City of London Group

15 July 2019

City of London Group plc ("COLG" or "the Company" or "the Group")

Preliminary announcement of final results

The Company announces its audited final results for the year ended 31 March 2019.

Highlights

Business developments

- Successful completion of a capital raise in March and April 2019 supported by Company's major shareholders to enable further development of the Group's strategy, including the ongoing application for a UK banking licence by Recognise.
- As part of the UK banking licence process, Recognise has progressed the recruitment of its executive team and appointed five independent non-executive directors, including its board chair, to facilitate development of its corporate governance and banking infrastructure.
- Recognise has made progress towards its objective of receiving authorisation to accept deposits by the latter part of 2020. Currently, the team is working to submit an application to the Regulator by the end of 2019, after which we will embark on an institutional fund raise.
- Our newly acquired financial services intermediary, Acorn to Oaks Financial Services Limited, has set up a commercial finance broking division, so expanding its offering to the SME market.
- The Group's loan and asset leasing business had a successful year with CAML making a first-time profit and PFS, our property bridging finance company, being launched successfully.
- Milton Homes business adversely affected by the general slow-down in the housing market and a reduction in the number of property reversions but generated £1.3m cash during the year.

Financial results

- £12.65m was raised through the issue of 10,120,000 ordinary shares and £2.05m through the issue of 6% Unsecured Convertible Loan Notes 2021 at par in March following capital raising exercise with further £0.5m raised through an issue of ordinary shares in April.
- Loss before tax £3.6m after absorbing costs of £1.7m associated with applying for UK banking licence and acquisition of Acorn to Oaks Financial Services Limited (2018: loss before tax £1.1m after absorbing costs of £1.1m associated with applying for UK banking licence and acquisitions).
- Consolidated NAV per share attributable to shareholders 83p (2018: 81p).

An updated corporate presentation will be published on the website shortly.

Michael Goldstein, CEO, commented:
"This has been another year of considerable progress for the City of London Group. We have continued to focus on implementing our long term growth strategy of serving the UK SME market and increasing the financial strength of the Group. We have built a very high calibre NED team for Recognise, and we remain confident that we will be able to submit an application to the Regulator by the end of 2019, after which we will embark on an institutional capital raise.

"We have completed the acquisition of Acorn to Oaks Financial Services Limited, which provides complementary services to the Group companies, and our lending businesses CAML/ PFL and PFS both had successful years and generated profits.

"Overall, looking forward, through the evolution of our business, we are well placed to deliver on our strategic objectives and to deliver value for our shareholders."

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This RNS has been approved on behalf of the board by Michael Goldstein, CEO on 14 July 2019.

Notes to Editors:

City of London Group plc is quoted on AIM (TIDM: CIN) and is the parent company of a group which is focused on serving two key segments, the UK SME market and home reversion. Through the strength and depth of expertise in its expanding team, it is now primed for future growth through its two-pronged strategy.

www.cityoflondongroup.com

Chairman's statement

I am pleased to report another year of considerable and positive activity within City of London Group during which we have continued to focus on implementing the Group's long term growth strategy of serving the UK SME market and increasing the financial strength of the Group.

To that end, the Company undertook a successful capital raising exercise which was supported by the Company's two major shareholders and raised a total of £15.2m in March and April 2019. These funds will be used to develop the Group's lending businesses, including providing funds to Recognise to enable it to set up the IT infrastructure for its core banking systems when, as is hoped, the Regulator invites it to apply for a banking licence and subsequently mobilisation.

In January, the Company completed its acquisition of Acorn to Oaks Financial Services Limited, a financial services intermediary business focusing on the SME and property insurance market. The services it provides complement those already offered by the Group and will help to promote the future lending activities of the Group by extending the services it offers to the SME market.

The Group's lending businesses, CAML/ PFL and PFS both had successful years and generated profits.

Milton Homes has been adversely affected by conditions in the housing market, which saw a general slow-down during the year with little or no movement in vacant property values. While Milton Homes generated cash of £1.3m in the year to March 2019, its results were severely impacted by the lack of growth in property values as well as by a reduction in the number of property reversions and sale completions. It is difficult to foresee the timing of a recovery in the housing market. Milton Homes is continuing to focus on maximising the cash generated from the sales of its properties as reversions occur.

Costs of £1,738k relating to both the costs of progressing UK banking application by Recognise and the acquisition of Acorn to Oaks have been expensed in the year.

Recognise
Recognise was formed with the objective of providing financial services to the UK small and medium-sized business market, subject to the successful granting of a banking licence from the Regulator.

Recognise has developed a strategy to build a fully licenced bank serving this market and accepting deposits from business and retail savers. The strong and experienced executive team, led by Jason Oakley, continued the process of applying for a UK banking licence during the year with progress being made towards its objective of receiving authorisation to accept deposits by the latter part of 2020.

Recognise has developed a comprehensive plan for the growth and expansion of the business in the initial five year period following the granting of a UK banking licence. As part of its planning, Recognise has already invested in creating a strong governance structure at an early stage which has included the recruitment of five independent non-executive directors to its board to provide support and challenge to the executive team.

Recognise will bring to the market a new bank dedicated to helping and supporting the SME businesses which are vital to the success and strength of the UK economy. This key segment is still underserved by the major UK banks and, through our own market research and the experience of other recent entrants, it is very clear that substantial opportunities exist to deliver a better customer experience built on business understanding, flexibility of approach, speed of execution and close working relationships.

In its early years, Recognise will target lending up to £2.5m (minimum £100k) and retail and business savings up to £85k (minimum £1k). It will offer a suite of lending and savings products which our research and experience tells us will meet the core requirements of our target market including lending and insurance products already offered through other Group businesses. Recognise will utilise both direct and broker channels to build its business and it will deploy a versatile cloud-based platform which will deliver efficiency and flexibility. Technology will be a powerful enabler to support, but not replace, the human touch.

