AIM:CIN

5 July 2017

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

**Preliminary announcement of final results**

The Company announces its audited final results for the year ended 31 March 2017.

## Key points

### Business developments

- CAML to be retained, following strategic review
- CAML's results improve substantially with an operating profit before shareholder capital charges of £171k (2016: operating loss before shareholder capital charges of £217k)
- CAML's own book portfolio £13.8m at year end (2016: £13.7m) and new business volumes in March £1.1m following a period earlier in the year when new business volumes were constrained by the capital available
- Additional block funding facilities arranged for CAML to facilitate business development
- Group actively pursuing other opportunities to increase its financial strength and provide a platform for future development

### Financial results

- Loss before tax £1.2m (2016: loss before tax £6.8m after losses of £7.2m relating to TFPL and a profit of £1.4m on the sale of Therium)
- Consolidated NAV per share attributable to shareholders 3p (2016: 6p)

***For further information:***


**City of London Group plc**
Paul Milner (Chairman) +44 (0)20 3795 2686

**Peel Hunt LLP (Nominated Adviser and Broker)**
James Britton +44 (0)20 7418 8900
Guy Wiehahn

***Notes to Editors:***

City of London Group plc ("COLG" or "the Company") is quoted on AIM (CIN) and is an investment company focused on providing finance to the SME sector, including professional service firms. It does this through investments in companies providing lease finance and loan finance.

*www.cityoflondongroup.com*

## Business review

### Overview

During the year, the Group focused on maximising the value of its remaining investments, particularly in relation to Credit Asset Management Limited ("CAML"), its lease and professions funding platform.

The results for the Group show a loss before tax of £1.2m (2016: loss of £6.8m which included losses of £7.2m relating to TFPL (for impairment of the Group's investments and its share of losses) and a profit of £1.4m arising on the sale of Therium.

In the latter part of the year, the Group completed its examination of strategic options for CAML. The options of a sale of the CAML business and/or its loan book were ruled out. The Group has decided to retain CAML and, by arranging for an increase in the available block funding facilities, has taken steps to give CAML the ability to grow its business and achieve scale. Following the uncertainties caused by capital constraints in the first half of the year, CAML is now well-placed to move its business forward in the coming months.

The Group is actively pursuing other opportunities that, if successful, will increase the Group's financial strength and provide a solid base for future development.

The Group's associate, Trade Finance Partners Limited ("TFPL"), was put into administration on 29 March 2017. As previously reported, no amounts are expected to be available for equity and loan note holders or other unsecured creditors. Full provision has been made against all amounts owed to the Group by TFPL.

### CAML and Professions Funding Limited ("PFL")

In the early part of the year, CAML benefitted from strong new business volumes before it had to scale back its operations due to capital constraints and concerns surrounding the events at TFPL. However, since the conclusion of the strategic review and the provision of additional block funding facilities, the position has stabilised and by the end of the year CAML's "own book" portfolio was marginally higher than at the beginning of the year.

In January 2017, CAML became a wholly-owned subsidiary of COLG and Martin Parsons became managing director when the other two executive directors left CAML.

The consolidated results of CAML and PFL for the year improved significantly, showing a loss of £0.2m (2016: loss £0.5m). The loss of £0.2m includes executive termination costs of £0.2m. The improvement in the results reflects the additional revenue arising from the increase in the "own book" portfolio in the previous year and strict control over costs.

### COLG

The Company continued to keep a tight control on its underlying cost base during the year. The loss of £1.2m (2016: loss of £10.7m which included provisions for impairment of £7.2m relating to TFPL and £2.8m relating to CAML) includes £0.2m cost of a strategic review and £0.1m executive termination costs.

Since the year-end the Company has moved from its previous office after exercising break clause provisions in its lease. This will further reduce the underlying cost base going forward.

**TFPL**

As previously reported, the Group's associate, TFPL, restricted its activities from the latter part of 2015/16 to maximize the recovery of advances previously made. It became clear that no amounts were expected to be available for equity and loan note holders or other unsecured creditors or for its preference shareholders and, on 29 March 2017, TFPL was put into administration.

