18 August 2020

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 2020.

Highlights

Business developments

- In July 2020 COLG's subsidiary, Recognise Financial Services Limited, reached a major milestone on its journey towards becoming a bank when the PRA issued its Total Capital Requirement (TCR) letter. This letter sets out the PRA's capital and liquidity requirements for Recognise.
- The Company is currently in advanced discussions with a third party on a fund raise.
- Subject to the successful conclusion of these discussions and regulatory and shareholder approval, the Group now expects Recognise to receive its Authorisation with Restriction (AWR) as a bank, subject to it meeting any final requirements from the PRA and the FCA, in the fourth quarter of 2020.
- The Board currently expects Recognise to receive authorisation to take deposits and to obtain a full banking licence in the first half of 2021.
- Due to COVID-19 all new lending across the Group has been put on hold since March 2020. All new lending operations will be made through Recognise: the PFS loan book will transfer to Recognise to increase its capital base.
- Existing loans outside Recognise will continue to maturity with staff transferring to Recognise.
- Acorn to Oaks Financial Services Limited, successfully set up its commercial finance broking division and delivered a profit in the year before taking account of prior year costs, in spite of reduced volumes in the latter part of the year due to COVID-19 impact.
- Milton Homes business was adversely affected by the general slow-down in the housing market and temporarily by COVID-19 but generated £1.5m cash during the year.

Financial results

- Loss before tax £9.7m after absorbing costs of £3.4m associated with applying for UK banking licence (2019: loss before tax £3.5m after absorbing costs of £1.7m associated with applying for UK banking licence and an acquisition).
- Consolidated NAV per share attributable to shareholders 60p (2019: 83p).

Michael Goldstein, CEO, commented:

“Given the exceptional circumstances facing the world today, I am pleased to be able to report on another year of positive activity in delivering our long-term growth strategy of serving the vital UK SME market by establishing a new business bank.

Having received its Total Capital Requirements letter in July 2020, which sets out the PRA's capital and liquidity requirements, the next step towards completing Recognise's journey to becoming a bank will be to receive formal AWR from the PRA, and we believe that this is very close.

We are currently in advanced discussions with a third party on a fund raise. Subject to the successful conclusion of these discussions and shareholder approval, as well as meeting any final regulatory requirements, the funds raised will be used to provide capital for Recognise to move to a full licence by the first half of 2021 and support its short-term lending activities.”

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This RNS has been approved on behalf of the board by Michael Goldstein, CEO on 17 August 2020.

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 the UK SME market. While grounded in traditional values, it is primed for future growth through the strength and depth of expertise in its expanding team.

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Chairman's statement

I am pleased to report another year of positive activity within City of London Group during which we have continued to focus on the Group's long-term growth strategy of serving the vital UK SME market by establishing a new business bank. Although the impact of COVID-19 on the UK economy was very significant in the final two months of the financial year, this has not unduly delayed our plans nor our programme for setting up the new bank's operational infrastructure.

Business model and strategy
2020 was an important year in the evolution of the Group's business model and strategy. The Board and Executive team have worked closely together to implement the strategy that will best drive value for all our stakeholders.

Recognise Financial Services Ltd, our subsidiary applying for the banking licence, achieved two important milestones when it submitted an application for a banking licence in November 2019 and received a Total Capital Requirements (TCR) letter in July 2020, which sets out the PRA's capital and liquidity requirements for Recognise. The next step in the process will be to receive formal Authorisation with Restriction (AWR) from the PRA. We believe we are very close to completing this complex journey.

We are currently in advanced discussions with a third party on a fund raise. Subject to the successful conclusion of these discussions and shareholder approval, as well as meeting any final requirements from the PRA and FCA, the funds raised will be used to provide capital for Recognise to move to a full licence by the first half of 2021 and support its short-term lending activities.

The strategy for Recognise remains robust and is potentially even more relevant given the unprecedented impact of COVID-19. It is to create a new UK SME Bank, using versatile cloud-based technology, to support a relationship-led lending operation which will focus on delivering service excellence with speed of decision-making and execution alongside flexibility of structuring. Having one of the most experienced management teams amongst the new bank applicants, Recognise will present a fresh face to customers and brokers, and will build a regional presence in the North West, Yorkshire, Midlands and the South, without the potential distraction of a legacy loan book.

Governance
During the year, the Board considered the revisions to the 2018 UK Corporate Governance Code and took steps to ensure the Company was compliant with the Code where applicable. The Board believes that the Company's corporate governance framework remains robust and effective for a company of its size and stage of development and reflects good governance practice. The governance structure of the Company will be kept under review in anticipation of Recognise receiving its banking licence from the regulators. The Annual Report will contain the Company's Section 172 statement which outlines the Company's stakeholders and how the Directors have met their duties under this section, and the full Corporate Governance Report.

Board changes
In accordance with the Company's Relationship Agreement with DV4 Limited, DV4 Limited is entitled to appoint a Director to the Board of the Company. The Board announced the appointment of Lorna Brown as a Non-Executive Director of the Company on 14 May 2020 in accordance with the terms of the Relationship Agreement. Lorna's appointment to the Board further strengthens the Board's experience in the financial services industry. Paul Milner transitioned from an Executive Director to a Non-Executive Director with effect from 1 May 2020.

AGM matters
The Board is seeking authority at the AGM to issue up to 50,000,000 new shares. As in 2019, 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 as explained above.

The Board does not recommend payment of a dividend.

Outlook
A summary of the Group's activities during the year and the impact of the COVID-19 pandemic on the Group's businesses is given in the Strategic report.

The Board is continually assessing the Group businesses in the context of our operating model and future business plans.

COLG intends to continue implementing its long-term strategy of developing financial services to serve the UK SME market. Subject to the successful outcome of current discussions on a fund raise and regulatory approval, the Group is well-placed to achieve its objective of Recognise being granted a full UK banking licence in the first half of 2021. This will allow the Group to develop a business focusing on the SME market.

