City of London Group plc

Annual report and accounts 2013

City of London Group plc

I am now confident that we have built solid foundations for the future expansion of the Group against a merchant bank model

Eric Anstee
Chief Executive

City of London Group plc is a financial services group focused on providing merchant banking services to finance the SME and professional services sectors. It does this by financing trade and securing specialist funding throughout the supply chain to help fuel growth in these sectors, as major national and foreign banks limit new lending to these borrowers. The Group seeks to identify and exploit product niches and business models in these sectors where they are supported by strong day to day management teams, providing initial equity, working capital and seed funding for those teams.

Highlights

- Gross value of goods and services invoiced up by 108% to £32.3m (2012: £15.5m)
- Revenue increased by 104% to £5.1m (2012: £2.5m)
- Third party funding up by 106% to £72m (2012: £35m) plus £20m agreed in principle
- Loss before tax of £1.6m (2012: loss £2.1m)
- Sales of 'available-for-sale' investments £2.8m (2012: £2.3m) with profits of £1.4m (2012: £1.0m)
- NAV per share attributable to shareholders 53.0p (2012: 68.8p)
- The unaudited proforma NAV per share of the Company including directors' valuation of the platforms is 119.6p (2012: 99.2p)
- No final dividend proposed but capital reduction of share premium planned to enable future dividends

104%
Increase in revenue

106%
Increase in third party funding

NAV per share 53.0p

Unaudited proforma NAV per share of the Company including directors' valuation 119.6p

Directors' report
Pages 13 to 17 comprise the Directors' report and pages 21 to 25 comprise the Remuneration Committee's report, both of which are presented in accordance with English company law. The liabilities of Directors in connection with these reports shall be subject to the limitations and restrictions provided by such law. These reports are intended to provide information to shareholders and are not designed to be relied upon by any other party or for any other purpose.

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

Chairman's statement

As a financial services investment group we have made considerable progress during the year despite a continuing backdrop of economic weakness

Henry Lafferty
Chairman

As a financial services investment group we have made considerable progress during the year despite a continuing backdrop of economic weakness and difficult fund raising conditions. In particular, assets under management and available facilities have increased by 106% from £35m to £72m.

There continues to be significant media coverage concerning the lack of funding available from the major high street banks to SMEs as well as enormous political pressure on the Government to demonstrate lending to SMEs through alternative sources. City of London Group is well positioned to take advantage of the opportunities that this presents. For example, during the year one of our subsidiaries was among the first companies to put to work the initial tranche of Government funding made available through the Business Finance Partnership scheme managed by the Department for Business, Innovation & Skills (BIS). This has enabled us to form a good working relationship with BIS and their advisers and to establish our credentials with them. Following the first phase of the scheme, we are already in advanced discussions with BIS concerning a much larger second phase from which we hope to raise a further £60m of funding from the Government and other sources to apply in our SME leasing and professions lending businesses.

During the year one of our subsidiaries was among the first companies to put to work the initial tranche of Government funding made available through the Business Finance Partnership scheme managed by the Department for Business, Innovation & Skills

Our trade finance business, backed by banking facilities through Macquarie Bank, has made substantial progress during the year – more than doubling revenue and with a significant acceleration in business towards the end of the financial year. The business is in final discussions to close its first commodity trade financing and now expects to add this product to its existing range.

While our trade finance business is profitable, our leasing business and, to a lesser extent, our professions funding business, have continued to incur losses. This is due to the relatively small scale of the businesses but also the accounting treatment required which means that all of the development costs incurred in building the leasing and funding books must be charged against profit. However, with the current funds from BIS the businesses are growing a very valuable and saleable loan book.

The disappointment during the year has been the lack of legal case determinations in Therium and therefore the absence of any performance fees. However, in spite of this the business has been able to continue to raise further third-party funds, taking the total funding now available to it to over £30m with a further £10m agreed in principle.

The demand for funding and services from SMEs remains strong across our platforms. Accordingly, the need to continue to increase the volume of funds under management, including those for our own book, remains our largest challenge. The Board has therefore given considerable thought to the various options available to the Company to further expand and develop the business. The options include applying for a new banking licence or accessing peer to peer lending so that we can take advantage of lower-cost, online retail deposits and to apply these funds to the existing, established platforms alongside other third-party funds. We are encouraged by the well-publicised support from the Government for new and alternative lending platforms. Successful delivery of one of these initiatives would provide alternative sources of lower cost funds at a higher volume and therefore allow us to pursue our goal of becoming a niche merchant bank.

Financial

The Company has reported a loss before tax of £1.6m of which approximately £0.7m is non-recurring, relating to the permanent diminution in value of two mining investments, the loss on sale of FTIM and the closure of the legacy City of London PR business. With regard to funding, the Company raised £1.3m in September 2012 using its power to issue up to 10% of its issued share capital. The Company used these funds as well as the proceeds from selling down more of the energy and mining resources portfolio to fund the business through the year. The value of the share portfolio at 31 March 2013 was £1.9m, and the Company expects to sell down the remainder of the portfolio during 2013/14 to continue to fund the business as well as exploring a range of other capital raising possibilities.

Having access to retail funds would transform the Group and ensure a step change in scale for each of the platforms

Board

We were pleased to welcome Nigel Sidebottom as a non-executive director on 1 December 2012. Nigel's expertise in the investment arena will be invaluable as we continue to develop our traditional merchant banking model. We have also recently welcomed Andrew Crowe onto the Board as an alternate director to John Greenhalgh. We all wish John the very best with his recovery. Once again I would like to thank all the staff across the Group for their efforts in progressing the development of the platforms.

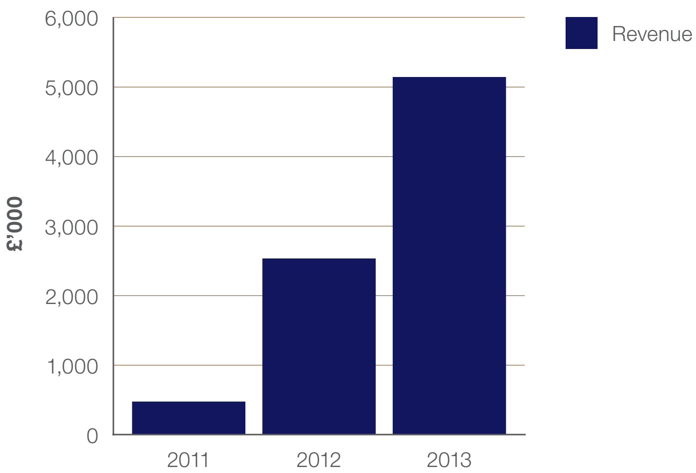
Outlook

While economic conditions in the UK continue to be sluggish, having narrowly avoided a double-dip recession, the sheer depth of the markets in which the Group operates does not present a constraint to its growth at the current stage of development. Having access to retail funds would transform the Group and ensure a step change in scale for each of the platforms. This will be a key area of development for us over the coming year as well as continuing to pursue third-party wholesale funding. We intend to maintain the growth of the Group and shall therefore seek to increase the capital base, by the issue of either equity, debt or both.

Henry Lafferty
Chairman
24 June 2013

Chief Executive's review

Revenue



Eric Anstee
Chief Executive

> **I am now confident that we have built solid foundations for the future expansion of the Group against a merchant bank model**

Investment climate

The City of London Group has had another year of growth despite the faltering UK and World economies. Our investment platforms have seen increases in funds under management, turnover and volume of transactions. We have again continued to invest in each of the platforms, and I am now confident that we have built solid foundations for the future expansion of the Group against a merchant bank model with three major segments: SME Lending; Alternative Asset Management, and Trade Finance.

Last year I said that our early identification of the financing needs for SMEs would enable us to play an important, albeit niche, part in the UK Government's efforts to kick-start the economy at grass roots level. I was therefore delighted that our Credit Asset Management Limited (CAML) subsidiary was chosen as the first leasing platform to partner with The Department for Business Innovation & Skills to support the Government's Business Finance Partnership scheme. We continue to see strong demand for lending from SMEs to our CAML platform and for further services from our Trade Finance Partners Limited (TFPL) business.

In the legal sector Therium, our litigation funding business, has seen a hectic last quarter of this financial year to March 2013. In each financial year since launch Therium has received increased numbers of cases to fund. We expect this trend to continue.

On 1 April 2013, many of the reforms recommended by Lord Chief Justice Jackson for the legal profession were implemented. In particular his recommendations that After The Event Insurance (ATE) premiums cease to be recoverable from the other side and that any uplift in fees paid under a conditional fee agreement (CFA) of the law firm also cease to be recoverable from the other side. The impact of this was that Therium was exceptionally busy in the first quarter of 2013 closing applications for litigation funding as law firms sought to file claims before 1 April so that their rights to recovery of fees under CFAs and their clients' right to recover insurance premiums were covered by the old regime.

Financial results

Despite strong activity, two of our subsidiary undertakings remain below the scale sufficient to produce profits. This has resulted in the Group again reporting an overall loss before tax for the year of £1.6m (2012: £2.1m). The increase in gross value of goods and services invoiced is, however, pleasing up 108% on last year to £32.3m, largely from our Trade Finance business.

Strategy and growth

We continue to explore all opportunities to attract further third-party funding into our platforms, including working with the peer-to-peer lending platforms and the so-called "challenger banks". Following our success with the UK Government through CAML, we are now also in discussions with the newly-established UK Business Bank about a substantial increase in funds for CAML to manage.

We continue to explore all opportunities to attract further third-party funding into our platforms, including working with the peer-to-peer lending platforms and the so-called "challenger banks"

Our other lending platforms to professional firms and to law firm clients continue to attract third-party funds under management.

Our trade finance business continues to expand with new SME customers and with an increasing number of commodity financing opportunities. The growth in our turnover is expected to continue at a similar or greater pace.

Our litigation funding business continues to grow third party funds under management, and we have additional funds under development, in particular and as announced in March 2013, an international litigation funding joint venture of material size.

Finally our lending platforms have also identified a number of opportunities to provide equity funding to clients, and we are contemplating creating a platform to undertake this activity.

Investment platforms

Our investment platforms as discussed above are now our engine for growth. Since our year-end Therium has been appointed to advise a new litigation fund of £5.6m.

In the meantime I am conscious that the real value of these platforms is not being recognised under current accounting practices, but again this year the directors have undertaken a valuation and guidance is provided at the end of this report. I am delighted to report that this shows that we have added substantially to the overall value of the Group despite this disappointingly not being recognised as yet in the share price. Edison Research, who provide investment research services, have provided a recent report which supports this directors' valuation.

Available for sale investments

We have continued with our policy of divestment of listed investments and have re-deployed the funds across the three platforms. I am pleased to be able to report that sales of listed investments resulted in proceeds of £2.8m and a realised profit on sales of £1.4m.

Principal Holdings as at 31 March 2013

Security	Holding	Book Cost (Net of Provision) £'000	Value £'000
Munro UK Fund X Class (Income Shares)	500,300	500	455
Tertiary Minerals plc	6,000,000	275	405
Hurricane Exploration	283,340	120	383
Sunrise Diamonds plc	19,500,000	210	117
AFC Energy plc	300,000	47	83
SIPA Resources International NL	1,000,667	44	55
Netalogue Technologies	2,729,583	62	55
Total		1,258	1,553

Chief Executive's review continued

We are now poised for substantial growth in our activities

Other investments
Following our successful sale of FX Capital Limited in the first half of this financial year which returned just over 2.6 times our original investment, I was pleased that we have also been able to dispose of FTIM Limited and its Munro Fund. This business was well below the necessary scale, and despite our best efforts we were unable to access funds for this platform.

Array Management Limited is our business which has completed the modelling necessary for the launch of an inflation linked bond. The business has found it difficult to source an appropriate transaction due to the economic climate but continues the search for projects for the future.

Dividend
Due to the constraint on our current funding and the lack of distributable reserves in the Company, the Board has reluctantly decided not to recommend payment of the final dividend. We intend to apply to the courts for permission to reduce the share premium account to remove this restriction going forward. This should allow us to return to the dividend list for our interim dividend for 2013/14.

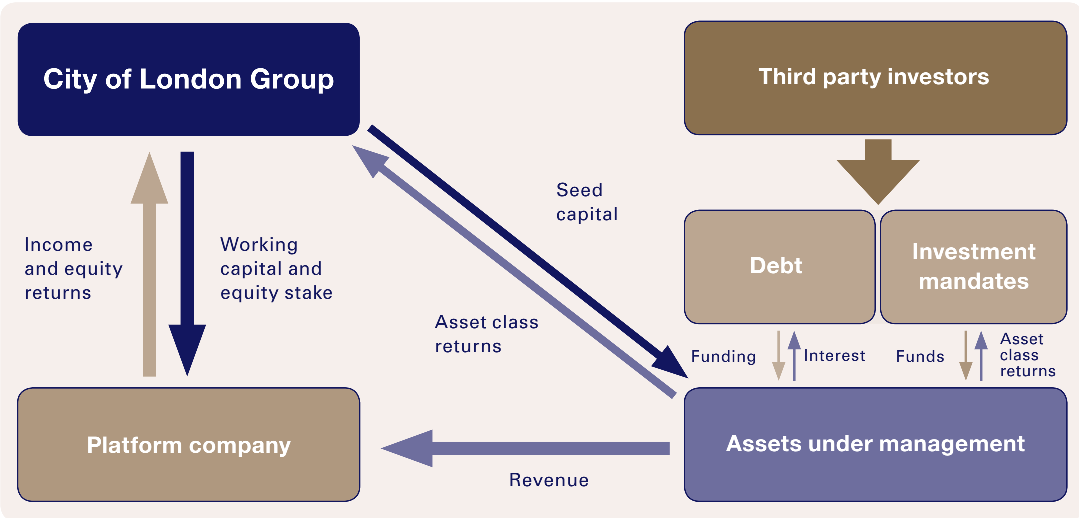
Outlook
We are now poised for substantial growth in our activities, and I am encouraged that current discussions on a number of fronts will deliver some major advances for the Group over the coming months.

I would like to close by expressing my thanks to all the staff within the business whose efforts during the year have helped us to reach this point.

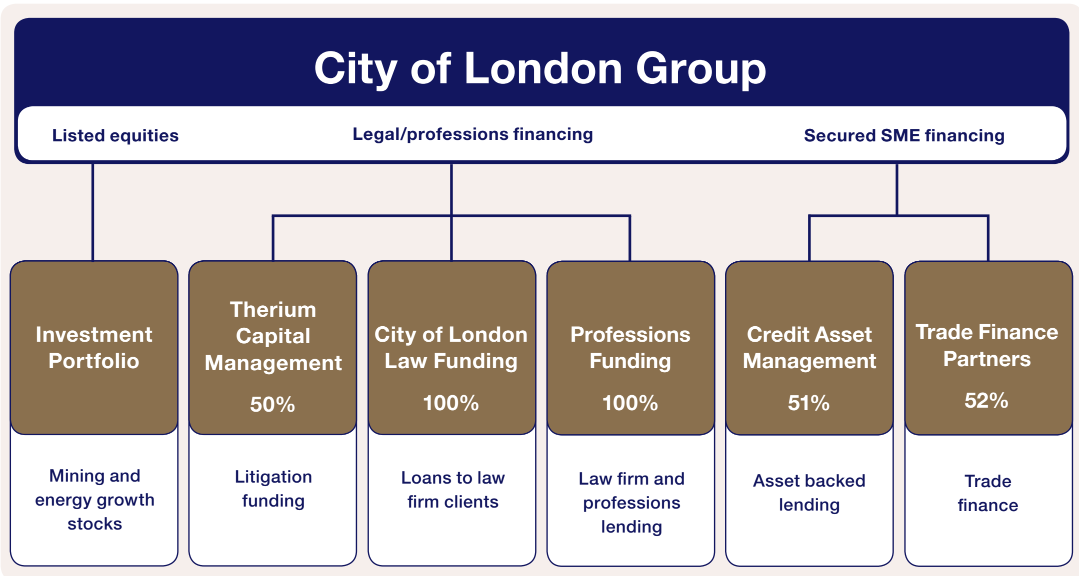
Eric Anstee
Chief Executive
24 June 2013

Unaudited directors' valuation
As in previous years, the directors provide an indication of the incremental value they attribute to the investment platforms which in aggregate show additional value of between £10.1m and £11.7m. This equates to between 51.1p and 59.2p of additional NAV per share giving a full mid-point NAV per share of 119.6p. The directors also note that these values are supported by a valuation by Edison Research in a recently issued research note.