The success of COLG's recent capital raising exercise enables COLG to provide Recognise with the funds that will be required to build out the IT infrastructure for its core banking systems as well as recruit key personnel.

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL")
Following the actions taken last year to strengthen its balance sheet and re-finance block funding, CAML and PFL generated profits in the current year, despite increased market competition, as the net yields it achieved during the year remained strong. CAML also benefited from the acquisition in June 2018 of the remaining portfolio of a joint venture fund which had previously been managed by CAML.

CAML continued its re-financing programme from last year with two re-financing exercises of block facilities being concluded during the year. These maintained liquidity and helped to preserve business levels on competitive terms.

Following the adoption of IFRS 9 by the Group, the provision for future credit losses at 31 March 2018 was reduced by £24k. The reduction in this provision has been reflected in the opening reserves of the Group at 1 April 2018.

Property & Funding Solutions Ltd ("PFS")
The Group's newly-formed, property focused bridging finance company, PFS, was successfully launched and made its first loans during the year. The focus on certainty of delivery and speed of execution with direct access to decision makers has proven attractive to customers and brokers in a growing sector with many lenders. PFS has already undertaken repeat business with customers, so validating its business model and with its emphasis on service delivery quickly establishing itself in the bridging loan market.

The business is pursuing external funding lines to supplement Group cash resources together with expansion of the team in readiness for the next phase of lending growth.

Acorn to Oaks Financial Services Limited ("Acorn to Oaks")
The acquisition of Acorn to Oaks was completed in January 2019 following FCA approval. Acorn to Oaks, a financial services intermediary, provides whole of market broking advice services for general insurance, regulated mortgages protection pensions and investments, with IFA services being provided through its 51% subsidiary, Acorn to Oaks Associates Limited.

The business, which is profitable, is well-established with a wide customer base across the UK. Since its acquisition, Acorn to Oaks has set up a commercial finance brokerage division which has already established itself in the market.

Milton Homes
The equity release market is dominated by lifetime mortgage products. During the year, Milton Homes completed its detailed assessment of the potential for writing new home reversion business. Changes in the availability of suitable long-term financing have meant that no decision has been made to re-start acquisitions at this time.

Home reversion assets have locked-in value that is realised incrementally over time as the expected reversion event draws nearer. As reversions occur, the business continues to sell its properties to receive the residual reversionary gains and produce cash flow for re-investment in the Group.

During the year the business was adversely affected by a lower than expected number of reversions as well as the slowdown in the housing market. However, we believe that the national spread of the portfolio and the limited number of higher value properties is a positive feature of the portfolio in these circumstances.

Following the retirement of Chris Rumsey in May, Shane Harrison has been appointed as Chief Operating Officer. As part of the succession arrangements, Chris Rumsey will be available as a consultant.

COLG

Shareholders' equity in COLG increased from £23.9m to £37.5m over the year. There were two issues of new share capital during the year.

The larger issue of new shares was made in March 2019 following the successful capital raising exercise when £12.65m in cash before expenses was raised. A further amount of £0.5m in cash was subscribed for equity in April after the year-end.

Equity of £115k was also issued in January as part of the initial consideration for the purchase of Acorn to Oaks Financial Services Limited. The initial consideration of £1,408k was settled by way of the issue of £1,292,825 zero coupon Rollover Loan Notes 2021 to the majority shareholders and 82,068 ordinary shares to the minority shareholders. Deferred consideration based on the profits made over the 3 years to 31 March 2022 will be payable: the amount payable has been estimated at £592k.

As part of the capital raising exercise in March 2019, COLG issued £2.05m of 6% Unsecured Convertible Loan Notes 2021. These will be automatically converted into ordinary shares at the rate specified in the loan notes if a UK banking licence is granted to Recognise by 31 March 2021. Otherwise COLG will redeem the loan notes.

The Board is seeking authority at the AGM to issue up to 39,807,263 new shares. As in 2018, 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. The Board intends to seek additional investors once it is confident that permission will be granted.

The Board does not recommend payment of a dividend.

Outlook

COLG intends to continue implementing its long-term strategy of developing financial services for the UK SME market. With the success of its recent capital raising exercise and the consequential increase in the Group's financial strength, 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 continues to evolve to reflect changes in market conditions, the business environment and the availability of capital, as well as the success of business initiatives promoted through COLG, the holding company.

Colin Wagman
Chairman
14 July 2019

Strategic report

Business activities
The Group currently has three business areas.

The first provides loan and lease finance to the SME market through three companies - Credit Asset Management Limited (CAML) and its subsidiary Professions Funding Limited (PFL), which provide asset-based finance and commercial loans, and Property & Funding Solutions Ltd (PFS), a property bridging finance company.

The second, Acorn to Oaks Financial Services Limited (Acorn to Oaks) which was acquired in January 2019 is a financial services intermediary focusing on the SME and property markets.

The third, Milton Homes, administers a portfolio of home reversion plans.

The Company's subsidiary, Recognise Financial Services Limited ("Recognise"), has continued to progress its application for a UK banking licence. If the application is successful, Recognise intends to focus on the SME business customer in the UK and will encompass both CAML and PFS.

Financial review
The table below shows a breakdown of the Group's results:

Loss before tax	2019 £000	2018 £000
Equity release provider (a)	(1,785)	295
Loan, lease and professions financing (a)		
Asset based finance, commercial and professional loans	271	(163)
Property bridging finance	10	-
Financial services intermediary	55	-
Other	6	73
Holding company – excluding costs associated with banking licence application and acquisitions	(308)	(185)
	(1,751)	20
Costs associated with banking licence application and acquisition	(1,738)	(1,075)
	(3,489)	(1,055)

(a) stated after quasi-equity intra group payments of interest and, in 2018, preference dividends.

