime mortgage products. Since October 2017, an initiative has been advanced that is testing the potential to write new home reversion business. The first stage is being concluded following specific market analysis with a leading equity release partner. With suitable debt finance this can be progressed by offering a tranche of new home reversions through the same partner.

Home reversion assets have locked-in value that is realised incrementally over time as the expected reversion event draws nearer. Properties that become vacant are sold and allow Milton Homes to receive the residual reversionary gains.

The company applies selective asset management to its vacant properties, which contributes to effective local private treaty sales. The national spread of the portfolio and the limited number of higher value properties has proved beneficial as local market conditions tightened in London and varied in the regions.

The portfolio has continued to produce a steady number of property reversions and a predictable cash flow from ensuing sales.

COLG

To allow COLG to capitalise on opportunities afforded by the Group's increased financial strength following the acquisition of Milton Homes, COLG appointed two executive directors and a non-executive Chairman in October. Prior to that date, there had been three non-executive directors.

Shareholders' equity in COLG increased from £1.0m to £23.9m over the year. This followed the issue of new share capital in part consideration for the acquisition of Milton Homes and for cash. A total of £11.45m in cash before expenses was raised.

The Board is seeking authority at the AGM to issue up to 29,205,195 new shares. This is a much larger amount than the authority which would normally be sought but will allow COLG to raise the new equity required to finance the plan for Recognise if the banking licence is obtained. The Board intends to seek investors once it is confident that permission will be granted.

The Board does not recommend payment of a dividend.

Chris Rumsey

Chris Rumsey will be standing down from the Board at the Annual General Meeting in September in advance of his retirement from the Milton Homes Group in May 2019. On behalf of the Board, I should like to thank Chris for his valuable contributions as a Board member since October 2017 as well as for the work that he has done over a number of years at Milton Homes.

Outlook

COLG intends to continue to implement its strategy. With the increase in the Group's financial strength over the year, it is well-placed to develop the potential of both its existing businesses and, subject to the application for a UK banking licence being successful, develop a business focusing on the SME business banking market.

The business model of the Group has continued to evolve. This reflects changes in market conditions and the business environment, the availability of capital, as well as the success of business initiatives seeded through COLG, the holding company of the Group. The model of COLG providing capital to new or early stage businesses will continue and our current strategy will facilitate the future operation of our business model.

Colin Wagman
Chairman
11 July 2018

Strategic report

Business activities

The Group currently has two businesses. Credit Asset Management Limited (CAML) and its subsidiary Professions Funding Limited (PFL) form one operating platform which provided commercial loans and asset backed finance to SMEs and loans to professional practice firms throughout the year. Property & Funding Solutions Ltd (PFS), a newly-formed bridging finance company, made its first loans after the year end.

The Group acquired a second operating platform on 5 October 2017 on the acquisition of Milton Homes Limited, an equity release provider, which provides both traditional and innovative home reversion plans in the UK residential property market.

On 31 January 2018, the Company acquired a 73% equity interest in Echo Financial Services Limited (branded as Recognise), which is in the process of applying for a UK banking licence. If the application is successful, the company will focus on the SME business customer and will encompass both CAML and PFS.

Financial review

The table below shows a breakdown of the Group results:

Loss before tax	2018 £000	2017 £000
Equity release provider (a)	295	–
Loan, lease and professions financing (a)	(163)	(179)
Other	73	81
Holding company – excluding costs associated with acquisitions and banking licence application	(185)	(1,089)
	20	(1,187)
Costs associated with acquisitions and banking licence application	(1,075)	–
	(1,055)	(1,187)

(a) stated after quasi-equity intra group payments of interest and preference dividends.

On a consolidated basis the key performance indicators for the Group are:

	31 March 2018	31 March 2017
Profit/(loss) for year before costs associated with acquisitions and banking licence application	20	(1,187)
Costs associated with acquisitions and banking licence application	(1,075)	–
Loss before tax for the year (£000)	(1,055)	(1,187)
Consolidated net assets per share (attributable to owners of the parent) (a)	81p	55p

(a) 2017 figure restated to reflect the capital reorganisation in October 2017.

Share capital reorganisation

The Company undertook a share capital reorganisation in October 2017 immediately prior to its acquisition of Milton Homes. The consideration for the acquisition was met by the issue of shares with a value of £13.2m and the payment of £6.5m cash. A total of £11.45m before expenses was raised by the issue of shares for cash during the year. In addition to meeting part of the acquisition cost of Milton Homes and the associated expenses of the transactions in October, the cash has provided additional working capital to progress the Group's strategy, including the application for a UK banking licence.

As a result of the transactions during the year, including the issue of share capital, net assets per share for the Company increased to 82p at the year-end (2017: 54p).

Review of the businesses

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL") – loan, lease & professions financing

(a) Description of the business and business model

CAML is a business to business provider of debt finance to SMEs. In addition it provides management services to a third-party fund and to its subsidiary PFL for the origination, underwriting, booking and portfolio management of loans and leases to SMEs 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.

(b) Financial review

A summary of the financial performance of CAML and PFL is set out in the table below:

£000	31 March 2018	31 March 2017
Revenue	2,138	2,404
Operating profit before shareholder capital charges	185	171
Loss before tax	(163)	(179)

CAML maintained the improvement in results seen in the prior year with a marginal decrease in the loss before tax to £163k (2017: loss of £179k). While there was an increase of 21% in the size of the "own book" portfolio, revenue earned fell by 11% to £2.1m, due to a reduction in fee income from the managed fund, continuing through its amortisation phase, and reduced yields as a consequence of increased competition in the SME lending sector. The effect of the reduction in yields was mitigated by the re-financing of block funding facilities during the year on competitive terms, with the full benefit expected to be seen in future years. CAML continued to maintain strict controls over costs.

The key performance indicators are book size and new business levels.

The size of the "own book" portfolio increased 21% over the year to £16.7m (2017: £13.8m) with new business volumes being strong in the last 6 months of the year, reaching a monthly peak of £2.3m in March. However, due to increased competition in the SME lending sector, there was downward pressure on yields which resulted in a reduction in revenue, despite the increase in the "own book" portfolio.

In March 2018, CAML strengthened its balance sheet when it issued a further £2,465k of ordinary share capital to COLG, after redeeming £2m 7% Preference shares held by COLG. The cost of the dividend of £138k up to the date of redemption is included in the loss for the year of £163k.

The size of the managed joint venture fund between COLG and British Business Bank Investments Limited, which is in its amortisation phase, reduced further from £3.2m to £1.1m over the year. Subsequent to the year-end, CAML has purchased the joint venture fund for a consideration based on the size of the portfolio.

Since the year-end CAML has also completed a further re-financing exercise with Hampshire Trust Bank and arranged a three year funding facility of £6.1m on competitive terms. The full benefit of the re-financing programme undertaken over the past few months will be seen in future years.

CAML is well-placed to build on its established relationships and is looking to grow its originations through both existing channels and direct relationships.

Strategic report continued

Milton Homes Limited ("Milton Homes") – home reversion plans

(a) Description of the business and business model

Milton Homes invests in residential property as a provider of home reversion plans to the equity release market. A home reversion plan entails an occupier selling all, or part, of the ownership of their home to Milton Homes in return for a rent free life tenancy. Milton Homes purchases the fixed amount of equity in a property at a discount in exchange for the life tenancy, making it an efficient way to invest in long term house price appreciation in the UK. The occupiers continue to live in their home until they die or move to a care facility, after this Milton Homes will sell the vacant property.

Home reversion plans are acquired via retail financial intermediaries, with applicants receiving independent financial and legal advice. Milton Homes does not give advice.

The result is a leveraged exposure to UK House Price Inflation ("HPI") without maturity concentrations given the spread of realisations over multiple years.

Milton Homes entered the market in 2004 with the acquisition of a portfolio of UK residential properties that were each subject to a home reversion plan. In 2007, Milton Homes merged with Retirement Plus Ltd, acquiring an infrastructure and experienced management team with its innovative form of home reversion plan that had been launched in 2005. In October 2017, Milton Homes became a wholly-owned subsidiary of COLG.

(b) Financial review

A summary of the financial performance of Milton Homes since its acquisition by COLG is set out in the table below:

£'000	**6 months to 31 March 2018**
Revenue	3,590
Operating profit before shareholder capital charges	842
Profit before tax	295

Milton Homes' day-to-day business has not changed since October 2017; it does not take on new customers and continues to sell its properties as reversions occur, producing cash flow for re-investment in the Group. The portfolio was externally valued at £75.1 million at 31 March 2018. There were 613 plans on 552 properties in the portfolio; the difference being due to some occupiers having released some or all of the equity they had initially retained, which is then acquired by the company applying a supplementary home reversion plan.

The key performance indicators include:

- The replenishment of properties sold with new property reversions. In the 6 months to 31 March 2018, 23 properties were sold and there were 23 new property reversions;
- House price change, the main sensitivity to revenue, up 2.05%; and
- Cash flow from property sales: increase in the cash balance of £1.2m over the 6 month period to £2.7m.

Milton Homes continues to employ 8 people.

Other

The results from other activities show a profit of £73k (2017: profit of £81k). The results include the profit from the regulated subsidiary, City of London Financial Services Limited, and the share of profits of the associates. The costs of setting up Property & Funding Solutions Ltd are also included.

Risk management
The principal risks of the Group are reviewed by the Board at least twice each year. A summary of the key risks is set out below together with their mitigation strategies.

Credit risk
Credit risk particularly arises in CAML and PFS. 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 commercial and professional loans, personal guarantees are obtained wherever possible but in any event the professional reputation of the partners of the firm is at stake. For bridging and development finance, funding is secured over the property. In all cases there is a well-defined process for approval including credit committees with specific delegated powers.

Interest rate risk
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 all at fixed rates.

Legal and regulatory risk
This risk arises in various ways but the risk of non-compliance with FCA regulations is considered low as limited business falling within this environment is undertaken. City of London Financial Services Limited, which is ranked in the lowest risk category by the FCA, is now undertaking the activity of 'Operator' only for the two CAML limited partnerships, generating income of a few thousand pounds. CAML itself has full permission to operate under the FCA consumer credit regulations. CAML, which lends only to businesses, is regulated for those businesses that fall within the Consumer Credit Act. The risk of non-compliance by CAML is considered low as these regulated activities constitute only a minor part of its overall revenue. Four subsidiaries of Milton Homes are FCA regulated, with a C4 conduct classification (subject to one contact from the FCA in a 4-year cycle to determine how the business is run) and a P3 prudential classification (as being prudentially non-significant).

The risk of other legal and regulatory non-compliance (including non-compliance with the AIM rules) is mitigated by the use of external advisers, whose appointment and terms of reference are, as appropriate, agreed after consultation with the Board.

Cash flow
The Board assesses its future capital and liquidity requirements regularly and, as part of its overall group strategy, has developed plans to access new funding as required. The businesses have annual budgets that include budgeted cash forecasts and funding requirements. There are some mitigations which could be invoked to reduce working capital requirements including cost cutting and managing the growth of the businesses.

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 businesses finding it difficult to invest at the planned yields. This risk is mitigated by specialist expertise and by increased sales and marketing activity. In the case of the loans and leasing business the speed of credit decisions and the quality of operations is a key differentiator.

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.

Brexit and political uncertainty
The Board views the impending withdrawal of the United Kingdom from the European Union as a key risk given the potential for unfavourable terms of a withdrawal, the uncertainty around market conditions that may result, and the political uncertainty arising. To date these risks have not materially impacted the business model or conditions faced by the Group. The management of COLG and the Board will keep this risk under review and monitor events and the impact surrounding Brexit.

Cyber risk
The Board has considered risks arising from cyber-crime and IT resilience and considers the current operating model of the Group mitigates the risk of business disruption and that the reputational damage from such risks to minimal. These risks will be kept under review in the light of the Group's strategic goals.

People/succession
There is a risk that key management are poached or leave the business which would compromise the business. As a mitigation management is incentivised with equity and bonuses comparable with the market.

Strategic report continued

Going concern

The directors have reviewed in detail the monthly cash flow forecast for the period to 31 December 2019.

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 investee companies is set out below. The Company's subsidiary, Echo Financial Services Limited, is in the process of applying for a UK banking licence. In considering the working capital position, the directors have taken account of the further funding of £1.5m which the Company is committed to make to Recognise. If, as hoped, Recognise is invited to apply for a UK banking licence, it would be necessary for Recognise to meet capital adequacy requirements which would require an equity raising exercise. The Board is in the process of developing plans to access such new funding when required.

COLG

As at the end of December 2019 the Company will have sufficient working capital to meet its requirements.

The key assumption around the cash flow is that Milton Homes will make part repayments of Deep Discount Bonds held by the Company from its operational cash flow which will, inter alia, enable the Company to:

- provide funding of £1.5m to its subsidiary, Echo Financial Services Limited, to progress its UK banking licence application; and
- repay a loan from City of London SME Leasing Limited of £1.45m

Other assumptions include the receipt of funds from the legal case investments equal to their book value of £130k. The quantum payable to the landlord of its previous office premises for dilapidations has been assumed.

Milton Homes

It is assumed the number of reversions and property sales in the period will be comparable with previous periods with a positive cash flow arising from these sales.

CAML/PFL

It is assumed the Company will not be required to provide any further working capital to CAML and that CAML will be able to secure sufficient third party funding to enable the planned development of its business.

Risk factors

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

- The number of reversions and property sales by Milton Homes is less than anticipated.
- The prices realised on the sale of properties is less than expected.
- The planned development of the CAML business is not achieved.
- The non-receipt of funds from the direct legal investments.
- The quantum payable for dilapidations.

Conclusion

After consideration of the above cash flow risk factors and the projected cash balances held by group companies during the period, 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.

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.

Health and Safety

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

Directors and employees

The Company has five male directors and one female director. The Group has six male senior managers (who are directors of companies included in the consolidated accounts).

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.

Preparation of Strategic report

This Strategic report has been prepared to provide 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

Michael Goldstein
Chief Executive Officer
11 July 2018

Directors' biographies


Left to right: Andy Crossley, Chris Rumsey, Paul Milner, Colin Wagman, Michael Goldstein, Lorraine Young

Colin Wagman

(Non-executive Chairman) (non-independent)

Colin was appointed to the Board on 5 October 2017. Colin was admitted as a member of the Institute of Chartered Accountants in England and Wales in 1970. He practiced as a specialist in business structuring and tax planning and became a senior partner of his central London practice in the 1980s. From 1998 until March 2018 he was Deputy Chairman and Chief Financial Officer of Delancey which is the principal adviser to the Delancey property funds which held several billion pounds of property investments and developments in the UK. Colin is also a non-executive director of Alpha Plus Group Plc and Minerva Ltd, as well as being a trustee of several charities.

Paul Milner

(Executive Director)

Paul was appointed to the Board in November 2013 and served as Chairman between October 2015 and October 2017. Paul was appointed as Executive Director following the acquisition of Milton Homes in October 2017. Since July 2013 he has been Chief Executive of a privately owned group of property companies associated with Harvey Bard. 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 on 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 worked at UPP Group Ltd where he played a key role in the successful bond refinancing of a number of student accommodation projects.