Business model



Group structure and current investment platforms



Directors' biographies

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1. Henry Lafferty
Non-executive Chairman

Henry Lafferty was appointed to the Board in June 2006 and became Non-executive Chairman in September 2009. Henry has experience in all aspects of financial and general management. He was Group Finance Director of Jarvis plc and Chairman of its projects division during its successful growth phase; and Chief Executive of PatientFirst Partnerships. Prior to that Henry was in senior management positions at the National Freight Consortium. He is currently a director of InvestSelect PLC, a private equity management business, and a number of its related investee companies. Henry is a Fellow of the Chartered Institute of Management Accountants and a graduate of the London Business School Sloan Programme.

2. Eric Anstee
Chief Executive

Eric Anstee was appointed to the Board as Chief Executive in November 2009. He is a Non-executive director of Insight Asset Management, PayPoint plc and Sunlife Assurance Company of Canada (U.K.) Limited and is on the Takeover Panel Appeals Board. He has served on the Boards of the Financial Reporting Council, Mansell plc, SSL International plc and Severn Trent plc. Until the end of 2006 he was Chief Executive of The Institute of Chartered Accountants in England & Wales. He was formerly Chairman and CEO of Old Mutual Financial Services plc and CFO of Old Mutual plc, The Energy Group plc and Eastern Electricity plc. Eric is a visiting professor at London Metropolitan University. He is a Fellow of the Institute of Chartered Accountants in England and Wales.

3. John Kent
Deputy Chief Executive

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

4. Howard Goodbourn
Finance Director

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

5. Tony Brierley
Non-executive, Senior independent director and Chairman of audit and risk committee

Tony Brierley was appointed to the Board in December 2011. He is a Non-executive director of The Pensions Regulator and a trustee director of the 3i Group Pension Plan. He was previously general counsel and company secretary of 3i Group plc. Tony is a solicitor.

6. Andrew Crowe
Non-executive (alternate to John Greenhalgh)

Andrew started his career with Coopers & Lybrand in 1995, moving into Transaction Services shortly after qualifying with the ICAEW in 1998. He spent the next 7 years advising corporate and private equity clients on large and small transactions across diverse sectors. In 2005 he joined Meggitt plc as Group M&A Manager to support the Group's aggressive acquisition strategy, also successfully disposing of some non-core businesses. He moved into an operational finance role in 2008 and is currently Finance Director for the Control Systems division.

7. John Greenhalgh
Non-executive, (non-independent)

John founded City of London PR in the 1970s after an earlier career in financial and general journalism. Before this, he created the financial division of Extel, now merged with Thomson Financial and Reuters. He was chairman and managing director of City of London PR Group (now City of London Group) on its admission to the London Stock Exchange in 1988 and served in those roles for 20 years.

8. Nigel Sidebottom
Non-executive

Nigel is a director of Premier Fund Managers Limited with responsibility for its closed end and offshore fund operations as well as its private client and high net worth business. He is Deputy Chief Investment Officer, a member of the asset allocation committee, and manager of Premier Enterprise Fund. He has served as a non-executive director on the boards of several investment companies, most recently as audit committee chairman of JP Morgan Elect plc. He has previously held executive positions with Gerrard Vivian Gray and Greig Middleton stockbrokers. Nigel is a Fellow of the Chartered Institute for Securities and Investment.

9. John Williams
Non-executive, Chairman of remuneration committee

John Williams was appointed to the Board in November 2011. He has spent most of his career advising financial services companies on all forms of corporate finance transactions. He has held senior positions in Kleinwort Benson, Lehman Brothers, JP Morgan and Gleacher Shacklock.

Trade Finance Partners Limited

Chris Ash Chief Executive, William Tebbit Commercial Director

Description of the business

Trade Finance Partners is a specialist provider of trade finance targeted at predominantly UK based SME's. Existing clients have revenues in the £32m to £130m range and transact business throughout the world.

TFP is a traditional trade financier; it does not lend money it operates a trading model whereby it buys and sell goods taking ownership and taking on the inherent risk of owning goods. TFP uses its own capital and its dedicated trade finance facilities provided by its banking partner Macquarie Corporate and Asset Finance Ltd, a division of Macquarie Group of Companies.

TFP's trading model is simple and efficient. TFP buys goods and owns them until such time as the end customer pays. The use of letters of credit to purchase goods in the vast majority of cases and the use of credit insurance on end customer plus various insurance products ensures multiple layers of risk mitigation are in place. Ultimately ownership of goods also ensures, in the event of transactions failing, TFP can sell goods to eliminate their exposure.

TFP's income is derived from a margin on the goods sold and anciliary services associated with opening of purchase commitments.

£25m

trade finance facility agreed with Macquarie Bank

The market

TFP continues to believe that within the UK the SME sector is critical to the success of the economy. Approximately 45% of all those employed in the UK are employed by businesses with revenue of less than £25m. (Source ONS and BIS) It is also the sector that has suffered most and continues to suffer from a lack of liquidity. Banks are unable to meet the demands for capital from businesses that are unable to provide security against which banks will lend hence driving businesses to alternative sources of capital. These alternative non-banking and non-lending solutions are required to help businesses satisfy the orders for goods that they won for both import and export. TFP's trading model seeks to address the needs of its clients and the growing number of clients demonstrates the appetite for such solutions. There is an increase in awareness of true trade finance and the advantages that it brings. More competitors will enter the market, however the size of the market is so significant that it is believed no single player will be able to dominate. It is a global market place and reflects the flow of trade around the world.

Strategy

TFP's strategy has not fundamentally changed and remains as reported in last year's report and accounts. TFP continues to grow its client base and increase the average size of transactions. Risk management remains core to its operating ethos.

Brand development is central to our business plan and an increasing amount of time and resource is devoted to this area. Ensuring the market place and potential clients are aware of our offering is critical to our development.

As always people, processes and systems coupled with sound commercial judgement remain paramount and enable our business to grow whilst managing risk. We pride ourselves in offering solutions to our clients in a timely, creative and cost efficient form; we strive to continue improving our business every day.

Finance

Our banking partner and shareholder Macquarie are central to our success to date and our future development. We are one year into our three year facility and we are grateful for their continued support.

We are confident that we can increase our trade finance facilities as our business grows with the support of both Macquarie and City of London Group plc.

Outlook

As last year we look forward with optimism to the coming year. Our business continues to develop and as awareness of our product increases more clients will come to benefit from our solution.

The ongoing shortage of capital for businesses is not being addressed in any meaningful way. We do not see this changing in the short to medium term. Demand for trade finance remains strong and TFP are well placed to take advantage of the situation.

Therium


THERIUM.

Neil Purslow and John Byrne

Description of the business

Therium is one of the leading and most active third party litigation funders in the UK market. Therium focuses on large commercial litigation and arbitration claims. Therium invests in commercial litigation and complex disputes before the Courts of England and Wales and in international arbitration as well as funding more widely in exceptional cases. Therium is providing litigation funding for clients of litigation and arbitration lawyers from leading national and international law firms, plus many specialist litigation and arbitration firms.

Therium is led by lawyers and undertakes a detailed diligence process prior to funding a case, considering the legal merits, the value of the claim and projected costs, the risks involved and the ability of the defendant to pay any judgment. Therium's funds are deployed in accordance with an investment mandate across a diversified portfolio of cases.

The market

Litigation funding is an emerging asset class. Interest in litigation funding has grown considerably following clarification of the position regarding legality and enforceability of such arrangements in England and Wales. Over the last four years, there has been growing acceptance of the role of third party funding in enabling access to the judicial system for cases that otherwise could not be pursued, culminating in the formation of the Association of Litigation Funders in 2011 which Therium is a founder member, and more recently a trend towards otherwise well-resourced litigants and their lawyers looking to share the financial burden and risk of their litigation with funders.

The team has now reviewed well over 500 cases. 2012 saw a 63% increase in case enquiries for funding over 2011 and the early part of 2013 shows a similar rate of increase. While the Jackson reforms led to a great deal of activity in the litigation market generally in the run up to 1 April 2013, demand for funding appears to have increased, if anything, more since that key date.

Finance

The Therium Group has built on its mandate as investment adviser to its first LLP Fund, launched in May 2010 with two further LLPs launched during the last financial year and the signing of its first mandate from an institutional investor for a managed account on 1 April 2012. Therium added two further funds in 2013, with the launch of its first Jersey fund in February and a fund with Coach House LP in May 2013 and expects to supplement these six existing funds with substantial additional fundraises in the coming year. While Therium is waiting for results on the portfolios of investments held by the existing funds, which has delayed performance fee income to the Company, the underlying portfolios continue to develop well. A significant number of the existing investments reached final hearings during the financial year and decisions are awaited on these.

Accompanying the consistently strong increase in demand for funding and expanding funds under management, as expected, Therium has seen a marked increase in investment activity with the Company deploying substantial funds into new cases, particularly during the last two quarters of the financial year. This has shown in the rapid deployment of the new funds; Therium Jersey launched in only February 2013 has already committed 90% of the funds raised into 11 cases within its first 4 months of operation.

500+
cases reviewed to date

Strategy and Outlook

During the new financial year, Therium expects to see a continuation in the demand for litigation funding in the UK and internationally. Therium plans to build on its position as a market leader in this space by continuing to expand its funds with further fund launches, developing its relationships with key market participants and increasing its investment activity in step with its increasing resources as it builds scale within the business. At the same time management expects to see the existing portfolios continue to mature, leading the Company to self-sufficiency and profitability through management fees and performance fees during the year.

Credit Asset Management Limited and Professions Funding Limited

James Frost Finance Director, **Martin Parsons** Sales Director, **Michael Hughes** Managing Director and **Chris Boobyer** Chairman

Description of the business

Credit Asset Management Ltd (CAML) is a business to business provider of lease finance to SME's. In addition it provides management services to two third-party funds and to Professions Funding Ltd (PFL) for the origination, underwriting, booking and portfolio management of lease and loans to SMEs and professional businesses such as lawyers, accountants, doctors and dentists. CAML sources business for both disciplines through a national network of finance intermediaries.

The market

Asset finance has historically made a material contribution to capital expenditure in the UK. £21.2 billion of new business was written in 12 months to April 2013 with total outstandings of £63.3 billion (Finance Leasing Association Industry Statistics, June 2013). Not all lessors operating in the UK are members of the FLA so the actual value of investment may be significantly larger than this.

The financial crisis has prompted consolidation of UK financial institutions, the collapse of the wholesale markets which traditionally supported non-bank owned independent asset financiers and the curtailment of foreign bank's lending into this sector.

As a consequence of this and increasing concerns over the impact of the higher capital ratios demanded by Basel III, the supply of asset finance to SME's, the most important sector for recovery in the UK economy, has been materially reduced during the past three years.

Strategy

CAML's strategy is to build a sizeable lease and loan book of SME customers and provide attractive returns and annuity income for its shareholders. It will seek funding for such business through both bank and non-bank debt providers. The latter includes managing third party SME lease investments for those who recognise the inherent value of investing in lease / loans as a means of generating annuity income at attractive returns. CAML derives fees for its management services which represent 'whole life' facilities such as origination, underwriting, documentation, administration, bill and collect and detailed investor reporting.

Finance

In he year ended 31 March 2013 CAML and PFL wrote in £6.1m of new business and generated gross income of £981,000 (2012:£270,000). It incurred funding costs of £380,000 (2012: £80,000) and net operating costs of £849,000 (2012 £602,000). The combined entities have total block funding facilities of £7.5m from banks and finance houses and won contracts for £20m of new managed funds in the year most particularly with £5m from the Department for Business Innovation and Skills with a further £5m of matched funding from City of London Group investors.

Outlook

The market has shown signs of improved liquidity and a slight drop in yields but, CAML expects to continue growing its market share at attractive margins. Therefore, the outlook is positive with yields expected to remain strong. The credit quality of the book remains above the forecast. With continuing uncertainty in the banking market generally, the Company expects there to be a continued contraction in the supply of asset finance in this sector. Therefore, subject to CAML and PFL being able to attract appropriate funding for its own book and to attract sufficient funds under management, the Company predicts a year of strong growth in 2013/14.

£20m
of new managed funds

Directors' report

This section of the statutory and corporate governance information contains the directors' report for the year to 31 March 2013.

Results and dividends
The results for the Group are set out on page 30. The directors declared an interim dividend of 0.33p per ordinary share (2012: 0.5p). The directors do not recommend the payment of a final dividend (2012: 1.0p per ordinary share).

Principal activity
City of London Group plc is a closed-ended investment company. It invests in companies in the financial services sector (including litigation, trade, lease and professions financing) as well as in legal funds and a portfolio of 'available-for-sale' assets.

Business review
The Group's development during the year to 31 March 2013, its position at that date and likely future developments are detailed in the Chairman's statement, the Chief Executive's review and the individual business reviews on pages 2 to 12.

Principal risks and uncertainties
Principal risks and uncertainties are described in the statement of risks on pages 26 to 29. Details of the Group's exposure to risks associated with financial instruments, together with the management of those risks are given in note 32 to the financial statements.

Events since the year end
Since the end of the year the following have been announced:

Therium (UK) Holdings Limited (Therium)
Therium, the litigation funding subsidiary within the Group, has been appointed to advise a newly launched litigation fund. The new fund has raised capital of £5.6 million and will invest in commercial litigation, complex disputes and international arbitration alongside Therium's existing funds. Therium is the exclusive litigation service provider to the fund.

Credit Asset Management Limited (CAML)
COLG's asset finance platform signed a contract for SME leasing and lending mandates with the Department for Business, Innovation and Skills (BIS). The £10m fund was set up with BIS which provided half of the funds. These are now actively being deployed. CAML was one of the first firms to deploy funds under the Business Finance Partnership Initiative announced by the government to increase the flow of credit from "non-traditional" sources.

Fundamental Tracker Investment Management Limited (FTIM)
The Company sold FTIM for a nominal sum. It received £48,211 for its shares in FTIM and over the following six months (to October) is to realise its seed investment in the Munro UK Dividend Fund which is managed by FTIM.

Investment policy
The Company was originally listed as a financial PR company in 1996. It had subsequently developed into an investment company, with a portfolio of natural resource company investments. In 2009 a new management team was appointed to progress the Company's strategy of introducing a greater weighting of financial services investments. The team's focus has been to establish specialist businesses targeting the professional services and SME sectors. The Board believes there are particular opportunities in these sectors as major national and foreign banks continue to limit new lending to smaller corporates and professional services firms.

As the directors believe that, on occasion, it may be more cost effective to raise debt funding at holding company level, even though the use of the debt funding may be targeted at particular platforms or asset categories, in 2012 the Company's investment policy was changed to increase the borrowing limit to 75% of total gross assets. This remains within the borrowing limits in the Company's articles.

