City of London Group plc

Interim Results for the six months ended 30 September 2019

Contents

Results for the six-month period ended 30 September 2019	3
Chief Executive Officer's review	5
Condensed consolidated income statement	10
Condensed consolidated statement of comprehensive income	10
Condensed consolidated balance sheet	11
Condensed consolidated statement of changes in equity	12
Condensed consolidated statement of cash flows	14
Notes to condensed financial statements	17

TIDM: CIN

17 December 2019

City of London Group plc

("COLG" or "the Company" and, together with its subsidiaries and associates, "the Group")

Results for the six-month period ended 30 September 2019

The Company announces its unaudited interim results for the six-month period from 1 April 2019 to 30 September 2019, along with an update on business developments.

Business developments

- After a successful cash raise last year, the Group now aims to undertake a further capital raising exercise, raising between £25m and £50m in early 2020. This process will mainly facilitate development of Recognise.
- Recognise submitted its formal application for a UK banking licence in November, following an extensive pre-application process. With the momentum gained with the on-going development of the banking infrastructure and its processes, Recognise should be well-placed to receive authorisation to accept deposits and commence trading in the latter part of 2020.
- As part of its strategic planning to strengthen its executive team, Recognise appointed David Jenkins as Chief Financial Officer and Patrick Ferguson as Chief Risk Officer, both of whom have extensive experience in the banking sector, in November. These follow earlier appointments of an Operations Director and a Chief People Officer.
- The development of the banking infrastructure is underway with the appointment of technology partners to facilitate cloud-based technology.
- Property & Funding Solutions Ltd, which provides bridging and development finance for commercial customers, made progress in the period with an increase in the level of new lending enquiries.
- The recently established commercial finance broking division of Acorn to Oaks has a good pipeline of transactions which are expected to complete in the second half of the year.
- In October CAML completed the re-financing of another £3.5m block funding facility with Hampshire Trust Bank on competitive terms.
- Milton Homes continues to be affected by the continuing slow-down in the housing market but a number of sales in the pipeline is expected to complete in the second half.

Financial results

- Loss before tax £3.3m after absorbing costs of £1.3m associated with the UK banking licence application (2018/19 first half loss before tax £2.3m).

- Milton Homes business generated £1m of cash after repayment of the partnership loan in the period but it made a loss of £1.2m before shareholder capital charges due to the modest positive house price change over the period.
- Consolidated NAV per share attributable to shareholders 79p (31 March 2019: 83p)

Michael Goldstein, Chief Executive Officer, commented:

"We are delighted that our Recognise subsidiary has achieved a key milestone with the formal submission of its application to be authorised as a bank in November, following a lengthy pre-application exercise which began in the early part of 2018. Following the success of our cash raising exercise in March and April 2019, we have the funds available to complete the build out of the banking infrastructure which is currently underway. We have also strengthened the executive team further through the new appointments made since March.

The performance of both CAML and PFS has been satisfactory in the period.

The underlying business of Acorn to Oaks remains robust. The second half results are expected to benefit from transactions generated by the recently established commercial finance broking division that will complete during the period.

Overall, looking forward, we are well placed to deliver on our strategic objectives of serving the UK SME market and increasing the financial strength of the Group, so delivering value for our shareholders."

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Notes to Editors:

City of London Group plc is quoted on AIM (TIDM: CIN) and is the parent company of a forward-thinking organisation focused on serving the UK SME market. It is primed for the future, but grounded with traditional values and a strength and depth of expertise, looking to grow through its two-pronged strategy. The Group's expertise covers equity release, finance for the SME sector, and secured lending. The Group has experience with commercial banking and mortgages, and access to funding arrangements such as commercial, SME, bridging and development finance, home reversion plans, and asset and loan finance.

www.cityoflondongroup.com

Chief Executive Officer's review

I am pleased to present this review which covers the period from 1 April 2019.

Business review

I am delighted to report that Recognise achieved a significant milestone in the banking licence application process with submission of its formal application for authorisation in November 2019. In parallel to the application process, the Recognise team are maintaining great momentum as they continue to develop the banking infrastructure, recruit key personnel and put in place the foundations for the operational processes and procedures which will underpin this new enterprise.

Although timings can move, subject to continued progress, the expectation remains that Recognise will receive 'Authorisation with Restrictions' before the mid-year point in 2020 and full licence by the year end, which will signal the commencement of trading.

With the funds to complete the build out of the banking infrastructure of Recognise already in place following the successful cash raising exercise in March and April 2019, the Group is now undertaking preliminary planning work for a further capital raising exercise of between £25m and £50m in early 2020 to facilitate development of Recognise. This process has started with the support of our joint brokers, Peel Hunt and finnCap.

Recognise Financial Services Limited ("Recognise")

Following the successful fundraise in the first quarter of 2019, the Group is very pleased to report that, in November 2019, its subsidiary, Recognise, formally submitted its application to the Prudential Regulatory Authority (and the Financial Conduct Authority) to be authorised as a Bank. This is a key milestone which follows a pre-application process which commenced in the early part of 2018. It is also an important stage on the journey to create a broadly-based lending business supporting the UK's vital small and medium-sized business market, funded by personal and business customer savings.