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

	31 March 2019	31 March 2018
(Loss)/ profit for year before costs associated with banking licence application and acquisitions	(1,751)	20
Costs associated with banking licence application and acquisitions	(1,738)	(1,075)
Loss before tax for the year (£000)	(3,489)	(1,055)
Consolidated net assets per share (attributable to owners of the parent)	83p	81p

Capital raising exercise
The Company undertook a successful capital raising exercise in March 2019, which was supported by its two major shareholders who, with connected parties, subscribed a total of £10m for ordinary shares. Other third parties subscribed a further £3.15m in March and April for ordinary shares, which were issued at £1.25 each. In addition, £2.05m was raised from the issue of 6% Unsecured Convertible Loan Notes 2021 at par. The moneys were raised to enable further development of the Group's strategy, including supporting Recognise in its application for a UK banking licence.

The 6% Unsecured Convertible Loan Notes 2021 will be mandatorily converted into ordinary shares at an issue price of 143p providing the ICG date, which is the date when the Prudential Regulatory Authority sets the Individual Capital Guidance for Recognise, is no later than 31 March 2021, the final maturity date when repayment will otherwise be due.

In connection with its acquisition of Acorn to Oaks Financial Services Limited on 7 January 2019, the Company issued £1,292,826 zero-coupon Rollover Loan Notes 2021 and 82,068 ordinary shares at 140.34p each in satisfaction of the initial consideration of £1,408,000.

Review of the businesses

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL") – asset finance, loans & professions financing

(a) Description of the business and business model

CAML is a business to business provider of debt finance to UK SMEs which originates business through a national network of specialist asset, commercial and professional loans brokers. It provides asset backed finance and commercial loans to SMEs and, through its subsidiary PFL, loans to professional practice firms.

(b) Financial review

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

£000	31 March 2019	31 March 2018
Revenue	2,428	2,138
Operating profit before shareholder capital charges	481	185
Profit/ (loss) before tax	271	(163)

CAML significantly improved its results compared with the previous year, achieving profit before tax of £271k compared with a loss before tax of £163k in 2018. This follows the actions taken last year to strengthen its balance sheet and re-finance its block facilities. Overall yields remained consistent with 2018. Commercial loans were strong, with professions loans remaining in line with previous year, although due to downward market pressure on asset finance there was a reduction in leasing yields year-on-year.

There was a year on year increase in revenues of 13% to £2.4m which was attributable to an increase in new business volumes of 3% and revenue arising from the acquisition of the remaining portfolios of a joint venture fund which had previously been managed by CAML in June 2018.

Whilst there was an increase of 3% of new business originations there was a small decline of 3% in the portfolio, due to the timing and revolving nature of short-term professions loans and the maturity of a number of deals transferred from the joint venture fund.

Liquidity is critical to new business development and to ensure future funding availability CAML concluded two tranches of re-financing in June 2018 and February 2019 for £6.1m and £6.3m respectively. These were made on fixed rate competitive terms which protected margins from interest rate risk.

CAML continued to maintain strict controls over costs with a small increase due to the recruitment of additional staff to maintain high service standard levels and support the increase in new business activity.

Following the adoption of IFRS 9 in place of IAS 39, the provision for future credit losses at 31 March 2018 was reduced by £24k. There was little change in the provision overall as the existing provision allowed for future losses that might arise on the portfolio existing on that date.

The key performance indicators are the book size of the portfolio and new business levels (measured by the monetary value of new business).

The size of the "own book" portfolio fell by 3% to £16.1m (2018: £16.7m). While new business volumes were 25% ahead of 2018 in the first 9 months, the last quarter of the year, historically a strong new business quarter for the professions market, was weaker than expected due to increased competition which resulted in less new business than in previous years in that period. However, despite this, there was a 3% increase in new business for the year as a whole.

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

CAML has 11 employees.

Property & Funding Solutions Ltd ("PFS") – property bridging finance

(a) Description of the business and business model

PFS, which provides property bridging and development finance for commercial customers, started to market for new lending opportunities in April 2018.

PFS made its first loans in May and June. The market has proved receptive to its loan offering due to its responsiveness, the close relationships built with customers and the certainty of delivery of funding. PFS has already undertaken repeat business with customers so validating its business model in a growing sector with many lenders.

(b) Financial review

A summary of the financial performance of the business in its first year of operation is set out in the table below:

£'000	31 March 2019
Revenue	293
Operating profit	122
Profit before tax	10

Prior to 31 March 2018, PFS incurred costs of £17k in setting up the business.

Having become established in its marketplace PFS has been recruiting to expand the team as well as pursuing external investment and wholesale lines to supplement Group cash resources. This will enable PFS to build its lending capacity in the coming year. Broker initiated business is the primary origination channel in the bridging loan sector and PFS is seeking to broaden its existing network through the development of new introducer relationships which will underpin its planned growth in loan volume.

Acorn to Oaks Financial Services Limited ("Acorn to Oaks") – financial services intermediary

(a) Description of the business and business model

Acorn to Oaks is an independent financial services intermediary authorised by the FCA which provides whole of market broking advice services for general insurance, commercial finance broking, regulated mortgages, protection, pensions and investments. It focuses on the SME and property markets and works with a wide client base across the UK. Acorn to Oaks operates an IFA business through its 51% owned subsidiary, Acorn to Oaks Associates Limited.

Since its acquisition by COLG, Acorn to Oaks has engaged an executive with a proven track record to establish and develop its recently formed commercial finance brokerage division which will further extend the range of services it offers to the SME market.

(b) Financial review

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

£'000	3 months to 31 March 2019
Revenue	224
Operating profit	55
Profit before tax	55

The results for the period since acquisition in early January are in line with expectations. They provide a solid base for Acorn to Oaks' development going forward.

Acorn to Oaks currently employs 8 people.