Strategy
The Company's strategy is to identify and exploit the product niches and business models within its chosen sectors which can yield the best risk reward profile. The new ventures launched so far (all targeting high returns) cover litigation funding, trade finance and leasing and lending to the professional and SME sectors. The Board believes there is good potential for growth in these ventures and that the current trading environment is likely to produce similar opportunities, offering high returns, in line with the Company's strategy.

The Board's strategy is intended to provide a solid, less volatile, platform for growth and to take the Company to the next level in terms of scale. It will also mean that the Company takes a more active oversight role in its investments, assisting with their strategic direction and third party fund raising, although it will not manage their day to day operations.

Investment company status
The Company is classified as a closed-ended investment company under Rule 15 of the Listing Rules.

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

Directors' report continued

Directors and their interests

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

H Lafferty

E Anstee

A Brierley

H Goodbourn

J Greenhalgh

J Kent

N Sidebottom (appointed 1 December 2012)

J Williams

A Crowe was appointed as alternate to J Greenhalgh on 2 April 2013.

Biographical details of the directors are given on pages 8 and 9.

Directors' interests in the shares of the Company are shown below:

Share capital

During the year, the issued share capital of the Company altered as set out below.

The issued ordinary share capital of the Company as at 1 April 2012 was 18,369,657 ordinary shares of 10p each with no shares held in treasury. On 28 September 2012, 1,836,960 new ordinary shares were issued following a placing. The shares were placed at 70p each. At 31 March 2013 the issued share capital of the Company was 20,206,617 ordinary shares of 10p each.

At the Annual General Meeting ("AGM") on 17 September 2012, the directors were authorised to repurchase up to 1,836,960 ordinary shares in the Company (representing approximately 10% of the Company's issued ordinary share capital as at 24 July 2012) until the Company's AGM in 2013 or 30 September 2013, if earlier. This authority was not exercised in the year.

	At 1 April 2012 (or date of appointment if later)	At 31 March 2013	At 21 June 2013
E Anstee	431,898	483,761	483,761
A Brierley	0	14,285	14,285
A Crowe	n/a	n/a	69,030
H Goodbourn	40,000	54,285	54,285
J Greenhalgh	2,662,818	2,662,818	2,662,818
J Kent	196,504	233,275	233,275
H Lafferty	80,120	94,405	94,405
N Sidebottom	0	75,000	75,000
J Williams	0	14,285	14,285

Shares held by EBT

426,996 shares were held by the Employee Benefit Trust at 31 March 2013 (2012: 472,886). During the year 45,890 shares were purchased by the Company, from the Trust, and used to fulfil its obligations under the long term incentive scheme.

Major interests in ordinary shares

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

	Number of ordinary shares at 31 March 2013	%	Number of ordinary shares at 21 June 2013	%
Helium Special Situations Fund	2,791,428	13.81	2,896,428	14.33
John Greenhalgh	2,662,818	13.18	2,662,818	13.18
AXA IM UK	1,506,024	7.45	1,506,024	7.45
Jupiter Asset Management	1,204,819	5.96	1,204,819	5.96
Mr James Kerr	1,061,000	5.25	1,061,000	5.25
Henderson Global Investors	1,003,614	4.97	1,003,614	4.97

Takeover Directive disclosure

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

Rights and restrictions attaching to shares

A summary of the rights and restrictions attaching to shares as at 31 March 2013 is set out below. Holders of ordinary shares have the rights given to them under the articles of association of the Company and under the laws of England and Wales. Any share may be issued with or have attached to it such rights and restrictions as determined by ordinary resolution of the Company, or failing such resolution as the Board may decide.

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

Voting

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

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

Restrictions on share transfers

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

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

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

Appointment and re-election of directors

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

All directors offer themselves for re-election at each annual general meeting.

The Company's articles of association provide that:

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

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

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

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

Directors' report continued

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

The Board's recommendation for the reappointment of directors is set out in the 2013 Notice of AGM.

Amendment of articles

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

Agreements

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

Directors' indemnities and insurance

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

Charitable and political donations

The Group did not make any charitable or political donations during the year.

Policy for paying creditors

Although the Company does not have a formal policy agreed with all its suppliers, it does make every effort to pay them in accordance with their invoice terms. The average number of days for which creditors are outstanding for the Company is 53 (2012: 42).

Statement of directors' responsibilities

A statement of directors' responsibilities is set out on page 72 of this annual report and is incorporated into the directors' report by reference.

Going concern

The directors have reviewed in detail the monthly cash flow forecast for the forthcoming twelve months and annually for the following two years. They have also considered the inherent uncertainties in market conditions and the potential impact of the risks (set out later in these financial statements), on the financial position of the Group. An explanation of the cash flow forecast for the Company and of each of the main subsidiaries is set out below.

(a) COLG plc

COLG currently has an overdraft from Lloyds Bank that is secured on the UK listed investment portfolio. The available facility at any time is restricted to 50% of the value of the portfolio. The available facility is currently in the order of £500,000 and is due for renewal in September. The forecast for the next year assumes the investment portfolio is unwound and this facility being reduced to zero. The forecast also assumes the rollover of an existing loan to the Group of £1m. Based on the latest information the directors believe these to be reasonable assumptions. The running costs of the Company are assumed to continue at the current levels and other cash commitments are modest and have been factored in.

(b) Therium

The Company has committed to fund Therium a primary loan of £240,000. There is also a secondary loan of £240,000 but this would require further Board approval. The forecast assumes a positive cash return from a combination of Therium and the Company's direct legal investments. The directors believe this to be a reasonable assumption given the plans for Therium.

(c) CAML/PFL

The CAML/PFL business plan assumes that the growth in the business is funded by the £5m from BIS together with £5m of matched funding from third party investors. Funding agreements are in place for five years for £3m of this matched funding and advanced discussions are in progress for the other £2m. Other growth is expected to be funded by filling the available capacity on the existing managed account and new managed accounts.

(d) TFPL

The trade finance business requires significant funding as the business grows and allowance has been made in the forecast for the midrange of growth outcomes.

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

(i) The non-renewal or non-replacement of the Lloyds overdraft facility and the £1m loan;

(ii) the non-repayment of loans issued of £900k;

(iii) the non-receipt of £900k of income from Therium or the Company's litigation investments;

(iv) the inability to sell the unlisted investment of c.£400k;

(v) delayed repayment of loans from City of London Law Funding; and

(vi) accelerated or additional funding required by TFPL.

During the year Macquarie signed up to provide a facility of up to £25m to the trade finance business.

Although specific action will be taken to minimise the impact of the above risks consideration is being given to increasing the capital base of the Company. Other mitigations include operating cost savings and acceleration of disposal of the listed investment portfolio.

After consideration of the above risk factors, the available surplus together with mitigations and reducing 'discretionary' and uncommitted expenditure, the directors are satisfied that the Company has and will maintain sufficient financial resources to enable it to continue operating for the foreseeable future and therefore continue to adopt the going concern basis in preparing the annual report and accounts.

Greenhouse gas emissions reporting

Starting in the financial year 2013/14 the Group will be required by the Greenhouse Gas Emissions (Directors' Report) Regulations 2013 to disclose the Greenhouse Gas emissions that arise from the Group's activities.

The regulations require the Group to disclose total annual greenhouse gas emissions, the calculation methodology used as an intensity metric (which expresses the Group's emissions against a quantifiable activity of the Company). 2013/14 will be used as a baseline and emissions in subsequent years will be reported against this benchmark.

The Group is aware of its obligations under this legislation and is committed to the concepts and implementation of corporate responsibility in its day to day operations. To this end, sustainability strategy consultants have been appointed to prepare the emissions reporting where required, work with any part of the Group who will be affected and ensure compliance going forward.

There is no requirement under these regulations for the Group to purchase any permits or allowances for the emissions of greenhouse gases.

Financial instruments

Details of the financial instruments to which the Group is a party are included in note 32 to the financial statements.

Audit information

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

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

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

Appointment of auditors

During the year, the audit was put out to tender and the board has appointed BDO LLP as auditors of the Company, in place of Rees Pollock who resigned from their office. A resolution proposing the reappointment of BDO LLP as the Company's auditors will be put to members at this year's AGM.

Annual General Meeting

The 2013 annual general meeting will be held at 10.00am on Tuesday 24 September 2013 at Wax Chandlers' Hall, 6 Gresham Street, London, EC2V 7AD. The notice of meeting and details of the business to be transacted are contained in a separate document which will be sent to shareholders with a form of proxy.

By order of the Board

L E Young
Company Secretary
24 June 2013

Corporate governance statement

Introduction

The directors recognise the importance of sound corporate governance, while taking into account the Company's size and stage of development. The rules of the UK Listing Authority require listed companies to disclose how they have applied the main principles and complied with the provisions of the UK Corporate Governance Code (the Code) issued by the Financial Reporting Council in June 2010. The Code can be found at www.frc.org.uk.

Application of main principles

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

Leadership

The Board is chaired by Henry Lafferty, a Non-executive director and Eric Anstee is the Chief Executive. There is a clear division of responsibilities between them. This has been set out in writing and approved by the Board. The Chairman is responsible for managing the Board and ensuring it functions effectively while the Chief Executive is responsible for running the business within the framework of authority determined by the Board. The other executive directors are John Kent (Deputy Chief Executive) and Howard Goodbourn (Finance Director). John Greenhalgh is a non-independent Non-executive director. Since the end of the financial year he has appointed Andrew Crowe as his alternate. Tony Brierley, Nigel Sidebottom (appointed during the year) and John Williams are all independent Non-executive directors. This satisfies the Code provision that companies below the FTSE 350 should have at least two independent Non executive directors.

Tony Brierley has been appointed as the senior independent director and he is available for communications with investors should they consider that they are unable to approach their normal contact at the Company

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

Further details of the committees are given below.

Effectiveness

The directors

Biographical details of the directors are set out on pages 8 and 9. The directors have a broad range of skills and experience. New directors receive a tailored induction programme which includes presentations by and meetings with, the heads of the Group's key business platforms; briefings on the work of the Board committees and meetings with some of the Company's advisers. All directors also receive updates on relevant legal and regulatory changes.

Board procedures

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

There is an agreed procedure for directors to take independent professional advice if necessary at the Company's expense. This is in addition to them having access to advice from the Company secretary. Concerns relating to the executive management of the Company or the performance of the other Non-executive directors can be raised with Henry Lafferty, the Board Chairman, or Tony Brierley, the senior independent director.

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

Performance evaluation

The Board evaluates its own performance and that of its committees and individual directors. An internal review of Board effectiveness was carried out during the year and as a result, the processes for providing clear, accurate and timely information for the directors were altered. The use of electronic board packs is currently being investigated to ascertain if this would bring greater efficiency to the board process. The annual schedule of board agenda items was also reviewed and updated.

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

Audit and Risk committee report

Composition and terms of reference

The remit of the audit committee was formally extended during the year to encompass risk and the terms of reference have been updated accordingly. The committee comprises the independent Non-executive directors – Tony Brierley (Committee Chairman), Nigel Sidebottom and John Williams and the Chairman of the Board, Henry Lafferty. Henry Lafferty has recent and relevant financial experience.

Financial results

The committee reviews the full and half year financial results before they are considered by the Board for release to the market, including the going concern statement and the information to support it.

Internal controls and risk management

During the year, the committee reviewed the effectiveness of the Group's internal control environment, including the procedures and controls within the business platforms, through presentations by the heads of those businesses. It has also overseen a review of Group policies and procedures, such as share dealing and whistleblowing.

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

External auditors

The committee considers the scope and findings of the external audit as well as the independence and objectivity of the external auditors. The committee has agreed the policy for the provision of non-audit services by the auditors. The committee does not regard the non-audit fees, compared to the audit fees, as being at a level that could influence the auditors' objectivity. The split between audit and non-audit fees for the year under review appears in note 6 on page 49. The audit and risk committee normally meets with the external auditors without management being present, at least once a year at the time of the approval of the full year results.

Change of auditors

During the year, the audit was put out to tender. Following a selection process the audit and risk committee recommended to the Board the appointment of BDO LLP as the Company's auditors. The board endorsed the recommendation and made the appointment.

Internal audit

The audit and risk committee, having reviewed the need for internal audit, recommended that this be carried out. Various external providers were considered and the board has recently appointed Moore Stephens as its internal auditor. A plan for the first year's internal audit programme has been agreed, including client asset management and cash controls.

Board review of internal controls and risk management

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

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

The key controls are:

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

The respective responsibilities of the directors and the auditors in connection with the financial statements are explained on pages 71 and 72. The directors' statement on going concern is on page 16.

Corporate governance statement continued

Remuneration committee

The role, composition and activities of the remuneration committee and details of how the Company applies the principles of the Code in respect of directors' remuneration are set out in the remuneration committee report on pages 21 to 25.

No director is involved in discussions or decisions on their own remuneration. The remuneration committee, which determines the remuneration packages of the executive directors, is made up of the independent Non-executive directors - John Williams (Committee Chairman),Tony Brierley and Nigel Sidebottom and the Chairman of the Board, Henry Lafferty. Remuneration of Non-executive directors is determined by the Board. Non-executive directors abstain from discussions or voting concerning their own remuneration. A statement of the Company's remuneration policy together with details of directors' remuneration appears in the remuneration committee report.

Nomination committee

The nominations committee comprises Henry Lafferty, Eric Anstee, Tony Brierley, Nigel Sidebottom and John Williams. The committee considers matters such as Board and director effectiveness and succession planning.

During the year, one new Non-executive director was appointed. Before the search was undertaken the committee considered the skills needed on the Board so that an appropriate person specification could be drawn up to facilitate the search.

Attendance at meetings

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

	Board		Audit & Risk committee		Remuneration committee		Nomination committee	
	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend
H Lafferty	20	20	5	5	5	5	1	1
E Anstee	19	20	–	–	–	–	1	1
A Brierley	19	20	5	5	5	5	1	1
H Goodbourn	18	20	–	–	–	–	–	–
J Greenhalgh	9	20	–	–	–	–	–	–
J Kent	20	20	–	–	–	–	–	–
N Sidebottom	7	7	2	2	1	1	–	–
J Williams	19	20	5	5	4	5	1	1

Relations with Shareholders

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

The Board intends to explore additional ways in which to engage with investors to provide opportunities for them to communicate their views to the Board and, in particular, to the Chairman and the Non-executive directors.

Compliance with the Code provisions

The Company continues to make good progress towards full compliance with the Code. The areas of non-compliance are noted below.

The Non-executive directors meet regularly with the Chairman to discuss matters regarding the progress and performance of the business generally and as the need arises. During the year, although the senior independent director has not met with the other Non-executive directors to conduct a performance evaluation of the Chairman and the Chairman has not met formally with each director to agree their ongoing training and development needs, the directors have good working relationships and deal with such matters informally. Should the directors consider it desirable in future to formalise these arrangements they will do so.

Remuneration committee's report

Introduction

This report has been prepared in accordance with Schedule 8 (Quoted Companies: Directors' Remuneration Report) to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. The auditors are required to report on the auditable part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006. The report is therefore divided into separate sections for audited and unaudited information.

Unaudited information

Remuneration committee

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

Remuneration policy overview

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

Short and long-term incentives are structured so as to align directors' interests with those of shareholders by rewarding them for enhancing shareholder value, over a benchmark return for shareholders. During the year the remuneration committee has reviewed the structure of executive remuneration and changes are planned. These are noted in the appropriate sections of the report below.

Service contracts

The Company does not have a rigid policy on the duration of contracts with directors. Similarly, notice periods and termination payments under such contracts are negotiated individually with the director concerned. When deciding on the above the remuneration committee will consider issues such as prevailing market conditions and the calibre of the individual concerned.