Full provision has been made against all amounts owed to the Group by TFPL.

**Dividend**

The Board does not recommend payment of a dividend.

**Outlook**

The Group continues to focus on providing a sound foundation whereby the business of CAML and PFL, its lease and professions funding platform, can realise its underlying potential. It is actively pursuing business opportunities that, if achieved, will provide a solid base for the Group's future development.

**Paul Milner**
**Chairman**
**4 July 2017**

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

*This report has been drawn up and presented with the purpose of complying with English law. Any liability arising out of or in connection with this report will be determined in accordance with English law.*

# Consolidated income statement
## for the year ended 31 March 2017

| | Note | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|---|
| Revenue | | 2,569 | 2,534 |
| Cost of sales | | (42) | (51) |
| Gross profit | | 2,527 | 2,483 |
| Administrative expenses | 5 | (2,579) | (2,512) |
| (Loss)/profit on sale of investments | | (81) | 2 |
| Provision for impairment of investments | | (41) | (51) |
| Profit on the disposal of assets classified as held for sale | | - | 1,398 |
| Share of profits and losses of associates | | 78 | (898) |
| Provision for impairment of the investment in and amounts owed by TFPL | | - | (6,260) |
| Other income | | 138 | 326 |
| Profit/(loss) from operations | | 42 | (5,512) |
| Finance expense | | (1,229) | (1,252) |
| Loss before tax | | (1,187) | (6,764) |
| Corporation tax | 8 | – | – |
| Loss for the year | | (1,187) | (6,764) |
| | | | |
| Loss for the year attributable to: | | | |
| Owners of the parent | | (1,152) | (6,646) |
| Non-controlling interests | | (35) | (118) |
| Loss for the year | | (1,187) | (6,764) |
| Basic and diluted earnings per share attributable to owners of the parent: | 2 | (3.16)p | (24.36)p |

The group had no discontinued operations in either 2017 or 2016.

## Consolidated statement of comprehensive income
### for the year ended 31 March 2017

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|
| Total loss for the year | (1,187) | (6,764) |
| | | |
| Other comprehensive income/(expense) from continuing operations | | |
| Items that will or may be reclassified to profit or loss | | |
| 'Available-for-sale' financial assets | | |
| – Valuation losses taken on equity investments | (43) | (20) |
| – Provision for impairment transferred to income statement | 41 | 51 |
| – Loss/(profit) on sale transferred to income statement | 78 | (2) |
| Other comprehensive income from continuing operations | 76 | 29 |
| Total other comprehensive income | 76 | 29 |
| | | |
| Total comprehensive expense from continuing operations | (1,111) | (6,735) |
| Total comprehensive income from discontinued operations | – | - |
| Total comprehensive expense | (1,111) | (6,735) |
| | | |
| Total comprehensive expense attributable to: | | |
| Owners of the parent | (1,076) | (6,617) |
| Non-controlling interests | (35) | (118) |
| | (1,111) | (6,735) |