The experienced management team at Recognise, led by Chief Executive, Jason Oakley, have had a busy year developing and implementing their plans for the new Bank, including commencing the build of the cloud-based technology infrastructure with key suppliers Mambu and nCino, and entering into a letter of engagement with Newcastle Strategic Solutions Ltd (NSSL). NSSL are the market leaders in outsourced deposit management services with nearly £29bn under management.

In parallel, the team has prepared an extensive inventory of policies, processes and procedures to accompany the key technical documents covering liquidity, capital and resourcing. The infrastructure build is now underway, the core strategy remains unchanged and the original team of five has more than doubled in size.

Recent key appointments have included David Jenkins as Chief Financial Officer and Patrick Ferguson as Chief Risk Officer. David was previously Director of Finance and Capital Management at Aldermore, having help leadership roles at Prudential, Lloyds and ABN AMRO in the past. Patrick is a qualified accountant and a seasoned Chief Risk Officer, most recently a main board director of Risk Strategy and Planning at Newcastle Building Society. They join Craig Pocock, Chief People Officer and Rudolf Heaf, Director of Operations, both highly experienced individuals with deep banking experience.

Adrian Golumbina, previous CFO, whilst remaining in the Recognise leadership team is now able to take on a wider CFO role within the City of London Group and Richard Lumley, who has provided excellent support as Chief Risk Officer from the early stages, has decided to seek a new challenge. We wish them both well in the future and thank them for the significant contribution to Recognise's progress to date.

Recognise, even at this stage, has its own fully constituted board, led by Philip Jenks, a former Chair of Charter Court Financial Services Group, a successful new banking entrant in the last decade. Philip brings highly relevant experience and knowledge to Recognise, as do the four other independent non-executive directors each of whom bring a different skill set to the new board.

The executive team has continued to exercise robust cost control, achieving this stage of progress at a comparative cost well below other participants on the same licence journey and without compromising on the quality of the output or the need to engage professional, external support when required. By maintaining momentum, the expectation remains that Recognise should be well placed to receive authorisation to accept deposits and commence trading in the latter part of 2020.

The bar to achieve a Bank authorisation is rightly set at a high level but the team moves forward with great confidence in the knowledge that the funds are already in place to complete the build out of the new Bank infrastructure. Meanwhile, the SME lending market opportunity remains just as attractive as it was when the strategy was first developed, potentially even greater.

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

CAML is a business to business provider of debt finance to UK SMEs, providing asset backed finance and commercial loans to SMEs and, through PFL, loans to professional practice firms. The level of new business and yields achieved by CAML remained stable over the period, although the market remains competitive.

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

£'000	**6 months to 30/09/19**	**6 months to 30/09/18**	**Year to 31/03/19**
Revenue	1,073	1,261	2,428
Operating profit before shareholder capital charges	42	155	481
(Loss)/Profit before tax	(63)	50	271

CAML made an operating profit before shareholder capital charges of £42k (2018: profit of £155k). The results for the six months were adversely affected by a provision of £131k in respect of one loan. However, the level of provisions on the lease and loan portfolio overall remains in line with its long run experience and projections.

In October, CAML completed a further re-financing of another £3.5m block funding facility with Hampshire Trust Bank on competitive terms which ensure margins are maintained. The re-financing allows CAML to maintain a secure base from which it can pursue development of new business opportunities.

CAML's management is also providing input to the infrastructure build for the banking platform which is now underway and continues to maintain strict controls over both staff resources and costs.

Property & Funding Solutions Ltd ("PFS")

PFS, the Group's business which provides property bridging and development finance for commercial customers, completed its first full year of trading during the period. The market has proved receptive to its loan offering due to its responsiveness, the close relationships built with customers and brokers, and the certainty of delivery of funding.

Property & Funding Solutions Ltd (continued)

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

£'000	6 months to 30/09/19	6 months to 30/09/18 (a)	Year to 31/03/19
Revenue	273	51	293
Operating profit before shareholder capital charges	132	(23)	122
Profit/(Loss) before tax	39	(35)	10

(a) PFS started trading in April 2018.

PFS recruited a senior lending manager in June 2019 to expand the team. This has led to an incremental increase in lending activity compared with the six months to 30 September 2018. While the market remains challenging due to the uncertainty of Brexit, the level of new lending enquiries remains encouraging although it is taking longer to complete transactions. Enquiries are being sourced via repeat business, broker introductions, business network recommendations and increasing awareness of PFS in the bridging loan market.

Acorn to Oaks Financial Services Limited ("Acorn to Oaks")

Acorn to Oaks is an independent financial services intermediary authorised by the FCA, which focuses on the SME and property markets, providing whole of market broking advice services for general insurance, commercial finance broking, regulated mortgages, protection, pensions and investments.

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

£'000	6 months to 30/09/19	3 months to 31/03/19 (a)
Revenue	437	224
Operating (loss)/ profit	(15)	55
(Loss)/ profit before tax	(15)	55

(a) Acorn to Oaks became a wholly owned subsidiary on 7 January 2019

The business anticipates the second half of the year will begin to benefit from development and other business initiatives already undertaken. The commercial finance broking division launched earlier in the year has a good pipeline of transactions which are expected to complete over the next six months.