Details of executive directors' service contracts are shown below:

Director	Date of contract	Un-expired term	Notice period	Compensation payable on early termination
E Anstee	November 2009	12 months rolling	12 months	contractual
H Goodbourn	October 2011	12 months rolling	6 months	contractual
J Kent	November 2009	12 months rolling	6 months	contractual

The Non-executive directors have letters of appointment, details of which are shown below:

Director	Date of letter of appointment	Unexpired term	Notice period	Compensation payable on early termination
A Brierley	December 2011	n/a	3 months	n/a
J Greenhalgh	December 2010	n/a	3 months	3 months
H Lafferty	December 2010	n/a	3 months	3 months
N Sidebottom	December 2012	n/a	3 months	n/a
J Williams	November 2011	n/a	3 months	n/a

Remuneration committee's report continued

Basic salary

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

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

Annual performance-related bonus

Up until the end of the Company's 2012/13 financial year, no formal annual bonus plan had been adopted as an overall management incentive scheme was seen to be most appropriate. This effectively combined the long and short term incentive arrangements. As part of its review of the executive remuneration structure, the remuneration committee has now decided to introduce an annual bonus plan. The plan is to have a maximum potential of 75% of base salary and the performance criteria will be based on the delivery of financial and non financial performance criteria including the growth of the platforms in terms of revenue, earnings and customers, development of the management team and succession planning. The plan will be introduced in respect of the 2013/14 financial year.

Annual and deferred incentive plan

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

Allocations are made to participants in the incentive plan from a bonus pool, the value of which depends on a minimum annual growth in the Company's net asset value (NAV) or total shareholder return (TSR). The bonus pool in respect of each financial year is calculated as 20% of the higher of the NAV or TSR growth during this financial year, which exceeds 8% a year.

For each of the financial years ended 31 March 2013 and 31 March 2012 there was no available bonus pool as neither TSR nor NAV grew by more than 8% per annum over the previous year. If an award does vest, one third would vest immediately, and the remaining two thirds would be deferred into conditional equity awards. These are settled by an option over the equivalent number of ordinary shares to be held in an Employee Benefit Trust (EBT) following the full year results' announcement, based on the average of the closing share prices for the three consecutive dealing days immediately following the announcement.

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

Following the review of the executive remuneration structure the remuneration committee is proposing amendments to this plan. These require shareholder approval and full details are given in the circular containing the AGM notice.

In accordance with IFRS2, the fair value of the share options awarded in respect of the deferred element will be spread over the period to which the non-market performance conditions, being continued employment with the Company, apply. The Company was advised by Norton Rose LLP on the design of the incentive scheme.

Option schemes

Fixed price options

Fixed price options have been awarded to executive directors and senior employees. Details of awards to directors are given in the table on page 25.

Unapproved options
At a general meeting in September 2011 the grants of unapproved share options to employees and consultants of the Group were approved. Following this approval, on 13 September 2011 a total of 301,638 options were granted to employees and 131,148 were granted to consultants. The exercise price per share is 76.25p. The options are exercisable between the third and tenth anniversaries of the date of grant, subject to certain performance conditions being met. The directors do not participate in this scheme. No further awards were made under this scheme during the year and no options were exercised.

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

Fees
Eric Anstee is a Non-executive director of Paypoint plc, Insight Asset Management and Sunlife Assurance Company of Canada (U.K.) Limited. He retains some of the fees payable in relation to these appointments and the remainder are paid to a company which he controls. The total fees from these sources are £150,000 pa.

John Kent is Chairman of Penta Capital Partners and he resigned as a director of TTT Moneycorp during the year. He retains the fees payable in relation to these appointments which total £16,250 pa.

Performance graph
The performance graph below shows the total shareholder return delivered by the Group over the five years ended 31 March 2013, in comparison to the total shareholder return delivered by the FTSE Fledgling Index. The Board selected the FTSE Fledgling Index to take into account both the size of the Group and the range of operating activities and investments over the period.

Total return graph 2008 to 2013 indexed to 100

Remuneration committee's report continued

Audited information

The following disclosures on directors' remuneration have been audited as required by section 447 of the Companies Act 2006 and the Listing Rules.

The remuneration of directors who served during 2011–12 and 2012–13 is shown in the table below. Remuneration includes management salaries, fees as directors, taxable benefits and the incentive scheme. Remuneration shown is in respect of each director's period in office during the year as a Board member of City of London Group plc and includes remuneration from the Company and its subsidiary undertakings. Taxable benefits comprise the provision of private medical health insurance.

Total remuneration

						Incentive scheme			
	Salary £	Benefits £	Pension contributions £	Fees £	Sub-total £	Deferred £	Vested £	31 March 2013 £	31 March 2012 £
Executive directors									
E Anstee	150,648	468	–	–	151,116	–	34,044	185,160	146,335
H Goodbourn	126,250	224	4,537	–	131,011	–	–	131,011	77,150
J Kent	137,319	–	–	–	137,319	–	25,012	162,331	127,519
Non-executive directors									
A Brierley	–	–	–	31,875	31,875	–	–	31,875	10,000
J Greenhalgh	–	5,169	–	21,000	26,169	–	–	26,169	22,595
H Lafferty	–	–	–	61,875	61,875	–	–	61,875	58,400
N Sidebottom	–	–	–	9,167	9,167	–	–	9,167	–
J Williams	–	–	–	31,875	31,875	–	–	31,875	12,500
Total	414,217	5,861	4,537	155,792	580,407	–	59,056	639,463	454,499

(a) N Sidebottom was appointed on 1 December 2012

(b) The amounts vested in the year related to the deferred incentive from the 2009/2010 scheme.

The directors' interests in the deferred elements of the long term incentive scheme were as follows:

	1 April 2011	Vested	Clawed back	31 March 2012
E Anstee	£	£	£	£
2009/10 deferred incentive (2nd year)	28,686	28,686	–	–
2010/11 deferred incentive (2nd year)	74,646	–	74,646	–
Total	103,332	28,686	74,646	–
J Kent				
2009/10 deferred incentive (2nd year)	21,075	21,075	–	–
2010/11 deferred incentive (2nd year)	54,842	–	54,842	–
Total	75,917	21,075	54,842	–

There were no awards under the 2012/13 or the 2011/12 incentive scheme years and claw back under the scheme was effective over the first element of the deferred incentive for the 2010/11 scheme and part of the 2009/10 scheme award.

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

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

No options were exercised during the year.

The market price of the Company's ordinary shares on 31 March 2013 was 67.5p (2012: 67.5p) and the average price for the year was 72.4p. During the year the highest price reached was 81.0p and the lowest was 67.5p.

By order of the Board

John Williams
Chairman of the remuneration committee

24 June 2013

Statement of risks

Risk Area	Risk	Potential impact	Mitigation strategies
1. Operational Risk			
Business Continuity	Unavailability of business premises due to fire, disaster etc. Disruption of transport etc. by major events. Failure of computing/data systems.	Loss of vital documentation such as share certificates, contracts and financial instruments. Inability to get to office premises. Inability to access working documentation.	Ability of staff to work remotely from home or other agreed locations. Processes & procedures for achieving this exist and a full Disaster Recovery Plan (DRP) is now being implemented. Key documents held in electronic format and copies with lawyers. Systems/data are backed up remotely and data could be restored to replacement equipment in an acceptable timescale. The DRP will implement a full system of remote mirrored system capability.
Legal and regulatory	Failure to comply with legal and regulatory obligations.	This could have a material adverse effect on the Company's business or lead to its shares being suspended from trading. The Company is subject to laws and regulations, enacted by national, regional and local governments. It is required to comply with certain on-going notification requirements that are applicable to a closed-ended investment company governed by English law.	The Company makes extensive use of outside advisers and consultants to provide specialist advice. The make-up of the non-executive element of the Board addresses specific areas of expertise. Training and professional development is encouraged in our senior management employment procedures.
Competition	The Company may become subject to increased competition in sourcing and making investments.	This could lead to, amongst other things, the Company finding it difficult to invest. Greater difficulty in attracting third party funds and achieving appropriate returns.	The investment platforms are in niche and complex areas and these mitigate this risk. Demonstrating superior returns is our best mitigating factor.

Risk Area	Risk	Potential impact	Mitigation strategies
1. Operational Risk continued			
Exposure in relation to natural resource investee companies	The nature of the market in which the Company holds a significant percentage of its investment share portfolio. Susceptibility to regulation by environmental laws; dependency on grant, renewal, or continuance of permits; the speculative nature of exploration in that it could never lead to discovery.	The price volatility of the natural resource sector.	All such investments are made on the detailed analysis of the fundamental values supporting the stock prices. On-going monitoring of the investee companies. The portfolio has reduced significantly and is planned to reduce further.
Risks relating to the Group's investment platforms	Reliance upon the management of each portfolio company to manage and operate the relevant company on a day-to-day basis	The Company may not always be able to protect its interests fully.	The Company has a director on the board of each investment platform. Key Man Insurance being considered and implemented for Therium and TFPL. Risk Management of platforms is reviewed by Audit & Risk Committee. Directors of the Company participate in the risk and credit committees of each underlying investment platform.
Exposure to country and regional risk (political, financial, economic, geographical)	Investments spanning several countries, which are subject to certain uncontrollable risks	Geopolitical turmoil such as terrorism and war, natural disasters, and financial fragilities can all have significant consequences on the performance of the Company's investments.	Diversification by geography, product, sector, and company protect against many of these fluctuations. The Company's main investment platforms are UK based.
Separation of Managed Funds	Managed funds and client monies being mixed, used and invested for purposes for which they were not originally intended.	Violation of FCA and other professional bodies' regulations/practices. Loss of accreditation/licences. Fines and financial penalties.	All managed funds go through separate financial committees which ensure that the mandates for each individual fund are clearly defined, expressed and adhered to
People	Retention of the platforms' operational management.	Adverse effects on the performance and hence value and profitability of the platforms..	Remuneration retention policy including incentives to remain within the Group. Under constant review (through the RemCom).

Statement of risks continued

Risk Area	Risk	Potential impact	Mitigation strategies
2. Financial Risk			
Foreign Exchange Risk	Fluctuations in foreign currency exchange rates on earnings and liquidity.	Principally in respect of the foreign-currency-denominated bank accounts and loans. Exposure in respect of 'available-for-sale' financial assets denominated in overseas currencies.	Maintenance of a narrow spread of currencies to minimise exchange fluctuations. Tracking and consideration of the exchange rates before asset disposal. Investment portfolio in overseas currencies is planned to reduce.
Interest Rate Risk	Investee companies being financed through third party borrowings.	Could lead to an increase in the investment risk and/or the exposure to interest rate fluctuations.	Where possible this risk is passed on to clients in the nature of trade of the underlying business. Group borrowing is kept under close review.
Group Cash Flow Risks	Reliance on profits and cash distribution from the underlying investment platforms to fund central operating costs and dividends. Being forced to dispose of assets at a less favourable time in order to raise cash. Inability to implement a successful placing if deemed appropriate.	Inability to operate on a day to day basis. Inability to deliver the business plan. Inability to support platforms as required.	Group financial controls exist along with consolidated reporting. Group cash flow forecast is kept under constant review.
Platform Cash Flow	COLG and platforms unable to raise funds.	Platforms do not develop into viable businesses and close. Early stage platforms lack significant funding to achieve their business goals and objectives	The investment platforms receive Group support for attracting third party monies Shareholder agreements are in place with the minority interest parties of each platform to allow for payment of managed fees, interest on loans and profit distributions. Each operating platform is subject to pre-agreed annual budgets and cash-flows to ensure viability and performance. Group focus on fund raising for the platforms.
Valuation Risk	Fluctuation in the value of assets being held, particularly in the unlisted portfolio.	The fluctuation in the Company's unlisted stocks could reduce its NAV in a less controlled manner.	The investment policy provides for no single investment in the portfolio exceeding 20% of gross assets.
Credit Risk	Inability to raise funds or borrowings. Incurring of bad debts.	Company liquidity issues. Inability to fund new platforms/businesses. Impact on balance sheet and overall profitability of the Company.	Platforms have credit insurance as appropriate. Carry out due diligence on new initiatives. Use of recognised credit checking systems. Use of credit committees on which COLG is represented.
Price Volatility & Liquidity of Stocks	Price risk on 'available-for-sale' financial assets including operating investments and investments in legal funds, as well as portfolio of financial assets.	Overall reduction in value of holdings. Reduced overdraft facility and borrowing levels secured against its portfolio. Exposure to higher value stocks	The portfolio has been reduced significantly. Managed price risk in respect of investments in unlisted operating investments and legal funds to achieve an overall investment portfolio which limits exposure to unlisted investments individually and collectively.

Risk Area	Risk	Potential impact	Mitigation strategies
3. Project Risk			
Litigation Risk in funding legal cases	No guarantee that cases will be successful or will pay the returns targeted by the Board.	In some instances the Company could be liable for the defendants' costs and fees. The Company is reliant on the ability of the lawyers representing the claimants in cases to proceed with due skill and care. Third party litigation funding is currently unregulated but the government has recently launched a consultation, which may lead to statutory regulation of the industry in the future, which could have an adverse impact on the Company's investments.	Cases are only agreed for funding after a careful and planned screening process. Requirement for insurance to be in place to cover adverse costs awards in the event a case is lost. Returns are set based on commitments made providing significant margin to cover occasional case losses. Individual cases are now limited to a £1m cap. £1m now invested directly in cases.
Increased time-scales for returns on legal cases	Legal cases take longer to determine than planned.	Hinders business and financial planning. Adverse effect on the Company's financial results and ability to raise funds.	Continuous refinement of case-take up to try to ensure a short/medium/long term spread of return.
4. Other Risks			
Reputational Risk	Any loss of face/reputation in the platforms would be reflected at Group level. Branding, specifically the 'name' could result in confusion with other generic or similarly named organisations.	Loss of share value at Group level and increasing difficulty to raise funds at Platform level. Incorrect perception by the market/general public of inappropriate actions.	Group Directors sit on the Boards of the platforms to influence business practices. Financial promotions by the platforms have to receive Group endorsement and approval through the Compliance function. Use of strong PR and brokerage on a regular basis to ensure that there is differentiation through good reporting marketing and investor relations.