# Consolidated statement of changes in equity

| | Attributable to owners of the parent company | | | | | | |
|---|---|---|---|---|---|---|---|
| | Fair value reserve | Accumulated losses | Share premium | Share capital | Total | Attributable to non-controlling interests | Total equity |
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| **At 31 March 2015** | (105) | (7,888) | 11,497 | 2,021 | 5,525 | (1,154) | 4,371 |
| 'Available-for-sale' investments | | | | | | | |
| – Valuation losses taken to equity | (20) | – | – | – | (20) | – | (20) |
| – Provision for impairment transferred to income statement | 51 | – | – | – | 51 | – | 51 |
| – Profit on sale transferred to income statement | (2) | – | – | – | (2) | – | (2) |
| Net income recognised directly in equity | 29 | – | – | – | 29 | – | 29 |
| Loss for the year – continuing operations | – | (6,646) | – | – | (6,646) | (118) | (6,764) |
| Total comprehensive income | 29 | (6,646) | – | – | (6,617) | (118) | (6,735) |
| Contributions by and distributions to owners | | | | | | | |
| Value of employee services | – | 20 | – | – | 20 | – | 20 |
| Issue of shares | – | – | 2,835 | 1,664 | 4,499 | – | 4,499 |
| Total contributions by and distributions to owners | – | 20 | 2,835 | 1,664 | 4,519 | – | 4,519 |
| Reduction in non-controlling interests | – | (1,218) | – | – | (1,218) | 1,172 | (46) |
| **At 31 March 2016** | (76) | (15,732) | 14,332 | 3,685 | 2,209 | (100) | 2,109 |
| 'Available-for-sale' investments | | | | | | | |
| – Valuation losses taken to equity | (43) | – | – | – | (43) | – | (43) |
| – Provision for impairment transferred to income statement | 41 | – | – | – | 41 | – | 41 |
| – Loss on sale transferred to income statement | 78 | – | – | – | 78 | – | 78 |
| Net income recognised directly in equity | 76 | – | – | – | 76 | – | 76 |
| Loss for the year – continuing operations | – | (1,152) | – | – | (1,152) | (35) | (1,187) |
| Total comprehensive income | 76 | (1,152) | – | – | (1,076) | (35) | (1,111) |
| Contributions by and distributions to owners | – | - | - | - | - | – | - |
| Reduction in non-controlling interests | – | (135) | – | – | (135) | 135 | - |
| **At 31 March 2017** | - | (17,019) | 14,332 | 3,685 | 998 | – | 998 |

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

# Consolidated balance sheet
## as at 31 March 2017

| | Notes | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 16 | 27 |
| 'Available-for-sale' financial assets | | 8 | 151 |
| Interests in associates | | 224 | 146 |
| Legal case investments | | 132 | 138 |
| Loans | | 4,665 | 9,005 |
| Finance leases | | 2,916 | 2,477 |
| **Total non-current assets** | | 7,961 | 11,944 |
| **Current assets** | | | |
| Loans | | 5,054 | 5,446 |
| Finance leases | | 2,211 | 1,635 |
| Trade and other receivables | | 1,225 | 810 |
| Cash and cash equivalents | | 1,763 | 2,497 |
| **Total current assets** | | 10,253 | 10,388 |
| **Total assets** | | 18,214 | 22,332 |
| **Current liabilities** | | | |
| Borrowings | | (5,160) | (3,935) |
| Trade and other payables | | (1,685) | (3,051) |
| **Total current liabilities** | | (6,845) | (6,986) |
| Non-current liabilities | | | |
| Borrowings | | (10,371) | (13,237) |
| **Total non-current liabilities** | | (10,371) | (13,237) |
| **Total liabilities** | | (17,216) | (20,223) |
| **Net assets** | | 998 | 2,109 |
| **Equity** | | | |
| Share capital | 7 | 3,685 | 3,685 |
| Share premium | | 14,332 | 14,332 |
| Accumulated losses | | (17,019) | (15,732) |
| Fair value reserve | | - | (76) |
| Equity attributable to owners of the parent | | 998 | 2,209 |
| Non-controlling interests | | - | (100) |
| **Total equity** | | 998 | 2,109 |

# Consolidated statement of cash flows
## for the year ended 31 March 2017

| | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Loss before tax | (1,187) | (6,764) |
| **Adjustments for**: | | |
| Depreciation and amortisation | 16 | 36 |
| Share-based payments | - | 20 |
| Impairment of 'available-for-sale' financial assets | 41 | 51 |
| Loss/ (profit) on disposal of 'available-for-sale' financial assets | 81 | (2) |
| Share of profits and losses of associates | (78) | 898 |
| Provision for impairment of the investment in and amounts owed by TFPL | - | 6,260 |
| Profit on the disposal of assets classified as held for sale | - | (1,398) |
| Interest payable | 1,229 | 1,252 |
| Changes in working capital: | | |
| (Increase) in trade and other receivables | (415) | (724) |
| (Decrease)/increase in trade and other payables | (1,508) | 1,334 |
| Proceeds from sale of 'available-for-sale' financial assets | 97 | 5 |
| Leases advanced | (3,717) | (4,118) |
| Leases repaid | 2,702 | 1,702 |
| Loans advanced | (10,510) | (15,875) |
| Loans repaid | 11,838 | 8,958 |
| Loans repaid by related parties | 3,000 | 300 |
| **Cash generated from/used in operations** | 1,589 | (8,065) |
| Corporation tax | – | – |
| **Net cash generated from/used in operating activities** | 1,589 | (8,065) |
| **Cash flow from investing activities** | | |
| Disposal of assets classified as held for sale, including part repayment of deferred consideration | 404 | 2,216 |
| Return of seed capital in legal case investments | 6 | 94 |
| Distribution of profits from related parties | - | 39 |
| Purchase of property, plant and equipment | (6) | (23) |
| Proceeds from sale of equipment | 1 | - |
| Purchase of preference shares in subsidiary | - | (2,010) |
| Purchase of additional shares in related company | - | (193) |
| **Net cash generated from investing activities** | 405 | 123 |