In the general insurance division, where retention of existing clients is strong, Acorn to Oaks has seen a growth in premiums of 4% over the last 12 months with retained income increasing by 6.5% over the same period. The insurance market is hardening and a general increase in premiums is expected as a result in the next few months.

While the level of IFA business has remained stable over the period, the residential mortgage market has been relatively slow due to a lack of confidence generally and, we believe, by uncertainty surrounding Brexit.

Milton Homes Limited ("Milton Homes")

Milton Homes, the Group's equity release provider, administers a UK portfolio of home reversion plans, based on either traditional or innovative models. When a property becomes vacant, Milton Homes sells it and distributes the sale proceeds, including any that may be due to the former occupier or their estate. 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 does not currently take on new customers.

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

£'000	6 months to 30/09/19	6 months to 30/09/18	Year to 31/03/19
Revenue	1,394	1,737	4,556
Operating loss before shareholder capital charges	(1,194)	(898)	(754)
(Loss)/ profit before tax	(1,669)	(1,451)	(1,785)

The portfolio, which comprised interests in 496 properties at 30 September 2019, was externally valued at £70.2m at that date. The number of properties that reverted to Milton Homes during the period was 26 compared with 20 in the previous six months.

While Milton Homes generated cash of £1m after repayment of the partnership loan over the six month period, its results were impacted by the effect of the low changes in the house price index (up by 0.24% in the period compared with an increase of 0.44% in the previous 12 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. The business is, however, expecting a number of sales that are in the pipeline to complete over the next few months.

COLG

During the period, COLG has continued to support the activities and development of the Group's businesses. As part of this support, it is actively planning for its next capital raising exercise when it will seek new investors to support the business development of Recognise.
An amount of £0.5m in cash was subscribed for equity in April as part of the successful capital raising exercise which was largely completed in March 2019.

Following COLG's acquisition of additional office space for Recognise and PFS in July 2019, Milton Homes has recently relocated to the space vacated by these companies, so bringing staff of all the London based Group companies into premises managed by COLG.

Risks

The principal risks of the Group are reviewed by the Board, which reviews and agrees policies for managing these risks. The key risks described in the Strategic Report in the 2019 Annual Report are still appropriate. The management team of COLG and the Board are continuing to monitor events relating to Brexit and its potential impact although, as previously reported, such risks have not to date materially impacted the business model or conditions faced by the Group. The Group is adversely affected by a weak property market through its lending businesses and Milton Homes which is directly impacted by movements in the residential property market which delay sales or reduce sales values. The 2019 Annual Report also included information on financial risk management in Notes 33 and 34 of the financial statements.

Outlook

With the formal submission by Recognise of its application for a UK banking licence in November, the Group has made considerable progress in implementing its long-term growth strategy of developing its financial services offering for the UK SME market. While market conditions remain competitive, the Group believes it is well-placed to develop the potential of its existing businesses as alternative sources of credit finance become more difficult for the SME market to access. The Group remains committed to its vision to serve the UK SME market and continues to evolve with changes in market conditions and the business environment

Michael Goldstein
Chief Executive Officer

This half-yearly report may contain certain statements about the future outlook for COLG and its subsidiaries. Although the directors believe their expectations are based on reasonable assumptions, any statements about the future outlook may be influenced by factors that could cause actual outcomes to be materially different. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking statements.

This half-yearly report has been drawn up and presented with the purpose of complying with English law. Any liability arising out of or in connection with the half-yearly report for the six months to 30 September 2019 will be determined in accordance with English law. The half-yearly results for 2019 and 2018 have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board.

17 December 2019

Unaudited interim results

Condensed consolidated income statement

	Notes	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
Revenue	2	3,177	3,058	7,510
Cost of sales	2	(228)	(12)	(14)
Gross profit		2,949	3,046	7,496
Administrative expenses	4			
Banking licence application		(1,341)	(764)	(1,643)
Acquisitions		-	(52)	(95)
Other		(2,703)	(2,108)	(4,482)
Share of profits of associates		-	6	6
Other income		123	89	228
Profit from operations		(972)	217	1,510
Finance expense		(2,426)	(2,474)	(4,999)
Loss before tax		(3,398)	(2,257)	(3,489)
Tax (expense)/credit	5	57	(100)	(77)
Loss for the period		(3,341)	(2,357)	(3,566)
Loss for the period before costs associated with banking licence application*		(2,000)	(1,541)	(1,828)
Costs associated with banking licence application*		(1,341)	(816)	(1,738)
Loss for the period		(3,341)	(2,357)	(3,566)
Loss for the period attributable to				
Owners of the parent		(3,349)	(2,162)	(3,579)
Non-controlling interests		8	(195)	13
Loss for the period		(3,341)	(2,357)	(3,566)
Basic and diluted earnings per share attributable to owners of the parent	7	(8.42)p	(7.41)p	(12.21)p

***** Previous periods represents costs associated with banking licence application as well as acquisitions.

All the operations in both the six months to 30 September 2019 and the year to 31 March 2019 are continuing.