Consolidated income statement
for the year ended 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Gross value of goods and services invoiced	2.2	32,330	15,540
Revenue (restated)	4	5,133	2,520
Cost of sales (restated)	4	(1,367)	(753)
Gross profit		3,766	1,767
Administrative expenses	6	(5,530)	(4,159)
Profit on sale of investments	7	1,391	1,001
Provision for impairment of investments	7	(275)	(65)
Net loss on legal cases	7	(83)	(725)
Share of profits of associates and joint ventures	17	24	–
Other operating income	8	233	208
Loss from operations		(474)	(1,973)
Finance expense	10	(1,090)	(157)
Loss before tax		(1,564)	(2,130)
Income tax expense	11	(215)	54
Loss after tax		(1,779)	(2,076)
Loss for the year attributable to:			
Equity holders of the parent		(1,551)	(1,433)
Non-controlling interest		(228)	(643)
		(1,779)	(2,076)
Basic and diluted earnings per share	13	(8.23p)	(8.24p)

Consolidated statement of comprehensive income

For the year ended 31 March 2013

	Note	31 March 2013 £'000	31 March 2012 £'000
Loss for the year		(1,779)	(2,076)
Other comprehensive income			
'Available-for-sale' financial assets			
– Valuation gains / (losses) taken on equity investments		(501)	(465)
– Provision for impairment transferred to income statement		129	36
– Profit on sale transferred to income statement		(1,365)	(869)
– Deferred tax provision		159	239
Other comprehensive income / (expense)		(1,578)	(1,059)
Total comprehensive income / (expense)		(3,357)	(3,135)
Total comprehensive income / (expense) attributable to:			
Equity holders of the parent		(3,129)	(2,492)
Non-controlling interest		(228)	(643)
		(3,357)	(3,135)

Consolidated statement of changes in equity

	Attributable to owners of the parent company							
	Fair value reserve £'000	Derivative Reserve £'000	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000	Attributable to minority interest £'000	Total equity £'000
At 31 March 2011	2,552	(242)	913	5,797	1,114	10,134	(520)	9,614
'Available-for-sale' investments								
– Valuation gains / (losses) taken to equity	(465)	–	–	–	–	(465)	–	(465)
– Transferred to provision for impairment	36	–	–	–	–	36	–	36
– Transferred to profit or loss on sale	(869)	–	–	–	–	(869)	–	(869)
– Deferred tax provision	239	–	–	–	–	239	–	239
Net income recognised directly in equity	(1,059)	–	–	–	–	(1,059)	–	(1,059)
Profit / (loss) for the year	–	–	(1,433)	–	–	(1,433)	(643)	(2,076)
Total comprehensive income	(1,059)	–	(1,433)	–	–	(2,492)	(643)	(3,135)
Value of employee services	–	–	(505)	–	–	(505)	–	(505)
Arising on business combination	–	45	–	–	–	45	(10)	35
Dividends paid	–	–	(268)	–	–	(268)	–	(268)
Issue of shares	–	–	–	4,548	723	5,271	–	5,271
Sale of treasury shares (note 25)	–	–	56	79	–	135	–	135
At 31 March 2012	1,493	(197)	(1,237)	10,424	1,837	12,320	(1,173)	11,147
'Available-for-sale' investments								
– Valuation gains / (losses) taken to equity	(501)	–	–	–	–	(501)	–	(501)
– Provision for impairment transferred to income statement	129	–	–	–	–	129	–	129
– Profit on sale transferred to income statement	(1,365)	–	–	–	–	(1,365)	–	(1,365)
– Deferred tax provision	159	–	–	–	–	159	–	159
Net income recognised directly in equity	(1,578)	–	–	–	–	(1,578)	–	(1,578)
Profit for the year	–	–	(1,551)	–	–	(1,551)	(228)	(1,779)
Total comprehensive income	(1,578)		(1,551)	–	–	(3,129)	(228)	(3,357)
Value of employee services	–	–	(5)	–	–	(5)	–	(5)
Arising on business combination	–	197	–	–	–	197	193	390
Dividends paid	–	–	(155)	–	–	(155)	–	(155)
Issue of shares	–	–	–	1,042	184	1,226	–	1,226
Sale of treasury shares (note 25)	–	–	38	–	–	38	–	38
At 31 March 2013	(85)	–	(2,910)	11,466	2,021	10,492	(1,208)	9,284

(i) The fair value reserve shows the movement in fair value of the 'available for sale' financial assets and the derivative reserve related to the fair value of a put option on the management owned shares of one of the subsidiaries.

(ii) The Employee Benefit Trust is consolidated in these financial statements in accordance with the accounting policy in note 2.23. The sale of shares by the EBT which were issued to directors under the incentive scheme.

Company statement of changes in equity

	Fair value reserve £'000	Retained earnings £'000	Share premium £'000	Share capital £'000	Total £'000
At 31 March 2011	2,552	1,441	5,797	1,114	10,904
'Available-for-sale' investments					
– Valuation gains / (losses) taken to equity	(465)	–	–	–	(465)
– Transferred to provision for impairment	36	–	–	–	36
– Transferred to profit or loss on sale	(869)	–	–	–	(869)
– Deferred tax provision	239	–	–	–	239
Net income recognised directly in equity	(1,059)	–	–	–	(1,059)
Profit for the year	–	(946)	–	–	(946)
Total income and expense for the year	(1,059)	(946)	–	–	(2,005)
Value of employee services	–	(94)	–	–	(94)
Dividends paid	–	(276)	–	–	(276)
Issue of shares	–	–	4,548	723	5,271
Sale of treasury shares	–	56	80	–	136
At 31 March 2012	1,493	181	10,425	1,837	13,936
'Available-for-sale' investments					
– Valuation gains / (losses) taken to equity	(501)	–	–	–	(501)
– Transferred to provision for impairment	129	–	–	–	129
– Transferred to profit or loss on sale	(1,365)	–	–	–	(1,365)
– Deferred tax provision	159	–	–	–	159
Net income recognised directly in equity	(1,578)	-	–	–	(1,578)
Profit for the year	–	(677)	–	–	(677)
Total income and expense for the year	(1,578)	(677)	–	–	(2,255)
Value of employee services	–	(5)	–	–	(5)
Dividends paid	–	(148)	–	–	(148)
Issue of shares	–	–	1,041	184	1,225
At 31 March 2013	(85)	(649)	11,466	2,021	12,753

Consolidated balance sheet
as at 31 March 2013

	Notes	31 March 2013 £'000	31 March 2012 £'000
Assets			
Non-current assets			
Intangible assets	14	1,300	1,295
Property, plant and equipment	15	162	107
'Available-for-sale' financial assets	16	1,924	5.237
Interests in associates and joint ventures	17	5	37
Operating investments	17	18	–
Investments in legal cases	18	6,872	2,409
Loans	19	2,648	1,032
Finance leases	19	1,233	1,169
Total non-current assets		14,162	11,286
Current assets			
Loans	19	3,946	3,469
Finance leases	19	1,094	542
Trade and other receivables (restated)	20	11,623	8,216
Cash and cash equivalents	21	6,265	2,194
Total current assets		22,928	14,421
Total assets		37,090	25,707
Current liabilities			
Borrowings (restated)	22	(11,114)	(6,121)
Trade and other payables (restated)	22	(13,513)	(5,608)
Total current liabilities		(24,627)	(11,729)
Non-current liabilities			
Borrowings	23	(3,179)	(2,587)
Derivative	23	–	(244)
Total non-current liabilities		(3,179)	(2,831)
Total liabilities		(27,806)	(14,560)
Net assets		9,284	11,147
Equity			
Share capital	25	2,021	1,837
Share premium		11,466	10,424
Retained earnings		(2,910)	(1,237)
Fair value reserve		(85)	1,493
Derivative reserve		–	(197)
Equity attributable to owners of the parent		10,492	12,320
Non-controlling interests	26	(1,208)	(1,173)
Total equity		9,284	11,147

The notes on pages 38 to 70 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 24 June 2013.

They were signed on its behalf by:

H Goodbourn
Director

Company balance sheet
as at 31 March 2013

	Notes	31 March 2013 £'000	31 March 2012 £'000
Assets			
Non-current assets			
Property, plant and equipment	15	143	87
'Available-for-sale' financial assets	16	1,924	5,237
Investment in subsidiary companies	17	4,867	3,614
Interests in associates	17	–	49
Operating investments	17	18	–
Investments in legal cases	18	694	916
Loans	19	100	–
Total non-current assets		7,746	9,903
Current assets			
Loans	19	1,180	621
Trade and other payables	20	6,102	6,019
Cash and cash equivalents	21	26	52
Total current assets		7,308	6,692
Total assets		15,054	16,595
Current liabilities			
Borrowings	22	(345)	(2,068)
Trade and other payables	22	(1,956)	(591)
Total current liabilities		(2,301)	(2,659)
Net assets		12,753	13,936
Equity			
Share capital	25	2,021	1,837
Share premium		11,466	10,425
Retained earnings		(649)	181
Fair value reserve		(85)	1,493
Total equity		12,753	13,936

The notes on pages 38 to 70 are an integral part of these financial statements.

The financial statements were approved by the Board and authorised for issue on 24 June 2013.

They were signed on its behalf by

H Goodbourn
Director

Consolidated statement of cash flows
for the year ended 31 March 2013

	31 March 2013 £'000	31 March 2012 £'000
Cash flows from operating activities		
(Loss) before taxation	(1,564)	(2,130)
Adjustments for:		
Depreciation and amortisation	134	74
Share-based payments	(5)	(504)
Impairment of 'available-for-sale' financial assets	275	65
(Profit) on disposal of investments	(1,391)	(1,001)
Loss/ (profit) on legal cases	83	725
Share of profit of associates and joint ventures	(24)	–
Interest payable	1,090	55
Changes in working capital:		
(Increase) in trade and other receivables (restated)	(3,081)	(6,844)
Increase in trade and other payables (restated)	7,761	1,285
Purchase of non-current investments	(4,853)	(3,762)
Proceeds from investment in legal cases	–	4,068
Proceeds from sale of 'available-for-sale' financial investments	2,826	2,332
Leases advanced	(1,646)	(2,025)
Leases repaid	1,030	314
Loans advanced	(6,266)	(4,849)
Loans repaid	4,379	1,208
Cash used in operations (restated)	(1,252)	(10,989)
Income taxes	(6)	–
Net cash used in operating activates (restated)	(1,258)	(10,989)
Cash flow from investing activities		
Purchase of intangible assets	(88)	(415)
Purchase of property, plant and equipment	(133)	(63)
Acquisition of subsidiary companies	–	(3)
Net cash from/(used in) investing activities (restated)	(221)	(481)
Cash flow from financing activities		
Interest paid	(1,333)	(39)
Investment by non-controlling interest	189	–
Dividends paid to Company's shareholders	(155)	(268)
Proceeds from issue of loans	15,247	5,020
Repayment of loans	(8,949)	–
Proceeds from issue of ordinary shares	1,226	5,272
Proceeds from issue of preference shares	5	970
Sale of shares by Employee Benefit Trust	38	135
Net cash from financing activities	6,268	11,090
Net increase/(decrease) in cash and cash equivalents	4,789	(380)
Cash and cash equivalents brought forward	1,126	1,506
Net cash and cash equivalents	5,915	1,126
Cash and cash equivalents	6,265	2,194
Bank overdraft	(350)	(1,068)
Net cash and cash equivalents	5,915	1,126

Company statement of cash flows
for the year ended 31 March 2012

	31 March 2013 £'000	31 March 2012 £'000
Cash flows from operating activities		
(Loss) / profit before taxation	(518)	(1,004)
Adjustments for:		
Depreciation charges	69	39
Share based payments	(5)	(94)
Provision for losses in subsidiaries	377	99
Impairment of 'available for sale' financial assets	275	65
(Profit) on disposal of investments	(1,393)	(1,001)
Loss / (profit) on legal cases	108	742
Interest payable	122	44
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(331)	24
Increase / (decrease) in trade and other payables	1,361	(321)
Purchase of non – current investments	(1,575)	(5,704)
Proceeds from investments in legal cases	–	3,936
Proceeds from sale of 'available-for-sale' investments	2,983	2,332
Loans advanced	(640)	(7,347)
Loans repaid	30	3,022
Net cash used in operating services (restated)	863	(5,168)
Cash flow from investing activities		
Purchase of property, plant and equipment	(125)	(47)
Net cash from/(used in) investing activities (restated)	(125)	(47)
Cash flow from financing activities		
Interest paid	(118)	(28)
Dividends paid	(148)	(276)
Loans drawn down	–	1,000
Loans and notes repaid	(1,000)	(1,600)
Shares issued	1,225	5,351
Sale / (purchase) of own shares	–	56
Net cash from financing activities	(41)	4,503
Net increase/(decrease) in cash and cash equivalents	697	(712)
Cash and cash equivalents brought forward	(1,016)	(304)
Net cash and cash equivalents	(319)	(1,016)
Cash and cash equivalents	26	52
Bank overdraft	(345)	(1,068)
Net cash and cash equivalents	(319)	(1,016)

Notes to the financial statements

1 General information

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

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

These consolidated and separate financial statements have been approved for issue by the Board of directors on 24 June 2013.

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

These consolidated and separate financial statements have been prepared in accordance with and in compliance with the Companies Act 2006. The Company has taken advantage of section 408 of the Companies Act 2006, and the Statement of Income and the Statement of Comprehensive Income of the parent company is not presented. The parent company's loss after taxation for the financial year amounts to £677,000 (2012: £946,000).

The directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, a period of not less than 12 months from the date of this report. The Group's going concern position is further discussed in the directors' report on page 16.

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective. The standards are effective for annual periods beginning on or after 1 January 2013 unless otherwise stated, with early adoption permitted in all cases.

- IAS 1 – (Amendments) Presentation of items of other comprehensive Income. The standard is effective for annual periods beginning on or after 1 July 2012.
- IAS 19 – Employee Benefits - Revised
- IAS 27 – Separate Financial Statements
- IAS 28 – Investments in Associates and Joint Ventures
- IAS 32 – (Amendments) – Offsetting Financial Assets and Financial Liabilities. The standard is effective for annual periods beginning on or after 1 January 2014.
- IFRS 1 – (Amendments) - Government loans
- IFRS 7 – (Amendments) Disclosures: Offsetting Financial Assets and Financial Liabilities
- IFRS 9 – Financial Instruments. The standard is effective for annual periods beginning on or after 1 January 2015.
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement

IFRS 10, 12 and IAS 27 (Amendments)- Investment Entities. The standard is effective for annual periods beginning on or after 1 January 2014.

IFRS 10,11,12 – (Amendments) Consolidated Financial Statements, Joint Arrangements and Disclosure of interest in Other Entities: Transaction Guidance.

The Group considers that of these amendments and revised standards only IAS 1, IAS 27 (Amendments), IFRS's 7, 10 and 12 (including amendments) may have a material impact on the disclosures and presentation of information in the financial statements if the Company remains an investment entity.

2.2 Restatement

(a) Trade finance revenue and inventory

The directors have undertaken a detailed review of the Group's position in trade finance transactions and in accordance with IAS 18 the Group is reflecting within revenue the economic value of transactions attributable to the Group. The directors have also disclosed, as a Non-GAAP measure on the consolidated income statement, the gross value of goods and services invoiced, this includes the value of goods invoiced as part of the trade finance transactions.

The revenue relating to the trade finance business for the year ended 31 March 2012 has therefore been restated to be on a net basis to exclude the value of goods and services invoiced. Similarly, cost of sales has been restated to exclude goods purchased on behalf of clients. This has resulted in a decrease in revenue by £27,196,000 (2012: £18,060,000) and of cost of sales by £27,196,000 (2012: £18,060,000).

Inventory of £156,000 held at 31 March 2012 is treated as held on behalf of a client and therefore reclassified to other debtors. There was no impact on profit or loss during the year or net assets at the balance sheet date.

(b) Cash flow presentation

Changes have been made to the presentation of certain line items in the consolidated and Company statement of cash flows in order to reflect more appropriately related transactions and as a result certain items which were previously classified as investing activity are reclassified to operating. These include purchase of non-current investments, proceeds from investment in legal cases, proceeds from sale of available-for-sale investments, leases advanced, leases repaid, loans advanced and loans repaid. As a result net cash used in operating activities increased by £2,510,000 with a corresponding decrease in net cash used in investing activities.

(c) Consolidated statement of comprehensive income

The 'two statement' approach has been adopted for presentation of consolidated statement of income and consolidated statement of comprehensive income as against single statement last year of consolidated statement of comprehensive income. Whilst this does not change the profit and loss, other comprehensive income or total comprehensive income reported the directors believe that presenting two statements provides a greater focus on each of those separate measures.

(d) Other changes in the balance sheet

Trade and other payables in previous year included £1,706,000 in respect of bank loans which have been reclassified to borrowings in the current year. This does not have any impact on the profit and loss or net assets of the Group.