| | 31 March 2017<br>£'000 | 31 March 2016<br>£'000 |
|---|---|---|
| **Cash flow from financing activities** | | |
| Proceeds from issue of ordinary shares | - | 4,499 |
| Proceeds from the issue of preference shares by subsidiary | - | 5,000 |
| Loans drawn down | 9,897 | 17,888 |
| Repayment of loans | (11,538) | (16,863) |
| Interest paid | (1,087) | (1,306) |
| **Net cash (used in)/generated from financing activities** | (2,728) | 9,218 |
| **Net increase/(decrease) in cash and cash equivalents** | (734) | 1,276 |
| Cash and cash equivalents brought forward | 2,497 | 1,221 |
| **Net cash and cash equivalents** | 1,763 | 2,497 |
| Cash and cash equivalents | 1,763 | 2,497 |
| Bank overdraft | – | – |
| **Net cash and cash equivalents** | 1,763 | 2,497 |

# Notes

## 1 Basis of preparation

1.1 Preliminary announcement
The financial information contained in this preliminary announcement does not constitute full accounts as defined in section 434 of the Companies Act 2006 and has been extracted from the statutory accounts for the year ended 31 March 2017. The auditors have issued an unqualified report on these statutory accounts. The statutory accounts for the year ended 31 March 2016 have been filed with the Registrar of Companies and the statutory accounts for the year ended 31 March 2017 will be filed with the Registrar of Companies in due course.

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

The same accounting and presentation policies were used in the preparation of the statutory accounts for the year ended 31 March 2016.

## 2 Earnings per share

Basic earnings per share is calculated by dividing the loss attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year less those held in treasury and in the Employee Benefit Trust. 426,996 shares were held by the Employee Benefit Trust at 31 March 2017 (2016: 426,996). The calculation of the basic and diluted earnings per share divides the loss by the weighted average number of shares of 36,426,000 (2016: 27,284,000).

## 3 Dividends

The directors do not recommend payment of a final dividend (2016: nil).

## 4 Segmental reporting

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

The Group is managed through its operating platforms: lease and professions financing and, in prior periods, trade financing and legal case funding. The COLG segment includes the Group's central functions and an investment portfolio.

### Pre-tax profit and loss

For the year ended 31 March 2017

| | Revenue £'000 | Operating profit/(loss) £'000 | Share of profits and losses of associates £'000 | Finance expense £'000 | Profit/(loss) before tax £'000 |
|---|---|---|---|---|---|
| ***COLG*** | | | | | |
| Intra-Group | 140 | 233 | | (116) | 117 |
| Other | 7 | (1,138) | - | (68) | (1,206) |
| | 147 | (905) | - | (184) | (1,089) |
| ***Platforms*** | | | | | |
| Lease and professions financing | | | | | |
| CAML/ PFL | 2,403 | 826 | - | (1,005) | (179) |
| Other | 275 | 275 | 78 | (296) | 57 |
| Legal case funding | | 13 | - | - | 13 |
| Other | - | 11 | - | - | 11 |
| Intra-Group | (256) | (256) | - | 256 | - |
| | 2,569 | (36) | 78 | (1,229) | (1,187) |