Condensed consolidated statement of comprehensive income

	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
Loss from continuing operations		(2,357)	(3,566)
Total comprehensive (expense)/income	(3,341)	(2,357)	(3,566)
Total comprehensive expense attributable to:			
Equity holders of the parent	(3,349)	(2,162)	(3,579)
Non-controlling interests	8	(195)	13
	(3,341)	**(2,357)**	**(3,566)**

Unaudited interim results

Condensed consolidated balance sheet

	Notes	30/09/19 £'000 (unaudited)	31/03/19 £'000 (audited)	30/09/18 £'000 (unaudited)
Assets				
Non-current assets				
Investment properties	8	39,770	41,040	43,484
Financial assets – equity release plans	9	30,440	30,485	29,347
Intangible assets	10	3,584	3,480	2,180
Property, plant and equipment		92	73	61
Other investments		138	138	138
Loans		4,761	3,967	4,336
Finance leases		1,663	2,294	2,429
Total non-current assets		**80,448**	**81,477**	**81,975**
Current assets				
Loans		10,211	10,645	7,112
Finance leases		1,668	1,807	2,348
Trade and other receivables		2,438	2,474	1,784
Cash and cash equivalents		9,891	15,760	4,794
Total current assets		**24,208**	**30,686**	**16,038**
Total assets		**104,656**	**112,163**	**98,013**
Current liabilities				
Borrowings		(4,420)	(7,945)	(8,822)
Trade and other payables		(3,043)	(2,711)	(2,006)
Total current liabilities		**(7,463)**	**(10,656)**	**(10,828)**
Non-current liabilities				
Borrowings		(64,645)	(66,106)	(64,955)
Other creditors		(497)	(483)	-
Deferred tax liability		(687)	(744)	(784)
Total non-current liabilities		**(65,829)**	**(67,333)**	**(65,739)**
Total liabilities		**(73,292)**	**(77,989)**	**(76,567)**
Net assets		**31,364**	**34,174**	**21,446**
Equity				
Share capital		4,444	4,436	4,233
Share premium		50,596	50,104	37,720
Equity Instruments		1,293	1,293	
Accumulated losses		(24,976)	(21,672)	(20,255)
Equity attributable to owners of the parent		31,357	34,161	21,698
Non-controlling interests		7	13	(252)
Total equity		**31,364**	**34,174**	**21,446**

Unaudited interim results

Condensed consolidated statement of changes in equity

	Equity Accumulated instrument £'000	Attributable to owners of the parent company Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000	Attributable to non-controlling interests £'000	Total Equity £'000
At 31 March 2019 (audited)	1,293	(21,672)	50,104	4,436	34,161	13	34,174
Loss for the period - continuing operations	-	(3,349)	-	-	(3,349)	8	(3,341)
Total comprehensive income		**(3,349)**	**-**	**-**	**(3,349)**	**8**	**(3,341)**
Contributions by and distributions to owners							
Value of employee services	-	45	-	-	45	-	45
Issue of shares	-	-	492	8	500	-	501
Decrease in non-controlling interests	-	-	-	-	-	(14)	(14)
Total contributions by and distributions to owners	**-**	**45**	**492**	**8**	**546**	**(14)**	**532**
At 30 September 2019 (unaudited)	**1,293**	**(24,976)**	**50,596**	**4,444**	**31,357**	**7**	**31,364**

Unaudited interim results

Condensed consolidated statement of changes in equity (continued)

	Attributable to owners of the parent company					Attributable to	Total Equity
	Equity Accumulated instrument £'000	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000	non-controlling interests £'000	£'000
At 31 March 2018							
As originally presented (audited)	-	(18,136)	37,720	4,233	23,817	(50)	23,767
IFRS 9 adjustment to opening provision for impairment	-	10	-	-	10	-	10
Restated total equity at 31 March 2018	-	(18,126)	37,720	4,233	23,827	(50)	23,777
Loss for the period – continuing operations	-	(2,162)	-	-	(2,162)	(195)	(2,357)
Total comprehensive income	-	(2,162)	-	-	(2,162)	(195)	(2,357)
Value of employee services	-	24	-	-	24	-	24
Increase in non-controlling interests	-	9	-	-	9	(7)	2
Total contributions by and distributions to owners	-	**33**	-	-	**33**	**(7)**	**26**
At 30 September 2018 (unaudited)	-	(20,255)	37,720	4,233	21,698	(252)	21,446
IFRS 9 adjustment to opening provision for impairment		14	-	-	14	-	14
Restated total equity at 30 September 2018	-	(20,241)	37,720	4,233	21,712	(252)	21,460
Total comprehensive income	–	(1,417)	-	-	(1,417)	208	(1,209)
Rollover Loan Notes 2021 (note 18)(a))	1,293	-	-	-	1,293	-	1,293
Value of employee services	-	43	-	-	43	-	43
Reduction in non-	-	(57)	-	-	(57)	57	-
controlling interests	-	-	-	-	-	-	-
Acquisition of minority interest					-		-
Issue of shares	-	-	12,384	203	12,587	-	12,587
Total contributions by and distributions to owners	**1,293**	**(14)**	**12,384**	**203**	**13,866**	**57**	**13,923**
At 31 March 2019 (audited)	**1,293**	**(21,672)**	**50,104**	**4,436**	**34,161**	**13**	**34,174**