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

(a) Description of the business and business model

Milton Homes, the Group's equity release provider, has a portfolio of individual UK residential properties through its being a provider of home reversion plans. 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 and distribute the sale proceeds, including any that may be due to the customer or his estate. Milton Homes does not currently take on new customers.

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

(b) Financial review

A summary of the financial performance of Milton Homes is set out in the table below:

£'000	31 March 2019	31 March 2018 (6 months) (a)
Revenue	4,556	3,590
Operating (loss)/ profit before shareholder capital charges	(754)	842
(Loss)/ profit before tax	(1,785)	295

(a) acquired by COLG on 5 October 2017

Milton Homes' day-to-day business has not changed since October 2017; it is continuing to sell its properties as reversions occur, producing cash flow for re-investment in the Group. The portfolio, which comprised interests in 510 properties at 31 March 2019 (2018: 552 properties), was externally valued at £71.5m at that date (2018: £75.1m). The number of properties that reverted to Milton Homes during the year was 35 compared with 50 in the previous year.

While Milton Homes paid cash of £3.1m to COLG during the year, its results were severely impacted by the effect of the reduction in the house price index (down to 0.44% increase in the year compared with an increase of 2.05% in the previous 6 month period) as well as by an increase in the time taken to complete sales due to the general slow-down in the housing market.

As previously announced, Chris Rumsey has now retired in May 2019. Shane Harrison has now taken over as Chief Operating Officer within the Milton Homes Group.

Milton Homes employs 7 people.

Other
The results from other activities show a profit of £6k (2018: profit of £73k). The reduction arises because both City of London Financial Services Limited and the Group's associates, whose results were included in 2018, ceased their business activities during the year.

Consolidated income statement
for the year ended 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Revenue		7,510	5,782
Cost of sales		(14)	(7)
Gross profit		7,496	5,775
Administrative expenses:	5		
Banking licence application		(1,643)	(406)
Acquisitions		(95)	(669)
Other		(4,482)	(2,913)
Share of profits of associates		6	103
Other income		228	114
Profit from operations		1,510	2,004
Finance expense		(4,999)	(3,059)
Loss before tax		(3,489)	(1,055)
Tax expense	7	(77)	(130)
Loss for the year		(3,566)	(1,185)
Loss for year before costs associated with acquisitions and banking licence application		(1,828)	(110)
Costs associated with acquisitions and banking licence application		(1,738)	(1,075)
Loss for the year		(3,566)	(1,185)
Loss for the year attributable to:			
Owners of the parent		(3,579)	(1,132)
Non-controlling interests		13	(53)
Loss for the year		(3,566)	(1,185)
Basic and diluted earnings per share attributable to owners of the parent	2	(12.21)p	(7.53)p

The group had no discontinued operations in either 2019 or 2018.

Consolidated statement of comprehensive income

for the year ended 31 March 2019

	31 March 2019 £'000	31 March 2018 £'000
Total loss for the year	(3,566)	(1,185)
Total comprehensive expense	(3,566)	(1,185)
Total comprehensive expense attributable to:		
Owners of the parent	(3,579)	(1,132)
Non-controlling interests	13	(53)
	(3,566)	(1,185)

Consolidated statement of changes in equity

	Attributable to owners of the parent company					Attributable to	
	Equity Instrument £'000	Accumulated losses £'000	Share premium £'000	Share capital £'000	Total £'000	non-controlling interests £'000	Total equity £'000
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							
As originally presented	-	(18,136)	37,720	4,233	23,817	(50)	23,767
IFRS 9 adjustment to opening provision for impairment (note 1)	-	24	-	-	24	-	24
Restated total equity at 31 March 2018	-	(18,112)	37,720	4,233	23,841	(50)	23,791
Loss for the year – continuing operations	-	(3,579)	–	–	(3,579)	13	(3,566)
Total comprehensive income	-	(3,579)	–	–	(3,579)	13	(3,566)
Contributions by and distributions to owners							
Rollover Loan Notes 2021 (note 10)	1,293	-	-	-	1,293	-	1,293
Value of employee services	-	67	–	–	67	–	67
Reduction in non-controlling interests	-	(48)	-	-	(48)	50	2
Acquisition of minority interest	-	-	-	-	-	-	-
Issue of shares	-	–	12,384	203	12,587	–	12,587
Total contributions by and distributions to owners	1,293	19	12,384	203	13,899	50	13,949
At 31 March 2019	1,293	(21,672)	50,104	4,436	34,161	13	34,174

Consolidated balance sheet
as at 31 March 2019

	Note	31 March 2019 £'000	31 March 2018 £'000
Assets			
Non-current assets			
Investment properties	8	41,040	44,926
Financial assets – equity release plans	9	30,485	30,213
Intangible assets	10	3,480	2,180
Property, plant and equipment		73	16
Interests in associates		-	292
Other investments		138	138
Loans		3,967	4,506
Finance leases		2,294	2,689
Total non-current assets		81,477	84,960
Current assets			
Loans		10,645	6,291
Finance leases		1,807	2,352
Trade and other receivables		2,474	1,566
Cash and cash equivalents		15,760	6,685
Total current assets		30,686	16,894
Total assets		112,163	101,854
Current liabilities			
Borrowings		(7,945)	(9,331)
Trade and other payables		(2,711)	(2,578)
Total current liabilities		(10,656)	(11,909)
Non-current liabilities			
Borrowings		(66,106)	(65,494)
Other creditors		(483)	-
Deferred tax liability	11	(744)	(684)
Total non-current liabilities		(67,333)	(66,178)
Total liabilities		(77,989)	(78,087)
Net assets		34,174	23,767
Equity			
Share capital	12	4,436	4,233
Share premium		50,104	37,720
Equity instrument	10	1,293	-
Accumulated losses		(21,672)	(18,136)
Equity attributable to owners of the parent		34,161	23,817
Non-controlling interests		13	(50)
Total equity		34,174	23,767