Other debtors in the previous year included £379,000 of trade receivables which have now been reclassified. This related to TFP Trading Company Limited, a trade finance subsidiary, which commenced its operations during the year ended 31 March 2012.

None of the restatements affected the balance sheet as at 1 April 2011, so a third balance sheet at that date has not been presented.

2.3 Disaggregation

Loans and leases receivable of £2,201,000 were shown as a single line item on the face of the balance sheet in the previous year. The amounts for loans and the amounts for lease receivables have now been disaggregated on the face of the balance sheet. In respect of the Company loans receivable of £621,000 was shown as part of trade and other receivables in the previous year which is now disaggregated on the face of balance sheet. Corresponding disaggregation is also reflected in the consolidated and the Company statement of cash flows. This change in presentation did not have any impact on the profit and loss or net assets of either the Group or the Company.

The disaggregation has not affected the balance sheet as at 1 April 2011, so a third balance sheet at that date has not been presented.

2.4 Consolidation

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

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

Notes to the financial statements continued

2 Summary of significant accounting policies continued

2.5 Associates and joint ventures

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

A joint venture is a jointly controlled entity, whereby the ventures have a contractual arrangement that establishes joint control over the economic activities of the entity.

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

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

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

2.6 Business combinations

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

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

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

2.7 Intangible assets

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

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

Systems development	3 years straight-line

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

2.8 Property, plant and equipment

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

Fixtures, fittings & equipment	3 years straight-line

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

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

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

2.10 Financial assets
The Group and the Company classify financial assets in the following categories: loans receivable, trade and other receivables, leases receivable, 'available-for-sale' financial assets, operating investments and investment in legal cases. The classification depends on the purpose for which the financial assets were acquired. Loans and finance leases are now shown separately on the face of the balance sheet and cash flow whereas in prior years they were shown together.

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

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

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

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

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

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

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

Notes to the financial statements continued

2 Summary of significant accounting policies continued

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

(d) Operating investments

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

(e) Investment in subsidiaries

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

(f) Investments in legal cases

Seed funding is made into funds which are used to fund legal cases. Initial recognition of an investment is made when payment to the fund is made. The investments are subsequently carried at fair value and gains and losses arising from changes in fair value of each fund are recognised directly in equity. De-recognition occurs when funds are returned and any profits or losses are taken to the profit and loss account at this time. Where fair value cannot be measured reliably due to the absence of historical track record, cost is used as the basis. Impairment assessment of the cases is performed on a regular and case by case basis based on the facts of the case with any permanent diminution recognised in income statement.

2.11 Cash and cash equivalents

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

2.12 Financial liabilities and equity

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

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

2.13 Share capital

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

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

2.14 Dividends

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

2.15 Preference shares

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

2.16 Trade payables

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

2.17 Borrowings

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

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

2.19 Derivative financial instruments (put option over minority)
These are initially recognised at fair value on the date the contract is entered into and subsequently re-measured at fair value with movements recorded in the derivative reserve in equity (see note 23).

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

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

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

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

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

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

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

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

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

Notes to the financial statements continued

2 Summary of significant accounting policies continued

Annual and deferred incentive scheme

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

2.24 Employee Benefit Trust (EBT)

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

2.25 Income tax

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

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

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

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

3 Judgements and estimates

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

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

Impairment of 'available-for-sale' financial assets

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

If the impairments that were considered temporary had been considered permanent, retained earnings would be reduced and the revaluation reserve increased by £549,000 (2012: £460,056). There would be no overall effect on the net assets of the Group or Company.

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

Fair values of unlisted 'available-for-sale' financial assets are determined using valuation techniques. The Group and the Company use their judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date. The Group's most significant unlisted investments are those in 'available-for-sale' financial assets and 'investments in legal funds', both of which are separately disclosed on the balance sheet.

Assessing impairment of investments in subsidiaries and associates and operating investments

Investments in subsidiaries and associates and operating investments are valued at cost less impairment. Based on their knowledge of the underlying investee companies, management has concluded that no write down of value is appropriate in respect of these investments as the underlying performance is in line with expectations inherent in the Group's initial investment other than that shown in note 17.

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

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

Goodwill impairment
Goodwill is calculated as the difference between the cost of acquisition and the calculation of the fair values of identifiable assets and liabilities existing in the acquiree. As goodwill is not amortised but is instead subject to annual impairment review, any overstatement of goodwill may lead to increased volatility in the Group's operating results arising from impairment charges. Further details are set out in note 14.

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

The Group's goodwill at the balance sheet date is allocated to the following CGUs:

	£'000
Therium	612
Trade Finance	300
Other	46
Total	958

The CGUs in the Group are independent investment platforms with its own management and operations. Each significant CGU is an independent business with its unique nature and risk. In determining fair value, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated.

The budget and forecast for Therium covers a period of 3 years and assumes performance fees of 20% of the net profit of 1.5 times funds under management. The profit multiple of 1.5 times is based on a conservative view of case wins and losses. The budget and forecast also assumes new funds under management of £38m.

The budgets and forecasts for Trade Finance covers a period of 3 years assuming a growth rate of 3% per month in the Macquarie facility drawdown and a yield of 32% per annum on the trades financed.

The directors consider fair valuation of the underlying investment platforms to be an important measure of the growth of their operating businesses. Where necessary the Group hires consultants who are experts in performing business valuations for the purpose of monitoring and tracking the fair values of the CGUs.

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

Notes to the financial statements continued

3 Judgements and estimates continued

Goodwill impairment continued

As stated above, the judgement as to the impairment of goodwill is based on the forecast profitability of the underlying investments in the foreseeable future. As actual results may deviate from these expectations, and as noted above, there is a risk of increased volatility arising in the Group's operating results from goodwill impairment if results are lower than anticipated. The goodwill associated with Fundamental Tracker Investment Management Limited was impaired in the previous year. The performance of Therium Capital Management Limited, Trade Finance Partners Limited, Credit Asset Management Ltd and Professions Funding Ltd has been in line with expectations and so no impairment was considered necessary.

Limited Liability Partnerships

Therium Capital Management Limited has raised three separate funds through Limited Liability Partnerships (LLP's). The funds are invested in legal cases and managed by Therium Capital Management Ltd. The funds are not controlled or advised by City of London Group plc and the capital concerned has the litigation risk of the cases where the funds are invested. Accordingly these funds are therefore not consolidated as 'Investments in legal cases', except to the extent the Company has invested its money in the partnerships, nor are the funds from third parties under management accounted for as liabilities.

Taxation

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

4 Revenue and cost of sales

Revenue	**31 March 2013 £'000**	**31 March 2012 (restated) £'000**
Gross value of goods and services invoiced	32,330	15,540
Revenue		
Dividends receivable	40	104
Interest receivable	256	148
Income from investments	296	252
Investment management fee income	296	267
Lease and loan interest	991	226
Arrangement fees Trade finance fees	479	396
Trade finance fees	3,071	1,379
Total	5,133	2,520

Cost of sales	**31 March 2013 £'000**	**31 March 2012 (restated) £'000**
Commissions and introduction fees	681	238
Other costs	686	515
Total	1,367	753

5 Segmental reporting

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

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

Pre-tax profit and loss
For the year ended 31 March 2013

		Revenue £'000	Operating profit / (loss) £'000	Financial expenses £'000	Pre-tax profit / (loss) £'000
COLG	Investment portfolio sales	–	1,118	–	1,118
	Legal cases	–	(108)	–	(108)
	Intra-Group	816	999	(18)	981
	Other	91	(2,032)	(101)	(2,133)
		907	(23)	(119)	(142)
Platforms	Litigation financing	258	(599)	(86)	(685)
	Trade financing	3,533	1,039	(861)	178
	Lease and professions financing	1,017	47	(652)	(605)
	Legal case funding	214	211	(187)	24
	Other	20	(315)	(19)	(334)
	Inter company	(816)	(834)	834	–
		5,133	(474)	(1,090)	(1,564)

Pre-tax profit and loss
For the year ended 31 March 2012

		Revenue £'000	Operating profit / (loss) £'000	Financial expenses £'000	Pre-tax profit / (loss) £'000
COLG	Investment portfolio sales	–	1,001	–	1,001
	Legal cases	–	(725)	–	(725)
	Intra-Group	293	(207)	(132)	(339)
	Other	235	(1,030)	89	(941)
		528	(961)	(43)	(1,004)
Platforms	Litigation financing	267	(635)	(47)	(682)
	Trade financing	1,730	209	(129)	80
	Lease and professions financing	232	(484)	(72)	(556)
	Other	56	(308)	1	(307)
	Inter company	(293)	207	132	339
		2,520	(1,972)	(158)	(2,130)

Notes to the financial statements continued

5 Segmental reporting continued

Net Assets

For the year ended 31 March 2013

		£'000	Total £'000
COLG	'Available-for-sale' financial assets		1,924
	Investment in legal cases		694
Platforms	Litigation financing	2,162	
	Trade financing	3,648	
	Lease and professions financing	2,400	
	Legal case funding	1,568	
	Other	249	
			10,027
	Other net liabilities		108
Net assets per entity balance sheet			12,753
Other net liabilities of subsidiary companies			(3,469)
Consolidated net assets			9,284

For the year ended 31 March 2012

		£'000	Total £'000
COLG	'Available-for-sale' financial assets		5,237
	Investment in legal cases		916
Platforms	Litigation financing	1,100	
	Trade financing	2,650	
	Lease and professions financing	2,330	
	Other	2,397	
			8,477
	Other net assets		(694)
Net assets per entity balance sheet			13,936
Other net liabilities of subsidiary companies			(2,789)
Consolidated net assets			11,147

The description of the businesses of the three major platforms is given in their business reviews on pages 10 to 12 of this document. The legal case funding platform advances loans to fund divorce cases.

6 Administrative expenses

	31 March 2013 £'000	31 March 2012 £'000
Staff costs		
Payroll incentive award (see note 9)	14	(95)
Other payroll (see note 9)	3,143	2,174
Other staff costs	83	212
Establishment costs		
Property costs	246	192
Other	743	449
Auditor's remuneration (see below)	118	113
Legal fees	455	446
Consultancy fees	335	291
Other professional fees	373	249
Depreciation	78	43
Amortisation	56	78
Foreign exchange loss / (gain)	(114)	7
Total	5,530	4,159

Directors' emoluments are shown in the report of the Remuneration Committee on pages 24 and 25.

Auditor's remuneration	31 March 2013 £'000	31 March 2012 £'000
Fees payable to the Company's auditor for the audit of the parent company's annual financial statements	35	57
Fees payable to the Company's auditors for other services:	58	42
The audit of subsidiaries pursuant to legislation	8	6
Audit related assurance services	10	8
	111	113
Fees relating to share placing	–	72
	111	185
Paid to other auditors	7	–
	118	185

Notes to the financial statements continued

7 Gains/ (losses) on financial assets

	31 March 2013 £'000	31 March 2012 £'000
Profit on sale of investments	26	132
Fair value reserve transfer from equity on sale of investments	1,365	869
Provision for impairment of investments during the year	(146)	(29)
Fair value reserve transfer from equity on impairment of investments	(129)	(36)
Loss on legal cases	(108)	(1,658)
Profit on legal cases	25	933
	1,033	211

The impairment losses of £275,000 includes the write down of investments in Merchant House (£75,000), Jubilee Platinum (£169,000) and Agenix (£31,000) (2012: Arc Fund Management Holdings plc (£24,000) and BCD Resources Limited (£41,000)).

8 Other income

	31 March 2013 £'000	31 March 2012 £'000
Director services	2	31
Consultancy	22	105
Sundry income	209	72
	233	208

9 Employee numbers and costs

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

Group	31 March 2013	31 March 2012
COLG	13	11
Litigation financing	4	4
Trade financing	11	6
Lease and professions financing	10	8
	38	29

The aggregate payroll costs of these employees were as follows:

	31 March 2013 £'000	31 March 2012 £'000
Wages and salaries	2,618	1,905
Bonus	3	43
Social security costs	342	250
Pensions	46	21
Incentive scheme Current	–	–
Deferred	14	(95)
Share option scheme	50	40
	3,073	2,164
Initial direct costs relating to leases	84	(84)
	3,157	2,080

10 Finance expense

	31 March 2013 £'000	31 March 2012 £'000
Bank interest	565	72
Loan interest	446	17
Subsidiaries' preference dividend	79	50
Derivative interest	–	18
	1,090	157

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

11 Income tax expense

	31 March 2013 £'000	31 March 2012 £'000
UK corporation tax		
Current year charge	54	4
Under provision from prior years	2	–
Total current tax	56	4
Deferred tax		
Origination / reversal of timing differences	159	(58)
Total tax credit	215	(54)

Factors affecting the tax charge for the year
The tax charge for the year differs from the theoretical amount that would arise using the standard rate of corporation tax in the UK, which is 24% (2012: 26%). The differences are explained below.

Tax reconciliation	31 March 2013 £'000	31 March 2012 £'000
Loss before tax	(1,564)	(2,130)
At standard rate of corporation tax in the UK:	(375)	(554)
Effects of		
Depreciation in excess of capital allowances	7	5
Expenses not deductible for tax purposes	86	11
Under provision from prior years	2	–
Non-taxed dividend income	(6)	(23)
Movement on unrecorded deferred tax asset	501	507
	215	(54)

Deferred tax recognised in income
The elements of deferred taxation provided are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Excess management charges	159	(159)

Notes to the financial statements continued

11 Income tax expense continued

Deferred tax recognised in equity
The elements of deferred taxation provided are as follows:

	31 March 2013 £'000	31 March 2012 £'000
Difference between cost and valuation of 'available-for-sale' investments	(159)	159

12 Dividends

Paid and recognised during the year	31 March 2013 £'000	31 March 2012 £'000
Final 2012 dividend of 0.5p (2011: 1.0p) per ordinary share	83	183
Interim 2013 dividend of 0.33p (2012: 0.5p) per ordinary share	65	92
Total	148	275
Received from/(paid to) Employee Benefit Trust	7	(7)
Total	155	268
Proposed for approval at the Annual General Meeting and not recognised as a liability		
Proposed final dividend of Nil (2012: 0.5p) per ordinary share	–	92

13 Earnings per share

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

	31 March 2013 £'000	31 March 2012 £'000
Loss attributable to equity holders (£000)	(1,551)	(1,433)
Weighted average number of ordinary shares in issue ('000)	18,839	17,401
Basic and diluted earnings per share	(8.23p)	(8.24p)

14 Intangible assets

Group	Goodwill £'000	Systems development costs £'000	Total £'000
Cost			
At 1 April 2011	1,000	30	1,030
Additions	98	306	404
At 31 March 2012	1,098	336	1,434
Additions (see below)	–	88	88
Disposals	(27)	(1)	(28)
At 31 March 2013	1,071	423	1,494
Accumulated amortisation and impairment			
At 1 April 2011	107	2	109
Charge for amortisation in the year	6	24	30
At 31 March 2012	113	26	139
Disposals	–	(1)	(1)
Charge in year	–	56	56
At 31 March 2013	113	81	194
Carrying amount			
At 31 March 2013	958	342	1,300
At 31 March 2012	985	310	1,295

On 7 June 2012 Macquarie Bank were issued 13,421 Ordinary 1p shares in Trade Finance Partners Limited at a premium of £19.60. This gave Macquarie Bank a 5% stake in the company and reduced City of London Group's share of the company's goodwill by £27,000.