Unaudited interim results

Condensed consolidated statement of cash flows

	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
Cash flows from operating activities			
Loss before taxation	(3,398)	(2,257)	(3,489)
Adjustments for:			
Depreciation	17	11	23
Share-based payments	45	24	67
Impairment of goodwill	78	-	78
Share of profits of associates	-	(6)	(6)
Investment properties and equity release plan financial assets:			
Increases in the fair value of these assets	(764)	(852)	(2,282)
Realised gains on the disposal of these assets	(289)	(472)	(777)
Equity transfer income	(341)	(413)	(1,497)
Interest payable	2,426	2,474	4,999
Changes in working capital:			
(Increase)/ Decrease in trade and other receivables	32	(217)	(438)
(Decrease)/ Increase in trade and other payables	227	(655)	(323)
Leases advanced	(726)	(956)	(1,261)
Leases repaid	1,506	1,773	2,788
Loans advanced	(12,672)	(7,740)	(19,902)
Loans repaid	12,302	6,887	15,875
Loans repaid by related parties	-	375	375
Cash (used in)/ generated from operations	**(1,557)**	**(2,024)**	**(5,770)**
Corporation tax paid	-	-	-
Net cash (used in)/ generated from operating activities	**(1,557)**	**(2,024)**	**(5,770)**
Cash flow from investing activities			
Proceeds from the sale of investment properties and equity release plan financial assets	2,751	4,128	8,253
Distribution of profits from related parties	-	297	298
Proceeds re shares to non-controlling interests)	-	2	2
Purchase 50% interest in joint venture partnerships	-	(726)	(726)
Purchase of investment properties and equity release plan financial assets	(42)	(83)	(83)
Investment in intangible assets	(182)	-	-
Purchase of property, plant and equipment	(33)	(56)	(69)
Cash acquired on acquisition of Acorn to Oaks	-	-	262
Net cash generated from investing activities	**2,494**	**3,562**	**7,937**

Unaudited interim results

Condensed consolidated statement of cash flows (continued)

	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
Cash flow from financing activities			
Proceeds from issue of ordinary shares	500	-	12,472
Proceeds from the issue of 6% Unsecured Convertible Loan Notes 2021	-	-	2,050
Loans drawn down	-	11,130	22,944
Repayment of loans	(6,945)	(14,166)	(29,756)
Interest paid	(361)	(393)	(802)
Net cash (used in)/ generated from financing activities	**(6,806)**	**(3,429)**	**6,908**
Net (decrease)/ increase in cash and cash equivalents	**(5,869)**	**(1,891)**	**9,075**
Cash and cash equivalents brought forward	15,760	6,685	6,685
Net cash and cash equivalents	**9,891**	**4,794**	**15,760**
Cash and cash equivalents	9,891	4,794	15,760
Bank overdraft	-	-	-
Net cash and cash equivalents	**9,891**	**4,794**	**15,760**

Changes in liabilities arising from financing activities

Group	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2019	**66,106**	**7,945**	**74,051**
Cash flows	(1,759)	(5,186)	(6,945)
Non-cash flow			
Non- current borrowings becoming current borrowings	(1,661)	1,661	-
Interest accrued in period	1,959	-	1,959
At 30 September 2019	**64,645**	**4,420**	**69,065**

Unaudited interim results

Changes in liabilities arising from financing activities (continued)

Group	Non-current borrowings £'000	Current borrowings £'000	Total £'000
At 31 March 2018	**65,494**	**9,331**	**74,825**
Cash flows	11,130	(14,166)	(3,036)
Non-cash flow			
Non- current borrowings becoming current borrowings	(13,657)	13,657	-
Interest accrued in period	1,988	–	1,988
At 30 September 2019	**64,955**	**8,822**	**73,777**
Cash flows	6,168	(7,894)	(1,726)
Non-cash flow			-
Non- current borrowings becoming current borrowings	(7,017)	7,017	-
Interest accrued in period	2,000	–	2,000
At 31 March 2019	**66,106**	**7,945**	**74,051**

Notes to condensed financial statements

1 Basis of preparation

1.1 These interim financial results do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006 and have neither been audited nor reviewed pursuant to guidance issued by the Auditing Practices Board. Statutory accounts for the year ended 31 March 2019 were approved by the directors on 14 July 2019 and delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement within the meaning of section 498 of the Companies Act 2006.

1.2 Accounting policies

These condensed consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting" as adopted by the European Union (the "EU"). The condensed consolidated financial statements do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements for the year ended 31 March 2019, which were prepared in accordance with IFRS as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed consolidated financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published consolidated financial statements for the year ended 31 March 2019, except for those changes in accounting policies that have been applied with effect from 1 April 2019.

1.3 Adoption of new standards and interpretations

Adoption of new standards is as per Note 2.2 of the Annual Report 2019, with the exception of IFRS 16 which became applicable for accounting periods beginning on or after 1 January 2019 and was adopted in the current financial period.

IFRS 16 'Leases' provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed and has been explained in Note 2.1 the Annual Report 2019.

On its adoption of IFRS 16, the Group has reviewed its existing lease contracts and concluded that all fall under one of the following exemption categories:

a) the lease contract has an option to terminate the contact at a short notice, that is the lease term is less than 12 months, or
b) the lease contracts are of low value as defined in the standard.