Consolidated statement of cash flows

for the year ended 31 March 2019

	31 March 2019 £'000	31 March 2018 £'000
Cash flows from operating activities		
Loss before tax	(3,489)	(1,055)
Adjustments for:		
Depreciation and amortisation	23	18
Share-based payments	67	15
Impairment of goodwill	78	–
Share of profits of associates	(6)	(103)
Investment properties and equity release plan financial assets:		
Increases in the fair values of these assets	(2,282)	(2,364)
Realised gains on the disposal of these assets	(777)	(417)
Equity transfer income	(1,497)	(809)
Interest payable	4,999	3,059
Changes in working capital:		
(Increase) in trade and other receivables	(438)	(262)
(Decrease)/increase in trade and other payables	(323)	320
Leases advanced	(1,261)	(3,707)
Leases repaid	2,788	3,793
Loans advanced	(19,902)	(10,366)
Loans repaid	15,875	7,643
Loans repaid by related parties	375	875
Cash used in operations	(5,770)	(3,360)
Corporation tax	–	–
Net cash used in operating activities	(5,770)	(3,360)
Cash flow from investing activities		
Proceeds from the sale of Investment properties and equity release plan financial assets	8,253	4,392
Receipt of deferred consideration arising from prior year disposal of assets held for sale	-	770
Return of seed capital in legal case investments	-	2
Distribution of profits from related parties	298	35
Proceeds of shares sold or issued to non-controlling interests	2	3
Purchase of 50% interest in joint venture partnerships (note 6)	(726)	-
Purchase of Investment properties and equity release plan financial assets	(83)	(34)
Purchase of property, plant and equipment	(69)	(7)
Cash acquired on acquisition of Acorn to Oaks	262	-
Acquisition of Milton Homes, net of cash acquired	-	(5,001)
Net cash generated from investing activities	7,937	160

Cash flow from financing activities		
Proceeds from issue of ordinary shares for cash	12,472	10,736
Proceeds from the issue of 6% Convertible Unsecured Loan Stock 2021	2,050	-
Loans drawn down	22,944	13,290
Repayment of loans	(29,756)	(15,047)
Interest paid	(802)	(857)
Net cash generated from financing activities	6,908	8,122
Net increase in cash and cash equivalents	9,075	4,922
Cash and cash equivalents brought forward	6,685	1,763
Net cash and cash equivalents	15,760	6,685
Cash and cash equivalents	15,760	6,685
Bank overdraft	–	–
Net cash and cash equivalents	15,760	6,685

Notes

1 Basis of preparation

Preliminary announcement

The financial information contained in this preliminary announcement does not constitute full accounts as defined in section 434 of the Companies Act 2006 and has been extracted from the statutory accounts for the year ended 31 March 2019. The auditors have issued an unqualified report on these statutory accounts. The statutory accounts for the year ended 31 March 2018 have been filed with the Registrar of Companies and the statutory accounts for the year ended 31 March 2019 will be filed with the Registrar of Companies in due course.

This announcement has been prepared using recognition and measurement principles of IFRS as endorsed for use in the European Union (IFRS). This announcement does not contain sufficient information to comply with IFRS.

The same accounting and presentation policies were used in the preparation of the statutory accounts for the year ended 31 March 2018 with the exception of the following new standards and interpretations which were adopted for the first time in the financial statements for the year ended 31 March 2019:

IFRS 9 ‘Financial instruments’; and

IFRS 15 ‘Revenue from Contracts with Customers’.

Adoption of IFRS 9

IFRS 9 ‘Financial Instruments’ which is the replacement for IAS 39 ‘Financial Instruments: recognition and measurement’ has been applied for the first time in these financial statements.

The Group has elected not to restate comparatives on initial application of IFRS 9.

IFRS 9 introduces new requirements for:

- classification and measurement of financial assets and financial liabilities
- impairment methodology and
- hedge accounting.

As the Group does not use any hedging instruments, the IFRS 9 requirements on these do not apply.

Classification and measurement
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.

The financial assets and liabilities of the Group and the basis of measurement are set out below. The adoption of IFRS 9 with effect from 1 April 2018 has not resulted in any changes in classification categories nor in the basis of measurement of items within each category:

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 continue to be measured at fair value through profit and loss ('FVTPL') under 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 continue to be held at amortised cost.

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 continue to be measured at fair value through other comprehensive income ('FVOCI').

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 continue to be held at amortised cost.

Adjustment to reserves at 1 April 2018
The impairment allowance as at 31 March 2018 measured in accordance with the IFRS 9 model adopted by the Group has been assessed as £1,096,000, a decrease of £24,000 compared with the provision for impairment of £1,120,000 at that date under the IAS 39 incurred loss model.

The carrying amount of financial assets and liabilities in accordance with IAS 39 as at 31 March 2018 and the equivalent under IFRS 9 at 1 April 2018 are as shown below. All categories are measured at amortised cost under both IAS 39 and IFRS 9 unless stated otherwise.

	IAS 39 Net carrying amount £'000	**Impact of adopting IFRS 9 £'000**	**IFRS 9 Net carrying amount £'000**
Financial assets			
Financial assets – equity release plans (FVTPL)	30,213	-	30,213
Other assets – Legal case investments (FVOCI)	138	-	138
Loans	10,797	50	10,847
Finance leases	5,041	(26)	5,015
Trade and other receivables	1,566	-	1,566
Cash and cash equivalents	6,685	-	6,685
Financial liabilities			
Interest bearing borrowings	74,825	-	74,825
Trade and other payables	2,578	-	2,578

The carrying amount of loans and finance leases as at 1 April 2018 comprised the following:

Agreements categorised under IFRS 9 as being in:	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross amounts receivable	15,648	199	1,121	16,968
Impairment allowance	(254)	(5)	(837)	(1,096)
	15,394	194	284	15,872

The figure for the impairment allowance on Stage 3 agreements includes provisions on arrears for these agreements.