Chris Rumsey

(Executive Director)

Chris was appointed to the Board on 5 October 2017. Chris qualified as a chartered surveyor in 1984 having gained experience in commercial and residential property with Milton Keynes Development Corporation and afterwards as development director of Burton Property Trust. In 1995 he joined the Dusco Group, a regulated property investment business, becoming its chief executive. In 2000 he led the management-buy-out of Dusco, allowing him to concentrate on his research into the potential for retirement-age individuals to gain more from their property ownership. In turn this led to the creation of Retirement Plus which he co-founded in 2004 and which became part of Milton Homes in 2007.

Michael Goldstein

(Chief Executive Officer)

Michael was appointed to the Board on 5 October 2017. Michael was admitted as a member of the Institute of Chartered Accountants in England and Wales in 1984. He practised as an audit partner with particular emphasis on the Real Estate sector. He was a Senior Audit partner in BDO LLP where he was responsible for the management of the national audit business. Since leaving BDO in 2015, he has led the restructuring of a large family property business where he is now Chief Executive.

Andy Crossley

(Independent Non-executive Director)

Andy was appointed to the Board on 19 October 2015. Andy is currently the Managing Director of Stockdale Securities Ltd, a UK small/mid-cap institutional stockbroker. He was appointed in April 2015, working alongside Mark Brown, Executive Chairman, to turnaround what was then called Westhouse Securities. The business is now consistently profitable and grew its revenue by almost 50% in its most recent year. Prior to Stockdale, Andy spend four years at Peel Hunt LLP where he was Head of Corporate Sales and subsequently Head of ECM/Syndicate. Prior to his move to the sell side Andy spent twenty-four years, principally at Invesco Perpetual, as one of the UK's best known UK small cap fund managers. Andy currently sits on the AIM Advisory Group and brings a wealth of corporate governance and capital markets expertise to the Company.

Lorraine Young

(Independent Non-executive Director)

Lorraine was appointed to the Board on 10 August 2017. Lorraine runs a board advisory practice and is also a non-executive director of PHSC plc, an AIM listed company which provides health, safety and security management services to a range of organisations. Lorraine is a Past President and Fellow of ICSA, the Governance Institute. She has held senior governance roles at a number of blue chip companies, including Standard Chartered plc and Brambles Industries plc. She ran her own company secretarial and corporate governance advisory practice for 13 years, which in 2016 she merged with the company secretarial team at Shakespeare Martineau, where she is now a consultant.

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 Board of Directors believes the UK Corporate Governance Code ("the Code") issued by the Financial Reporting Council to be a suitable benchmark for the Company and has considered this when determining its governance arrangements.

This report describes how the Company has applied relevant provisions of the Code.

Main principles
The Company has applied the principles of the Code as set out below:

Leadership
The Board comprises six directors, three of whom are non-executive, of whom two are independent. The Board is chaired by Colin Wagman.

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 making appointments to the Board and other offices.

Details of board 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 and receive updates on relevant legal and regulatory changes.

All of the directors will retire and, with the exception of Chris Rumsey, stand for re-election at the AGM. 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.

Board procedures
The Board meets at least six times each year as well as at other times when required. Prior to each scheduled meeting, comprehensive papers, which include regular business updates and management accounts, are prepared and issued. Discussion papers are circulated in advance of the need for Board approval of particular transactions to allow sufficient time for considered debate and decision. All significant decisions are taken at Board level.

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.

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.

Audit and risk committee report
The members of the committee are Andrew Crossley, Colin Wagman (since 5 October 2017) and Lorraine Young (since 10 August 2017). Andrew Crossley was committee chairman throughout the year. Paul Milner was a member until October 2017.

Financial results
The committee reviewed the full and half year financial results before they were 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 issues that arise in relation to the audit of the financial statements and considered the following significant issues that it had identified with the auditors:

- Recognition of revenue (gains on the revaluation/disposal of interests in properties and interest income), where there is a risk that revenue may be overstated. Testing confirmed income had been recognised in the correct accounting period.
- Valuation of the reversionary interests in the investment properties and equity release plan financial assets (affecting both revenue recognition and carrying value in the balance sheet) which involves a large degree of judgement and estimation. Testing confirmed that the methodology and estimates adopted were reasonable and consistent with previous practice.
- The use of the acquisition method of accounting for the transaction with Milton Homes Limited
- 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 further provisions were required in relation to the carrying value of investments.

The above risks were discussed with the auditors at the audit and risk committee.

External auditors

The committee considered 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 43.

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.

Competitive audit tender

A competitive audit tendering process was undertaken during the year following the acquisition of Milton Homes Limited. It was decided to appoint the existing auditors of the Company, BDO LLP, as auditors of all Group companies.

Internal audit

The audit and risk committee, having reviewed the need for internal audit, agreed that it was not appropriate for a business of the Company's size to have an internal audit function at the present time. Should the application for a UK banking licence be successful, the Group will put suitable internal audit arrangements in place.

Board review of internal controls and risk management

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 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 together with a review of detailed KPIs and explanation of key variances.
- COLG executive directors participate in regular management meetings of subsidiaries and review their monthly management accounts.
- Regular audit reports commissioned by third party lenders to CAML.
- Monthly bank and key control account reconciliations.
- Payment authorisation controls.
- The maintenance of detailed risk registers which includes analysis of all of the key risks facing the Group. These are reviewed by both the audit and risk committee and the full Board.
- The monitoring and control of credit risks by a central credit committee that sets loan sanctioning limits for the Group's lending businesses.

The respective responsibilities of the directors and the auditors in connection with the financial statements are explained on page 66 and pages 70 and 71. 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 15 to 17.

No director is involved in discussions or decisions on their own remuneration.

The remuneration of the non-executive directors is determined by the Board. Non-executive directors abstain from discussions or voting concerning their own remuneration. Details of directors' remuneration appear in the Directors' Remuneration report.

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.

Corporate governance statement continued

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 J Crossley	6	6	4	4	2	2
M H Goldstein	2	2	–	–	–	–
P G Milner	6	6	2	2	–	–
C R Rumsey	2	2	–	–	–	–
C B Wagman	2	2	2	2	1	1
L E Young	4	4	2	2	2	2

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.

Ben Harber
Company Secretary
11 July 2018

Directors' Remuneration report

Annual Report on Remuneration

Remuneration committee

The remuneration committee is responsible for developing the policy on remuneration for executive directors and senior management and for determining specific remuneration packages for each of the executive directors. The committee members are Colin Wagman, who is the Chairman, Andrew Crossley and Lorraine Young. Paul Milner was a member until October 2017. 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 twice 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 businesses when making these decisions.

Responsibility for the remuneration policy of subsidiaries is devolved to the boards of those companies.

The committee did not use remuneration advisers during the year.

The executive directors were on part time contracts.

Remuneration of Executive Directors

Elements of remuneration

During the year, the executive directors' total remuneration consisted of base salary. In addition, the executive directors were awarded share options under the Share Option Plan 2017.

Base salary

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.

Share option schemes

Fixed price options

During the year fixed price options were awarded to executive directors under the Share Option Plan 2017. Details of the awards are given in the table on page 16.

Single total figure of remuneration for each director

Directors' remuneration as a single figure for years ended 31 March 2018 and 2017.

Executive directors

For the year ended 31 March 2018	Salary £	All taxable benefits £	Total £
Michael Goldstein (a)	85,705	–	85,705
Paul Milner (b)	48,955	–	48,955
Chris Rumsey (c)	112,522	673	113,195

For the year ended 31 March 2017	Salary £	Payment in lieu of notice £	Compensation for loss of office £	All taxable benefits £	Total £
John Kent	6,626	47,250	30,000	195	84,071
Jason Granite (d)	7,000	–	–	–	7,000

(a) Appointed 5 October 2017.

(b) Non-executive director until 5 October 2017. This remuneration relates to the period from 5 October 2017, the date of his appointment as an executive director.

(c) Remuneration for the period since his date of appointment on 5 October 2017. Mr Rumsey is the managing director of the Milton Homes Group which meets his remuneration costs.

(d) Jason Granite is a director of FCFM Group Limited which received nil (2017: £168,000) for consultancy services provided to the Group.

Directors' Remuneration report continued

Non-executive directors

	Year ended 31 March 2018 £	Year ended 31 March 2017 £
Colin Wagman (a)	15,000	–
Andrew Crossley (b)	27,500	27,500
Paul Milner (c)	14,051	27,500
Lorraine Young (d)	17,734	–
Andrew Crowe	–	10,349

(a) Appointed as Chairman on 5 October 2017.

(b) The remuneration for A Crossley was paid to Stockdale Securities Ltd.

(c) Executive director from 5 October 2017. This remuneration relates to the period up to 5 October 2017, the date of his appointment as an executive director.

(d) Appointed 10 August 2017.

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 31 March 2018	At 31 March 2017[a][b]
Andrew Crossley	–	–
Michael Goldstein	–	–
Paul Milner	16,238	4,759
Chris Rumsey	–	–
Colin Wagman	–	–
Lorraine Young	–	–

(a) Or date of appointment if later.

(b) Restated to reflect the capital reorganisation in October 2017.

Share held by EBT

21,349 shares were held by the Employee Benefit Trust at 31 March 2018 (2017: 21,349 shares, as restated to reflect the capital reorganisation in October 2017).

Share options

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

	Date of grant	Granted in year	At 31/03/18	Exercisable from	Exercisable to	Exercise price
M Goldstein	05/10/2017	555,556	555,556	05/10/2020	05/10/2027	90.00p
P Milner	05/10/2017	333,333	333,333	05/10/2020	05/10/2027	90.00p
C Rumsey	05/10/2017	111,111	111,111	05/10/2020	05/10/2027	90.00p
		1,000,000	1,000,000			

Service contracts

Details of executive directors' service contracts are shown below.

Director	Date of contract	Unexpired term	Notice period	Compensation payable on early termination
Michael Goldstein	14 September 2017	6 months rolling after 5 October 2018	6 months	Contractual
Paul Milner	14 September 2017	6 months rolling after 5 October 2018	6 months	Contractual
Chris Rumsey (a)	8 January 2008	12 months rolling	12 months	Contractual

(a) Mr Rumsey's service agreement is with the Milton Homes Group.

The non-executive directors have letters of appointment, details of which are shown below.

Director	Date of letter of appointment	Unexpired term	Notice period	Compensation payable on early termination
Andrew Crossley	18 September 2015	2 months	1 month	None
Colin Wagman	14 September 2017	27 months	1 month	None
Lorraine Young	10 August 2017	25 months	1 month	None

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

Colin Wagman
Chairman of Remuneration committee
11 July 2018

Directors' report

This is the Directors' report for the year to 31 March 2018.

Results and dividends

The results for the Group are set out on page 21. No dividends were declared during the year (2017: nil).

Events since the year end

Post balance sheet events are set out in note 35.

Future developments in the business

Information on future developments is included in the Strategic report.

Financial risk

Financial risk management objectives and policies and relevant risk disclosures are set out in Note 33.

Principal activity

Following completion of the acquisition of Milton Homes Limited on 5 October 2017, the Company changed its status from an investing company to a trading company for the purposes of the AIM Rules. The Company is the parent company of a group which currently has two businesses, the first focused on providing finance to the SME sector and the second on providing both traditional and innovative home reversion plans in the UK residential property market. If, as hoped, a UK banking licence is granted to the Company's subsidiary, Echo Financial Services Limited, the Group will be able to provide further financial services to serve the UK SME market. The Board believes there are particular opportunities in these sectors.

Directors and their interests

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

A J Crossley
M H Goldstein (appointed 5 October 2017)
P G Milner
C R Rumsey (appointed 5 October 2017)
C B Wagman (appointed 5 October 2017)
L E Young (appointed 10 August 2017)

In addition M G Cohen was appointed as alternate to C B Wagman on 12 December 2017 and resigned on 24 April 2018.

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 16.

Share capital

Details of the share capital of the Company in issue during the financial year and changes to it can be found in note 26.

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 11 July 2018	%
DV4 Limited	14,666,667	50.2
Max Barney Investments Limited	9,629,815	33.0

Directors' indemnities and insurance

The Group has directors' and officers' liability insurance in place.

Statement of directors' responsibilities

The statement of directors' responsibilities is set out on page 66 of this annual report.

Financial instruments

Details of the financial instruments to which the Group is a party are included in note 32 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 the annual general meeting to be held on 13 September 2018.

Annual General Meeting

This year's annual general meeting will be held at 1.00 pm on 13 September 2018 at the offices of Shakespeare Martineau, 60 Gracechurch Street, London EC3V 0HR. Notice of the meeting can be found on pages 72 to 73 of this document.

Explanation of business

The following is an explanation of the business to be considered at the annual general meeting.

Resolution 1 – report and accounts – Company law requires the directors to present the Company's annual report and accounts to the shareholders in respect of each financial year.

Resolutions 2 to 6 – re-election of directors – Under the recommended best practice set out in the UK Corporate Governance Code, all of the directors should retire and submit themselves for re-election at each AGM. The directors have decided to follow this best practice guidance and therefore they are all standing for re-election with the exception of Chris Rumsey who is standing down from the Board at the AGM.

Resolution 7 – reappointment of auditors and determination of their fees – Company law requires shareholders to reappoint the auditors each year. The audit and risk committee has reviewed the effectiveness, independence and objectivity of the external auditors and, on behalf of the Board of directors, recommends the external auditors' reappointment. The resolution also authorises the directors to determine the auditors' remuneration in accordance with normal practice.

Resolution 8 – authority to allot shares – This ordinary resolution seeks shareholder' authority for the directors under section 551 of the Companies Act 2006 ("the Act") to allot unissued shares and to grant rights to subscribe for, or to convert any security into, shares in the Company. This authority will, if granted, expire, unless previously revoked, renewed or varied, at the conclusion of next year's AGM, or, if earlier, on 30 September 2019, although offers or agreements can be made before the expiry of that period, which might require shares to be allotted or rights granted after the expiry of that period. This authority, if approved, will be limited to a maximum nominal amount of £584,103.90, representing a maximum of 29,205,195 ordinary shares of 2 pence each, equivalent to 100 per cent of the issued capital of the Company as at 8 August 2018 being the latest practicable date prior to the publication of this document. As stated in the Chairman's statement, the directors believe that they should have the authority proposed in the resolution to enable the Company to raise sufficient new equity to finance the business opportunities if a banking licence is obtained.

Directors' report continued

Resolution 9 – disapplication of pre-emption rights for the issue of new shares – If the directors wish to allot new shares and other equity securities for cash, the Act requires that any such shares are offered first to existing shareholders in proportion to their holdings. This is known as shareholders' pre-emption rights. There may be occasions, however, when the directors need the flexibility to finance business opportunities as they arise without offering securities on a pre-emptive basis. The Act allows a limited disapplication of these pre-emption rights in certain circumstances. Therefore, this resolution, which will be proposed as a special resolution, authorises the directors to issue, for cash, up to a total nominal amount of £584,103.90 in ordinary shares (that is 29,205,195 ordinary shares of 2 pence each), equivalent to approximately 100 per cent of the issued share capital of the Company (as at 8 August 2018), without the shares first being offered to existing shareholders. This resolution will be proposed subject to resolution 8 (referred to above) first being carried at the meeting and the authority sought, if granted, will be for the same period as that granted under resolution 8.

Resolution 10 – authority for the Company to make market purchases of its own shares – The Act permits market purchases of shares subject to certain defined limits and there being distributable profits available for the purchase. Shareholder approval is required before such purchases can be made. This special resolution provides the required authority. This resolution is seeking to authorise the Company to make market purchases of its own shares up to a maximum amount of 2,920,520 ordinary shares. This represents 10 per cent of the Company's issued capital at 8 August 2018.