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

### Pre-tax profit and loss

For the year ended 31 March 2016

| | Revenue £'000 | Operating profit/(loss) £'000 | Profit on the disposal of assets classified as held for sale £'000 | TFPL provisions and share of profits and losses of associates £'000 | Finance expense £'000 | Profit/(loss) before tax £'000 |
|---|---|---|---|---|---|---|
| ***COLG*** | | | | | | |
| Intra-Group | 689 | 789 | | | (166) | 623 |
| Other | 18 | (897) | (158) | (6,260) | (180) | (7,495) |
| | 707 | (108) | (158) | (6,260) | (346) | (6,872) |
| ***Platforms*** | | | | | | |
| Trade financing –TFPL * | 468 | 489 | - | (940) | (489) | (940) |
| Lease and professions financing | | | | | | |
| CAML/ PFL | 1,734 | 215 | - | - | (756) | (541) |
| Other | 426 | 426 | - | 42 | (466) | 2 |
| Legal case funding | 4 | (3) | - | - | - | (3) |
| Other | - | 34 | - | - | - | 34 |
| Intra-Group | (805) | (805) | - | - | 805 | - |
| ***Others*** | | | | | | |
| Assets classified as held for sale | - | - | 1,556 | - | - | 1,556 |
| | 2,534 | 248 | 1,398 | (7,158) | (1,252) | (6,764) |

* Revenue represents interest earned on loans to Trade Finance Partners Limited.

The Loss from operations in the Consolidated income statement of £5,512,000 is the sum of £248,000 and £1,398,000 less £7,158,000 as shown above.

**Consolidated Net Assets**
For the year ended 31 March 2017

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

**Consolidated Net Assets**
For the year ended 31 March 2016

| | | £'000 | Total £'000 |
|---|---|---|---|
| COLG | 'Available-for-sale' financial assets | | 151 |
| | Legal case investments | | 138 |
| Platforms | Lease and professions financing | 2,010 | |
| | Other | 150 | |
| | | | 2,160 |
| | Net liabilities | | (313) |
| Net assets per entity balance sheet | | | 2,136 |
| Other net liabilities of subsidiary companies | | | (27) |
| Consolidated net assets | | | 2,109 |

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

## 5 Administrative expenses

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|
| Staff costs | | |
| Payroll | 1,249 | 1,415 |
| Other staff costs | 46 | 69 |
| Establishment costs | | |
| Property costs | 309 | 234 |
| Other | 518 | 444 |
| Auditor's remuneration (see below) | 94 | 89 |
| Legal fees | 50 | 17 |
| Consultancy fees | 188 | 98 |
| Other professional fees | 109 | 108 |
| Depreciation | 16 | 36 |
| Foreign exchange loss | - | 2 |
| Total administrative expenses | 2,579 | 2,512 |

| **Auditor's remuneration** | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|
| Fees payable to the Company's auditor for the audit of the parent company's annual financial statements | 41 | 35 |
| Fees payable to the Company's auditors for other services: | | |
| The audit of subsidiaries pursuant to legislation | 30 | 32 |
| Audit related assurance services | - | 2 |
| Tax services | 23 | 20 |
| Total fees | 94 | 89 |

## 6 Related party transactions and directors' remuneration

Directors' emoluments are disclosed in the directors' remuneration report. The aggregate emoluments paid to directors during the year were £156,420 (2016: £332,535) and there were no awards under the incentive scheme for 2016/17 (2016: 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.

Tables that summarise the main related party balances and transactions for both the Company and the Group are included in the financial statements to 31 March 2017.

## 6 Related party transactions and directors' remuneration (continued)

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

### Executive directors

| | Jason Granite (a) | | John Kent | | Howard Goodbourn | |
|---|---|---|---|---|---|---|
| | 2017 £ | 2016 £ | 2017 £ | 2016 £ | 2017 £ | 2016 £ |
| Salary | 7,000 | - | 6,626 | 105,571 | - | 83,835 |
| Payment in lieu of notice | - | - | 47,250 | - | - | 41,358 |
| Compensation for loss of office | - | - | 30,000 | - | - | 30,000 |
| All taxable benefits | - | - | 195 | 2,244 | - | 2,167 |
| Total | 7,000 | - | 84,071 | 107,815 | - | 157,360 |

(a) Jason Granite is a director of FCFM Group Limited which received £168,000 for consultancy services provided to the Group during the year (2016: nil).