Adoption of IFRS 15

The adoption of IFRS 15, which introduces a 5-step approach to the timing of revenue recognition based on performance of the obligations in customer contracts, has had no material impact on the Group as the basis for revenue recognition under IFRS 15 is consistent with the practice already used by the Group.

IFRS 15 does not apply to financial instruments or lease contracts, the accounting for which is governed by other IFRSs. As a result, loan and lease income and income from financial assets – equity release plans, fall outside the scope of IFRS 15. The Group assessed its other revenue sources and determined that the adoption of IFRS 15 did not require any change in its approach to revenue recognition and there was no impact on the amount or timing of revenue.

2 Earnings per share

Basic 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. 21,349 ordinary shares of £0.02 were held by the Employee Benefit Trust at 31 March 2019 (2018: 21,349 ordinary shares of £0.02). The calculation of the basic and diluted earnings per share divides the loss by the weighted average number of shares in issue of 29,307,000 (2018: 15,025,000 shares). 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.

3 Dividends

The directors do not recommend payment of a final dividend (2018: nil).

4 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, loan, lease and professions financing and financial services intermediary. 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 2019

		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	1,142	1,342	-	(114)	-	1,228
	Acquisition and banking licence application	-	(147)	-	-	-	(147)
	Other	-	(1,468)	-	(68)	-	(1,536)
		1,142	(273)	-	(182)	-	(455)
Platforms	Equity release provider	4,556	3,241	-	(3,995)	(1,031)	(1,785)
	Loan, lease and professions financing						
	CAML/PFL	2,428	1,089	-	(818)	-	271
	Property bridging finance	293	122	-	(1)	(111)	10
	Other	9	9	6	(3)	-	12
	Banking licence application	-	(1,591)	-	-	-	(1,591)
	Financial services intermediary	224	55	-	-	-	55
	Other	-	(6)	-	-	-	(6)
	Intra-Group	(1,142)	(1,142)	-	-	1,142	-
		7,510	1,504	6	(4,999)	-	(3,489)

The Profit from operations in the Consolidated income statement of £1,510,000 is the sum of £1,504,000 and £6,000 as shown above.

The quasi-equity intra group payments during the year comprise interest payable to COLG.

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 during the year ended 31 March 2018 comprise interest and dividends on preference shares payable to COLG.

Consolidated Net Assets
For the year ended 31 March 2019

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	17,873	
	Loan, lease and professions financing	6,394	
	Financial services intermediary	1,884	
	Banking licence application project	2,007	
	Other	150	
			28,308
	Other net assets		9,029
Net assets per entity balance sheet			37,475
Other net liabilities of subsidiary companies			(3,301)
Consolidated Net Assets			34,174

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

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

5 Administrative expenses

	31 March 2019 £'000	31 March 2018 £'000
Staff		
Payroll	3,351	1,569
Other staff costs	81	30
Establishment costs		
Property costs	572	336
Other	873	833
Auditor's remuneration (see below)	164	177
Legal fees	243	336
Consultancy fees	532	96
Other professional fees	381	593
Depreciation	23	18
Total administrative expenses	6,220	3,988
Expenses relating to:		
Banking licence application project	1,643	406
Acquisition of Acorn to Oaks (2018: Milton Homes)	95	669
Other administrative expenses	4,482	2,913
	6,220	3,988

Auditor's remuneration	31 March 2019 £'000	31 March 2018 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	44	39
Fees payable to the Company's auditors for other services:		
The audit of subsidiaries pursuant to legislation	95	58
Audit related assurance services	3	3
Tax services	22	77
Total fees	164	177

6 Related party transactions and directors' remuneration

Directors' emoluments are disclosed in the Directors' Remuneration report. The aggregate emoluments of the directors for the year were £461,732 (2018: £322,140) of which £360,000 (2018: £208,946) was borne by the Company and £101,732 (2018: £113,195) by a subsidiary. In addition, aggregate social security costs for the year were £53,111 (2018: £39,527) of which £39,597 (2018: £23,999) was borne by the Company and £13,514 (2018: £15,528) 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.

A summary of the total remuneration for directors is given below:

Executive directors

For the year ended 31 March 2019	Salary £	All taxable benefits £	Total £
Michael Goldstein	175,000	–	175,000
Paul Milner	100,000	–	100,000
Chris Rumsey (a)	101,732	–	101,732
For the year ended 31 March 2018			
Michael Goldstein (b)	85,705	–	85,705
Paul Milner (c)	48,955	–	48,955
Chris Rumsey (d)	112,522	673	113,195

(a) Remuneration for the period to the date of his resignation from the board of the Company on 13 September 2018. Mr Rumsey was the managing director of the Milton Homes Group which met his remuneration costs until his retirement in May 2019.

(b) Appointed 5 October 2017.

(c) 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 from his date of appointment on 5 October 2017.

Non-executive directors

	Year ended 31 March 2019 £	Year ended 31 March 2018 £
Colin Wagman (a)	30,000	15,000
Andrew Crossley	27,500	27,500
(b) Paul Milner (c)	-	14,051
Lorraine Young (d)	27,500	17,734

(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.

Group related parties
The transactions of Group companies with related parties included:

Transactions of the Company
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.

Both these shareholders supported the Company's recent capital raising exercise with DV4 Limited subscribing £5million for 4,000,000 ordinary shares and Max Barney Investments Limited and other members of its concert party also subscribing £5million for 4,000,000 ordinary shares.

P G Milner is a director of Max Barney Investments Limited as was M Goldstein until 25 March 2019.

During the year, the Company acquired Acorn to Oaks Financial Services Limited, whose shareholders included J Oakley, a minority shareholder of Recognise (see note 10).