Colin Wagman
Chairman
17 August 2020

Strategic report

The Group operated in three business areas during the year ended 31 March 2020 as well as continuing to progress an application for a UK banking licence through its subsidiary, Recognise. When, as hoped, Recognise is granted a UK banking licence, the Group intends to transact all new lending activity through Recognise.

The business areas were:

- providing loan and lease finance to the UK SME market through PFS, a property bridging finance company, and CAML, which offered asset-based finance and commercial and professional loans;
- acting as a financial services intermediary focusing on the SME and property markets through Acorn to Oaks; and
- administering a portfolio of home reversion plans through Milton Homes.

A review of each business is included below.

Financial summary

	2020 £'000	2019 £'000
Home reversion plans (a)	(2,602)	(1,785)
Loan, lease and professions financing (a)		
Asset based finance, commercial and professional loans	(1,336)	271
Property bridging finance	58	10
Financial services intermediary	(36)	55
Other	(8)	6
Holding company (b)	(2,385)	(308)
	(6,309)	(1,751)
Costs associated with banking licence application (b)	(3,351)	(1,738)
Loss before tax	(9,660)	(3,489)

(a) stated after quasi-equity intra group payments of interest
(b) .2019 includes costs associated with an acquisition

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

	31 March 2020	31 March 2019
Loss for year before costs associated with banking licence application	(6,309)	(1,751)
Costs associated with banking licence application (a)	(3,351)	(1,738)
Loss before tax for the year (£'000)	(9,660)	(3,489)
Consolidated net assets per share (attributable to owners of the parent)	60p	83p

(a) 2019 includes costs associated with an acquisition

In addition to the increased costs associated with the banking licence application, the results for the year were affected by COVID-19 and in particular its impact on the housing market.

The effects of COVID-19 were shown in both the increased provision for bad and doubtful debts in CAML and in the valuation of the Milton Homes' properties in March 2020, although, as stated below, our most recent experience on sales values achieved since the year end is encouraging.

The increase of £4.5m in the loss for the year before costs associated with the banking licence application from £1.8m to £6.4m is largely accounted for by:

- reduction of £0.9m in revenue earned by Milton Homes;
- increase of £1.3m in the charge for bad and doubtful debts;
- increase of £1.5m in the provisions for impairment of goodwill; and
- increase of £1.1m in staff costs.

Current activities

In March 2020, the COVID-19 outbreak was classified as a pandemic by the World Health Organisation. We have been monitoring its impact on the Group closely and have taken all necessary precautions, as advised by the government, to ensure the safety of our employees, whilst continuing operations.

At this stage, we are satisfied with how the Group has responded to COVID-19, with most of our staff now working from home.

In order to concentrate on delivering the central plank of the Group's strategy and in response to COVID-19, all new lending across the wider Group has been on hold since March 2020. Going forward all new lending activity will be originated through Recognise. The existing PFS loan book, which comprises short-term bridging loans, will also transfer across to Recognise.

Existing leases and loans, originated by Credit Asset Management Ltd (CAML) and Professions Funding Ltd (PFL), will continue to maturity but will remain outside Recognise. A number of staff have transferred to Recognise as part of the Group's forward recruitment plans.

Milton Homes was adversely affected by conditions in the housing market during the year and, temporarily, by COVID-19, the impact of which was also reflected in the property valuation at 31 March 2020. However, our most recent experience with the property portfolio has been positive with the sales values being achieved better than one might expect in the current UK property market. Our experience since the balance sheet date is that the number of sales is in line with our plan with the sale prices achieved being at or above market valuation. In the period to the end of July we sold £3.2m of properties at or above valuation. Although this recent trading is pleasing, we are aware that the housing market is likely to face headwinds as the economic impact of COVID-19 increases unemployment over the next year or so.

Review of the businesses

Credit Asset Management Limited ("CAML") and Professions Funding Limited ("PFL") – asset-based finance, commercial and professional loans

(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 2020**	**31 March 2019**
Revenue	2,035	2,428
Operating (loss)/ profit before shareholder capital charges	(1,126)	481
(Loss)/ profit before tax	(1,336)	271

The results for the year reflect the large increase in the size of the provisions held largely as a result of the COVID-19 pandemic, with additional provisions of £1,138k being made in March 2020. While £508k of the increase arose from reassessing specific provisions required on agreements already in default (Stage 3 agreements under IFRS 9), £630k relates to future losses on Stage 1 agreements which were not currently in default but, from the IFRS 9 model, are expected to go into default in the next 12 months as well as Stage 2 agreements. The provisions were made after taking account of forward- looking indicators, including information obtained from CAML's telephone customer contact programme described below.

When the likely effect of the COVID-19 pandemic became apparent in early March, CAML undertook an extensive telephone customer contact programme to determine the extent of the impact on its customers' businesses and hence on their ability to meet payments due to CAML and PFL. As appropriate, customers were offered reduced payments, interest only and full capital & interest moratoriums for 3 months. This exercise was well received by customers and a follow up programme was undertaken in June and July. The information obtained from these direct customer contacts was used to inform the IFRS 9 provisioning exercise undertaken as at 31 March 2020.

During the year, CAML focused on the professions loan and asset finance sectors rather than the commercial loans sector. As a result of the focus on achieving larger deals with improved credit quality, there was a fall of c16% in net yields. This was expected due to competitive downward market pressure in both the professions loan and asset finance sectors.

There was a year on year reduction in revenue from £2.4m to £2.0m which was attributable to the realignment of business focus during the year and the reduction in the commercial loans sector.

There was a decrease in new business volumes of 5% over the year: this reflected the impact of COVID-19 with very little new business being written in the period immediately before CAML ceased lending.

To provide liquidity and ensure availability of future funding, CAML concluded one tranche of re-financing in October 2019 for £3.5m, which was made on fixed rate competitive terms to protect margins from interest rate risk.