### Non-executive directors

| | Year ended 31 March 2017 £ | Year ended 31 March 2016 £ |
|---|---|---|
| Paul Milner | 27,500 | 27,500 |
| Andrew Crossley (a) | 27,500 | 12,360 |
| Andrew Crowe | 10,349 | 27,500 |

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

### Group related parties

The transactions of Group companies with related parties included:

***Transactions of the Company***

FCFM Group Limited, which received £168,000 during the year for consultancy services, was a related party of the Company as Jason Granite was a director of both companies.

In the year ended 31 March 2016, the Company purchased £2,000,000 of 7% preference shares in Credit Asset Management Limited at par for cash from Citymain Investments Limited, a related party of the Company.

| | Charged by City of London Group plc in year £'000 | Charged to City of London Group plc in year £'000 | Loans due to City of London Group plc at year end £'000 | Other amounts due *to* City of London Group plc at year end £'000 | Provision for other amounts due to City of London Group plc at year end £'000 |
|---|---|---|---|---|---|
| **Year ended 31 March 2016** | | | | | |
| Trade Finance Partners Limited | 211 | – | – | 123 | (123) |

## 6 Related party transactions and directors' remuneration (continued)

### *Transactions of other Group companies*

The transactions of other Group companies with related parties included:

| | Interest charged by Group in year £'000 | Loans due to Group at year end £'000 | Provision for loans due to Group at year end £'000 | Other amounts due to Group at year end £'000 | Provision for other amounts due to Group at year end £'000 |
|---|---|---|---|---|---|
| Year ended 31 March 2017 | | | | | |
| Trade Finance Partners Limited (a) | - | 5,881 | (5,881) | 276 | (276) |
| COLG SME Loans LP | 62 | 425 | – | 8 | – |
| COLG SME LP | 96 | 825 | – | 15 | – |
| Year ended 31 March 2016 | | | | | |
| Trade Finance Partners Limited | 468 | 5,881 | (5,881) | 276 | (276) |
| COLG SME Loans LP | 105 | 1,500 | – | 26 | – |
| COLG SME LP | 204 | 2,750 | – | 48 | – |

(a) No interest on loan notes issued by TFPL has been recognised during the year.

## 7 Called-up share capital

| Allotted, called up and fully paid | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|
| 36,852,681 (2016: 36,852,681) ordinary shares of £0.10 | 3,685 | 3,685 |

The Company did not hold any shares in treasury at 31 March 2017 (2016: nil). 426,996 shares were held by the Employee Benefit Trust at 31 March 2017 (2016: 426,996). The Company did not purchase any shares from the Trust during the year (2016: nil).

## 8 Corporation tax

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|
| **UK corporation tax** | | |
| Current year charge | – | – |
| Total UK corporation tax | – | – |
| **Deferred tax** | | |
| Total for year | – | – |
| Total tax (credit) / charge | – | – |

## 8 Corporation tax (continued)

**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 20% (2016: 20%). The differences are explained below.

| **Tax reconciliation** | **31 March 2017 £'000** | **31 March 2016 £'000** |
|---|---|---|
| Loss before tax | (1,187) | (6,764) |
| At standard rate of corporation tax in the UK: | (237) | (1,353) |
| Effects of | | |
| Depreciation less than capital allowances | (3) | (1) |
| Items not deductible for tax purposes | 68 | 1,273 |
| Non-taxed dividend income | - | (1) |
| Movement on unrecorded deferred tax asset | 172 | 82 |
| | – | – |

**Deferred tax**

Total unrecognised deferred tax assets of the Group were £2,192,000 (2016: £2,330,000).

## 9 Financial instruments – price risk

The Group is subject to price risk on its legal case investments and, previously, on its portfolio of 'available for sale' financial assets. At 31 March 2017, the only investment held, other than residual investments, was an unlisted security. At 31 March 2016, 9% of the Group's portfolio comprised unlisted equity securities. There is no material sensitivity on the valuation of the legal case investments or the 'available-for-sale' financial assets.