The Company recharges the costs of shared premises to its subsidiaries, Credit Asset Management Limited and Recognise Financial Services Limited.

Transactions of other Group companies
During the year ended 31 March 2018, the transactions of Group companies with related parties included the following with its then associates:

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	–

The non-group interests in these joint venture limited partnerships were purchased by Credit Asset Management in June 2018. The limited partnerships were subsequently dissolved.

7 Tax expense

	31 March 2019 £'000	31 March 2018 £'000
UK corporation tax		
Current year charge	13	–
Prior year charge	4	–
Deferred tax		
Relating to origination and reversal of temporary differences	60	130
Total tax expense	77	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% (2018: 19%). The differences are explained below.

Tax reconciliation	31 March 2019 £'000	31 March 2018 £'000
Loss before tax	(3,489)	(1,055)
At standard rate of corporation tax in the UK:	(663)	(200)
Effects of		
Items not deductible for tax purposes	367	350
Profit on revaluation of assets offset by brought forward losses	(332)	-
Other tax adjustments	7	(20)
Movement on unrecorded deferred tax asset	694	–
	73	130

8 Investment properties

At valuation	31 March 2019 £'000	31 March 2018 £'000
At 1 April	44,926	-
On acquisition of Milton Homes on 5 October 2017	-	45,390
Additions	12	24
Disposals	(5,642)	(2,517)
Revaluations	1,744	2,029
At end of period	41,040	44,926
Investment properties	35,397	37,788
Investment properties held for sale	5,643	7,138
	41,040	44,926
Numbers of properties		
At 1 April	302	-
On acquisition of Milton Homes on 5 October 2017	-	317
Additions	-	-
Disposals	(31)	(15)
	271	302

9 Financial assets – equity release plans

At valuation	31 March 2019 £'000	31 March 2018 £'000
At 1 April	30,213	–
On acquisition of Milton Homes on 5 October 2017	-	30,517
Additions	71	10
Equity transfer	1,497	809
On ending of plans	(1,834)	(1,458)
Revaluations	538	335
At end of period	30,485	30,213
Financial assets – equity release plans	28,459	27,741
Financial assets – equity release plans held for sale	2,026	2,472
	30,485	30,213
Numbers of properties		
At 1 April	250	-
On acquisition of Milton Homes on 5 October 2017	-	258
Additions	1	-
Disposals	(12)	(8)
	239	250

10 Intangible assets

Group	Goodwill £'000
Cost	
At 1 April 2017	–
Addition – acquisition of Milton Homes	2,180
At 31 March 2018	2,180
Addition – acquisition of Acorn to Oaks Financial Services	1,378
At 31 March 2019	3,558
Accumulated amortisation and impairment	
At 1 April 2017	-
Addition	-
At 31 March 2018	-
Impairment – Milton Homes	78
At 31 March 2019	78
Carrying amount	
At 31 March 2019	3,480
At 31 March 2018	2,180

Acorn to Oaks

The goodwill, which arose on the acquisition of Acorn to Oaks Financial Services Limited on 7 January 2019, 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 2020.

The fair values of the assets and liabilities acquired as at 7 January 2019 were based on the unaudited consolidated management accounts of Acorn to Oaks for the period to 31 December 2018. These accounts were prepared using the same bases as in the statutory accounts.

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**
Property, plant and equipment	11	–	11
Trade and other receivables	343	–	343
Other debtors	127	–	127
Cash and cash equivalents (a)	262	–	262
Trade and other payables	(237)	–	(237)
Non-controlling interests	–	–	–
Total	506	–	506

(a) includes restricted cash of £76,000 held on behalf of clients,

Fair value of consideration paid

	£'000
Rollover Loan Notes due 2021 at fair value	1,293
Ordinary shares of the Company at fair value	115
Initial consideration	1,408
Assessment of deferred consideration under earn-out provisions	476
Total consideration	1,884
Fair value of assets acquired	(506)
Goodwill	1,378

The Initial consideration was satisfied by way of the issue of ordinary shares of the Company and Rollover Loan Notes due 2021. Both of these are classified as equity instruments.

The deferred consideration has been recorded at its amortised cost, which has been calculated using an effective interest rate of 6%. The amount payable under earn-out provisions has been assessed on the basis of the forecast profits after tax of Acorn to Oaks over the three years to 31 March 2022 and takes account of the benefits expected to arise from its becoming a member of the group. For its established business activities, the forecasts have been based on current underlying profits while for the newly established commercial finance brokerage division, the forecasts are based on its three-year business plan. The accuracy of the forecasts and the range of possible outcomes are subject to both internal and external factors that may affect the business over the period. A major external factor is the performance on the UK economy over the period and its impact on the SME sector. The major internal factor is the performance of the newly established commercial finance brokerage division over the period.

The estimate of £592,000 for gross amount of the deferred consideration is based on information that is presently available, with the range of outcomes being assessed on a prudent basis. The deferred consideration payable is currently expected to be within the range of £492,000 to £692,000. It is considered highly unlikely that the maximum of £5,000,000 specified in the earn-out agreement would be achieved.

Milton Homes

The Company has carried out an assessment as to whether there has been an impairment in the value of the goodwill of £2,180,000 which arose on the acquisition of Milton Homes in October 2017. The assessment has been made based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a discount rate in order to calculate the present value of the cash flows.

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. Occupiers continue to live in their home until they die or move to a care facility. Milton Homes has a leveraged exposure to UK House Price Inflation ("HPI") with a spread of realisations over many years. When a property is vacated, Milton Homes sells it and distributes the sale proceeds, including any that may be due to the customer or their estate. Milton Homes, which held interests in 510 properties at 31 March 2019, does not currently take on any new customers but continues to sell its properties as reversions occur, producing cash flow for re-investment by the Group.