The maximum price paid per share shall be equal to 5 per cent above the average market values of the shares (as derived from the Daily Official List of the London Stock Exchange) for the five business days immediately preceding the date on which the share is purchased. The minimum price paid shall be the nominal value per share. The directors will only use this authority to purchase shares after careful deliberation, taking into account market conditions, other investment opportunities, appropriate gearing levels and the overall financial position of the Company. The directors will also take into account the effects on earnings per share and the benefit for shareholders generally. Any shares bought by the Company under this authority will either be held in treasury, with a view to possible re-issue at a future date, or cancelled. The directors will decide at the time of purchase whether to cancel shares immediately or to hold them in treasury. In relation to treasury shares, the Board would also have regard to any investor guidelines in relation to the purchase of shares intended to be held in treasury or in relation to their holding or resale which may be in force at the time. This authority will expire, unless previously revoked, renewed or varied, at the conclusion of next year's AGM or on 30 September 2019, whichever is earlier.

Voting

A form of proxy is included at the end of this document for use at the annual general meeting. Please complete, sign and return it as soon as possible in accordance with the instructions on it, whether or not you intend to come to the annual general meeting. Returning a form of proxy will not prevent you from attending the meeting and voting in person if you wish. A form of proxy should be returned so that it is received not less than 48 hours (excluding non-working days) before the time of the annual general meeting.

By order of the Board

Ben Harber
Company Secretary
11 July 2018

Consolidated income statement

for the year ended 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Revenue	4	5,782	2,569
Cost of sales	4	(7)	(42)
Gross profit		5,775	2,527
Administrative expenses:	6		
Acquisition of Milton Homes		(669)	–
Banking licence application, including acquisition of Echo Financial Services		(406)	–
Other		(2,913)	(2,579)
Loss on sale of investments	7	–	(81)
Provision for impairment of investments	7	–	(41)
Share of profits of associates	18	103	78
Other income	8	114	138
Profit from operations		2,004	42
Finance expense	10	(3,059)	(1,229)
Loss before tax		(1,055)	(1,187)
Tax expense	11	(130)	–
Loss for the year		(1,185)	(1,187)
Loss for year before costs associated with acquisitions and banking licence application		(110)	(1,187)
Costs associated with acquisitions and banking licence application		(1,075)	–
Loss for the year		(1,185)	(1,187)
Loss for the year attributable to:			
Owners of the parent		(1,132)	(1,152)
Non-controlling interests		(53)	(35)
Loss for the year		(1,185)	(1,187)
Basic and diluted earnings per share attributable to owners of the parent (a)	13	(7.53)p	(7.66)p

(a) 2017 earnings per share has been restated to reflect the capital re-organisation in October 2017.

The group had no discontinued operations in either 2018 or 2017.

Consolidated statement of comprehensive income

for the year ended 31 March 2018

	31 March 2018 £'000	31 March 2017 £'000
Total loss for the year	(1,185)	(1,187)
Other comprehensive income/(expense) from continuing operations		
Items that will or may be reclassified to profit or loss 'Available-for-sale' financial assets		
– Valuation losses taken on equity investments	–	(43)
– Provision for impairment transferred to income statement	–	41
– Loss on sale transferred to income statement	–	78
Other comprehensive income from continuing operations	–	76
Total other comprehensive income	–	76
Total comprehensive expense	(1,185)	(1,111)
Total comprehensive expense attributable to:		
Owners of the parent	(1,132)	(1,076)
Non-controlling interests	(53)	(35)
	(1,185)	(1,111)

Consolidated statement of changes in equity

	Attributable to owners of the parent company					Attributable to non-controlling interests £'000	Total equity £'000
	Fair value reserve £'000	Accumulated losses £'000	Share premium £'000	Share capital £'000	Total £'000		
At 31 March 2016	(76)	(15,732)	14,332	3,685	2,209	(100)	2,109
'Available-for-sale' investments							
– Valuation losses taken to equity	(43)	–	–	–	(43)	–	(43)
– Provision for impairment transferred to income statement	41	–	–	–	41	–	41
– Loss on sale transferred to income statement	78	–	–	–	78	–	78
Net income recognised directly in equity	76	–	–	–	76	–	76
Loss for the year – continuing operations	–	(1,152)	–	–	(1,152)	(35)	(1,187)
Total comprehensive income	76	(1,152)	–	–	(1,076)	(35)	(1,111)
Contributions by and distributions to owners	–	–	–	–	–	–	–
Reduction in non-controlling interests	–	(135)	–	–	(135)	135	–
At 31 March 2017	–	(17,019)	14,332	3,685	998	–	998
Loss for the year – continuing operations	–	(1,132)	–	–	(1,132)	(53)	(1,185)
Total comprehensive income	–	(1,132)	–	–	(1,132)	(53)	(1,185)
Contributions by and distributions to owners							
Value of employee services	–	15	–	–	15	–	15
Issue of shares	–	–	23,388	548	23,936	–	23,936
Total contributions by and distributions to owners	–	15	23,388	548	23,951	–	23,951
Shares issued to non-controlling interests	–	–	–	–	–	3	3
At 31 March 2018	–	(18,136)	37,720	4,233	23,817	(50)	23,767

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

Company statement of changes in equity

	Fair value reserve £'000	Accumulated losses £'000	Share premium £'000	Share capital £'000	Total £'000
At 31 March 2016	(76)	(15,805)	14,332	3,685	2,136
'Available-for-sale' investments					
– Valuation losses taken to equity	(43)	–	–	–	(43)
– Transferred to provision for impairment	41	–	–	–	41
– Transferred to profit or loss on sale	78	–	–	–	78
Net income recognised directly in equity	76	–	–	–	76
Loss for the year	–	(1,229)	–	–	(1,229)
Total income and expense for the year	76	(1,229)	–	–	(1,153)
Contributions by and distributions to owners	–	–	–	–	–
At 31 March 2017	–	(17,034)	14,332	3,685	983
Loss for the year	–	(1,064)	–	–	(1,064)
Total expense for the year	–	(1,064)	–	–	(1,064)
Value of employee services	–	15	–	–	15
Issue of shares	–	–	23,388	548	23,936
Total contributions by and distributions to owners	–	15	23,388	548	23,951
At 31 March 2018	–	(18,083)	37,720	4,233	23,870

Consolidated balance sheet

as at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Assets			
Non-current assets			
Investment properties	14	44,926	–
Financial assets – equity release plans	15	30,213	–
Intangible assets	16	2,180	–
Property, plant and equipment	17	16	16
Interests in associates	18	292	224
Other investments	19	138	140
Loans	20	4,506	4,665
Finance leases	20	2,689	2,916
Total non-current assets		84,960	7,961
Current assets			
Loans	20	6,291	5,054
Finance leases	20	2,352	2,211
Trade and other receivables	21	1,566	1,225
Cash and cash equivalents	22	6,685	1,763
Total current assets		16,894	10,253
Total assets		101,854	18,214
Current liabilities			
Borrowings	23	(9,331)	(5,160)
Trade and other payables	23	(2,578)	(1,685)
Total current liabilities		(11,909)	(6,845)
Non-current liabilities			
Borrowings	24	(65,494)	(10,371)
Deferred tax liability	25	(684)	–
Total non-current liabilities		(66,178)	(10,371)
Total liabilities		(78,087)	(17,216)
Net assets		23,767	998
Equity			
Share capital	26	4,233	3,685
Share premium		37,720	14,332
Accumulated losses		(18,136)	(17,019)
Equity attributable to owners of the parent		23,817	998
Non-controlling interests	27	(50)	–
Total equity		23,767	998

The notes on pages 30 to 65 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 11 July 2018.

They were signed on its behalf by

Michael Goldstein
Chief Executive Officer

Company balance sheet

as at 31 March 2018

	Note	31 March 2018 £'000	31 March 2017 £'000
Assets			
Non-current assets			
Property, plant and equipment	17	1	2
Investment in subsidiary companies	18	12,173	2,160
Investment in Deep Discount Bonds	18	11,696	–
Other investments	19	138	140
Loans	20	–	–
Total non-current assets		24,008	2,302
Current assets			
Loans	20	37	785
Trade and other receivables	21	191	627
Cash and cash equivalents	22	1,751	238
Total current assets		1,979	1,650
Total assets		25,987	3,952
Current liabilities			
Trade and other payables	23	(2,117)	(1,941)
Total current liabilities		(2,117)	(1,941)
Non-current liabilities			
Borrowings	24	–	(1,028)
Total non-current liabilities		–	(1,028)
Total liabilities		(2,117)	(2,969)
Net assets		23,870	983
Equity			
Share capital	26	4,233	3,685
Share premium		37,720	14,332
Accumulated losses		(18,083)	(17,034)
Total equity		23,870	983

The parent company's loss after tax for the financial year amounts to £1,064,000 (2017: loss £1,229,000).

The notes on pages 30 to 65 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 11 July 2018.

They were signed on its behalf by

Michael Goldstein
Chief Executive Officer

Consolidated statement of cash flows

for the year ended 31 March 2018

	31 March 2018 £'000	31 March 2017 £'000
Cash flows from operating activities		
Loss before tax	(1,055)	(1,187)
Adjustments for:		
Depreciation and amortisation	18	16
Share-based payments	15	–
Impairment of 'available-for-sale' financial assets	–	41
Loss on disposal of 'available-for-sale' financial assets	–	81
Share of profits of associates	(103)	(78)
Investment properties and equity release plan financial assets:		
Increases in the fair values of these assets	(2,364)	–
Realised gains on the disposal of these assets	(417)	–
Equity transfer income	(809)	–
Interest payable	3,059	1,229
Changes in working capital:		
(Increase) in trade and other receivables	(262)	(415)
Increase/(decrease) in trade and other payables	320	(1,508)
Proceeds from sale of 'available-for-sale' financial assets	–	97
Leases advanced	(3,707)	(3,717)
Leases repaid	3,793	2,702
Loans advanced	(10,366)	(10,510)
Loans repaid	7,643	11,838
Loans repaid by related parties	875	3,000
Cash (used in)/generated from operations	(3,360)	1,589
Corporation tax	–	–
Net cash (used in)/generated from operating activities	(3,360)	1,589
Cash flow from investing activities		
Proceeds from the sale of Investment properties and equity release plan financial assets	4,392	–
Receipt of deferred consideration arising from prior year disposal of assets held for sale	770	404
Return of seed capital in legal case investments	2	6
Distribution of profits from related parties	35	–
Proceeds from shares in subsidiary issued to non-controlling interests	3	–
Purchase of Investment properties and equity release plan financial assets	(34)	–
Purchase of property, plant and equipment	(7)	(6)
Proceeds from sale of equipment	–	1
Acquisition of Milton Homes, net of cash acquired (see note 18(a))	(5,001)	–
Net cash generated from investing activities	160	405

Consolidated statement of cash flows continued

for the year ended 31 March 2018

	31 March 2018 £'000	31 March 2017 £'000
Cash flow from financing activities		
Proceeds from issue of ordinary shares	10,736	–
Loans drawn down	13,290	9,897
Repayment of loans	(15,047)	(11,538)
Interest paid	(857)	(1,087)
Net cash generated from/(used in) financing activities	8,122	(2,728)
Net increase/(decrease) in cash and cash equivalents	4,922	(734)
Cash and cash equivalents brought forward	1,763	2,497
Net cash and cash equivalents	6,685	1,763
Cash and cash equivalents	6,685	1,763
Bank overdraft	–	–
Net cash and cash equivalents	6,685	1,763

Company statement of cash flows

for the year ended 31 March 2018

	31 March 2018 £'000	31 March 2017 £'000
Cash flows from operating activities		
Loss before tax	(1,064)	(1,229)
Adjustments for:		
Depreciation	2	7
Share based payments	15	–
Impairment of 'available-for-sale' financial assets	–	41
Loss on disposal of 'available-for-sale' financial assets	–	81
Provision for losses in subsidiaries	–	127
(Release of provision)/provision for amounts owed by related parties	(17)	21
Interest receivable on Deep Discount Bond	(547)	–
Interest payable	167	184
Changes in working capital:		
Decrease/(increase) in trade and other receivables	534	(125)
Increase/(decrease) in trade and other payables	102	(65)
Proceeds from sale of 'available-for-sale' investments	–	97
Net cash used in operating activities	(808)	(861)
Cash flow from investing activities		
Receipt of deferred consideration arising from prior year disposal of assets held for sale	770	404
Return of seed capital in legal case investments	2	6
Acquisition of Milton Homes – cash element of consideration (see note 18(a))	(6,500)	–
Acquisition of Echo Financial Services Limited, including subscription for Deferred Shares	(1,007)	–
Other amounts subscribed for shares in group companies.	(465)	–
Purchase of property, plant and equipment	(1)	–
Net cash (used in)/generated from investing activities	(7,201)	410
Cash flow from financing activities		
Proceeds from issue of ordinary shares	10,736	–
Loans drawn down	–	640
Repayment of loans	(1,028)	–
Interest paid	(186)	(177)
Net cash generated from financing activities	9,522	463
Net increase in cash and cash equivalents	1,513	12
Cash and cash equivalents brought forward	238	226
Net cash and cash equivalents	1,751	238
Cash and cash equivalents	1,751	238
Bank overdraft	–	–
Net cash and cash equivalents	1,751	238

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 6th Floor, 60 Gracechurch Street, London EC3V 0HR. The Company is listed on AIM.

City of London Group plc is the parent company of a group which currently has two business activities, the first focused on providing finance to the SME sector, including professional services firms, through both loan and lease finance and the second on providing traditional and innovative home reversion plans in the UK residential property market. A subsidiary of the Company, Echo Financial Services Limited, is in the process of applying for a UK banking licence. 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 11 July 2018.

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 'investment properties, financial assets – equity release plans and other investments (principally comprising legal case investments). 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 are not presented.

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 page 10.

At the date of authorisation of these financial statements, the following standards which have not been applied in these financial statements were in issue but not yet effective. These standards, which are effective for annual periods beginning on or after 1 January 2018 unless otherwise stated, have been adopted by the EU.

IFRS 9 'Financial Instruments' – IFRS 9 introduces new requirements for the classification and measurement of financial assets and financial liabilities, impairment methodology and hedge accounting.

Under IFRS 9, a single classification and measurement model is to be used for financial assets, which is dependent on the entity's business model for managing financial assets and the contractual cash flow characteristics of those financial assets.

Financial assets fall into one of three principal classification categories: (i) amortised cost, (ii) fair value through profit and loss or (iii) fair value through other comprehensive income. Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income.

IFRS 9 also introduces a new expected credit loss model for calculating impairment losses in place of the incurred credit loss model that applies under IAS 39. This requires entities to account for expected credit losses at the time of initial recognition of the financial asset and to account for changes in expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

IFRS 9 also changes the criteria that apply to hedge accounting.

An assessment of the impact of IFRS 9 on the Group's consolidated financial statements has been made on the basis of the Group's financial assets and liabilities as at 31 March 2018, as set out below.

On classification and measurement

Financial assets – equity release plans: The Group owns rights to increasing beneficial interests in residential properties in the UK through Property Plan agreements. The values of these interests are, subsequent to initial recognition at cost, measured at fair value with changes recognised in the consolidated income statement. Directly attributable transaction costs are excluded from the initial cost of financial assets which are fair valued through profit or loss. These assets will continue to be measured at fair value through profit and loss upon the application of IFRS 9.