*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 reference to current bid market prices.

The fair value of unlisted investments is determined using appropriated valuation techniques.

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 the carrying value of financial instruments equates to fair value.

## 9 Financial instruments – price risk (continued)

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

| | Level 1 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|
| 'Available-for-sale' financial assets | | | |
| Equity securities | – | 8 | 8 |
| Legal case investments | – | 132 | 132 |
| | – | 140 | 140 |

The following table presents the Group's assets that are measured at fair value at 31 March 2016:

| | Level 1 £'000 | Level 3 £'000 | Total £'000 |
|---|---|---|---|
| 'Available-for-sale' financial assets | | | |
| Equity securities | 138 | 13 | 151 |
| Legal case investments | – | 138 | 138 |
| | 138 | 151 | 289 |

Level 1 assets are quoted ordinary shares. There are no level 2 assets.

There were no transfers of assets between categories during the year (2016 – none). An asset is transferred when, due to changes in circumstances, it falls into another category within the fair value hierarchy.

The movement on level 3 assets is as follows:

| | 31 March 2017 £'000 | 31 March 2016 £'000 |
|---|---|---|
| Balance at 1 April | 151 | 276 |
| Additions | – | – |
| Impairment | (5) | (29) |
| Disposals | (6) | (96) |
| Balance at 31 March | 140 | 151 |

## 10 Risk statement

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

(i) Credit risk

Credit risk particularly arises in CAML. This is mitigated in a number of different ways. For the leasing business the exposure is reduced by ownership of the asset which can usually be resold. In the case of professional loans, personal guarantees are obtained wherever possible but in any event the professional reputation of the partners of the firm is at stake. In all cases there is a well-defined process for approval including credit committees with specific delegated powers.

## 10 Risk statement (continued)

(ii) Interest rate risk

Where lending is longer term as in professional lending or leasing then borrowing rates are fixed at the start to avoid interest rate exposure. Group borrowing is all at fixed rates.

(iii) Legal and regulatory risk

This risk arises in various ways but the risk of non-compliance with FCA regulations is considered low as limited business falling within this environment is undertaken. City of London Financial Services Limited, which is ranked in the lowest risk category by the FCA, is, now undertaking the activity of 'Operator' only for the two CAML limited partnerships, generating income of a few thousand pounds. CAML itself has full permission to operate under the FCA consumer credit regulations. CAML, which lends only to businesses, is regulated for those businesses that fall within the Consumer Credit Act. The risk of non-compliance by CAML is considered low as these regulated activities constitute only a minor part of its overall revenue.

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

(iv) Cash flow

There is a risk that the strategy for CAML does not develop as planned and it may require further working capital funding from COLG. It has an annual budget including a budgeted funding requirement. There are some mitigations which can be invoked by it to reduce working capital including cost cutting and managing the portfolio growth.

(v) Competition

There is a risk that the Group may become subject to increased competition in sourcing and making investments in the event that liquidity comes back into the SME market from the high street banks and other investors. This could lead to the platform finding it difficult to invest at the planned yields. This risk is mitigated by specialist expertise and by increased sales and marketing activity. In the case of the leasing and loans business the speed of credit decisions and the quality of operations is a key differentiator.

(vi) Business continuity

This is the risk that the business premises are unavailable due to fire or other disasters or of failure of IT systems. The consequential risk is the loss of key documentation and the inability to enter the business premises. This is mitigated by the ability of staff to work remotely from home and a disaster recovery plan. Key documents are held electronically and also separately with our lawyers. IT systems and data are backed up remotely and can be restored within acceptable timescales.

(vii) People/succession

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

## 12 Post balance sheet events

There are no reportable post balance sheet events to be disclosed.

## Annual General Meeting

The 2017 annual general meeting will be held at 9am on Thursday 24 August 2017 at the offices of Shakespeare Martineau, 60 Gracechurch Street, London EC3V 0HR. The notice of meeting and proxy form for the meeting will be included in the Annual Report which will be posted to shareholders in late July 2017.