Milton Homes has prepared long term cash forecasts for the 15 years up to 31 March 2034 for the sale of its existing portfolio of properties with property reversions based on actuarial life tables and assuming various HPI rates. These two factors, both of which are outwith the influence of Milton Homes, are the key determinants of future cash flows, with cash generated reducing progressively over time under all scenarios as the portfolio becomes smaller and the number of reversions falls.

The base case assumes an increase of 2% for HPI in the year to 31 March 2020 and 4% per annum thereafter. Sensitivity calculations have been done with assumed HPI rates varying from nil to 6% per annum over the fifteen-year period.

The future cash flows have been discounted at 6% (the Company's present cost of capital) to determine the value in use of the net amount invested in Milton Homes. The net present value of the discounted future cash flows at each year end compared with the net assets of Milton Homes at that date gradually falls to zero over a period varying from 7 years where the HPI is 2% per annum to 10 years for the base case. The rate of reduction increases materially in the latter part of each period.

As a result, there will be a gradual impairment in the goodwill associated with Milton Homes as the property portfolio is progressively realised. On the basis that the value in use may reduce to zero over a period of seven years, a provision for impairment of £78,000 (2018: nil) has been made.

11 Deferred tax liability

	Group	
Deferred tax liability	**31 March 2019 £'000**	**31 March 2018 £'000**
At 1 April	684	–
Addition – on acquisition of Milton Homes	–	554
Tax expense	60	130
At 31 March	744	684
The deferred tax liability comprises:		
Gains arising from the revaluation of investment properties	1,416	1,457
Losses	(672)	(773)
	744	684

12 Called-up share capital

Allotted, called up and fully paid	**31 March 2019 Number**	**31 March 2018 Number**	**31 March 2019 £'000**	**31 March 2018 £'000**
Ordinary shares of £0.02	39,407,263	29,205,195	788	585
Deferred shares of £0.001	3,648,415,49	3,648,415,419	3,648	3,648
			4,436	4,233

The Company did not hold any ordinary shares in treasury at 31 March 2019 (2018: nil). 21,349 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 31 March 2019 (2018: 21,349). The Company did not transfer any shares into or out of the EBT during the year (2018: nil). The fair value of shares held by the EBT at the balance sheet date amounted to £29,000 (2018: £37,000): these are deducted from equity.

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.

On 7 January 2019, the Company issued 82,068 ordinary shares at £1.4034 each in part consideration for the acquisition of Acorn to Oaks Financial Services Limited (see note 10).

On 28 March 2019, the company raised £12,650,000 before expenses through the issue of 10,120,000 ordinary shares at £1.25 each for cash.

The cash raised from the issue of the ordinary shares in March 2019, together with a further £500,000 subscribed for ordinary shares in April 2019, and the cash received on the issue of £2,050,000 6% Unsecured Convertible Loan Notes 2021 in March 2019 will be used to support the development of the Group's lending business, including the acquisition of a UK banking licence.

Costs of £178,000 (2018: £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 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	3,648,425,419	29,205,195	–	3,648	585
Issued as part consideration on 7 January 2019	–	82,068	–	–	1
Issued for cash on 28 March 2019	–	10,120,000	–	–	202
As at 31 March 2019	3,648,415,419	39,407,263	–	3,648	788

13 Financial instruments – 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.

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 2019:

Level 3 valuation	**Total £'000**
Investment properties	41,040
Financial assets – equity release plans	30,485
Other investments	138
	71,663

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

No Level 1 or Level 2 assets were held at either 31 March 2019 or 31 March 2018.

There were no transfers of assets between categories during the year (2018: 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 2019 £'000	**31 March 2018 £'000**
Balance at 1 April	75,277	140
Additions – on acquisition of Milton Homes on 5 October 2017	-	75,907
Additions	83	34
Equity transfer	1,497	809
Revaluations	2,282	2,364
Disposals	(7,476)	(3,977)
Balance at 31 March	71,663	75,277

14 Risk statement

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 different ways. For the leasing business the exposure is reduced by ownership of the asset which can usually be resold or re-leased. 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 and supplemented by debentures and personal guarantees. 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.

CAML, which lends only to businesses, is regulated for those businesses that fall within the Consumer Credit Act and has full permission to operate under the FCA consumer credit regulations. The risk of non-compliance by CAML is considered low as these regulated activities constitute only a very small part of its overall revenue. PFS is not FCA regulated and only undertakes non-regulated lending.

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).

Acorn to Oaks, which is an independently regulated whole of market firm, has permission from the FCA to provide regulated products and services as advisor and broker, and has been granted client money permissions in relation to its insurance distribution activities. Acorn to Oaks, established in 2008, has an excellent track record in providing advisory and broking services. Given its relatively small size within the Group, its maturity and strong management, COLG views the legal and regulatory risks arising to the Group as low.

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.

A regulatory risk arises in relation to the application made by Recognise for a UK banking licence as the regulatory permissions and their associated timings are uncertain and, potentially, may result in increased costs and delays in implementation of the Group's strategy.

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 from multiple sites or 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.

Weak property market
The Group is adversely affected by a weak property market through its lending businesses and Milton Homes. Factors that mitigate the risks within the lending businesses of CAML and PFS are the level of loan to value, covenants given and, where appropriate, recourse to other forms of credit protection. Milton Homes is impacted by movements in the residential property market which delay sales or reduce sale values and PFS by movements in both commercial and residential market. CAML is impacted by the overall consequences of a weak property market on the economy and the resultant effects on the business performance of its customers.

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. To mitigate this risk, management is incentivised with equity and bonuses comparable with the market.

Annual General Meeting

The 2019 annual general meeting will be held at 12.30 pm on 5 September 2019 at the offices of Shakespeare Martineau, 60 Gracechurch Street, London EC3V 0HR. The notice of meeting and proxy form for the meeting will be included in the Annual Report which will be posted to shareholders in August 2019.

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