Finance leases, hire purchase agreements and loans: These are held solely for the collection of contractual cash flows, being interest, fees and repayments of principal. These assets will continue to be held at amortised cost upon the application of IFRS 9.

Legal case investments: These are carried at fair value and gains and losses arising from changes in fair value of each fund are recognised in other comprehensive income. These assets will continue to be measured at fair value through other comprehensive income upon the application of IFRS 9.

Trade payables, financial liabilities and trade receivables are held solely for the collection and payment of contractual cash flows, being payments of principal and interest where applicable. These will continue to be held at amortised cost upon the application of IFRS 9.

On impairment

Finance leases, hire purchase agreements and loans: The provision for impairment of these financial assets currently comprises two elements: the first relates to specific provisions on amounts owed that are made on an individual basis by reference to past default experience, any change in the credit quality of the customer and other recoverability information, including an assessment of expected future cash flows, while the second is a collective impairment provision which is an assessment of impairments existing at the balance sheet date that will not become evident until a future date. In carrying out the collective impairment review, the financial assets are grouped together by type (whether finance lease, commercial loan or professional loan) and on the basis of similar credit risk categories, which are provided by third party credit risk agencies. The collective impairment provision for each category is based on past default experience for financial assets falling within that category and is an assessment of the expected loss over the lifetime of agreements within the category. This approach, which has been followed for some years, has proved to give an overall provision for impairment that reflects the loss experience of the portfolio.

Under IFRS 9, entities are required to have regard to information about current conditions and reasonable forecasts about future expectations when assessing Expected Credit Losses (“ECL”). The business continues to assess the impact of applying IFRS 9, modelling its future ECLs for the relevant portfolios.

Hedge accounting

The Group does not use any hedging instruments and hence, IFRS 9 will have no impact.

IFRS 15 ‘Revenue from Contracts with Customers’ – IFRS 15 introduces a 5-step approach to the timing of revenue recognition based on performance obligations in customer contracts.

Revenue arises from the Group’s two principal business activities:

- For Milton Homes, its equity release provider, revenue arises from the periodic revaluation of its investment properties and equity release plan financial assets and from the disposal of its interests in these assets.
- For CAML, which provides loans, lease and professions financing to the SME market, revenue comprises loan and lease interest, arrangement fees and management fee income.

An assessment of the impact of IFRS 15 on revenues has been completed. Revenue recognition under IFRS 15 is expected to be consistent with current practice for the Group’s revenue and the Group is not expecting any material impacts from the adoption of IFRS 15.

IFRS 16 ‘Leases’ – Provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. Lessor accounting under IFRS 16 is similar to existing IAS 17 accounting. This standard is effective for accounting periods beginning on or after 1 January 2019. The Group has not yet completed its assessment of the potential impact of adopting IFRS 16 and hence the impact of adopting IFRS 16 on the Group’s earnings or shareholders’ funds cannot yet be reliably estimated.

2.2 Adoption of new standards and interpretations

There are no new accounting standards or interpretations that have been adopted for the first time in these financial statements.

2.3 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.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but are 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.

2.4 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. The Group's share of profits and losses in associates is included within the Group's profits/(losses) from operations as investments in associates are made as part of the Company's activities. 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.

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.

2.5 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 interest's 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.

2.6 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 the income statement and is not subsequently reversed.

2.7 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.

2.8 Non-financial assets

(a) Investment property

Freehold and leasehold property held for capital appreciation that is not occupied by the Group is classified as investment property. Leasehold property is treated as a finance lease within investment property.

Investment property is measured initially at cost, including commissions paid to independent financial advisors and directly attributable property acquisition transaction costs, and is thereafter reported at fair value, which reflects market conditions at the period end date.

Gains or losses arising from a change in the fair values of the investment properties are recognised in the consolidated income statement in the year in which they arise.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future benefits can be expected. The gain or loss arising from the retirement or disposal of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the consolidated income statement.

(b) Other non-current assets

The carrying value of other 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.

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.

2.9 Financial assets

The Group and the Company classify financial assets in the following categories: financial assets – equity release plans, loans receivable, trade and other receivables, leases receivable and other investments (principally legal case investments). The classification depends on the purpose for which the financial assets were acquired.

(a) Financial assets – equity release plans

Through Property Plan agreements, the Group owns rights to increasing beneficial interests in residential properties in the United Kingdom. The values of these interests are, subsequent to initial recognition at cost, measured at fair value with changes recognised in the consolidated income statement. Directly attributable transaction costs are excluded from the initial cost of financial assets which are fair valued through profit or loss.

Gains or losses arising from a change in the fair values of the financial assets are recognised in the consolidated income statement in the year in which they arise.

A financial asset is derecognised on disposal or when the financial asset is permanently withdrawn from use and no future benefits can be expected. The gain or loss arising from the retirement or disposal of financial assets is determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognised in the consolidated income statement.

(b) 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.

Loans and 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 loans and 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 the loan or 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 loan or 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, as appropriate, disclosed separately in the income statement or recognised within 'administrative expenses.'

Notes to the financial statements continued

2 Summary of significant accounting policies continued

(c) Finance leases receivable

Where the Group leases out equipment under a lease or hire purchase agreement 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.

Amounts due under finance leases and hire purchase agreements are recognised initially at fair value and, subsequently, are measured at an amortised cost that reflects a constant periodic rate of return on the net investment outstanding, less a provision for impairment which is assessed on an individual basis by reference to past default experience and other recoverability information relating to the specific agreement. The amount of the provision is, as appropriate, disclosed separately in the income statement or recognised within ‘administrative expenses’.

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. 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) Investment in subsidiaries – separate financial statements

Investments in subsidiaries are accounted for at cost less impairment.

(e) Investment in Deep Discount Bonds – separate financial statements

The Company holds Deep Discount Bonds issued in 2015 by its wholly-owned subsidiary, Milton Homes Limited. The Deep Discount Bonds have an interest element of 10% accruing to reach the maturity value on the repayment date of 31 December 2020. Following their acquisition in October 2017, the Deep Discount Bonds were recorded at their fair value at that date, which was determined by discounting the maturity value at the coupon rate of 10%. Interest accruing since that date is then added to that amount to establish the fair value at subsequent dates. On the repayment date, the carrying value will be the maturity value.

(f) Investment in associates

Investments in associates are accounted for at cost less impairment. 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) Legal case investments

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 income statement 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 in 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.

2.10 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.

2.11 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.

2.12 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 owners 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 owners.

2.13 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.

2.14 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.

2.15 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.

2.16 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.

2.17 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.

2.18 Revenue
Revenue comprises profits arising on investment properties and financial assets – equity release plans, interest income and management fees and arrangement fees.

The profits arising on investment properties comprise the profit or loss on disposal of investment properties and the gain on revaluation of the investment properties. The profits arising on the financial assets – equity release plans comprise the profit or loss on reverted properties, the gain on the revaluation of these financial assets and the Equity Transfer Rate ("ETR") income.

Equity Transfer Rate ("ETR") income represents the recognition of the increase in the Group's beneficial interest in the properties underlying the equity release plan financial asset portfolio in accordance with the contractual terms of the Retirement Plus Property Plan. ETR income is recognised on a monthly basis over the term of the plan until the Group's beneficial interest reaches the maximum set out in each individual Property Plan.

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.

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.

2.19 Other income
Other income is recognised on an accruals basis.

Notes to the financial statements continued

2 Summary of significant accounting policies continued

2.20 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.

2.21 Employee benefits

The Group operates an equity-settled share-based payment compensation plan 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. 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 are considered an integral part of the grant itself and are charged to the income statement at the time of vesting of the awards.

2.22 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 costs 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.

2.23 Corporation tax

Tax 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 other comprehensive income.

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 tax 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.

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.

(a) Valuation of investment properties
Valuation method
The Group owns beneficial interests in residential properties in the United Kingdom. The fair values of these interests are based on the equity owned percentage of the properties upon the Group taking vacant possession, the fair value of the properties at the balance sheet date, assuming vacant possession, less a discount to take account of the risk of the realisation of those interests.

The Board is responsible for determining the Group's valuation policies and procedures. An external valuer is appointed to perform the valuation. The selection criteria used to select that valuer include their market knowledge and expertise, independence and demonstrable compliance with professional standards.

The fair value of the properties is determined on a market value basis with an assumption of vacant possession. One third of the properties each year are inspected externally to arrive at this value using a conventional approach of comparable analysis. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group's assets, including those properties which have become vacant and are in the process of being sold. Where the Group has taken vacant possession of property an allowance has been made against the full market value to take account of necessary refurbishment costs. Where properties are not inspected by the valuers a composite average of relevant house price indices are applied to the value estimated when previously inspected by the valuers.

The discount percentage is based upon a number of factors over which judgements are made. These judgements include:

- Investment term – the length of time until vacant possession becomes due.
- Investment rate – also known as a discount rate and this includes a judgement of the current marketability and condition of the property.
- Cost saving rate – the potential cost saving of acquiring already existing life tenancy investments.

There were no changes in valuation techniques during the year.

Valuation assumptions
Investment term – the investment term is the period until the Group obtains vacant possession. This is based on the age of the tenant occupying the property and published life expectancy tables from the Office for National Statistics for the period 2014-16. Where there is joint tenancy, the life expectancy of the tenant with the longest life expectancy has been used.

The length of the investment term is modified by applying a "speed up" rate to the life expectancy figures, as this reflects market evidence that the lower the age of the youngest tenant, the more likely it is that the Group will be able to access vacant possession before the end of the tenant's life, through the tenant entering into a care home or living with other family members.

The speed up rate applied ranges from 10% for younger tenants to 2.5% for older tenants. This remains unchanged from the prior period.

Investment rate – this input reflects the risk and opportunity which includes the growth prospects and marketability prospects of the property. Guidance is taken from the yield rates used by Valuation Tribunals for residential property.

The investment rates applied range from 5.75% to 7%. This remains unchanged from the prior period.

Cost saving rate – In determining the discount percentage, an adjustment is made for each property to take into account the potential cost saving of acquiring already existing life tenancy investments. It is estimated that the initial set up cost per property of acquiring life tenancy investments is approximately 5% of the value of the vacant possession equity being acquired.

1.25% uplift has been applied to account for the potential cost savings of acquiring already existing life tenancy investments. This remains unchanged from the prior year.

(b) Valuation of financial assets – equity release plans
Valuation method
The Group owns beneficial interests in residential properties in the United Kingdom. The fair values of these interests are based on the estimated equity owned percentage of the properties upon the Group taking vacant possession, the fair value of the properties at the balance sheet date, assuming vacant possession, less a discount to take account of the risk of the realisation of those interests.

Notes to the financial statements continued

3 Judgements and estimates continued

The Board is responsible for determining the Group's valuation policies and procedures. An external valuer is appointed to perform the valuation. The selection criteria used to select that valuer include their market knowledge and expertise, independence and demonstrable compliance with professional standards.

The fair value of the properties is determined on a market value basis with an assumption of vacant possession. One third of the properties each year are inspected externally to arrive at this value using a conventional approach of comparable analysis. In some cases, the fair values are determined based on recent real estate transactions with similar characteristics and location to those of the Group's assets, including those properties which have become vacant and are in the process of being sold. Where properties are not inspected by the valuers a composite average of relevant house price indices are applied to the value estimated when previously inspected by the valuers.

The discount percentage is based upon a number of factors over which judgements are made. These judgements include:

- Investment term – the length of time until vacant possession becomes due.
- Investment rate – also known as a discount rate and this includes a judgement of current marketability and condition of the property.
- Equity interest upon the Group taking vacant possession – the anticipated equity percentage expected to be held by the Group upon taking vacant possession.

The resultant valuations are capped at the estimated value of the Group's interest in the vacant possession value of the property should it have been obtained at the balance sheet date.

There were no changes in valuation techniques during the period.

Valuation assumptions

Investment term – the investment term is the period until the Group obtains vacant possession. This is based on the age of the tenant occupying the property and published life expectancy tables from the Office for National Statistics for the period 2014-16. Where there is joint tenancy, the life expectancy of the tenant with the longest life expectancy has been used.

The length of the investment term is modified by applying a "speed up" rate to the life expectancy figures, as this reflects market evidence that the lower the age of the youngest tenant, the more likely it is that the Group will be able to access vacant possession before the end of the tenant's life, through the tenant entering into a care home or living with other family members.

The speed up rate applied ranges from 10% for younger tenants to 2.5% for older tenants. This remains unchanged from the prior period.

Equity interest upon the Group taking vacant possession – the anticipated equity percentage expected to be held by the Group upon taking vacant possession is calculated with reference to the expected investment term, the equity interest owned by the Group at the balance sheet date and the additional slices of equity in each property that will accrue under the terms of the equity release plans.

Investment rate – this input reflects the risk and opportunity which includes the growth prospects and marketability prospects of the property. Guidance is taken from the yield rates used by Valuation Tribunals for residential property.

The investment rates applied range from 5.75% to 7%. This remains unchanged from the prior period.

(c) Assessing impairment of investments in subsidiaries and associates

Investments in subsidiaries and associates are valued at cost less impairment.

The Group had one active operating platform, CAML, throughout the year and acquired a second on 5 October 2017 when Milton Homes Limited became a wholly-owned subsidiary of the Company. On 31 January 2018, the Company acquired a 73% equity interest in Echo Financial Services Limited which has applied for a UK banking licence.

CAML has its own management and operations and an opportunity and risk profile unique to its business. While CAML achieved a 21% increase in its "own book" portfolio over the year, benefiting from strong new business volumes in the second half of the year, there was pressure on yields as a result of increased competition in the SME lending sector. The effect of the reduction in yields is being mitigated by a continuing re-financing programme of its block funding facilities. Despite the pressure on yields, CAML maintained the improvement in results seen in the prior year and is well-placed to build on its established relationships, looking to grow its originations through both existing channels and direct relationships.

In March 2018, CAML redeemed the £2m 7% Preference Shares held by the Company which then subscribed for £2,465,000 additional ordinary share capital at par. This strengthened the capital position of CAML which will benefit in future years from having a larger equity base.

Having considered these factors as part of the annual reassessment of the fair value of CAML, the directors have concluded that there has been no reduction in its fair value since 31 March 2017 and, accordingly, the Company's investment in CAML is carried at the same value as in the previous year.

The Company acquired all the Deep Discount Bonds and ordinary shares in Milton Homes Limited ("Milton Homes"), an equity release provider, on 5 October 2017. As required under IFRS 3, the assets and liabilities within Milton Homes as at the date of acquisition were identified and their fair values assessed (see note 18(a)). It was determined that the fair value of the Deep Discount Bonds and the ordinary shares were then £11,149k and £8,551k respectively. In accordance with Milton Homes' established practice, the fair values of both its Investment properties and Financial assets – equity release plans were reassessed as at 31 March 2018 and incorporated into the financial statements, which show that the business was profitable in that period. The directors have concluded there has been no adverse change in the fair value of the Company's investment in Milton Homes in the period since acquisition.

On 31 January 2018, the Company acquired a 73% equity investment in Echo Financial Services Limited ("Recognise"), a recently established company which had been formed for the purpose of preparing and submitting an application for a UK banking licence. As at the year-end, the Company had invested £1,007k in ordinary and deferred shares in Recognise and has committed to provide additional funding to progress the application (see note 29). Recognise is progressing its application for a UK banking licence to the Prudential Regulation Authority ("PRA") and is continuing to develop its planning. The directors consider that it is appropriate to carry the investment at cost during this period until the outcome of the application is known.