15 Property, plant and equipment

	Group		Company	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Cost				
At 1 April	187	124	156	109
Additions	133	63	125	47
Disposals	(3)	–	–	–
At 31 March	317	187	281	156
Depreciation				
At 1 April	80	37	69	30
Charge for the year	78	43	69	39
Disposals	(3)	–	–	–
At 31 March	155	80	138	69
Net book value				
At 31 March	162	107	143	87

Notes to the financial statements continued

16 'Available for sale' financial assets

Group and Company	31 March 2013 £'000	31 March 2012 £'000
At 1 April	5,237	6,963
Transferred from operating investments	–	1,125
Additions	132	580
Disposals	(2,826)	(2,331)
Revaluation surplus recognised in equity	(344)	(1,035)
Written off to income statement	(275)	(65)
At 31 March	1,924	5,237
Historic cost (net of provisions) of disposals	1,799	1,330

Securities	31 March 2013 £'000	31 March 2012 £'000
Listed	107	1,258
Equity securities – Australia	21	63
Equity securities – USA and Canada	914	1,685
Equity securities – UK	–	51
Cumulative non-redeemable preference shares – UK	–	46
Non-cumulative non-redeemable preference shares – UK Equity fund – UK	455	410
Convertible loan notes – Australia	–	172
Total listed	1,497	3,685
Unlisted securities		
Equity securities traded on inactive markets	427	427
FX Capital Limited	–	1,125
Total unlisted	427	1,552
	1,924	5,237

17 Investments

Group	Investment in associates and joint ventures £'000	Operating Investments £'000
As at 31 March 2011	–	387
Additions in year	37	–
Revaluation	–	738
Transfer to 'available-for-sale' financial assets	–	(1,125)
As at 31 March 2012	37	–
Additions in year	1	18
Share of profits of associates and joint ventures	24	–
Disposals in year	(57)	–
As at 31 March 2013	5	18

Company	Investments in subsidiaries £'000	Interests in associates £'000	Operating Investments £'000
As at 31 March 2011	1,228	–	387
Additions in year	2,902	49	–
Revaluation	–	–	738
Transfer to 'available-for-sale' financial assets	–	–	(1,125)
As at 31 March 2012	4,130	49	–
Additions in year	1,382	–	18
Converted into loan notes	–	(49)	–
As at 31 March 2013	5,512	–	18
Provision for impairment			
As at 31 March 2011	417	–	–
Provided in year	99	–	–
As at 31 March 2012	516	–	–
Provided in year	129	–	–
As at 31 March 2013	645	–	–
Carrying amount			
As at 31 March 2013	4,867	–	18
As at 31 March 2012	3,614	49	–

The City of London Group has a 50% stake in the following companies and limited partnerships:
Novitas Asset Management Limited and its 100% subsidiary Novitas Futures Limited
COLG SME LP
COLG SME Loans LP

A summary of the combined assets, liabilities, revenue, costs and profits of associates and joint ventures is set out below;

	Total £'000	COLG's Share £'000
Non-current assets	951	476
Current assets	4,885	2,442
Current liabilities	(4,076)	(2,038)
Non-current liabilities	(1,750)	(875)
Net assets	10	5
Revenue	581	290
Costs	(533)	(266)
Profit before taxation	48	24

Notes to the financial statements continued

17 Investments continued

Details of investments are as follows:

Name of company subsidiary undertaking	Holding	Proportion held directly by City of London Group plc	Proportion held indirectly	Nature of business
City of London Public Relations Limited	Ordinary Shares	100%		Dormant
City of London Financial Services Limited	Ordinary Shares	100%		General financial
Fundamental Tracker Investment Management Limited	Ordinary Shares	93.47%		Investment management
Therium Capital Management Limited	Ordinary Shares	50%		Legal case funding
Therium (UK) Holdings Limited	Ordinary Shares		100%	Legal case funding
Therium Holdings Limited	Ordinary Shares		100%	Holding company
Therium ATE Limited	Ordinary Shares		100%	Dormant
Therium Litigation Funding Limited	Ordinary Shares		100%	Legal case funding
City of London Confirming House Limited	Ordinary Shares	87%		Holding company
TFP Trading Limited	Ordinary Shares	51%	25.68%	Trade Finance
Trade Finance Partners Limited	Ordinary Shares		60.25%	Trade Finance
City of London Law Funding Limited	Ordinary Shares	100%		Legal case funding
Professions Funding Limited (previously SHF Legal Funding Limited)	Ordinary Shares	100%		Profession's funding
SHFLF 1 PLC	Ordinary Shares		100%	Profession's funding
SHFLF 2 Limited	Ordinary Shares		100%	Profession's funding
Credit Asset Management Limited	Ordinary Shares	51%		Leasing
Array Management Limited	Ordinary Shares	51%		Consultancy
COLG Services Limited	Ordinary Shares	100%		Dormant
Affinia Capital (GP) Limited	Ordinary Shares	100%		Services
City of London SME Leasing Limited	Ordinary Shares	100%		Holding Company
COLG SME (GP) Limited	Ordinary Shares	100%		Holding Company
Associate investments				
Novitas Asset Management Limited	Ordinary Shares		50%	Legal case funding
Novitas Futures Limited	Ordinary Shares		50%	Legal case funding
COLG SME Loans LP			50%	Professions funding
COLG SME LP			50%	Leasing

The shares in Therium (UK) Holdings Limited are held by Therium Capital Management Limited.
The shares in Therium Holdings Limited and Therium ATE Limited are held by Therium UK (Holdings) Limited.
The shares in Therium Litigation Funding Limited are held by Therium Holdings Limited.
The shares in Trade Finance Partners Limited are held by City of London Confirming House Limited.
The shares in SHFLF 1 PLC and SHFLF 2 Limited are held by Professions Funding Limited.
The shares in Novitas Asset Management Limited are held by Therium Capital Management Limited.
The shares in Novitas Futures Limited are held by Novitas Asset Management Limited.

All subsidiaries have a 31 March year end.

All subsidiaries are registered in England and Wales with the exceptions of Fundamental Tracker Investment Management Limited which is registered in Scotland and Therium Holdings Limited, Therium ATE Limited and Therium Litigation Funding Limited which are registered in Guernsey.

The Company established the following subsidiaries during the year:

City of London SME Leasing Limited
COLG SME (GP) Limited

The Company established 50% stakes in the following joint ventures during the year.

COLG SME Loans LP
COLG SME LP

The Company sold its investment in Fundamental Tracker Investment Management Limited on 5 April 2013.

18 Investments in legal cases

	Group		Company	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
As at 1 April	2,409	4,020	915	3,420
Additions	4,702	3,182	43	2,173
Return of seed investment	–	(2,360)	–	(2,827)
Write off of legal cases	(83)	(2,433)	(108)	(1,851)
Transferred to loans receivable	(156)	–	(156)	–
As at 31 March	6,872	2,409	694	915

Investment in legal cases at 31 March 2013 included £6,220,000 (2012: £1,877,000) of investments funded by third parties who bear any losses and receive any profit (after accounting for performance fees receivable by the Group) made from the investments, the amounts they have invested are shown in trade and other payables.

19 Loans and leases receivable

	Group		Company	
Non-current	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Loans	1,648	1,032	100	–
Loans to related parties (see note 29)	1,000	–	–	–
Finance leases	1,233	1,169	–	–
	3,881	2,201	100	–

	Group		Company	
Current	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Loans	2,948	2,032	814	225
Loans to related parties (see note 29)	998	1,437	366	396
Leases	1,094	542	–	–
	5,040	4,011	1,180	621

The gross amounts receivable by the Group under finance lease contracts as at 31 March 2013 are shown below (2012: £2,128,000).

Notes to the financial statements continued

19 Loans and leases receivable continued

	31 March 2013		31 March 2012	
	Minimum lease payments £'000	Present value of minimum lease payments £'000	Minimum lease payments £'000	Present value of minimum lease payments £'000
Gross amounts receivable:				
Less than one year	1,374	1,094	674	542
More than one year, less than five	1,386	1,233	1,454	1,169
	2,760	2,327	2,128	1,711
Less: unearned finance income	(433)	–	(417)	–
	2,327	2,327	1,711	1,711

There were no finance lease receivables in respect of the Company (2012: nil).

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

The Group has a continued involvement with the assets transferred through its subsidiary Credit Asset Management Limited which acts as an investment manager to these joint ventures. The investment management fee earned during the year from these joint ventures amounted to nil (2012: nil).

The Group's maximum exposure to loss due to its continuing involvement with the underlying assets held by these joint ventures is limited to its share of 50% in the losses of these joint ventures which at the balance sheet date amounted to £16,000 (2012:nil).

20 Trade and other receivables

	Group		Company	
Current assets	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Trade receivables (restated)	9,591	5,656	20	–
Other debtors (restated)	1,254	2,347	25	725
Less provisions for bad debts	(198)	(162)	–	–
Prepayments and accrued income	764	375	296	402
Amounts owed by related companies	212	–	–	–
Amounts owed by subsidiaries	–	–	5,761	4,892
	11,623	8,216	6,102	6,019

Group trade receivables include £9,572,000 (2012: £5,382,000) in relation to Trade Finance.

21 Cash and cash equivalents

	Group		Company	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Cash at bank	6,265	2,194	26	46
Short-term deposits	–	–	–	6
	6,265	2,194	26	52

Within the Group cash balance of £6,265,000, (2012: £2,194,000) there is £500,000 (2012: £178,000) of restricted cash. Within the 2012 Group cash balance of £2,194,000 there was £178,000 of restricted cash.

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

	Group		Company	
	31 March 2013	31 March 2012	31 March 2013	31 March 2012
Borrowings	£'000	£'000	£'000	£'000
Bank overdraft	350	1,068	345	1,068
Loans	10,209	5,053	–	1,000
Preference shares	555	–	–	–
	11,114	6,121	345	2,068
Trade and other payables				
Trade payables	11,540	4,649	284	123
Dividends payable	1	1	1	1
Corporation tax	49	4	–	
Other taxation and social security	102	69	54	32
Other creditors	854	10	–	–
Amounts owed to subsidiaries	–	–	1,458	255
Accruals and deferred income	967	875	159	180
	13,513	5,608	1,956	591

The Company's overdraft of £345,000 (2012 £1,068,000) is secured on the UK listed share portfolio.

Trade payables include £7,947,000 (2012: £2,279,000) contributed by investors to participate in the investment in litigation cases. At the balance sheet date £6,220,000 (2012: £1,879,000) was invested in legal cases (see note 18).

23 Non-current liabilities

	Group	
	31 March 2013	31 March 2012
	£'000	£'000
Borrowings		
Preference shares of subsidiary	420	970
Loans	2,759	1,617
	3,179	2,587
Accruals	–	–
Derivative	–	244
Total	3,179	2,831

The derivative is in respect of a put option to buy-out the minority interest in a subsidiary company at fair value at the time it becomes exercisable in November-December 2015.

There are no non-current liabilities for the Company.

Notes to the financial statements continued

24 Deferred tax assets and liabilities

Group and Company	Fair value gains £'000	Tax losses £'000	Total £'000
Liability / (asset) at the 31 March 2011	398	(101)	297
Credit to income statement	–	(58)	(58)
Credit to other comprehensive income	(239)	–	(239)
Liability / (asset) at the 31 March 2012	159	(159)	–
Debit to income statement	–	159	159
Debit to other comprehensive income	(159)	–	(159)
Liability / (asset) at the 31 March 2013	–	–	–

	Group		Company	
Unrecognised deferred tax assets	**31 March 2013 £'000**	**31 March 2012 £'000**	**31 March 2013 £'000**	**31 March 2012 £'000**
Differences between tax and accounting base of available-for-sale assets	308	92	308	92
Trading losses	694	679	–	–
Excess management charges	442	263	442	463
Timing differences	(10)	(1)	(10)	–
Total	1,434	1,033	740	555

25 Called-up share capital

Allotted, called up and fully paid	31 March 2013 £'000	31 March 2012 £'000
20,206,617 (2012: 18,369,657) ordinary shares of £0.10	2,021	1,837

The Company did not hold any shares in treasury at 31 March 2013 (2012: nil). 426,996 shares were held by the Employee Benefit Trust at 31 March 2013 (2012: 472,886). During the year 45,890 shares were purchased by the Company, from the Trust, and used to fulfill its obligations under the long-term incentive scheme. The carrying value of shares held by the EBT at the balance sheet date amounted to £347,000 (2012: £385,000)

	Shares in issue Number	Shares in issue £'000
As at 31 March 2011	11,136,642	1,114
Issued in year	7,233,015	723
As at 31 March 2012	18,369,657	1,837
Issued in year	1,836,960	184
As at 31 March 2013	20,206,617	2,021

During the year the Company issued 836,960 shares with a nominal value of £83,696 for £1,285,882.
Costs of £60,000 were incurred in relation to the issue of shares in the year which were offset against the Company's share premium.

26 Non-controlling interest

	31 March 2013 £'000	31 March 2012 £'000
At 1 April	(1,173)	(520)
Acquisition of and additional investment in subsidiaries:		
Share of net assets	162	29
Share of derivative put option	31	(39)
Share of loss	(228)	(643)
At 31 March	(1,208)	(1,173)

27 Operating lease commitments

	Group		Company	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Minimum lease payments under operating leases recognised in expense for the year	161	100	132	78

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

	Group		Company	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Less than one year	161	100	146	78
Between one and five years	411	413	411	391
Greater than five years	–	182	–	182
	572	695	557	651

28 Commitments, contingent liabilities and guarantees

(i) Funding Commitments

	Group		Company	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Loans	4,182	100	–	1,100
Investment in legal funds	1,561	807	–	118
Trade finance	1,357	1,358	–	–
	7,100	2,265	–	1,218

Trade Finance commitments stated above are in relation to purchasing commitments on behalf of trade finance clients by way of Letters of Credit.

(ii) The Company has committed to fund Therium £480,000 of which £240,000 is subject to further Board approval.

(iii) Bad debts losses on loans and lease receivables assigned to the Group's lenders are guaranteed up to £350,000.

Notes to the financial statements continued

29 Related party transactions

Directors' emoluments are disclosed in the part of the directors' remuneration report subject to audit. The aggregate emoluments paid to directors during the year were £639,463 (2011: £454,499) and there were no awards under the incentive scheme for 2012/13 (2012: nil). There are no other persons having the authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Accordingly, the aggregate amounts payable to directors equate to the aggregate compensation to key management personnel. As all directors' emoluments are paid by the Company, the figure relates both to the Company and the Group.

Directors received the following dividends during the year:

E Anstee	£3,687
A Brierley	Nil
H Goodbourn	£324
J Greenhalgh	£21,569
J Kent	£1,716
H Lafferty	£649
N Sidebottom	Nil
J Williams	Nil

P Tinkler, Chairman of Trade Finance Partners Limited, is regarded as a related party as he is a director and non-controlling interest holder of City of London Confirming House Limited.

The following related parties hold preference shares in Trade Finance Partners Limited:

	No. of shares
E Anstee	50,000
J Greenhalgh	25,000
J Kent	25,000
H Lafferty	25,000
P Tinkler	50,000

J Greenhalgh rents an office in Australia to the Company, the rent for the 2012/13 year was £20,137, this was outstanding at the year-end. The office is used in connection with the Company's Australian mining investment.

The following related parties have invested in funds managed by Therium Capital Management Limited:

	31 March 2013 £	**31 March 2012 £**
E Anstee	70,400	70,400
J Kent	25,000	25,000
H Lafferty	50,000	50,000

J Anstee, an employee of the Company, is considered a related party as he is the son of the Chief Executive, E Anstee. J Anstee received remuneration of £30,875 during the year to 31 March 2013.