The key performance indicators are the book size of the portfolio (the current net investment in loans/leases provided) and new business levels (measured by the monetary value of new business).

The size of the "own book" portfolio fell by 8% to £14.8m (2019: £16.1m). While new business volumes were broadly ahead over the period to January 2020, there was a reduction in the last 2 months of the year. Historically, these months are good for new business volumes and the reduced size of the portfolio mirrored the fall in new business volumes.

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, continued to establish itself in the short-term loan market, having launched successfully in May 2018.

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 continued to undertake 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 is set out in the table below:

£'000	31 March 2020	31 March 2019
Revenue	631	293
Operating profit	282	122
Profit before tax	58	10

Having launched successfully in 2018, PFS expanded its team recruiting a senior lending manager in June 2019 and a business development manager in February 2020 as well as securing an external funding line to supplement Group cash resources. This has enabled PFS to deliver lending growth and improve its trading performance. Broker initiated business is the primary origination channel in the bridging loan sector and PFS has broadened its existing network through the development of new introducer relationships which have supported the business.

The COVID-19 pandemic and resultant lockdown have impacted the residential and commercial property markets. As a result, PFS paused new lending in March 2020 focusing on managing its existing loan book and maintaining regular contact with its customers. None of the loans made by PFS is currently non-performing. PFS continues to monitor COVID-19 developments with a view to re-commencing lending.

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.

(b) Financial review
A summary of the financial performance of the business is set out in the table below:

£'000	31 March 2020	31 March 2019 (3 months) (a)
Revenue	746	224
Operating profit before prior period costs	19	55
Prior period costs	(55)	-
Operating (loss)/profit	(36)	55
(Loss)/profit before tax	(36)	55

(a) Acquired by COLG on 7 January 2019.

The year was one in which Acorn to Oaks laid foundations for the future with the establishment of both its commercial finance broking division and a London base from which to access more readily the general insurance SME market in London and the South-east. The cost of advancing these business developments is reflected in the results, which were also impacted by the effect of the COVID-19 pandemic in the final two months of the year, when several commercial finance brokerage transactions did not proceed as planned.

The prior period costs relate to an overstatement of un-invoiced revenue of £28k and the omission of an accrual for commission of £27k in the results reported for 2019.

It is not yet clear when there will once again be significant activity in the SME market, including in relation to commercial finance brokerage. However, Acorn to Oaks is ready to re-engage with the market when activity resumes, and will seek to implement its expansion plans, albeit later than anticipated.

At 31 March 2020, Acorn to Oaks acquired the 49% minority interest in Acorn to Oaks Associates Limited that it did not already hold. The business was transferred to Acorn to Oaks with effect from 1 April 2020 and Acorn to Oaks Associates Limited will be dissolved in due course.

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

(a) Description of the business and business model
Milton Homes, the Group's equity release provider, administers a portfolio of individual UK residential properties through 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 sells the vacant property and distributes the sale proceeds, including any that may be due to the customer or his estate. Milton Homes is realising its portfolio as reversions occur.
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 the business is set out in the table below:

£'000	**31 March 2020**	**31 March 2019**
Revenue	3,643	4,556
Operating loss before shareholder capital charges	(1,679)	(754)
Loss before tax	(2,602)	(1,785)

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 473 properties at 31 March 2020 (2019: 510 properties), was externally valued at £68.95m at that date (2019: £71.5m). The number of properties that reverted to Milton Homes during the year was 49 compared with 35 in the previous year.

While Milton Homes paid cash of £1.5m to COLG during the year, its results were severely impacted by the effect of COVID-19 on the year-end valuation of properties as at 31 March 2020, despite an increase in the house price index (increase of 1.81% in the year compared with an increase of 0.44% in the previous year). Its results were also affected by an increase in the time taken to complete sales due to the general slow-down in the housing market.

However, since late May, there has been increasing interest in its properties, with several offers having been received on some properties in line with or above valuation. Milton Homes currently has 17 properties either under offer or on the market with a total sales value of £3.6m. A further 20 properties will shortly be put on the market.

Consolidated income statement

for the year ended 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Revenue		7,055	7,510
Cost of sales		(313)	(14)
Gross profit		6,742	7,496
Administrative expenses:	5		
Banking licence application (a)		(3,351)	(1,643)
Acquisitions		-	(95)
Provisions for bad and doubtful debts		(1,571)	(282)
Other		(6,827)	(4,200)
Other income		181	234
(Loss)/profit from operations		(4,826)	1,510
Finance expense		(4,834)	(4,999)
Loss before tax		(9,660)	(3,489)
Tax expense	7	(70)	(77)
Loss for the year		(9,730)	(3,566)
Loss for year before costs associated with banking licence application (b)		(6,379)	(1,828)
Costs associated with banking licence application (b)		(3,351)	(1,738)
Loss for the year		(9,730)	(3,566)
Loss for the year attributable to:			
Owners of the parent		(9,742)	(3,579)
Non-controlling interests		12	13
Loss for the year		(9,730)	(3,566)
Basic and diluted earnings per share attributable to owners of the parent	2	(24.46)p	(12.21)p

(a) The banking licence application costs are disclosed separately as the award of a banking licence is fundamental to implementation of the Group's medium- and long-term strategy.

(b) 2019 includes costs associated with an acquisition.

The Group had no discontinued operations in either 2020 or 2019.