Accordingly, the Group has decided to opt for the recognition exemption permitted under IFRS 16 and is recognising these lease expenses on a straight-line basis in the profit and loss account.

1.4 Consistency

The interim report, including the financial information contained therein is the responsibility of, and was approved by, the directors on 17 December 2019. The AIM Rules require that accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing annual accounts except where any changes, and the reason for them, are disclosed. As disclosed in note 1.3 above, the Group has adopted IFRS 16 'Leases' as required under IFRS rules.

The adoption of IFRS 16 'Leases' has no material impact on the results or net assets of the Group.

Notes to condensed financial statements

Continued

2 Revenue and cost of sales

Revenue	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
Milton Homes (a)	1,394	1,737	4,556
CAML (b)	1,073	1,261	2,428
Property & Funding Solutions (c)	273	51	293
Acorn to Oaks (d)	437	-	224
Other – interest receivable	-	9	9
Total revenue	**3,177**	**3,058**	**7,510**
(a) Milton Homes			
Profit on disposal of investment properties	197	297	574
Gain on revaluation of investment properties	348	629	1,744
Profit on the disposal of equity release plan financial	92	175	203
Gain on revaluation of equity release plan financial assets	416	223	538
Equity transfer income arising under equity release financial assets plans	341	413	1,497
	1,394	**1,737**	**4,556**
(b) CAML			
Loan and lease interest	1,041	1,254	2,390
Arrangement fees	32	35	67
Management fee income	-	(28)	(29)
	1,073	**1,261**	**2,428**
(c) Property & Funding Solutions			
Property bridging loan interest	209	30	239
Arrangement fees	64	21	54
	273	**51**	**293**
(d) Acorn to Oaks			
Commission	237	-	134
Fees	200	-	90
	437	**-**	**224**

Cost of sales			
Commissions and introduction fees	196	12	9
Other direct costs	33	-	-
Costs on acquisition of interests in investment properties/ equity release financial assets	-	-	5
Total cost of sales	**228**	**12**	**14**

Notes to condensed financial statements

Continued

3 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 the financial services intermediary. A subsidiary, Recognise Financial Services Limited, has submitted an application for a banking licence to the Prudential Regulatory Authority. Information on the activities of each business is given in the Chief Executive Officer's review. The COLG segment includes the Group's central functions.

Pre-tax profit and loss **6 months ended 30/09/19 (unaudited)**	**Revenue £'000**	**Operating profit/(loss) £'000**	**Finance expense £'000**	**Quasi-equity intra group payments £'000**	**Profit/(loss) before tax £'000**
COLG					
Intra-Group	583	461	(31)	-	430
Banking licence application	-	(35)	-	-	(35)
Other	-	(681)	(93)	-	(774)
	583	(255)	(124)	-	(379)
Platforms					
Equity release provider	1,394	768	(1,962)	(475)	(1,669)
Loans, lease and professions financing					
CAML/ PFL	1,073	291	(340)	(14)	(63)
Property bridging finance	273	132	-	(93)	39
Others	-	(4)	-	(1)	(5)
Banking licence application	-	(1,306)	-	-	(1,306)
Financial services intermediary	437	(15)	-	-	(15)
Other	-	-	-	-	-
Intra-Group	(583)	(583)	-	583	-
	3,177	**(972)**	**(2,426)**	**-**	**(3,398)**

The Loss from operations in the Consolidated income statement is £972,000 as shown above.

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

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Pre-tax profit and loss **6 months ended 30/09/18 (unaudited)**	**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	565	602	-	(58)	-	544
Acquisitions and banking licence application	-	(104)	-	-	-	(104)
Other	-	(564)	-	-	-	(564)
	565	(66)	-	(58)	-	(124)
Platforms						
Equity release provider	1,737	1,094	-	(1,992)	(553)	(1,451)
Lease and professions financing						
CAML/ PFL	1,261	470	-	(420)	-	50
Other	9	9	6	(4)	-	11
Property bridging finance	51	(23)	-	-	(12)	(35)
Banking licence application	-	(712)	-	-	-	(712)
Other	-	4	-	-	-	4
Intra-Group	(565)	(565)	-	-	565	-
	3,058	**211**	**6**	**(2,474)**	**-**	**(2,257)**

The Profit from operations in the Consolidated income statement of £217,000 is the sum of £211,000 and £6,000 as shown above.
The quasi-equity intra group payments comprise interest payable to COLG.