The directors consider the fair valuation of each underlying operating business to be an important measure of the current position of their operating businesses.

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 their forecast profitability in the foreseeable future and, in the case of Recognise, the current status of its banking licence application. 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.

Detailed impairment assessments of the underlying lending portfolios are performed by the subsidiaries and associates in line with the group policy (see policy on impairment of loans and leases below).

(d) Dilapidations

The Company's lease on its previous office premises terminated on 28 May 2017 after it had exercised break-clause provisions contained in the lease. The amount payable for dilapidations has not yet been agreed with the landlord. The accounts include an estimate for dilapidations which was made after taking professional advice: the estimate is based on a comparable lease.

(e) Impairment of finance leases, hire purchase agreements and loans

For finance leases, hire purchase agreements and loans, the provision for impairment is determined on an individual basis by reference to past default experience and other recoverability information relating to the specific agreement, with recoverable amounts being assessed by reference to the expected future cash flows. The assessment covers a range of elements, including an assessment of any change to the credit quality of the customer, analysis of delinquency history both at the individual customer level and by relevant sectors, such as customer and asset type. Data available from credit rating agencies and generally available information in the public domain is also taken into account when assessing impairment levels required. As the portfolio matures, ongoing analysis of the adequacy of previously taken impairment provisions is made to assess the effectiveness of the impairment process and the adequacy of provision levels: amendments to the impairment process are made as required. 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 provision at the balance sheet date, with movements in the provision being included in the income statement. This process accounts for impairments existing at the balance sheet date that are not evident until a future date.

In respect of disputes, management seeks legal advice where necessary and makes adjustments to the impairment provisions based on the advice received.

(f) Tax

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

Notes to the financial statements continued

4 Revenue and cost of sales

Revenue	31 March 2018 £'000	31 March 2018 £'000	31 March 2017 £'000	31 March 2017 £'000
Milton Homes				
Profit on disposal of investment properties	235		–	
Gain on revaluation of investment properties	2,029		–	
Profit on the disposal of equity release plan financial assets	182		–	
Gain on revaluation of equity release plan financial assets	335		–	
Equity transfer income arising under equity release financial assets plans	809		–	
		3,590		–
CAML				
Loan and lease interest	1,983		2,051	
Arrangement fees	60		68	
Management fee income	95		285	
		2,138		2,404
Other				
Interest receivable		54		165
Total revenue		5,782		2,569

Cost of sales	31 March 2018 £'000	31 March 2017 £'000
Commissions and introduction fees	–	42
Costs on acquisition of interests in investment properties/equity release financial assets	7	–
Total cost of sales	7	42

5 Segmental reporting

A reportable segment is identified based on the nature and size of its business and risk specific to its operations. It is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, which is responsible for allocating resources and assessing performance of the operating segments, has been identified as the full Board of the Company.

The Group is managed through its operating businesses: the provision of home release plans to the equity release market and loan, lease and professions financing. A subsidiary is in the process of making a banking licence application. A description of the activities of each business is given in the Strategic report. The COLG segment includes the Group's central functions.

Pre-tax profit and loss
For the year ended 31 March 2018

		Revenue £'000	Operating profit/(loss) £'000	Share of profits of associates £'000	Finance expense £'000	Quasi-equity intra group payments £'000	Profit/(loss) before tax £'000
COLG	Intra-Group	685	715	–	(116)	–	599
	Acquisitions and banking licence application	–	(879)	–	–	–	(879)
	Other	–	(732)	–	(52)	–	(784)
		685	(896)	–	(168)	–	(1,064)
Platforms	Equity release provider	3,590	2,874	–	(2,032)	(547)	295
	Loan, lease and professions financing						
	CAML/PFL	2,138	772	–	(797)	(138)	(163)
	Other	54	54	103	(62)	–	95
	Banking licence application	–	(196)	–	–	–	(196)
	Other	–	(22)	–	–	–	(22)
	Intra-Group	(685)	(685)	–	–	685	–
		5,782	1,901	103	(3,059)	–	(1,055)

The Profit from operations in the Consolidated income statement of £2,004,000 is the sum of £1,901,000 and £103,000 as shown above.

The quasi-equity intra group payments comprise interest and dividends on preference shares payable to COLG.

Pre-tax profit and loss
For the year ended 31 March 2017

		Revenue £'000	Operating profit/(loss) £'000	Share of profits of associates £'000	Finance expense £'000	Profit/(loss) before tax £'000
COLG	Intra-Group	140	233	–	(116)	117
	Other	6	(1,138)	–	(68)	(1,206)
		146	(905)	–	(184)	(1,089)
Platforms	Loan, lease and professions financing					
	CAML/PFL	2,404	826	–	(1,005)	(179)
	Other	275	275	78	(296)	57
	Legal case funding	–	13	–	–	13
	Other	–	11	–	–	11
	Intra–Group	(256)	(256)	–	256	–
		2,569	(36)	78	(1,229)	(1,187)

The Profit from operations in the Consolidated income statement of £42,000 is the sum of £78,000 less £36,000 as shown above.

Notes to the financial statements continued

5 Segmental reporting continued

Consolidated Net Assets

For the year ended 31 March 2018

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	20,247	
	Loan, lease and professions financing	2,465	
	Banking licence application project	1,007	
	Other	150	
			23,869
	Other net liabilities		(137)
Net assets per entity balance sheet			23,870
Other net liabilities of subsidiary companies			(103)
Consolidated Net Assets			23,767

Consolidated Net Assets

For the year ended 31 March 2017

		£'000	Total £'000
COLG	'Available-for-sale' financial assets		8
	Legal case investments		132
Platforms	Loan, lease and professions financing	2,010	
	Other	150	
			2,160
	Net liabilities		(1,317)
Net assets per entity balance sheet			983
Other net assets of subsidiary companies			15
Consolidated Net Assets			998

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

6 Administrative expenses

	31 March 2018 £'000	31 March 2017 £'000
Staff		
Payroll (see note 9)	1,569	1,249
Other staff costs	30	46
Establishment costs		
Property costs	336	309
Other	833	518
Auditor's remuneration (see below)	177	94
Legal fees	336	50
Consultancy fees	96	188
Other professional fees	593	109
Depreciation	18	16
Total administrative expenses	3,988	2,579
Expenses relating to:		
Acquisition of Milton Homes Limited	669	–
Acquisition of Echo Financial Services Limited and banking licence application project	406	–
Other administrative expenses	2,913	2,579
	3,988	2,579

Directors' emoluments are shown in the Directors' Remuneration report on pages 15 and 16.

Auditor's remuneration	31 March 2018 £'000	31 March 2017 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	39	41
Fees payable to the Company's auditors for other services:		
The audit of subsidiaries pursuant to legislation	58	30
Audit related assurance services	3	–
Tax services	77	23
Total fees	177	94

7 Losses on financial assets

	31 March 2018 £'000	31 March 2017 £'000
Loss on sale of investments	–	(3)
Fair value reserve transfer from equity on sale of investments	–	(78)
Provision for impairment of investments during the year	–	(5)
Fair value reserve transfer from equity on impairment of investments	–	(36)
	–	(122)

The disposal of the 'available for sale' portfolio was completed in the year ended 31 March 2017 when a provision for impairment of £41,000 was made in respect of residual investments held.

Notes to the financial statements continued

8 Other income

	31 March 2018 £'000	31 March 2017 £'000
Consultancy	15	22
Sundry income	99	116
	114	138

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 2018	31 March 2017
COLG	4	2
Lease and professions financing	10	11
Equity release provider (a)	8	–
Banking licence application project (a)	3	–
Total	25	13

(a) The average number is the average for the period from acquisition/start of project to 31 March 2018.

The aggregate payroll costs of these employees were as follows:

	31 March 2018 £'000	31 March 2017 £'000
Wages and salaries	1,373	1,115
Social security costs	153	114
Pensions	28	20
Share option scheme	15	–
Total (a)	1,569	1,249

(a) 2017 includes executive termination costs of £301,000.

10 Finance expense

	31 March 2018 £'000	31 March 2017 £'000
Loan interest	3,059	1,229
Total finance expense	3,059	1,229

11 Tax expense

	31 March 2018 £'000	31 March 2017 £'000
UK corporation tax		
Current year charge	–	–
Deferred tax		
Relating to origination and reversal of temporary differences	130	–
Total tax expense	130	–

Factors affecting the tax expense for the year

The tax expense for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK, which is 19% (2017: 20%). The differences are explained below.

Tax reconciliation	31 March 2018 £'000	31 March 2017 £'000
Loss before tax	(1,055)	(1,187)
At standard rate of corporation tax in the UK:	(200)	(237)
Effects of		
Items not deductible for tax purposes	350	68
Other tax adjustments	(20)	(3)
Movement on unrecorded deferred tax asset	–	172
	130	–

12 Dividends

No dividends were paid and recognised during either the current or prior year. The directors do not recommend payment of a final dividend (2017: 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 26).

	31 March 2018	31 March 2017 (restated)
Loss attributable to equity holders (£'000)	(1,132)	(1,152)
Weighted average number of ordinary shares in issue ('000)	15,025	15,025
Basic and diluted earnings per share	(7.53)p	(7.66)p

The weighted average number of ordinary shares in issue in 2017 has been adjusted to reflect the capital reorganisation in October 2017 (see note 26) and the earnings per share for 2017 has been restated on that basis. The basic and diluted earnings per share are the same as, given the loss for the year, the outstanding share options would reduce the loss per share.

14 Investment properties

At valuation	Number	31 March 2018 £'000	31 March 2017 £'000
At 1 April		–	–
On acquisition of Milton Homes on 5 October 2017	317	45,390	–
Additions	–	24	–
Disposals	(15)	(2,517)	–
Revaluations		2,029	–
At 31 March	302	44,926	–
Investment properties		37,788	–
Investment properties held for sale		7,138	–
		44,926	–

Notes to the financial statements continued

15 Financial assets – equity release plans

At valuation	Number	31 March 2018 £'000	31 March 2017 £'000
At 1 April		–	–
On acquisition of Milton Homes on 5 October 2017	258	30,517	–
Additions	–	10	–
Equity transfer		809	–
On ending of plans	(8)	(1,458)	–
Revaluations		335	–
At 31 March	250	30,213	–
Financial assets – equity release plans		27,741	–
Financial assets – equity release plans held for sale		2,472	–
		30,213	–

16 Intangible assets

Group	Goodwill £'000
Cost	
At 1 April 2016 and 1 April 2017	–
Addition – acquisition of Milton Homes	2,180
At 31 March 2018	2,180
Accumulated amortisation and impairment	
At 1 April 2016 and 1 April 2017	–
Addition	–
At 31 March 2018	–
Carrying amount	
At 31 March 2018	2,180
At 31 March 2017	–

The goodwill, which arose on the acquisition of Milton Homes Limited on 5 October 2017 as set out in note 18(a), is carried at cost. An assessment as to whether or not there has been any impairment of goodwill is required to be made annually. The first such assessment will be made during the year ended 31 March 2019.

17 Property, plant and equipment

	Group		Company	
	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Cost				
At 1 April	352	348	318	319
Additions – acquisition	11	–	–	–
Additions	7	6	1	–
Disposals	(318)	(2)	(318)	(1)
At 31 March	52	352	1	318
Depreciation				
At 1 April	336	321	316	310
Charge for the year	18	16	2	7
Disposals	(318)	(1)	(318)	(1)
At 31 March	36	336	–	316
Net book value				
At 31 March	16	16	1	2

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

18 Investments

Group	Interests in associates £'000
As at 31 March 2016	146
Share of profits of associates	78
As at 31 March 2017	224
Share of profits of associates	103
Distribution of profits from associates	(35)
As at 31 March 2018	292

Notes to the financial statements continued

18 Investments continued

Company	Investment in Deep Discount Bonds £'000	Investments in subsidiaries £'000	Total £'000
Cost			
As at 31 March 2016 and 31 March 2017	–	5,127	5,127
Additions in year	11,149	12,023	23,172
Disposals in year	–	(2,010)	(2,010)
Increase in value over period (i)	547	–	547
As at 31 March 2018	11,696	15,140	26,836
Provision for impairment			
As at 31 March 2016 and 31 March 2017	–	2,967	2,967
Addition in year	–	–	–
As at 31 March 2018	–	2,967	2,967
Carrying amount			
As at 31 March 2018	11.696	12,173	23,869
As at 31 March 2017	–	2,160	2,160

(i) being interest accrued from 5 October 2017 to 31 March 2018.

(a) Milton Homes Limited ("Milton Homes")

On 5 October 2017, the Company purchased Milton Homes Limited, which is an equity release provider, in order to acquire a second business platform which has the potential to grow in the expanding equity release sector. Details of the purchase consideration, the net assets acquired and goodwill are set out below.

As an equity release provider, Milton Homes holds beneficial interests in UK residential properties, which are categorised as either investment properties or financial instruments, depending on the home reversion product. The investment properties were acquired through a traditional home reversion product where a customer sold all or part of the equity in their home to Milton Homes. The financial instruments are equity release plans which comprise a second more modern product, where Milton Homes acquires the right to a share of the customer's home: the percentage interest increases each month up to a predefined amount. An equity release plan allows flexibility for the customer, who can transfer the plan to another property if they move home. Milton Homes' interest in the property is held through an option agreement, which is classified as a financial instrument under IFRS.

The consideration for the purchase of the Deep Discount Bonds and all the ordinary shares in Milton Homes Limited of £19,700,000 was met by a cash payment of £6,500,000 and the issue of 14,666,667 ordinary shares of the Company with a fair value of £13,200,000. The shares were issued at their fair value of 90p, which was the issue price for ordinary shares issued for cash on 3 October and 4 October 2017.

The acquisition method of accounting has been used for the transaction with Milton Homes Limited, with identifiable assets and liabilities acquired being measured at their fair values at the acquisition date. In accordance with IFRS 3, "Business Combinations" it has been determined that Milton Homes was acquired.

The fair values of the assets and liabilities acquired as at 5 October 2017 were based on the unaudited consolidated management accounts of Milton Homes for the period to 30 September 2017. These accounts were prepared using the same bases as in the statutory accounts and incorporated its Investment properties and Financial assets at their 30 September 2017 fair values, as set out in the quarterly report provided by the external valuer appointed by Milton Homes.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Carrying value at acquisition £'000	Fair value adjustment £'000	Fair value £'000
Investment properties	45,390	–	45,390
Financial assets – equity release plans	30,517	–	30,517
Property, plant and equipment	11	–	11
Trade and other receivables	79	–	79
Cash and cash equivalents	1,499	–	1,499
Borrowings	(58,865)	–	(58,865)
Other creditors	(158)	–	(158)
Trade and other payables	(399)	–	(399)
Deferred tax	–	(554)	(554)
Total	18,074	(554)	17,520

	£'000
Net assets acquired	17,520
Goodwill	2,180
Consideration	19,700
Satisfied by:	
Issue of ordinary shares of the Company at fair value	13,200
Cash	6,500
	19,700

Following an assessment of Milton Homes' tax position, a fair value adjustment of £554,000 as at 5 October 2017 has been made for the deferred tax liability in respect of gains arising from the revaluation of investment properties. The deferred tax liability takes account of tax losses that can be offset against the gains. Prior to 1 April 2017, all such gains could be covered by tax losses but, subsequent to that date, the amount of tax losses that can be used is restricted. This replaces a provisional fair value adjustment that was reported in the Company's interim report. As a consequence, goodwill of £2,180,000 arises on the acquisition.