Consolidated statement of comprehensive income

for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Total loss for the year	(9,730)	(3,566)
Other comprehensive expense		
Item that will not be reclassified to profit or loss		
Valuation loss on fair value of legal case investments	(130)	-
Other comprehensive expense	(130)	-
Total other comprehensive expense	(130)	-
Total comprehensive expense	(9,860)	(3,566)
Total comprehensive expense attributable to:		
Owners of the parent	(9,872)	(3,579)
Non-controlling interests	12	13
	(9.860)	(3,566)

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 2018							
As originally presented	-	(18,136)	37,720	4,233	23,817	(50)	23,767
IFRS 9 adjustment to opening provision for impairment	-	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	1,293	-	-	-	1,293	-	1,293
Share-based payments	-	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
Loss for the year – continuing operations	-	(9,742)	–	–	(9,742)	12	(9,730)
Other comprehensive expense – continuing operations							
Valuation loss on fair value of legal case investments		(130)	–	–	(130)	–	(130)
Total comprehensive income	-	(9,872)	–	–	(9,872)	12	(9,860)
Contributions by and distributions to owners							
Share-based payments	-	133	–	–	133	–	133
Distributions to non-controlling interests	-	-	-	-	-	(25)	(25)
Acquisition of minority interest	-	(63)	-	-	(63)	-	(63)
Issue of shares	-	-	695	12	707	-	707
Total contributions by and distributions to owners	-	70	695	12	777	(25)	752
At 31 March 2020	1,293	(31,474)	50,799	4,448	25,066	-	25,066

Consolidated balance sheet
as at 31 March 2020

	Note	31 March 2020 £'000	31 March 2019 £'000
Assets			
Non-current assets			
Investment properties	8	38,609	41,040
Financial assets – equity release plans	9	30,343	30,485
Intangible assets	10	2,526	3,480
Property, plant and equipment		96	73
Right-of-use assets	11	650	-
Other investments		-	138
Loans		3,593	3,967
Finance leases		1,600	2,294
Total non-current assets		77,417	81,477
Current assets			
Loans		11,728	10,645
Finance leases		1,087	1,807
Trade and other receivables		3,001	2,474
Cash and cash equivalents		7,219	15,760
Total current assets		23,035	30,686
Total assets		100,452	112,163
Current liabilities			
Borrowings		(7,208)	(7,945)
Trade and other payables		(3,881)	(2,711)
Lease liabilities	11	(298)	-
Total current liabilities		(11,387)	(10,656)
Non-current liabilities			
Borrowings		(62,615)	(66,106)
Other creditors		(149)	(483)
Lease liabilities		(426)	-
Deferred tax liability	12	(809)	(744)
Total non-current liabilities		(63,999)	(67,333)
Total liabilities		(75,386)	(77,989)
Net assets		25,066	34,174
Equity			
Share capital	13	4,448	4,436
Share premium		50,799	50,104
Equity instrument		1,293	1,293
Accumulated losses		(31,474)	(21,672)
Equity attributable to owners of the parent		25,066	34,161
Non-controlling interests		-	13
Total equity		25,066	34,174

Consolidated statement of cash flows

for the year ended 31 March 2020

	31 March 2020 £'000	31 March 2019 £'000
Cash flows from operating activities		
Loss before tax	(9,660)	(3,489)
Adjustments for:		
Depreciation and amortisation	53	23
Share-based payments	340	67
Provision for bad and doubtful debts	1,571	282
Impairment of goodwill	1,555	78
Impairment of other investments	8	-
Share of profits of associates	-	(6)
Investment properties and equity release plan financial assets:		
Increases in the fair values of these assets	(1,581)	(2,282)
Realised gains on the disposal of these assets	(695)	(777)
Equity transfer income	(1,367)	(1,497)
Interest payable	4,834	4,999
Changes in working capital:		
(Increase) in trade and other receivables	(609)	(438)
Increase/(decrease) in trade and other payables	586	(323)
Leases advanced	(1,377)	(1,261)
Leases repaid	2,308	2,721
Loans advanced	(20,432)	(19,902)
Loans repaid	18,635	15,660
Loans repaid by related parties	-	375
Cash used in operations	(5,831)	(5,770)
Corporation tax	(4)	–
Net cash used in operating activities	(5,835)	(5,770)
Cash flow from investing activities		
Proceeds from the sale of Investment properties and equity release plan financial assets	6,258	8,253
Distribution of profits from related parties	-	298
Proceeds of shares sold or issued to non-controlling interests	-	2
Purchase of 50% interest in joint venture partnerships	-	(726)
Purchase of Investment properties and equity release plan financial assets	(42)	(83)
Investment in intangible assets	(545)	-
Purchase of property, plant and equipment	(60)	(69)
Cash acquired on acquisition of Acorn to Oaks	-	262
Net cash generated from investing activities	5,611	7,937

Cash flow from financing activities		
Proceeds from issue of ordinary shares for cash	500	12,472
Proceeds from the issue of 6% Convertible Unsecured Loan Stock 2021	-	2,050
Loans drawn down	4,395	22,944
Repayment of loans	(12,550)	(29,756)
Distributions to non-controlling interests	(25)	-
Interest paid	(637)	(802)
Net cash (used in)/ generated from financing activities	(8,317)	6,908
Net increase in cash and cash equivalents	(8,541)	9,075
Cash and cash equivalents brought forward	15,760	6,685
Net cash and cash equivalents	7,219	15,760
Cash and cash equivalents	7,219	15,760
Bank overdraft	-	–
Net cash and cash equivalents	7,219	15,760

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 2020. The auditors have issued an unqualified report on these statutory accounts. The statutory accounts for the year ended 31 March 2019 have been filed with the Registrar of Companies and the statutory accounts for the year ended 31 March 2020 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 financial statements of the Group have been prepared on a going concern basis.

The directors consider the going concern basis to be appropriate following their assessment of the Group's financial position and its ability to meet its obligations as and when they fall due. The Annual Report will include further information on the Group’s going concern and a Group viability statement.

In making their going concern assessment the directors have considered the following:

- the base case and stressed Group cash flow forecasts for 18 months following the financial year end;
- the capital structure and liquidity of the Group;
- the principal and emerging risks facing the Group and its systems of risk management and internal control;
- the uncertainties arising from the COVID-19 pandemic on the UK economic outlook and actions the Group could take to mitigate the impact on the business;
- the advanced stage of the banking licence application made by Recognise to the PRA; and
- the discussions with a third party on a fund raise which are at an advanced stage.