Consolidated Net Assets at 30/09/19 (unaudited)

		£'000	**Total £'000**
COLG	Other financial assets		138
Platforms	Equity release provider	17,044	
	Loans, lease and professions financing	7,633	
	Financial services intermediary	1,884	
	Banking licence application project	3,552	
	Other	150	
			30,263
	Other net assets		7,238
Net assets per entity balance sheet			37,639
Other net liabilities of subsidiary companies			(6,275)
Consolidated net assets			**31,364**

Notes to condensed financial statements

Continued

3 Segmental reporting (continued)

Consolidated Net Assets at 31/03/19 (audited)

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	17,873	
	Loans, lease and professions financing	6,394	
	Financial services intermediary	1,884	
	Banking licence application project	2,007	
	Other	150	
			23,308
	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 at 30/09/18 (unaudited)

		£'000	Total £'000
COLG	Other financial assets		138
Platforms	Equity release provider	19,800	
	Loans, lease and professions financing	2,465	
	Banking licence application project	1,007	
	Other	150	
			23,422
	Other net assets		222
Net assets per entity balance sheet			23,782
Other net liabilities of subsidiary companies			(2,336)
Consolidated net assets			**21,446**

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

Notes to condensed financial statements

Continued

4 Administrative expenses

	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
Staff costs:			
Payroll expenses	2,198	1,473	3,351
Other staff costs	16	44	81
Establishment costs:			
Property costs	295	217	572
Other	830	517	873
Auditor's remuneration	83	65	164
Legal fees	73	149	243
Consultancy fees	231	273	532
Other professional fees	301	174	381
Depreciation	17	12	23
Total	**4,044**	**2,924**	**6,220**
Expenses relating to:			
Banking licence application project (Year to 31 March 2018 includes acquisition of Recognise Financial Services)	1,341	764	1,643
Acquisition of Acorn to Oaks Financial Services Limited	-	52	95
Other administrative expenses	2,703	2,108	4,482
Total	**4,044**	**2,924**	**6,220**

Notes to condensed financial statements

Continued

5 Taxation

	6 months to 30/09/19 £'000 (unaudited)	6 months to 30/09/18 £'000 (unaudited)	Year to 31/03/19 £'000 (audited)
UK corporation tax			
Current year charge	-	-	13
Prior year charge	-	-	4
Deferred tax			
Relating to origination and reversal of temporary differences	(57)	100	60
Total tax expense(credit)	**(57)**	**100**	**77**

The provision is based on the best estimate of the effective rate for the full year, as a result the charge for taxation is for a period of less than one year.

The credit for deferred tax relates to gains arising from the revaluation of investment properties and takes account of losses that can be offset against the gains.

6 Dividends

The directors have not declared an interim dividend for the year ending 31 March 2020. (Interim 2019: nil). The directors did not recommend payment of a final dividend for the year ended 31 March 2019.

7 Earnings per share

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 period less those held in treasury and in the Employee Benefit Trust.

	30/09/19 (unaudited)	30/09/18 (unaudited)	31/03/19 (audited)
Loss attributable to equity holders (£'000)	(3,349)	(2,162)	(3,579)
Weighted average number of ordinary shares of 2p in issue ('000)	39,760	29,184	29,307
Basic and diluted earnings per ordinary share of 2p	(8.42)p	(7.41)p	(12.21)p

The basic and diluted earnings per share are the same as, given the loss for the period, the outstanding share options would reduce the loss per share.

Notes to condensed financial statements

Continued

8 Investment properties

	30/09/19 £'000 (unaudited	31/03/19 £'000 (audited)	30/09/18 £'000 (unaudited)
At 1 April	41,040	44,926	44,926
Additions	12	12	12
Disposals	(1,630)	(5,642)	(2,083)
Revaluations	348	1,744	629
At end of period	**39,770**	**41,040**	**43,484**
Investment properties	34,174	35,397	36,916
Investment properties held for sale	5,596	5,643	6,568
	39,770	**41,040**	**43,484**
Numbers of properties			
At 1 April	271	302	302
Disposals	(8)	(31)	(12)
	263	**271**	**290**

9 Financial assets – equity release plans

	30/09/19 £'000 (unaudited)	31/03/19 £'000 (audited)	30/09/18 £'000 (unaudited)
At 1 April	30,485	30,213	30,213
Additions	30	71	71
Equity transfer	342	1,497	413
On ending of plans	(833)	(1,834)	(1,573)
Revaluations	416	538	223
At end of period	**30,440**	**30,485**	**29,347**
Financial assets – equity release plans	27,901	28,459	27,833
Financial assets – equity release plans held for sale	2,539	2,026	1,514
	30,440	**30,485**	**29,347**
Numbers of properties			
At 1 April	239	250	250
Additions	-	1	1
Disposals	(6)	(12)	(10)
	233	**239**	**241**

Notes to condensed financial statements

Continued

10 Intangible Assets

Cost	30/09/19 £'000 (unaudited)	31/03/19 £'000 (audited)	30/09/18 £'000 (unaudited)
Goodwill	3,558	3,558	2,180
Software license and development	182	-	-
	3,740	**3,558**	**2,180**
Accumulated amortisation and impairment			
Goodwill	(156)	(78)	-
Software license and development	-	-	-
	(156)	**(78)**	**-**
Carrying amount	**3,584**	**3,480**	**2,180**

During the period, technology-based intangible assets were acquired as part of under a contractual agreement. These intangible assets mainly comprise cost of a licence and of developing a loan platform and were recognised using the cost model approach.

As at 30 September 2019, goodwill arising on acquisition of Milton Homes was reviewed for impairment and it was concluded that underlying basis of impairment remains as mentioned in Note 16 of the Annual Accounts.

The goodwill relating to A2O, which was acquired in January 2019, will be reassessed for the first time prior to the year end.