(b) Echo Financial Services Limited ("Recognise")

On 31 January 2018, the Company acquired a 73% equity interest in Recognise, a recently established company with no material assets or liabilities, which had been formed for the purpose of preparing and submitting a UK banking licence application and, assuming the grant of the licence, creating a business serving the commercial, SME, bridging and development finance markets. The remaining 27% equity interest is held by the three executives leading the banking application licence project, J Oakley, B Glover and A Golumbina.

Under the Shareholders' Agreement, the Company is committed to provide total funding of up to £2,500,000 to progress the banking licence application. If, however the Company determines Recognise requires further funding, the Company and J Oakley will provide Shareholder Loans in equal proportions up to an amount of £1,500,000 (a maximum of £750,000 each). During the year, the Company subscribed £1,007,000 in cash for ordinary and deferred shares in Recognise.

No goodwill arose in relation to the acquisition as Recognise had no material assets and liabilities at 31 January 2018.

The Company has put and call option arrangements over the equity interest held by the executives. The maximum amount payable by the Company to acquire the equity interest is £5,400,000 which will be satisfied by the issue of the Company's ordinary shares. Neither the put or call option is deemed to have any value as at 31 March 2018.

Notes to the financial statements continued

18 Investments continued

(c) Credit Asset Management Limited ("CAML")

In March 2018, CAML redeemed £2,000,000 of 7% preference shares held by the Company which then subscribed £2,465,000 at par for additional ordinary share capital, so increasing the total amount of its investment by £465,000. The CAML balance sheet has been strengthened by the issue of additional equity capital and the redemption of preference shares.

No change in the provision for impairment has been made following a reassessment of the carrying value of this investment as at 31 March 2018.

(d) Associates

Summarised financial information on the associates is set out below:

Year ended 31 March 2018	COLG SME LP £'000	COLG SME Loans LP £'000
Non-current assets	165	129
Current assets	875	524
Current liabilities	(267)	(94)
Non-current liabilities	(400)	(350)
Net assets	373	209
Revenue	354	113
Profit from continuing operations	203	2
Total comprehensive income	203	2

Year ended 31 March 2017	COLG SME LP £'000	COLG SME Loans LP £'000
Non-current assets	733	475
Current assets	1,445	776
Current liabilities	(358)	(125)
Non-current liabilities	(1,650)	(850)
Net assets	170	276
Revenue	571	292
Profit from continuing operations	52	104
Total comprehensive income	52	104

(e) Investments

Details of investments are as follows:

Company subsidiary undertaking	Nature of business
Milton Homes Limited	Holding company
Retirement Plus Limited	Administrator & arranger of equity release plans
Milton Homes Properties Limited	Equity release provider
Retirement Plus Property Plans Limited	Equity release provider
Living Plus Limited	Equity release provider
Living Plus Assets Limited	Holder of home reversion plans
Echo Financial Services Limited	UK banking licence application
Credit Asset Management Limited	Leasing and loans
Professions Funding Limited	Professions funding
Property & Funding Solutions Ltd	Bridging & development finance
City of London Confirming House Limited	Holding company
City of London SME Leasing Limited	Holding company
COLG SME (GP) Limited	Holding company
City of London Financial Services Limited	General financial

Associate investments	Nature of business
COLG SME LP	Leasing
COLG SME Loans LP	Professions funding

All the subsidiary undertakings are wholly owned with the exception of Echo Financial Services Limited where the Company holds 73% of ordinary shares and 100% of deferred shares in issue.

All the subsidiary undertakings are held directly by the Company with the following exceptions:

- Professions Funding Limited is a wholly owned subsidiary of Credit Asset Management Limited.
- Retirement Plus Limited, Milton Homes Properties Limited, Retirement Plus Property Plans Limited, Living Plus Limited and Living Plus Assets Limited are wholly-owned subsidiaries of Milton Homes Limited.

City of London SME Leasing Limited holds a 50% interest in each of the two associate investments. The same proportion is held indirectly by the Company. The remaining 50% interest was acquired by Credit Asset Management Limited after the year-end (see note 35).

All subsidiaries and associates are registered in England and Wales and have a 31 March year end. The registered office address of each is 6th Floor, 60 Gracechurch Street, London EC3V 0HR, with the exception of Echo Financial Services Limited, whose registered office address is 93 Church Street, Bilston, United Kingdom, WV14 0BJ.

One subsidiary, Property & Funding Solutions Ltd, was formed during the year with an issued ordinary share capital of £100.

One subsidiary, City of London Law Funding Limited, was dissolved during the year.

The Group also has a 48.88% shareholding in and loan notes issued by Trade Finance Partners Limited, a company that was put into administration on 29 March 2017. Neither the shares nor loan notes have any value. The registered office of this company is 25 Farringdon Street, London EC4A 4AB.

Notes to the financial statements continued

19 Other investments

Group and Company	31 March 2018 £'000	31 March 2017 £'000
At 1 April	140	289
Disposals of 'available-for-sale' financial assets investments	–	(100)
Revaluation deficit recognised in equity	–	(2)
Written off to income statement	–	(41)
Return of seed investment in legal case investments	(2)	(6)
	138	140
Other investments comprise		
Legal case investments	130	132
Unlisted security	8	8
	138	140

The only investment, other than residual investments, held at both 31 March 2018 and 31 March 2017 was an unlisted security.

20 Loans and leases receivable

	Group		Company	
Non-current	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Loans	4,131	3,415	–	–
Loans to related parties (note 30)	375	1,250	–	–
	4,506	4,665	–	–
Finance leases	2,689	2,916	–	–
	7,195	7,581	–	–

Non-current loans and finance leases are stated after including provisions of £283,000 for impairment (2017: provisions of £127,000 for impairment).

	Group		Company	
Current	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Loans	6,291	5,054	–	770
Loans to related parties (note 30)	–	–	37	15
	6,291	5,054	37	785
Finance leases	2,352	2,211	–	–
	8,643	7,265	37	785

Current loans and finance leases are stated after including provisions of £837,000 for impairment (2017: £786,000).

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

	31 March 2018		31 March 2017	
	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	3,083	2,352	2,949	2,211
More than one year, less than five	3,177	2,689	3,333	2,916
	6,260	5,041	6,282	5,127
Less: unearned finance income	(790)	–	(864)	–
	5,470	5,041	5,418	5,127

There were no finance lease receivables in respect of the Company (2017: nil).

21 Trade and other receivables

	Group		Company	
Current assets	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Trade receivables	61	90	–	17
Amounts owed by related companies	216	232	–	–
Amounts owed by subsidiaries	–	–	109	470
Other debtors	1,108	836	32	93
Prepayments and accrued income	181	67	50	47
	1,566	1,225	191	627

22 Cash and cash equivalents

	Group		Company	
	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Cash at bank	6,685	1,763	1,751	238

There was £612,000 (2017: £470,000) restricted cash within the Group cash balance of £6,685,000 (2017: £1,763,000) and no restricted cash (2017: £61,000) of within the Company cash balance of £1,751,000 (2017: £238,000). The restricted cash held within the Group was held by a subsidiary on behalf of managed funds. In 2017, the restricted cash held by the Company was a rent deposit with the balance being held by a subsidiary on behalf of managed funds.

Notes to the financial statements continued

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

	Group		Company	
	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Loans	9,331	5,160	–	–
Trade and other payables				
Trade payables	142	93	66	26
Amounts owed to subsidiaries	–	–	1,674	1,555
Amounts owed to related parties	612	363	–	–
Dividends payable	1	1	1	1
Other taxation and social security	99	36	21	1
Other creditors	244	289	–	61
Accruals and deferred income	1,480	903	355	297
	2,578	1,685	2,117	1,941

24 Non-current liabilities

	Group		Company	
Borrowings	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Preference shares of subsidiary	3,000	3,000	–	–
Loans	62,494	7,371	–	1,028
	65,494	10,371	–	1,028

25 Deferred tax assets and liabilities

	Group		Company	
Deferred tax liability	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
At 1 April				
Addition – on acquisition of Milton Homes	554	–	–	–
Tax expense	130	–	–	–
At 31 March	684	–	–	–
The deferred tax liability comprises:				
Gains arising from the revaluation of investment properties	1,457	–	–	–
Losses	(773)	–	–	–
	684	–	–	–

Unrecognised deferred tax assets	Group 31 March 2018 £'000	Group 31 March 2017 £'000	Company 31 March 2018 £'000	Company 31 March 2017 £'000
Differences between tax				
and accounting base of:				
Capital losses	171	175	171	175
Investments	–	397	–	240
Trading losses	4,768	376	–	–
Excess management charges	2,528	1,197	1,017	1,197
Timing differences	70	47	12	18
Total	7,537	2,192	1,200	1,630

No deferred tax assets were recognised in the financial statements at 31 March 2018 or 31 March 2017. A deferred tax liability arose on the acquisition of Milton Homes Limited in October 2017 (see note 18(a)).

Unrecognised deferred tax assets have been calculated on the basis of trading losses and excess management charges carried forward of £42,923,000 (2017: £7,865,000), capital losses of £1,003,000 (2017: £875,000), timing differences of £410,000 (2017: £235,000) and unrealised capital losses on investments of nil (2017: £1,985,000) There is no time limit for the utilisation of these amounts. The current year figures include unrecognised deferred tax assets of Milton Homes Limited and its subsidiaries.

26 Called-up share capital

Allotted, called up and fully paid	31 March 2018 Number	31 March 2017 Number	31 March 2018 £'000	31 March 2017 £'000
Ordinary shares of £0.10		36,852,681	–	3,685
Ordinary shares of £0.02	29,205,195		585	–
Deferred shares of £0.001	3,648,415,419		3,648	–
			4,233	3,685

The Company did not hold any ordinary shares in treasury at 31 March 2018 (2017: nil). 21,349 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 31 March 2018 (2017: 426,996 ordinary shares of £0.10). The Company did not transfer any shares into or out of the EBT during the year (2017: nil). The fair value of shares held by the EBT at the balance sheet date amounted to £37,000 (2017: £15,000): these are deducted from equity in accordance with note 2.22.

Holders of the Deferred shares have no right to attend, speak or vote at a general meeting of the Company or to receive any dividend or other distribution and have only very limited rights on a return of capital. They are effectively valueless and non-transferrable.

Following approval given by shareholders at a general meeting on 2 October 2017, the following transactions were completed by 5 October 2017:

(a) A share capital reorganisation on 3 October 2017: Each of the existing 36,852,681 ordinary shares of £0.10 in issue was subdivided into 1 ordinary share of £0.001 each and 99 deferred shares of £0.001. The ordinary shares of £0.001 were then consolidated by consolidating 20 ordinary shares of £0.001 each into 1 ordinary share of £0.02. Following this, there were then 1,842,634 ordinary shares of £0.02 and 3,648,415,419 deferred shares of £0.001 in issue.

(b) On 3 October 2017, the Company raised £4,000,000 before expenses through the issue of 4,444,433 ordinary shares at £0.90 each for cash.

(c) On 5 October 2017, the Company raised £7,000,000 before expenses through the issue of 7,777,778 ordinary shares at £0.90 each for cash.

(d) On 5 October 2017, the Company issued 14,666,667 ordinary shares at £0.90 each in part consideration for the purchase of the Deep Discount Bonds and the ordinary shares in Milton Homes Limited. The total consideration of £19,700,000 comprised the issue of these shares, which had a fair value of £13,200,000, together with a cash payment of £6,500,000 (see note 18(a)).

Notes to the financial statements continued

26 Called-up share capital continued

The cash payment of £6,500,000 was met from the cash raised on the issues of ordinary shares in October. The balance of the cash raised was used to meet the expenses associated with the transactions and to provide additional working capital for the Group.

On 9 February 2018, the Company raised £450,000 through the issue of 473,683 ordinary shares at £0.95 each to J Oakley and B Glover for cash, which will be used to support the costs of the application for a banking licence and for general working capital purposes.

Costs of £714,000 were incurred in relation to the issue of shares in the year. This cost has been offset against the Company's share premium.

Shares in issue	Deferred Number	Ordinary of £0.02 Number	Ordinary of £0.10 Number	Deferred £'000	Ordinary £'000
As at 31 March 2016	–	–	36,852,681	–	3,685
Issued in year	–	–	–	–	–
As at 31 March 2017	–	–	36,852,681	–	3,685
Adjustment on capital reorganisation	3,648,415,419	1,842,634	(36,852,681)	3,648	(3,648)
Issued for cash on 3 October 2017	–	4,444,433	–	–	89
Issued for cash on 5 October 2017	–	7,777,778	–	–	156
Issued as part consideration on 5 October 2017	–	14,666,667	–	–	293
Issued for cash on 9 February 2018	–	473,683	–	–	10
As at 31 March 2018	3,648,415,419	29,205,195	–	3,648	585

27 Non-controlling interests

	31 March 2018 £'000	31 March 2017 £'000
At 1 April	–	(100)
Shares issued to non-controlling interests	3	–
Loss attributable to non-controlling interests	(53)	(35)
Transferred to equity on acquisition of non-controlling interests	–	135
At 31 March	(50)	–

On 31 January 2018 the Company acquired 73% of the ordinary shares of Echo Financial Services Limited, a company formed in February 2017. Echo Financial Services Limited, which had previously been minimally active, commenced the process of applying for a banking licence in February 2018: the NCIs are the persons leading the banking licence application project.

Summarised financial information in relation to the NCI of Echo Financial Services Limited, before intra-group eliminations, is given below:

For the period from incorporation to 31 March 2018	£'000
Revenue	–
Costs	(196)
Loss before and after tax	(196)
Loss and total comprehensive expense allocated to NCI	(53)
Cash flows from operating activities	(132)
Cash flows from investing activities	(4)
Cash flows from financing activities	1,010
Net cash inflow	874
As at 31 March 2018	
Assets and liabilities attributable to NCI	
Non-current assets	1
Current assets	242
Current liabilities	(23)
Non-current liabilities	(270)
Accumulated non-controlling interests	(50)

In the prior year, Credit Asset Management Limited ("CAML") became a wholly-owned subsidiary of the Company in January 2017, when the Company acquired all the ordinary shares not already held by it for £1 from the non-controlling interests, who held 15% of both shares and voting rights at that date. The Group had no non-controlling interests between January 2017 and 31 January 2018 when it acquired a 73% equity interest in Echo Financial Services Limited.

28 Operating lease commitments

	Group		Company	
	31 March 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Minimum lease payments under operating leases recognised in expense for the year	150	245	30	245

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 2018 £'000	31 March 2017 £'000	31 March 2018 £'000	31 March 2017 £'000
Less than one year	52	30	–	30
Between one and five years	–	–	–	–
Greater than five years	–	–	–	–
	52	30	–	30

Notes to the financial statements continued

29 Commitments

The holder of the £3,000,000 7% Redeemable Preference Shares issued by a subsidiary, Credit Asset Management Limited, on 15 July 2015 may require the Company to purchase these shares at their face value and accrued but unpaid dividend if the shares are not redeemed after 7 years.

As at 31 March 2018, the Company was committed to provide funding of up to £1,500,000 to progress the UK banking licence application that is being submitted by Echo Financial Services Limited under the terms of the Shareholders' Agreement. In addition, if the Company determines that additional funding is required, the Company and J Oakley, a minority shareholder, will provide Shareholder Loans in equal proportions up to an amount of £1,500,000 ie a maximum of £750,000 each.