Following the assessment of the Group's financial position and its ability to meet its obligations as and when they fall due, including the financial implications of the COVID-19 pandemic, as well as considering the discussions with a third party on a fund raise which are at an advanced stage, the directors are not aware of any material uncertainties that cast significant doubt on the Group's ability to continue as a going concern.

The same accounting and presentation policies were used in the preparation of the statutory accounts for the year ended 31 March 2019 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 2020:

- IFRS 16 ‘Leases’; and
- IFRIC 23 ‘Uncertainty over Income Tax Treatments.’

The Group has chosen not to restate comparatives on adoption of both standards, and therefore, the revised requirements are not reflected in the prior year financial statements. Any changes required on adoption of these standards have been recognised in the opening equity balances. Details of the impact of these two standards are given below.

IFRS 16 'Leases'
With effect from 1 April 2019, IFRS 16 has replaced IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease.

IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, together with options to exclude leases where the lease term is 12 months or less, or where the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17, with the distinction between operating leases and finance leases being retained. Through its lending businesses, the Group provides finance leases to the UK SME market which are accounted for under IFRS 9.

The Group adopted IFRS 16 using the modified retrospective approach with recognition of transitional adjustments on the date of initial application (1 April 2019), without restatement of comparative figures. The Group elected to apply the practical expedient to not reassess whether a contract is, or contains a lease at the date of initial application. Contracts entered into before the transition date that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. The definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

IFRS 16 provides for certain optional practical expedients, including those related to the initial adoption of the standard. The Group applied the following practical expedient when applying IFRS 16 to leases previously classified as operation leases under IAS17:

- apply the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of the lease term remaining as the date of initial application

As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases. However, the Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

The Group assessed all leases in place at 1 April 2019. As at the date, all leases fell within one of the following two categories:

- lease term is 12 months or less; or
- underlying asset is of low value

Accordingly, there was no impact on the statement of financial position as at 1 April 2019: the Group did not hold any right-of-use assets at that date.

The lease payments associated with all leases in place at 1 April 2019 have continued to be recognised as an expense on a straight-line basis over the lease term.

The table below reconciles the minimum lease commitments disclosed in the accounts for the year ended 31 March 2019 with the amount of lease liabilities recognised on 1 April 2019:

	1 April 2019 £'000
Minimum lease payments under non-cancellable operating leases at 31 March 2019	85
Less: short term leases not recognised under IFRS 16	(77)
Less: low value leases not recognised under IFRS 16	(8)
Lease liability as at 1 April 2019	-

Information on leases in place during the year and at the year-end is given in note 11.

IFRIC 23 ‘Uncertainty over Income Tax Treatments’

IFRIC 23 provides guidance of the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments.

The Group has elected to adopt IFRIC 23 retrospectively with the cumulative effect of initially applying the interpretation recognised at 1 April 2019, the date of initial application. Consequently, the prior year has not been restated. There was no impact on the Group following its adoption of IFRIC 23.

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 2020 (2019: 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 39,831,000 (2019: 29,307,000 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 (2019: 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 2020

		Revenue £'000	Operating profit/(loss) £'000	Finance expense £'000	Quasi-equity intra group payments £'000	Profit/(loss) before tax £'000
COLG	Intra-Group	1,151	1,604	(32)	-	1,572
	Other	-	(3,778)	(179)	-	(3,957)
		1,151	(2,174)	(211)	-	(2,385)
Home reversion plans		3,643	2,253	(3,932)	(923)	(2,602)
Loan, lease and professions financing						
Asset based finance, commercial and professional loans		2,035	(641)	(662)	(33)	(1,336)
Property bridging finance		631	282	(29)	(195)	58
Other		-	(8)	-	-	(8)
Banking licence application		-	(3,351)	-	-	(3,351)
Financial services intermediary		746	(36)	-	-	(36)
Intra-Group		(1,151)	(1,151)	-	1,151	-
		7,055	(4,826)	(4,834)	-	(9,660)

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 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)
Home reversion plans		4,556	3,241	–	(3,995)	(1,031)	(1,785)
Loan, lease and professions financing							
Asset based finance, commercial and professional loans		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.

Consolidated Net Assets

For the year ended 31 March 2020

		£'000	Total £'000
COLG	Home reversion plans	13,449	
	Loan, lease and professions financing	5,575	
	Financial services intermediary	1,130	
	Banking licence application	5,552	
			25,706
	Other net assets		5,577
Net assets per entity balance sheet			31,283
Other net liabilities of subsidiary companies			(6,217)
Consolidated Net Assets			25,066

Consolidated Net Assets

For the year ended 31 March 2019

		£'000	Total £'000
COLG	Other financial assets		138
	Home reversion plans	17,873	
	Loan, lease and professions financing	6,394	
	Financial services intermediary	1,884	
	Banking licence application	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

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

5 Administrative expenses

	31 March 2020 £'000	31 March 2019 £'000
Staff		
Payroll	5,443	3,351
Other staff costs	43	81
Establishment costs		
Property costs	648	572
Other, including IT costs	959	513
Auditor's remuneration (see below)	301	164
Legal fees	192	243
Consultancy fees	659	532
Other professional fees	750	381
Provisions for bad and doubtful debts under IFRS 9	1,571	282
Provision for goodwill impairment	1,555	78
Depreciation and amortisation	53	23
Reduction in deferred consideration	(425)	-
Total administrative expenses	11,749	6,220
Expenses relating to:		
Banking licence application project	3,351	1,643
Acquisition of Acorn to Oaks	-	95
Provisions for bad and doubtful debts	1,571	282
Other administrative expenses	6,827	4,200
	11,749	6,220

Auditor's remuneration	31 March 2020 £'000	31 March 2019 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	86	44
Fees payable to the Company's auditors for other services:		
The audit of subsidiaries pursuant to legislation	187	95
Audit related assurance services	4	3
Tax services	24	22
Total fees	301	164

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 £557,500 (2019: £461,732). In addition, aggregate social security costs were £66,393 (2019: £53,111). In the current year, all costs were borne by the Company while, in the prior year, £360,000 of the aggregate emoluments and £39,597 of the aggregate social security costs were borne by the Company and £101,732 and £13,514 respectively 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 2020	Salary £	Bonus £	All taxable benefits £	Total £
Michael Goldstein	212,917	145,000	-	357,917
Paul Milner	100,000	-	-	100,000
For the year ended 31 March 2019	**£**		**£**	**£**
Michael Goldstein	175,000	-	–	175,000
Paul Milner	100,000	-	–	100,000
Chris Rumsey (a)	101,732	-	–	101,732

(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.