The Company's related party transactions included

	Charged by City of London Group plc in year (prior year) £'000	Charged to City of London Group plc in year (prior year) £'000	Loans due to City of London Group plc at 31 March 2013 (31 March 2012) £'000	Other amounts due to City of London Group plc at 31 March 2013 (31 March 2012) £'000	Due from City of London Group plc at 31 March 2013 (31 March 2012) £'000	City of London Group plc investments in funds managed by the subsidiary at 31 March 2013 (31 March 2012) £'000
City of London Public	–	–	–	248	–	–
Relations Limited	–	–	–	(108)	–	–
City of London Financial	5	6	–	16	105	–
Services Limited	–	–	–	(10)	(105)	–
Fundamental Tracker Investment	–	–	–	–	–	455
Management Limited	–	(8)	–	–	–	(410)
Therium Capital	119	30	395	238	102	759
Management Limited	(104)	–	(140)	(125)	(150)	(916)
City of London Confirming	302	–	2,451	222	–	–
House Limited	(111)	–	(2,293)	–	–	–
TFP Trading Limited	22	–	625	21	–	–
	(86)	–	(86)	22	–	–
Trade Finance Partners Limited	78	–	–	–	–	–
	(108)	–	–	7	–	–
City of London Law	159	16	1,568	(116)	–	–
Funding Limited	–	–	(1,440)	106	1,000	–
Professions Funding Limited	1	–	20	(44)	–	–
	(10)	–	–	92	–	–
Credit Asset Management Limited	50	–	–	(10)	–	–
	(28)	–	(550)	166	–	–
Array Management Limited	–	–	280	–	–	–
	–	–	271	–	–	–
City of London SME Leasing Ltd-	–	–	–	–	252	–
	–	–	–	–	–	–

The amounts reported above include:

The Company's charges to Fundamental Tracker Management Limited and Trade Finance Partners Limited for directors' services. The Company's charges to Trade Finance Partners Limited and Credit Asset Management Limited for office space and use of equipment. The Company's charges to Therium Capital Management Limited for consultancy. The Company's loan interest charges to Therium Capital Management Limited, Trade Finance Partners Limited, City of London Confirming House Limited and City of London Law Funding Limited. The Company's preference share dividends accrued from Therium Capital Management Limited and Professions Funding Limited.

Notes to the financial statements continued

29 Related party transactions continued

Group related parties

The Group's related party transactions include;

	Interest charged by Group in year (prior year) £'000	Loans and lease portfolios transferred from Group in year (prior year) £'000	Loans due to Group 31 March 2013 (31 March 2012) £'000	Other amounts due to Group 31 March 2013 (31 March 2012) £'000
Novitas Futures Limited	177	–	949	–
	(87)	–	(1,437)	–
Novitas Asset Management Limited	–	–	49	–
	–	–	–	–
COLG SME Loans LP	–	885	666	142
	–	–	–	–
COLG SME LP	–	533	334	70
	–	–	–	–
Total current	177	–	998	212
	(87)	–	(1,437)	–
Total non-current	–	1,418	1,000	–
	–	–	–	–

30 Share-based payments

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

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

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

Movements in the number of share options outstanding for 2011/12 are as follows:

	Date of Grant	01/04/11	Granted in year	Lapsed in year	31/03/12	Exercisable from	Exercisable to	Exercise price
E Anstee	11/02/10	100,000	–	–	100,000	11/11/12	11/11/19	55.80p
H Goodbourn	30/11/11	–	143,267	–	143,267	30/11/24	30/11/24	69.80p
J Kent	11/02/10	70,000	–	–	70,000	11/11/12	11/11/19	55.80p
Other staff	20/06/02	11,300	–	–	11,300	20/06/05	19/06/12	104.00p
	05/07/05	58,252	–	–	58,252	05/07/08	4/07/15	55.50p
	11/02/10	60,000	–	–	60,000	11/11/12	11/11/19	55.80p
	13/09/11	–	432,786	–	432,786	13/09/14	13/09/24	76.25p
		299,552	576,053	–	875,605			

City of London Group plc's share price as at 31 March 2013 was 67.5p pence (2012: 67.5p). The average for the year to 31 March 2013 was 72.0p (2012: 73.7p)

The fixed price options were valued using the Black-Scholes model.

Inputs to the model were as follows:

	11/02/10 Grant	13/09/11 Grant	30/11/11 Grant
Strike price	58.8p	76.25p	69.8p
Share price	58.8p	76.25p	63.0p
Time to expiration	2,556 days	1,460 days	1,460 days
Volatility	59.42%	48.24%	54.38%
Annual risk free interest rate	4.07%	0.87%	0.87%

The Company will use the shares in the employee benefit trust to cover the deferred incentive scheme awards.

31 Financial instruments

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

	As at March 2013			As at 31 March 2012		
Group	**Available-for -sale financial investments £'000**	**Loans and receivables £'000**	**Total £'000**	**Available-for-sale financial investments £'000**	**Loans and receivables £'000**	**Total £'000**
Assets						
Available-for-sale' financial assets	1,924	–	1,924	5,237	–	5,237
Investment in legal cases	6,872	–	6,872	2,409	–	2,409
Loans	–	6,594	6,594	–	4,501	4,501
Finance leases	–	2,327	2,327	–	1,711	1,711
Trade and other receivables	–	11,623	11,623	–	8,216	8,216
Cash and cash equivalents	–	6,265	6,265	–	2,194	2,194
	8,796	26,809	35,605	7,646	16,622	24,268
Liabilities						
Interest in loans and borrowings			13,318			7,738
Preference shares			975			970
Trade and other payables			13,513			5,608
Derivative liability (put option)			–			244
			27,806			14,560

With the exception of the derivative liability (put option) which is carried at fair value all other financial liabilities in the above table are reflected at amortised cost.

Notes to the financial statements continued

31 Financial instruments continued

Company	As at March 2013 Available-for -sale financial investments £'000	As at March 2013 Loans and receivables £'000	As at March 2013 Total £'000	As at 31 March 2012 Available-for-sale financial investments £'000	As at 31 March 2012 Loans and receivables £'000	As at 31 March 2012 Total £'000
Assets						
Available-for-sale' financial assets	1,924	–	1,924	5,237	–	5,237
Investment in legal cases	–	694	694	–	916	916
Loans	–	1,280	1,280	–	621	621
Trade and other receivables	–	6,102	6,102	–	6,019	6,019
Cash and cash equivalents	–	26	26	–	52	52
	1,924	8,102	10,026	5,237	7,608	12,845
Liabilities						
Interest bearing loans and borrowings	–	345	345	–	2,068	2,068
Trade and other payables	–	498	498	–	336	336
Amounts owed to subsidiaries	–	1,458	1,458	–	255	255
	–	2,301	2,301	–	2,659	2,659

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

32 Financial risk management

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

(i) Credit risk

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

	31 March 2013 £'000	31 March 2012 £'000
Loans	6,594	4,501
Leases	2,327	1,711
Trade finance receivables	9,572	5,382
Trade and other receivables	1,485	2,621
Cash and cash equivalents	6,265	2,194
	26,143	16,409

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

The leases are all secured by the underlying assets leased.

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

Most receivables in trade finance are credit insured before entering into a trade. At balance sheet date £8,458,000 (2012: £4,910,000) of the trade and other receivables were credit insured.

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

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

	2013 £'000	2012 £'000
Loans	137	23
Leases	136	53
Trade and other receivables	424	137
	697	213
Provisions made in respect of above	198	162

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

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

Currency	31 March 2013 £'000	31 March 2012 £'000
Sterling	1,796	3,916
US dollars	–	3
Australian dollars	107	1,258
Canadian dollars	21	60
Total	1,924	5,237

Carrying value of Group investment in legal funds is set out below, although the foreign currency risk of these legal funds lies with the funds and not the Group

Currency	31 March 2013 £'000	31 March 2012 £'000
Sterling	3,929	1,381
US dollars	2,943	500
Euros	–	706
Total	6,872	2,587

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

	31 March 2013			31 March 2012		
Currency	Cash at bank and in hand £'000	Short-term investments £'000	Total £'000	Cash at bank and in hand £'000	Short-term investments £'000	Total £'000
Sterling	4,547	–	4,457	1,583	–	1,583
US dollars	1,680	–	1,680	221	–	221
Euros	29	–	29	55	–	55
Australian dollars	9	–	9	335	–	335
Total	6,265	–	6,265	2,194	–	2,194
Floating rate	6,265	–	6,265	2,194	–	2,194
Fixed rate	–	–	–	–	–	–
Total	6,265	–	6,265	2,194	–	2,194

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

	31 March 2013 £	31 March 2012 £
Change in US$ rate (+/-2.5%)	+/-42,000	+/-6,000
Change in US$ rate (+/-5%)	+/-84,000	+/-11,000

Notes to the financial statements continued

32 Financial risk management continued

(iii) Liquidity risk

The Company has sufficient cash to meet its current requirements. At 31 March 2013 the Company had a £1,000,000 (2012: £1,600,000) bank overdraft facility. The total amount drawn on these facilities at the 31 March 2013 was £345,000 (2012: £1,068,000). The overdraft facility expires in September 2013. The Company intends to sell its portfolio of energy and mining investments during the year and also intends to raise further equity.

Year ended 31 March 2013	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Other £'000	Total £'000
Interest-bearing loans and borrowing	1,250	1,830	8,034	3,179	–	–	14,293
Trade and other payables	–	7,244	49	–	–	6,220	13,513
	1,250	9,074	8,083	3,179	–	6,220	27,806

Year ended 31 March 2012	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Other £'000	Total £'000
Interest-bearing loans and borrowing	–	290	5,831	2,587	–	–	8,708
Trade and other payables	–	3,727	4	–	–	1,877	5,608
Financial derivatives	–	–	–	244	–	–	244
	–	4,017	5,835	2,831	–	1,877	14,560

The amounts shown under 'other' are the contributions from investors, which are backed by investment in litigation cases and therefore repayment is contingent upon success of those cases (see note 18)

(iv) Interest rate risk

The Company has interest-bearing assets and liabilities mostly at fixed interest rates. At 31 March 2013 the only floating rate borrowing of the Group and the Company related to its bank overdraft of £345,000 (2012:£1,068,000) linked to Bank of England base rate. With all other variables held constant the profit before tax of the Group and Company will be affected by change in the Bank of England rate as follows:

	31 March 2013 £'000	31 March 2012 £'000
Change of interest rate by 2.5%	8	27
Change of interest rate by 5%	16	54

(v) Price risk

The Group is subject to price risk on its 'available-for-sale' financial assets, including its operating investments and investments in legal funds as well as its portfolio of financial assets. The Group spreads its market risk in respect of the portfolio through diversification. The Group holds fixed income, preference shares and stocks of micro, small, mid and large capitalisation companies. There is a concentration risk in the energy and mining sectors as the majority of the investment portfolio of £1,924,000 is invested in these sectors. At 31 March 2013, 22% of the Group's portfolio was invested in unlisted equity securities. Top value holdings are set out in the Group's annual and half-yearly reports. Price risk in respect of investments in unlisted operating investments and legal funds is managed by the Group having an overall investment portfolio which limits its exposure to unlisted investments individually and collectively.

Fair value hierarchy

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

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

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

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

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

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

The fair value of investments in legal funds is taken to be cost, as at the balance sheet date there was not a sufficient track record on which to base a valuation. Due to their short maturity profiles, management is of the opinion that there is no material difference between the fair value and carrying value of trade and other receivables, cash and cash equivalents, and trade and other payables. The directors therefore consider that 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 2013.

	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
'Available-for-sale' financial assets				
Equity securities	1,042	455	427	1,924
Operating investments	–	–	18	18
Investment in legal funds	–	–	6,872	6,872
	1,042	455	7,317	8,814

The following table presents the Group's assets that are measured at fair value at 31 March 2012.

	Level 1	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
'Available-for-sale' financial assets				
Equity securities	3,103	410	1,552	5,065
Debt investments	–	–	172	172
Operating investments	–	–	37	37
Investment in legal funds	–	–	2,409	2,409
	3,103	410	4,170	7,683

The derivative liability of £244,000 at 31 March 2012 was recognised at fair value and classified as Level 3.

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

Level 2 asset is a UK equity fund.

The movement on level 3 assets are as follows:

	£'000
Balance at 1 April 2012	4,170
Additions	4,720
Disposals	(1,573)
Valuation gain taken to comprehensive income	–
Balance at 31 March 2013	7,317

Notes to the financial statements continued

32 Financial risk management continued

(vi) Capital Management

The primary objective of the Company's capital management is to ensure that it has sufficient funding capacity to support the growth and development of its existing platforms and to invest in new platforms as opportunities arise. Whilst the main funding sources to the platforms are from third party sources the growth necessarily requires some additional equity from the Company. The Company seeks to optimise the mix of debt and equity funding sources to maintain the balance of a robust financial structure whilst creating shareholder value through modest debt equity mix of the Company.

Debt equity ratio is shown below:

	31 March 2013 £'000	31 March 2012 £'000
Third-party borrowings	345	2,068
Loans from subsidiaries	1,458	255
Cash	(26)	(52)
Net Debt	1,777	2,271
Equity	12,753	13,936
Gearing	13.9%	16.3%

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

33 Post balance sheet events

On 5 April 2013 the Company sold Fundamental Tracker Investment Management Limited (FTIM) for £48,211 and over the following six months (to October) is to realise its seed investment in the Munro UK Dividend Fund of c£455,000 which is managed by FTIM.

On 2 May 2013 Therium (UK) Holdings Limited (Therium) was appointed to advise a newly launched litigation fund. The new fund has raised capital of £5.6million and will invest in commercial litigation, complex disputes and international arbitration alongside Therium's existing funds. Therium is the exclusive litigation service provider to the fund.

Independent Auditor's report

to the members of City of London Group plc

We have audited the financial statements of City of London Group plc for the year ended 31 March 2013 which comprise the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and Company statements of changes in equity, the consolidated and Company balance sheets, the consolidated and Company statements of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs as at 31 March 2013 and of the Group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 18 to 20 of the annual report with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 16, in relation to going concern; and
- the part of the corporate governance statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Neil Fung-On
(Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom

24 June 2013

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

Statement of directors’ responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable laws and regulations.

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

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

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

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

Website publication

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

Directors’ responsibilities pursuant to DTR4

The directors confirm to the best of their knowledge:

- The Group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group.
- The annual report includes a fair review of the development and performance of the business and the financial position of the Group and the parent company, together with a description or the principal risks and uncertainties that they face.

By order of the Board

H Lafferty
Chairman

24 June 2013

Investor information and advisors

Financial calendar

We will hold our Annual General Meeting at Wax Chandlers' Hall, 6 Gresham Street, London, EC2V 7AD at 10.00am on Tuesday 24 September 2013 and hope that many shareholders will attend.

Q1 IMS	August 2013
Half-year results (available online only)	November 2013

Trading record

For the year ended 31 March	2009	2010	2011	2012	2013
Shareholders' attributable net profit (£'000)	158	143	13	(1,433)	(1,551)
Earnings per share	1.55p	1.45p	0.12p	(8.24)p	(8.23)p
Dividends interim paid	0.00p	0.00p	0.50p	0.50p	0.33p
Dividends final proposed	0.00p	0.50p	1.00p	0.50p	0.00p
NAV per share attributable to shareholders	63.80p*	80.10p*	92.50p*	68.80p*	53.00p

*before final dividend

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

Share price information

The latest City of London Group plc share price is published daily in the Financial Times, the Daily Express and at www.ft.com. It can also be found on www.londonstockexchange.com code CIN or via a link from our own website www.cityoflondongroup.com.

Announcements by email

Company announcements are carried on the Company's website at www.cityoflondongroup.com. If you wish to receive these by email, please send your name and email address to office@cityoflondongroup.com.

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