The Company has put and call option arrangements over the equity interest in Echo Financial Services Limited held by the executives. The maximum amount payable by the Company to acquire the equity interest is £5,400,000: the consideration will be satisfied by the issue of the Company's ordinary shares. Neither the put or call option is deemed to have any value as at 31 March 2018.

30 Related party transactions

The related parties of the Company are its subsidiaries and the associates of the Group, together with the directors of the Company.

Directors' emoluments are disclosed in the Directors' Remuneration report. The aggregate emoluments of the directors for the year were £322,140 (2017: £156,420) of which £208,946 (2017: £156,420) was borne by the Company and £113,195 (2017: nil) by a subsidiary. In addition, aggregate social security costs for the year were £39,527 (2017: £11.584) of which £23,999 (2017: £11,584) was borne by the Company and £15,528 (2017: nil) by a subsidiary. 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.

The Company has Relationship Agreements with each of its two largest shareholders, DV4 Limited, and Max Barney Investments Limited and Harvey Bard, in respect of themselves and certain other people who are considered to comprise a concert party. Under the terms of the Relationship Agreements, each has undertaken that, subject to certain exceptions, it will conduct all business with the Company on arm's length terms and on a normal commercial basis.

M H Goldstein and P G Milner, the executive directors of the Company, are also directors of Max Barney Investments Limited.

During the year ended 31 March 2017, FCFM Group Limited, which received £168,000 during that year for consultancy services, was a related party of the Company as Jason Granite was a director of both companies. No payments were made to FCFM Group Limited in the current year.

The transactions of Group companies with related parties included:

Shares in issue	**Interest charge by Group in year £'000**	**Loans due to Group at year end £'000**	**Provision for loans due to Group at year end £'000**	**Other amounts due to Group at year end £'000**	**Provision for other amounts due to Group at year end £'000**
Year ended 31 March 2018					
COLG SME Loans LP	18	175	–	3	–
COLG SME LP	36	200	–	4	–
Year ended 31 March 2017					
Trade Finance Partners Limited (a)	–	5,881	(5,881)	276	(276)
COLG SME Loans LP	62	425	–	8	–
COLG SME LP	96	825	–	15	–

(a) From 2017, no interest has been recognised on loan notes issued by Trade Finance Partners Limited which are deemed to have no value.

31 Share-based payments

The Company adopted Share Option Plan 2017 on 13 September 2017. Share options may be granted to employees, including executive directors, of the Company and its subsidiaries. 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.

The number of share options granted during the year and outstanding are as follows:

	Date of grant	Granted in year	At 31/03/18	Exercisable from	Exercisable to	Exercise price
M Goldstein	05/10/2017	555,556	555,556	05/10/2020	05/10/2027	90.00p
P Milner	05/10/2017	333,333	333,333	05/10/2020	05/10/2027	90.00p
C Rumsey	05/10/2017	111,111	111,111	05/10/2020	05/10/2027	90.00p
		1,000,000	1,000,000			

There were no share options outstanding under the previous share option plan at 31 March 2017.

City of London Group plc's share price as at 31 March 2018 was 172.5p (2017: 70.0p). The average for the year to 31 March 2018 was 106.1p (2017: 100.0p). The 2017 figures have been restated to reflect the capital reorganisation in October 2017 (see note 26).

The fixed price options were valued using the Black-Scholes model. Inputs to the model were as follows:

	October 2017 Grant
Strike price	90.00p
Share price	90.00p
Contractual life (in days)	1,095
Volatility	13.30%
Annual risk free interest rate	0.95%

The FTSE All-Share 3 year volatility index has been used for the volatility, which is a measure of the standard deviation of expected share price returns. The valuation assumes that all the options will be exercised.

The Company would use the shares in the Employee Benefit Trust to cover part of the share option awards.

Notes to the financial statements continued

32 Financial instruments

The Company's and the Group's financial instruments comprise financial assets – equity release plans, other investments, trade debtors and other receivables, cash and cash equivalents and trade and other payables. In addition, the Company holds Deep Discount Bonds issued by its wholly-owned subsidiary, Milton Homes Limited. 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 31 March 2018			As at 31 March 2017		
Group	**Equity release plans and others £'000**	**Loans and receivables £'000**	**Total £'000**	**Properties, equity release plans and others £'000**	**Loans and receivables £'000**	**Total £'000**
Assets						
Financial assets – equity release plans	30,213	–	30,213	–	–	–
Other investments	138	–	138	140	–	140
Loans	–	10,797	10,797	–	9,719	9,719
Finance leases	–	5,041	5,041	–	5,127	5,127
Trade and other receivables	–	1,566	1,566	–	1,225	1,225
Cash and cash equivalents	–	6,685	6,685	–	1,763	1,763
	30,351	24,089	54,440	140	17,834	17,974
Liabilities						
Interest-bearing borrowings			74,825			15,531
Trade and other payables			2,578			1,685
			77,403			17,216

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

	As at 31 March 2018			As at 31 March 2017		
Company	**Deep Discount Bonds and other investments £'000**	**Loans and receivables £'000**	**Total £'000**	**Other investments £'000**	**Loans and receivables £'000**	**Total £'000**
Assets						
Deep Discount Bonds	11,696	–	11,696	–	–	–
Other investments	138	–	138	140	–	140
Loans	–	37	37	–	785	785
Trade and other receivables	–	191	191	–	627	627
Cash and cash equivalents	–	1,751	1,751	–	238	238
	11,834	1,979	13,813	140	1,650	1,790
Liabilities						
Interest-bearing borrowings			–			1,028
Trade and other payables			443			386
Amounts owed to subsidiaries			1,674			1,555
			2,117			2,969

At 31 March 2018 and 31 March 2017 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation. The fair value of advances and other balances with related parties which are short term or repayable on demand are equivalent to their carrying amount.

The fair value of the Financial assets – equity release plans is based on the estimated equity owned percentage of the properties upon the Group taking vacant possession, the fair value of the properties at the balance sheet date, assuming vacant possession, less a discount to take account of the risk of the realisation of these interests as set out in note 3. The fair value of other non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments. The carrying amount of the Group's non-current advances to related parties fairly approximates the estimated fair value of these assets based on discounted cash flows. The fair value of the Group's non-current fixed interest rate advances and bank borrowings at the end of the reporting periods is not significantly different from the carrying amounts. The current market interest rates utilised for discounting purposes, which were almost equivalent to the respective instruments' contractual interest rates, are deemed observable but other significant inputs are not observable and accordingly these fair value estimates have been categorised as Level 3 within the fair value measurement hierarchy required by IFRS 7, 'Financial Instruments: Disclosures'.

33 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 and liquidity 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 2018 £'000	**31 March 2017 £'000**
Loans	10,422	8,469
Loans to related parties	375	1,250
Leases	5,041	5,127
Trade and other receivables	1,566	1,225
Cash and cash equivalents	6,685	1,763
Total	24,089	17,834
being:		
Gross amounts	25,209	18,747
Provision for impairment	(1,120)	(913)
Total	24,089	17,834

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.

Leases and loans are predominantly to commercial SME clients and to professional firms including doctors, dentists, vets, lawyers and accountants and are unsecured but benefit from personal guarantees as management considers necessary.

The Group establishes an allowance for impairment on the basis set out in note 2. The credit risk for both loans and leases is reduced due to their being widely spread.

Notes to the financial statements continued

33 Financial risk management continued

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

	31 March 2018 £'000	31 March 2017 £'000
Loans	1,362	1,067
Leases	498	411
	1,860	1,478
Provisions made in respect of above	837	786

Receivables wholly or partly in arrears include arrears of £987,000 (2017: £748,000), of which £789,000 (2017: £572,000) was more than 90 days in arrears.

The Group limits its credit exposure to cash and cash equivalents by depositing funds only with major UK High Street banking institutions.

(ii) Foreign exchange risk

The foreign exchange risk for the Group is immaterial as the financial instruments held by the Group are largely denominated in sterling.

(iii) Liquidity risk

The Company has sufficient cash to meet its current requirements. At 31 March 2018 and 31 March 2017 the Company did not have a bank overdraft facility.

The total gross contractual undiscounted cash flows of financial liabilities, including interest payments, excluding those arising under the loan facility provided by Partnership Life Assurance Company Limited to Milton Homes Properties Limited, are:

Year ended 31 March 2018	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	1,911	5,621	7,189	15	14,736
Trade and other payables	–	2,578	–	–	–	2,578
	–	4,489	5,621	7,189	15	17,314
Company						
Interest-bearing borrowings	–	1,674	–	–	–	1,674
Trade and other payables	–	443	–	–	–	443
	–	2,117	–	–	–	2,117

Year ended 31 March 2017	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	1,987	4,070	8,645	3,070	17,772
Trade and other payables	–	1,685	–	–	–	1,685
	–	3,672	4,070	8,645	3,070	19,457
Company						
Interest-bearing borrowings	–	1,573	54	1,082	–	2,709
Trade and other payables	–	386	–	–	–	386
	–	1,959	54	1,082	–	3,095

Partnership Life Assurance Company Limited has provided a £62,633,796 facility to Milton Homes Properties Limited, which bears interest at 7.15% per annum and is secured on the Group's rights to beneficial interests in residential properties acquired through equity release plans. The interest is rolled up into the loan, and a proportion of the loan and accumulated interest is repayable on disposal of each property and/or equity release plan asset, with the balance repayable in full on the earlier of 8 November 2065 and the date when the last property or equity release plan asset is disposed of. The amount owed on this loan as at 31 March 2018 was £58,466,000 (£58,865,000 at the date of acquisition of Milton Homes).

The repayment dates of financial liabilities are as follows:

Year ended 31 March 2018	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	1,739	5,286	7,015	58,480	72,520
Trade and other payables	–	2,578	–	–	–	2,578
	–	4,317	5,286	7,015	58,480	75,098
Company						
Interest-bearing borrowings	–	1,674	–	–	–	1,674
Trade and other payables	–	443	–	–	–	443
	–	2,117	–	–	–	2,117

Year ended 31 March 2017	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Group						
Interest-bearing borrowings	–	1,729	3,431	7,371	3,000	15,531
Trade and other payables	–	1,685	–	–	–	1,685
	–	3,414	3,431	7,371	3,000	17,216
Company						
Interest-bearing borrowings	–	1,555	–	1,028	–	2,583
Trade and other payables	–	386	–	–	–	386
	–	1,941	–	1,028	–	2,969

(iv) Interest rate risk

The Company has interest-bearing assets and liabilities at fixed interest rates. The Group and Company had no floating rate borrowings at either 31 March 2018 or 31 March 2017. Accordingly, the results before tax of the Group and Company would be unaffected by any change in the Bank of England rate in either year.

(v) Price risk

The Group is subject to price risk on both its investment properties and its financial assets – equity release plans as well as on its legal case investments. The valuation of each of these is a Level 3 valuation in the fair value hierarchy ie the valuation techniques use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

The bases of assessing the fair values of the investment properties and financial assets – equity release plans are set out in note 3. The sensitivity analysis to changes in unobservable inputs for both investment properties and financial assets – equity release plans is:

- increases in estimated investment terms and rates would result in a lower fair value; and
- decreases in estimated investment terms and rates would result in a higher fair value.

Due to the aggregated nature of the investment property and financial asset portfolio it is not possible to accurately quantify sensitivity of an individual input.

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. There is no material sensitivity on the valuation of the legal case investments.

Notes to the financial statements continued

33 Financial risk management continued

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 2018:

Level 3 valuation	Total £'000
Investment properties	44,926
Financial assets – equity release plans	30,213
Other investments	138
	75,277

The following table presents the Group's assets that are measured at fair value at 31 March 2017:

Level 3 valuation	Total £'000
Other investments	140
	140

No Level 1 or Level 2 assets were held at either 31 March 2018 or 31 March 2017.

There were no transfers of assets between categories during the year (2017: none). An asset is transferred when, due to changes in circumstances, it falls into another category within the fair value hierarchy.

The movement on level 3 assets is as follows:

	31 March 2018 £'000	31 March 2017 £'000
Balance at 1 April	140	151
Additions – on acquisition of Milton Homes on 5 October 2017	75,907	–
Additions	34	–
Equity transfer	809	–
Revaluations	2,364	–
Impairment	–	(5)
Disposals	(3,977)	(6)
Balance at 31 March	75,277	140

(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 development of its two existing businesses as well as progress the application for a UK banking licence and, should the application be successful, establish a business that will meet the needs of the SME UK business market. The Board assesses the Group's future capital and liquidity requirements regularly and, within its overall group strategy, is developing plans to access new funding as required. 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 subsidiaries. The Company's capital is deemed to be its equity.

Debt equity ratio of the Company is shown below:

	31 March 2018 £'000	31 March 2017 £'000
Third-party borrowings	–	1,028
Loans from subsidiaries	1,555	1,555
Cash	(1,751)	(238)
Net (Cash)/Debt	(196)	2,345
Equity	23,870	983
Gearing	none	238.6%

34 Ultimate parent company

At 31 March 2018, the Company was a subsidiary of DV4 Limited, a company registered in the British Virgin Islands, which held 50.2% of the ordinary share capital of the Company at that date. The Company has a Relationship Agreement dated 10 August 2017 with DV4 Limited (see note 30) which, subject to certain exceptions, provides, inter alia, that DV4 Limited will conduct all business with the Company on arm's length terms and on a normal commercial basis.

35 Post balance sheet events

On 28 June 2018 Credit Asset Management Limited acquired the 50% interest in the two joint venture limited partnerships, COLG SME LP and COLG SME Loans LP, held by British Business Investments Limited for a consideration based on the size of the portfolios. Both limited partnerships are now wholly owned by the Group.

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the Group and 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. The directors are also required to prepare financial statements in accordance with the rules of the London Stock Exchange for companies trading securities on the Alternative Investment Market.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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. 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.