Non-executive directors

	Year ended 31 March 2020 £	Year ended 31 March 2019 £
Colin Wagman (a)	35,833	30,000
Andrew Crossley (b)	31,875	27,500
Lorraine Young	31,875	27,500

(a) Chairman

(b) During the year to 31 March 2019, the remuneration for A Crossley was paid to Stockdale Securities Ltd.

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.

P G Milner is a director of Max Barney Investments Limited.

The Company recharges the costs of shared premises to its subsidiaries, Credit Asset Management Limited, Milton Homes Limited, Property & Funding Solutions Ltd and Recognise Financial Services Limited.

7 Tax expense

	31 March 2020 £'000	31 March 2019 £'000
UK corporation tax		
Current year charge	6	13
Prior year charge	-	4
Deferred tax		
Relating to origination and reversal of temporary differences	64	60
Total tax expense	70	77

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% (2019: 19%). The differences are explained below.

Tax reconciliation	31 March 2020 £'000	31 March 2019 £'000
Loss before tax	(9,660)	(3,489)
At standard rate of corporation tax in the UK:	(1,835)	(663)
Effects of		
Items not deductible for tax purposes	447	367
Profit on revaluation of assets offset by brought forward losses	(216)	(332)
Other tax adjustments	75	7
Movement on unrecorded deferred tax asset	1,599	694
	70	73

8 Investment properties

At valuation	31 March 2020 £'000	31 March 2019 £'000
At 1 April	41,040	44,926
Additions	12	12
Disposals	(3,581)	(5,642)
Revaluations	1,138	1,744
At end of period	38,609	41,040
Investment properties	33,505	35,397
Investment properties held for sale (a)	5,104	5,643
	38,609	41,040
Numbers of properties		
At 1 April	271	302
Disposals	(23)	(31)
	248	271

(a) on vacant possession having been obtained

In accordance with the mandatory requirement introduced by RICS on 17 March 2020, the external valuer has included a material uncertainty clause in his valuation as at 31 March 2020. The external valuer stated that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

9 Financial assets – equity release plans

At valuation	31 March 2020 £'000	31 March 2019 £'000
At 1 April	30,485	30,213
Additions	30	71
Equity transfer	1,367	1,497
On ending of plans	(1,982)	(1,834)
Revaluations	443	538
At end of period	30,343	30,485
Financial assets – equity release plans	27,987	28,459
Financial assets – equity release plans held for sale (a)	2,356	2,026
	30,343	30,485
Numbers of properties		
At 1 April	239	250
Additions	-	1
Disposals	(14)	(12)
	225	239

(a) on vacant possession having been obtained

In accordance with the mandatory requirement introduced by RICS on 17 March 2020, the external valuer has included a material uncertainty clause in his valuation as at 31 March 2020. The external valuer stated that less certainty and a higher degree of caution should be attached to the valuation than would normally be the case.

10 Intangible assets

Group	Goodwill £'000	Software licence & development £'000	Total £'000
Cost			
As at 31 March 2018	2,180	-	2,180
Additions in year	1,378	-	1,378
As at 31 March 2019	3,558	-	3,558
Additions in year	57	545	602
As at 31 March 2020	3,615	545	4,160
Accumulated amortisation and impairment			
As at 31 March 2018	-	-	-
Charge in year	78	-	78
As at 31 March 2019	78	-	78
Charge in year	1,555	1	1,556
As at 31 March 2020	1,633	1	1,634
Carrying amount			
As at 31 March 2020	1,982	544	2,526
As at 31 March 2019	3,480	-	3,480

Milton Homes – home reversion plans
The Company has carried out an assessment as to whether there has been a further impairment in the value of the goodwill relating to Milton Homes which had a carrying amount of £2,102,000 at 31 March 2019. The assessment was 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 473 properties at 31 March 2020 will continue 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 2035 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 HPI of 3% per annum over the 15-year period. Sensitivity calculations have been done with assumed HPI rates varying from nil to 6% per annum over the fifteen-year period. The likely impact of the current COVID-19 pandemic on future HPI rates over the medium and long term is uncertain.

Recognising that Milton Homes is an asset-based group holding UK residential property, the future cash flows have been discounted at 6% (the Company's present pre-tax 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 falls progressively to zero over a period varying from 4 years where the HPI is 1% per annum to 7 years for the base case. The rate of reduction increases materially in the latter part of each period.

As the property portfolio is progressively realised, there will be a corresponding reduction in the goodwill associated with Milton Homes. A provision for impairment of £981,000 (2019: £78,000) has been made to reduce the carrying amount of the goodwill to £1,121,000, approximately 50% of its original amount: the factors affecting the provision include the uncertainty of the impact of the COVID-19 pandemic on HPI rates in the medium and long-term.

Acorn to Oaks – financial services intermediary
An assessment of the goodwill associated with Acorn to Oaks Financial Services Limited, which was acquired on 7 January 2019, has been made in conjunction with a reassessment of the deferred consideration payable under earn out provisions.

Following a reassessment of the fair values of the assets and liabilities of Acorn to Oaks Financial Services Limited as at 7 January 2019, the date of acquisition, the fair values of Trade and other receivables at that date have been reduced by £57,000, resulting in a corresponding increase in the goodwill arising on acquisition to £1,435,000.