Accordingly, the entire impairment provision is in respect of Milton Homes. Impairment of goodwill of £78,000 was charged in the current financial period.

11 Commitments

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

The Company has put and call option arrangements over the equity interest in Recognise Financial Services Limited held by the three executives leading the banking licence application project. The maximum amount payable by the Company to acquire the equity interest is £5,600,000 which will be satisfied by the issue of the Company's ordinary shares. This is accounted for as a share-based payment although it does not have a material value at 30 September 2019 and, as such, disclosures on a share-based payment have not been included.

The Company acquired all the shares of Acorn to Oaks Financial Services Limited ("Acorn to Oaks"), a financial services intermediary business focusing on SME and property insurance products, for an initial consideration of £1,408,000 in January 2019. Further earn-out consideration, based on a six-times multiple of the average annual profit before tax for the three-year period up to 31 March 2022, may be payable which could increase the consideration by a maximum of £5,000,000. As at 31 March 2019, the Company estimated that deferred consideration of £592,000 would be payable: the amortised cost of £476,000, calculated using an effective interest rate of 6%, was included as part of the cost of acquisition. The amount of the estimated deferred consideration will be reviewed as at 31 March 2020.

Notes to condensed financial statements

Continued

12 Financial risk management

Notes 33 and 34 to the annual financial statements to 31 March 2019 include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and its exposure to credit risk, interest rate risk, price risk and liquidity risk.

The 2019 Annual Report identified the main risk factors around the cash flow forecast in the Strategic Report at that time.

13 Financial instruments

A summary of financial instruments to which the impairment requirements in IFRS 9 are applied are as follows. Assets and liabilities outside the scope of IFRS 9 are not included in the table below:

Financial Instruments	**30/09/19 £'000 (unaudited)**	**31/03/19 £'000 (audited)**	**30/09/18 £'000 (unaudited)**
Financial assets			
Equity release plans	30,440	30,485	29,347
Legal case investments	130	130	130
Other investments – unlisted security	8	8	8
Loans	14,972	14,612	11,448
Finance leases	3,331	4,101	4,777
Other debtors	1,836	2,125	1,784
Trade receivables	420	62	42
Cash and cash equivalents	9,891	15,760	4,794
	61,028	**67,283**	**52,330**
Financial Liabilities			
Measured at amortised cost			
6% Unsecured Convertible Loan Notes 2021	2,050	2,050	-
Other interest-bearing loans	67,015	72,001	73,777
Deferred consideration	497	483	-
Trade payables	680	524	177
Dividends payable	1	1	1
Other creditors	176	225	264
Accruals and deferred income	2,008	1,802	1,466
	72,427	**77,086**	**75,685**

Notes to condensed financial statements

Continued

13 Financial instruments (continued)

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 i.e. 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 of the annual financial statements to 31 March 2019. 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 because as at 30 September 2019 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.

Notes to condensed financial statements

Continued

13 Financial instruments (continued)

The following tables present the Group's assets that are measured at fair value at 30 September 2019 and 31 March 2019 respectively. No Level 1 or Level 2 assets were held at either date.

Level 3 valuation 30 September 2019 (unaudited)	Total £'000
Investment properties	39,770
Financial assets – equity release plans	30,440
Other Investments	138
	70,348

Level 3 valuation 31 March 2019 (audited)	Total £'000
Investment properties	41,040
Financial assets – equity release plans	30,485
Other Investments	138
	71,663

The movement on level 3 assets is as follows:

	30/09/19 (unaudited) £'000	31/03/19 (audited) £'000	30/09/18 (unaudited) £'000
Balance at 1 April	71,663	75,277	75,277
Additions	42	83	83
Equity transfer	342	1,497	413
Revaluations	(2,463)	2,282	852
Disposals	764	(7,476)	(3,656)
Balance at 31 March	**70,348**	**71,663**	**72,969**

Notes to condensed financial statements

Continued

14 Impairment

The provision for impairment of loans and finance leases comprises the following:

	Stage 1	Stage 2	Stage 3	30/09/19 (unaudited)	31/03/19 (audited)
	£'000	£'000	£'000	£'000	£'000
Loans	46	1	936	983	898
Finance leases	175	6	200	381	313
Provision for impairment	**221**	**7**	**1,136**	**1,364**	**1,211**

The provisions for impairment on loans and finance leases classified as Stage 3, are assessed individually by management, include provisions made for arrears on these agreements.

The table below shows an analysis of movements in the provision for impairments under IFRS 9, together with the coverage provided by the provisions held.

	Stage 1	Stage 2	Stage 3	Total
	£'000	£'000	£'000	£'000
Opening balance as at 1 April 2019	**253**	**3**	**955**	**1,211**
Movement in provision for impairment:				
Transfer to Stage 2	(6)	6	-	-
Transfer to Stage 3	(9)	(2)	11	-
Specific provisions	-	-	239	239
New financial assets originated	78	-	-	78
Financial assets that have been derecognised	(95)	-	-	(95)
Write-offs	-	-	(69)	(69)
Total movement in loss allowance	**(32)**	**4**	**181**	**153**
As at 30 September 2019	**221**	**7**	**1,136**	**1,364**

By order of the Board

Michael Goldstein
Chief Executive Officer
17 December 2019