By order of the Board

Colin Wagman
Chairman
11 July 2018

Independent Auditor's report

to the members of City of London Group plc

Opinion

We have audited the financial statements of City of London Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity, the Consolidated balance sheet, the Company balance sheet, the Consolidated statement of cash flows, the Company statement of cash flows and the related notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2018 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 in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's report continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How We Addressed the Key Audit Matter in the Audit
Revenue recognition (note 4) The group's revenues derive primarily from the group's core operating segments, namely lease and professions financing and equity release. Interest on the loans and leases portfolio is recognised on an accruals basis using the effective interest rate method. This income is based on the automatic calculations within the group's loans and leases system. There is a risk that income could be incomplete or inaccurate if the loans and leases system does not capture or calculate the revenue correctly. Revenue from the equity release business primarily relates to gains on disposals and revaluations of the underlying properties. There is a risk that the investment properties and equity release plans are incorrectly valued as there is judgement associated with the assumptions used in the revaluation of the Group's share of interest in the properties.	Our audit testing included but was not restricted to: Lease and professions financing • We performed an assessment of the control environment and tested the operating effectiveness of the IT general controls in place. • We tested the accuracy and completeness of data processed through the system using sampling techniques. • With the aid of computer assisted audit techniques we recalculated the interest income on the loan and leases. **Equity release** Our audit work on revenue was linked to the work undertaken in the valuation of interests in property portfolio risk below. In respect of the disposals of investment property, these were verified by agreeing to supporting documentation such as completion statements, signed sale agreements and to bank statements.
Valuation of interests in property portfolio (note 14 & 15) Investment property and equity release plans are the largest balances on the Group's balance sheet. The valuation of the interest in the properties within the portfolio inherently involves a large degree of judgement and estimation. Significant judgements are made by management and by third party experts (one of the key assumptions being the length of time the inhabitant will remain in their home until ownership passes to Milton Homes) thus resulting in the increased risk that the interest in the property portfolio may be materially misstated.	Our audit testing included but was not restricted to: • We engaged with internal experts and third party experts to assist in the assessment of the methodology applied by management's expert and the assumptions used by management in the valuation process. • We tested the integrity of the data in the valuation process. • We obtained the property valuation report from the previous valuation prior to a specific property sale and compared this to the sales from the portfolio during the year to assess the accuracy of the valuations.
Loan book provisioning (note 33) The provisioning policy associated with the Lease and professions financing business requires specific and collective provisions to be calculated in line with the requirements of the accounting standards. The process adopted by management for the specific provision involves reviewing and providing against debtors which are reported in the delinquency report after assessment by the Bad Debt Committee. The details relating to each delinquent loan is reviewed in detail and a provision is calculated based on those factors. The collective provision approach is based on a risk rating attributed to the customers in the portfolio.	Our audit testing included but was not restricted to: • We performed an assessment of the provisioning methodology, which included challenging whether the portfolios were appropriately segmented and whether historical experience was representative of current circumstances. • We considered whether the applied treatment is consistent with the requirements of the accounting standards. • We obtained the provision calculations as at the year end and performed tests of detail such as testing the ageing of the loan book and tested specific bad debts recognised in the year back to supporting documentation to ensure that the information used in the calculation is complete and accurate and that the provision had been calculated correctly. • We challenged management on the appropriateness of the calculation by reviewing and benchmarking the ageing of the young and old portfolios and assessing this as basis for provisioning.

Key Audit Matter	How We Addressed the Key Audit Matter in the Audit
Accounting for the acquisition of Milton Homes (note 18) During the year, the Milton Homes' Group of companies was acquired by the company. The treatment of the transaction has a material impact on the financial statements as it not only increases the asset base but also the nature of the balance sheet. There is significant judgment involved in determining the approach, accounting considerations including if this was a reverse acquisition or not and the presentation of the disclosure of the acquisition.	Our audit testing included but was not restricted to: • We obtained and examined the documentation associated with the transaction to assess whether the acquisition had been appropriately accounted for and to ensure it was in line with the criteria set out in the accounting standards. • We challenged management by discussing and benchmarking the assumptions they had made as part of the acquisition such as the recognition of a deferred tax asset and goodwill. • We have assessed the adequacy of disclosures within the financial statements.

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be 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. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the Financial Statements. The application of these key considerations gives rise to different levels of materiality, the quantum and purpose of which are tabulated below.

Materiality measure	Purpose	Key considerations and benchmarks	Quantum (£)
Financial statement materiality (1% of total Group assets)	Assessing whether the financial statements as a whole present a true and fair view.	• A principal consideration for members of the company in assessing the financial performance of the group given the group is that of an investment group.	£1,013,000
Specific materiality – classes of transactions and balances which arise from the trading activities of the group excluding investment related activities (5% loss before tax)	Assessing those classes of transactions, balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	• Level of losses	£53,000
Performance materiality (75% of financial statement materiality)	Lower level of materiality applied in performance of the audit when determining the nature and extent of testing applied to individual balances and classes of transactions.	• Financial statement materiality • Risk and control environment • History of prior errors	£760,000 Specific: £39,750
Parent company materiality (5% of parent company profit before tax)	Assessing whether the financial statements of the parent company as a whole present a true and fair view.	• A principal consideration for members of the company in assessing the financial performance of the company given the activities of the company in the year.	£52,000

Independent Auditor's report continued

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £7,500, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was developed by obtaining an understanding of the Group's activities, the key functions and the overall control environment. Based on this understanding we assessed those aspects of the Group's transactions and balances which were most likely to give rise to a material misstatement.

Audits of the sixteen components, were performed at a materiality level calculated by reference to a proportion of group materiality appropriate to the relative scale of the business concerned. Component materiality ranged from £962,000 to £1,000. The Group audit team have responsibility for the audit of all components included in the consolidated financial statements. All components are based in the UK. Full scope audits were undertaken on all sixteen of the components.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

D Taylor (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London, United Kingdom
11 July 2018

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

Notice of Annual General Meeting

City of London Group plc

NOTICE IS GIVEN that the Annual General Meeting of the Company will be held at 1.00 pm on 13 September 2018 at the offices of Shakespeare Martineau, 60 Gracechurch Street, London EC3V 0HR to consider the following resolutions of which numbers 1 to 8 will be proposed as ordinary resolutions and numbers 9 and 10 will be proposed as special resolutions:

1. To receive the annual report and accounts for the year ended 31 March 2018.

2. To elect Michael Goldstein as a director of the Company.

3. To elect Colin Wagman as a director of the Company.

4. To re-elect Andrew Crossley as a director of the Company.

5. To re-elect Paul Milner as a director of the Company.

6. To re-elect Lorraine Young as a director of the Company.

7. To reappoint BDO LLP ("BDO") as auditors of the Company to hold office until the conclusion of the next general meeting at which accounts are laid before the members and to authorise the directors to determine their remuneration.

8. That, the directors be generally and unconditionally authorised in accordance with section 551 of the Companies Act 2006 (the "Act") to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for, or to convert any security into, shares in the Company. This authority will, if granted, expire, unless previously revoked, renewed or varied, at the conclusion of next year's AGM, or, if earlier, on 30 September 2019, although offers or agreements can be made before the expiry of that period, which might require shares to be allotted or rights granted after the expiry of that period. This authority, if approved, will be limited to a maximum nominal amount of £584,103.90, representing a maximum of 29,205,195 ordinary shares of 2 pence each, equivalent to 100 per cent of the issued capital of the Company as at 8 August 2018 being the latest practicable date prior to the publication of this document. As stated in the Chairman's statement, the directors believe that they should have the authority proposed in the resolution to enable such allotments to take place to allow the Company to raise sufficient new equity to finance the business opportunities if a banking licence is obtained.

Special Resolutions

9. That, subject to the passing of resolution 8 above, the directors be empowered under section 570 of the Act to allot equity securities, as defined in section 560 of the Act, as if section 561(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment or allotments of equity securities up to a nominal amount or (in the case of any other equity securities) giving the right to subscribe for or convert into relevant shares having a nominal amount, not exceeding in aggregate £584,103.90 and this power shall expire, unless previously revoked, renewed or varied, at the conclusion of the next Annual General Meeting of the Company or on 30 September 2019, whichever is earlier, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and the directors may allot securities under such offer or agreement as if this power had not expired.

10. That the Company be generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) on the London Stock Exchange subject to the following conditions:

    (i) the maximum number of ordinary shares authorised to be purchased shall be 2,920,520;

    (ii) the minimum price which may be paid for a share shall be the nominal value of such share and the maximum price which may be paid shall be not more than 5 per cent above the average of the middle market quotations for ordinary shares of the Company as derived from The London Stock Exchange Daily Official List for the five business days immediately preceding that on which such market purchases are made (in each case exclusive of expenses);

    (iii) unless previously revoked, renewed or varied, the authority conferred by this resolution shall terminate on the conclusion of the next Annual General Meeting of the Company or 30 September 2019, whichever is the earlier, and

    (iv) the Company may make a contract to purchase ordinary shares under this authority prior to the expiry of such authority which may be or will be executed wholly or partly after the expiry of such authority, and may make a purchase of ordinary shares under such contract notwithstanding such expiry.

By order of the Board

Ben Harber

Company Secretary

9 August 2018

Registered office

60 Gracechurch Street

London EC3V 0HR

Notes:

1. An explanation of the proposed resolutions can be found in the Directors' report on pages 19 and 20.

2. If you are a member entitled to attend and vote at the meeting, you may appoint one or more proxies to attend and vote on your behalf. A proxy need not be a member of the Company. A form of proxy is enclosed. If you appoint a proxy it will not prevent you from attending the meeting and voting in person.

3. You must send the form of proxy and any power of attorney or other authority under which it is signed, (or a notarially certified copy of such power or authority), to the Company's registrars: Link Asset Services, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU so that it is received by them not less than 48 hours (excluding non-working days) before the time of the meeting.

4. If your shares are held in joint names, the signature of only one of the joint holders is required. However, if more than one of the joint holders votes, the vote of the first named on the register of members will be accepted to the exclusion of other joint holders.

5. Any corporation which is a member may appoint one or more corporate representatives to exercise all of its powers as a member, on its behalf, provided that not more than one corporate representative may exercise powers over the same shares.

6. You may appoint more than one proxy, provided that each proxy is appointed to exercise rights in relation to different shares. If you wish to appoint more than one proxy, please call Link Asset Services Helpline on 0871 664 0300 or photocopy the proxy form. Calls cost 12p per minute plus your phone company's access charge. If you are outside the United Kingdom, please call +44 371 664 0300. Calls outside the United Kingdom will be charged at the applicable international rate. We are open between 9.00 am – 5.30 pm, Monday to Friday excluding public holidays in England and Wales. Please ensure that all proxy forms for one registered holding are sent in the same envelope if possible.

7. If you appoint more than one proxy, you must state the number of shares over which each proxy is entitled to exercise rights. As long as the total number of shares covered by all of the forms of proxy is not more than your total holding, it will be assumed that the proxies are appointed in relation to different shares, rather than that you have made conflicting appointments over the same shares. If two or more forms of proxy are received in relation to the same share(s) and the same meeting, the form of proxy which is received last will be treated as replacing and revoking any other forms received.

8. If you have been sent a copy of this notice because you have been nominated to have information rights under the Act by a nominee shareholder who holds shares on your behalf (and therefore your shares are not held in your own name) then you do not have the right to appoint a proxy using a form of proxy issued by the Company. However, you may have a right under an agreement with the registered shareholder to appoint someone else or to be appointed yourself as a proxy for this meeting. If you do not have this right, or if you do not wish to exercise it, you may have a right under such agreement to give instructions to the shareholder as to how they should vote in respect of the shares they hold on your behalf. You should contact the registered shareholder to find out more about any such arrangements.

9. Under Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), you must be on the register of members by the close of business two days before the AGM in order to have the right to attend or vote at the meeting. The number of shares you hold at that time is the number over which you may exercise voting rights at the meeting. Changes to entries on the register of members after that time will be disregarded in determining your right to attend or to vote (and the number of votes you may cast) at the AGM or any adjournment of that meeting.

   CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the GM and any adjournment(s) of it by using the procedures described in the CREST Manual. If you are a CREST personal member or other CREST sponsored member, and/or a CREST member who has appointed a voting service provider(s), you should refer to your CREST sponsor or voting service provider(s), who will be able to take appropriate action on your behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST Message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specification and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of GM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy.

10. Instructions. It is the responsibility of the CREST member concerned to take or, if you are a CREST personal member or sponsored member or you have appointed a voting service provider(s), to ensure that your sponsor or voting service provider(s) take(s) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers, are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

11. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulation 2001.

12. You may not use any electronic address provided either in this notice or any related documents (including the form of proxy) to communicate for any purposes other than those expressly stated.

13. As at 8 August 2018 (being the latest practicable date before the publication of this document) the Company's issued share capital consisted of 29,205,195 ordinary shares of 2 pence each, carrying one vote each. There are no shares currently held in treasury. Therefore, the total number of voting rights in the Company at that date was 29,205,195.

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Form of Proxy

City of London Group plc

Name(s):...

Address:...

....

I/We, being (a) shareholder(s) in City of London Group plc, appoint the chairman of the meeting or (see note 1 below):

....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 1.00 pm on 13 September 2018 and at any adjournment of that meeting. I request my proxy to vote as indicated below:

Ordinary Resolutions		**For**	**Against**	**Withheld**
1	To receive the annual report and accounts for the year ended 31 March 2018.			
2	To elect Michael Goldstein as a director of the Company.			
3	To elect Colin Wagman as a director of the Company.			
4	To re-elect Andrew Crossley as a director of the Company.			
5	To re-elect Paul Milner as a director of the Company.			
6	To re-elect Lorraine Young as a director of the Company.			
7	To reappoint the auditors and to authorise the directors to set their fees.			
8	To authorise the allotment of shares.			
Special Resolutions				
9	To disapply pre-emption rights.			
10	To authorise share buybacks.			

Signature or Common Seal .... Dated ....

Name .... No of Shares held...

Notes for completion of proxy form

1. Every shareholder has the right to appoint someone of their choice (who need not be a shareholder) as their proxy to exercise all or any of their rights to attend, speak and vote on their behalf at the meeting. If you wish to appoint someone other than the chairman as your proxy please insert their name and address in the space provided. Unless you wish to authorise your proxy to act in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account), please specify next to their name the number of shares in relation to which they are authorised to act.
2. Please indicate how the proxy is to vote by placing an "X" in the appropriate box opposite each resolution. If you sign and return this form without any indication as to how the proxy is to vote, they will exercise their discretion both as to how they vote and as to whether or not they abstain from voting on any resolution put to the meeting.
3. Please execute and date the form of proxy.

   If the appointor is a corporation, this form of proxy must be executed under its common seal or under the hand of an officer, attorney or other person duly authorised to do so.

   This form of proxy must be completed and deposited, together with the power of attorney or other authority, if any, under which it is signed or a copy of such power or authority certified notarially, with the registrars of the Company, at least 48 hours (excluding non-working days) before the time of the meeting or adjourned meeting.
4. The address of the registrars is Link Asset Services, PXS 34 Beckenham Road, Beckenham, Kent BR3 4TU.
5. To appoint one or more proxies or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the issuer's agent (ID number RA10) not later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.
6. Only those shareholders on the register of members of the Company at close of business on 11 September 2018 will be entitled to attend or vote at the meeting in respect of the number of shares registered in their name at that time. Changes to the entries on the register of members after this will be disregarded in determining the rights of any person to attend or vote at the meeting.
7. More than one proxy may be appointed in respect of shares comprised in the same holding. If more than one proxy is appointed a separate form of proxy should be completed for each person appointed and each form of proxy should show the number of shares to which it relates.
8. Any alteration made to this form of proxy should be initialled by the person(s) signing it.
9. In the case of joint holders, the vote of the senior (according to the order in which the names stand in the register in respect of the holding) who tenders a vote in person or by proxy will be accepted to the exclusion of the votes of the other joint holder(s).
10. Completion and return of this form of proxy will not prevent a shareholder from attending and voting in person at the meeting.

Produced by Portman Lodge Limited

Investor information and advisers

Financial calendar

We will hold our 2018 annual general meeting at the offices of Shakespeare Martineau, 60 Gracechurch Street, London EC3V 0HR at 1.00 pm on 13 September 2018.

Half-year results (available online only)	December 2018

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.

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Company number: 01539241
Email: office@cityoflondongroup.com
Website: www.cityoflondongroup.com

Company Secretary
Ben Harber
6th Floor
60 Gracechurch Street
London
EC3V 0HR

Auditors
BDO LLP
55 Baker Street
London W1U 7EU

Nominated adviser and broker
Peel Hunt
Moor House
120 London Wall
London EC2Y 5ET

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:

Link Asset Services Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

City of London Group