The Company has carried out an assessment as to whether there has been an impairment in the value of the goodwill, 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.

Acorn to Oaks has prepared cash forecasts for the 5 years up to 31 March 2025 based on profit forecasts which assume the profitability of the business increases in the first two years and remains stable thereafter, followed by the sale of the business at that date. Sensitivity calculations have been done for various levels of profitability ranging from £175,000 to £350,000 per annum and sales proceeds between £600,000 and £1,200,000. Having regard to variations in medium-term growth forecasts for the UK SME market and the possible impact of the current COVID-19 pandemic, it has been concluded the long-run profits will be in the range of £220,000 to £270,000 per annum with a capital value at 31 March 2025 between £735,000 and £905,000.

The future cash flows have been discounted at 15% per annum to determine the value in use of the net amount invested in Acorn to Oaks. The excess over the net assets of Acorn to Oaks at 31 March 2020 is a measure of the current value of the goodwill at that date A pre-tax discount rate of 15% has been used as the value of this financial services intermediary depends principally on the level of future revenues which in turn depends on its ability to retain and motivate key staff. Applying this to the estimated long-range profits of £220,000 and £270,000 and capital value at 31 March 2025, produces a figure for the current value of the goodwill that is between 48% and 34% less than cost. Accordingly, a provision for impairment of £574,000, being 40% of cost, has been made.

Deferred consideration under earn-out provisions is payable on the basis of the profits of Acorn to Oaks over the three years to 31 March 2022. Following a re-assessment of the forecast profits over the period, the estimate of the gross amount of the deferred consideration has been reduced to £100,000 (2019: £592,000). The results for the year to 31 March 2020 were affected in part by the fact that several commercial finance brokerage division transactions did not proceed as planned due to COVID-19, which is also expected to impact severely the company’s planned growth over the medium term. The rate of growth over the medium term was anticipated to be much more rapid only twelve months ago when the deferred consideration payable was first estimated Commercial finance brokerage activity ceased in March and it is unclear as to when this will return to normal levels in the context of the expected downturn in the UK economy.

The reassessed deferred consideration has been recorded at its amortised cost of £86,000, which has been calculated using an effective interest rate of 6%. The reduction in the deferred consideration of £425,000 has been credited to the consolidated income statement.

11 Leases

Right-of-use assets

	Group	
Property lease	**31 March 2020 £’000**	**31 March 2019 £’000**
At 1 April	-	-
Additions	665	-
Amortisation	(15)	-
At 31 March	650	-

On 11 March 2020, the Company leased office premises under a lease expiring on 24 July 2022, with a fixed periodic rent over the term. In accordance with IFRS 16, this lease has been accounted for by recognising a right-of-use asset and a lease liability. The lease liability has been measured at the present value of the contractual payments due over the period of the lease, using a discount rate of 6%.

All other premises leased by Group companies during the year were occupied under leases that were determinable on giving notice of no more than four months or were categorised as low value leases. The Group opted to recognise the lease expense on a straight- line basis as permitted by IFRS 16.

The impact of adopting IFRS 16 as at 1 April 2019 is shown in note 1.

Lease liabilities

Property lease	Group 31 March 2020 £'000	31 March 2019 £'000
At 1 April	–	–
Additions	734	–
Interest expense	2	–
Lease payments	(12)	–
At 31 March	724	–
Amount due within one year	298	–
Amount due after one year	426	–

12 Deferred tax liability

Deferred tax liability	Group 31 March 2020 £'000	31 March 2019 £'000
At 1 April	744	684
Tax expense	65	60
At 31 March	809	744
The deferred tax liability comprises:		
Gains arising from the revaluation of investment properties	1,549	1,416
Losses	(740)	(672)
	809	744

13 Called-up share capital

Allotted, called up and fully paid	31 March 2020 Number	31 March 2019 Number	31 March 2020 £'000	31 March 2019 £'000
Ordinary shares of £0.02	39,960,551	39,407,263	800	788
Deferred shares of £0.001	3,648,415,419	3,648,415,419	3,648	3,648
			4,448	4,436

The Company did not hold any ordinary shares in treasury at 31 March 2020 (2019: nil). 21,349 ordinary shares of £0.02 were held by the Employee Benefit Trust ("EBT") at 31 March 2020 (2019: 21,349). The Company did not transfer any shares into or out of the EBT during the year (2019: nil). The fair value of shares held by the EBT at the balance sheet date amounted to £24,000 (2019: £29,000): 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 12 April 2019, the Company raised £500,000 through the issue of 400,000 ordinary shares at £1.25 each for cash. This has been used to support the development of the Group's lending business, including the acquisition of a UK banking licence.

On 13 November 2019, the Company issued 153,288 ordinary shares at £1.35 each in satisfaction of an undertaking in 2017 in relation to the acquisition of the minority interest in Credit Asset Management Limited.

No costs (2019: £178,000) were incurred in relation to the issue of shares in the year. The costs incurred in the prior year were offset against the Company's share premium.

Shares in issue	Deferred Number	Ordinary of £0.02 Number	Deferred £'000	Ordinary £'000
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	3,648,425,419	39,407,263	3,648	788
Issued for cash on 12 April 2019	–	400,000	–	8
Issued on 13 November 2019	–	153,288	–	4
As at 31 March 2020	3,648,415,419	39,960,551	3,648	800

14 Financial instruments – price risk

The Group is subject to price risk on both its investment properties and its financial assets – equity release plans. 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.

Following a re-assessment of the fair values of the items included in Other investments, full provision has been made against the cost in view of uncertainty on both the timing and amount of any realisations. The provision for impairment of the legal case investments has been charged to Other comprehensive income.

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 2020:

Level 3 valuation	Total £'000
Investment properties	38,609
Financial assets – equity release plans	30,343
	68,952

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

No Level 1 or Level 2 assets were held at either 31 March 2020 or 31 March 2019.

There were no transfers of assets between categories during the year (2019: 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 2020 £'000	31 March 2019 £'000
Balance at 1 April	71,663	75,277
Additions	42	83
Equity transfer	1,367	1,497
Revaluations	1,443	2,282
Disposals	(5,563)	(7,476)
Balance at 31 March	68,952	71,663

15 Risk statement

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

COVID-19

COVID-19 emerged as a global pandemic towards the end of the first quarter of 2020. As governments, including in the UK, took action to contain its spread by imposing lockdowns and other restrictions, there was an immediate adverse impact on economic activity and on many businesses. The actions taken by the Company to mitigate the effect on the Group will be set out in the Annual Report.

The potential emerging risks arising from COVID 19 on the Group's businesses include the following:

- lower property values that impact the realisation value of properties held by Milton Homes;
- increased level of defaults on loans and leases as a result of lower economic activity in the UK affecting the viability of UK SME businesses; and
- reduced demand for loans from SMEs which may make Recognise's growth plans more challenging.

There is a risk that a second wave of the pandemic in the future could depress economic activity in the UK further and hence increase the potential risks to the Group's businesses.

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 and, 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.

Weak property market
The Group is adversely affected by a weak property market through Milton Homes and through its lending businesses. 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. PFS is affected by movements in both commercial and residential markets. 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.

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
Legal and regulatory risk relates primarily to the activities of Acorn to Oaks and Recognise.

Acorn to Oaks is an independently regulated whole of market firm and is authorised by the FCA to provide regulated products and services as advisor and broker, and has client money permissions in relation to its insurance distribution activities. Acorn to Oaks, established in 2008, has well-defined processes in relation to ensuring it complies with its regulatory obligations. 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.

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.

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

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 undertakes only non-regulated lending.

Four subsidiaries of Milton Homes are FCA regulated.

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.

Brexit and political uncertainty
The Board considers that the withdrawal of the United Kingdom from the European Union is a key risk given the potential for unfavourable terms, the uncertainty around market conditions that may result, and the political uncertainty arising. An unfavourable exit may impact the UK's post COVID-19 recovery. To date these risks have not materially impacted the business model or conditions faced by the Group. The management of COLG and the Board will keep this risk under review and monitor events and the impact surrounding Brexit.

Cyber risk
The Board has considered risks arising from cyber-crime and IT resilience and considers the current operating model of the Group mitigates the risk of business disruption. 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 leave the business which may compromise the business. To mitigate this risk, management is incentivised with equity and bonuses comparable with the market.

16 Post balance sheet events

(a) At a general meeting on 27 April 2020, shareholders approved the buy back and cancellation of the Deferred shares of the Company in accordance with the Articles of Association, whereby all the Deferred shares could be purchased by the Company for a consideration of not more than £1.00 and subsequently cancelled. Under the Companies Act a share buy-back by a public company (such as the Company) can only be financed through distributable reserves or the proceeds of a fresh issue of shares made for the purpose of financing a share buy-back. As the Company currently has no distributable reserves, the purchase of the Deferred shares for £1.00 was financed from the issue of 500 new ordinary shares which were allotted to the trustees of the Employee Benefit Trust at a price of 114.4p each on 16 April 2020. Following the cancellation of the Deferred shares on 30 April 2020, a transfer of £3,648,415 was made from share capital to a capital reserve.

(b) On 21 July 2020, Recognise received its TCR letter from the PRA. The receipt of this letter, which sets out the PRA's capital and liquidity requirements for Recognise, is an important milestone in its application for a UK banking licence.

(c) In accordance with their terms of issue, the receipt of the TCR letter on 21 July 2020 resulted in the mandatory conversion of the £2,050,000 6% Convertible Unsecured Loan Notes 2021 ('Loan Notes') into ordinary shares of the Company. The Loan Notes were converted into shares at a ratio of one new ordinary share for every £1.43 of outstanding principal of Loan Notes, with 1,433,565 shares being issued to the Loan Note Holders. Interest accrued on the Loan Notes up to 21 July.

(d) Following the receipt of the TCR letter on 21 July 2020, the executives who hold 28% of the equity in Recognise may exercise their put option on or before 1 September under the terms of the Recognise Shareholders' Agreement.

The maximum amount payable by the Company to acquire the equity interest is £5,600,000: the consideration will be satisfied by the issue of the Company's ordinary shares. Under the terms of the Amended and Restated Shareholders' Agreement dated 21 November 2019, the put option may be exercised by the executives within 30 business days of Recognise receiving TCR confirmation and the Company must purchase their shares within 20 business days of receiving notice of exercise of the put option, provided agreed lock-in agreements with the executives are in place. The required TCR letter was received from the PRA on 21 July 2020 and accordingly it is anticipated the Company will acquire the remaining equity interest in Recognise no later than 30 September 2020. Under the Shareholders' Agreement, if any executive were to leave Recognise as a 'bad leaver' within 15 months of being allotted shares in the Company, a proportion of his shares would be transferred to the Company or another nominated person for £1: the proportion reduces from 100% to nil over the 15 month period.

Annual General Meeting

The 2020 annual general meeting will be held at 3.30 pm on 30 September 2020 at the office of the Company at The Royal Exchange, First Floor, 1 Royal Exchange Steps, London EC3V 3DG. The notice of meeting will be included in the Annual Report which will be posted to shareholders in early September 2020.

In light of the UK Government's social distancing guidelines associated with the COVID-19 pandemic restricting public gatherings, physical attendance at the Company's AGM will not be permitted. The AGM will be held with a quorum of members only present at the physical location, supplemented by way of a videoconference allowing shareholders to dial into the AGM at which time they can submit questions to the Board. Shareholders wishing to access the videoconferencing facility or submit questions to the Board ahead of the meeting are asked to contact the Company Secretary (Ben.Harber@shma.co.uk). Please note that it will not be possible to vote on the matters to be considered at the AGM through the videoconferencing facility. Shareholders are encouraged to appoint the Chair as their proxy with their voting instructions.

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