CITY OF LONDON
INVESTMENT GROUP PLC

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ANNUAL REPORT & ACCOUNTS

2008

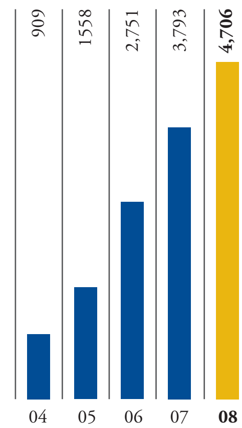
City of London Investment Group PLC is a leading emerging market and natural resource asset management group, specialising in the provision of products and services predominantly to institutional clients who include some of the leading institutions and endowment funds in the United States. City of London operates its business from offices in London, the US, Dubai and Singapore.

Contents

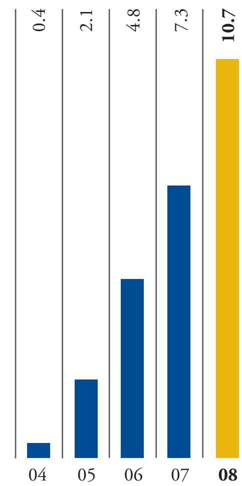
Highlights

- Funds under management (FUM) increased by 24% during the year to US$4.706 billion (2007: US$3.793 billion)
- Profit before tax up 46% to £10.7 million
- Basic earnings per share up 46.5% to 29.3p, fully diluted earnings per share up 47.7% to 26.0p
- Recommended final dividend of 13.5p per share (2007: 7p) payable on 21st November 2008 to shareholders on the register on 31st October, making a total for the year of 19.5p, up 95% (2007: 10p)
- Office in Dubai opened
- Further progress in developing European business

Funds under management US$m



Pre-tax profit £m



"The results for the year provide evidence of the success of the Group's strategy in a period of significant market uncertainty and volatility and illustrate what can be achieved by our focus on investment process (rather than just talented individuals) to deliver performance for clients, whilst keeping fixed costs to a minimum."
Andrew Davison, Chairman

"Whilst in the overall scheme of things we remain a small specialist boutique manager, we do intend to continue to grow our business as long as we do not compromise our investment performance. We have been quite successful in continuing to expand our non-US business which now represents 28% of our total FUM as compared with 17% in March of 2006. Over the next year I would hope to be able to report further success with particular emphasis from a product perspective in areas such as Frontier Markets, Natural Resources and our Developed Markets closed-end fund business."
Barry Olliff, Chief Executive

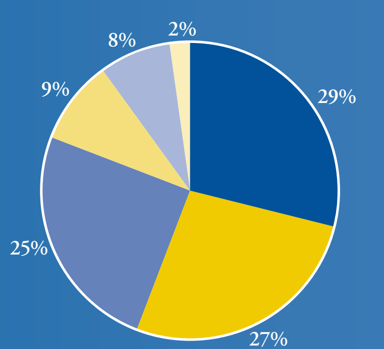
City of London at a glance

City of London has developed its simple operating philosophy over a number of years. This philosophy can best be represented by the six key drivers we have identified for our business:

1. Our investment performance drives our business
2. We use technology to leverage our capabilities
3. We maintain focus on profits, margins and costs
4. We have an aversion to risk in the management of our business
5. By focussing on the first four drivers, we create opportunities for further growth
6. We maintain our differentiation from competitors and continue to diversify our business.

Client type

As a percentage of total assets



- Endowment
- Corporate pension
- Foundation
- Other institutions
- Public pension
- Retail

USA

The Group's second office was established near Philadelphia in the United States in 1995 to better service the growing client base in North America and to provide investment management from the Americas time zone.

United Kingdom

The London office, our first, has been based in the City of London since 1991. In London we undertake investment management for our clients and research into our global markets from the European time zone.

Singapore

The third office, to cover Far East emerging markets in real time, opened in central Singapore in 2000, thus positioning the Group to cover our worldwide target investment markets 24 hours a day.

Dubai

This year we opened our fourth office, in Dubai. The office is now located in the Dubai International Financial Centre and will allow us to access what we believe will be some major investment opportunities in the region over the next few years.

Chairman's statement

With maintained focus on our core disciplines and with further diversification of our products and client base, we hope, subject as always to the performance of our investment markets, to report satisfactory results for the forthcoming year.

I am pleased to report to you a year of excellent results for which Barry Olliff the Chief Executive and his staff deserve both our thanks and our congratulations. Pre-tax profit increased 46% to £10.7m (2007: £7.3m), fully diluted earnings per share increased 47.7% to 26p from 17.6p, and dividends, subject to shareholders approval, increased by 95% to 19.5p per share.

City of London Investment Group's directors' and managers' strategy from inception to the present day has been to build a business that could better weather the volatility inherent in the markets comprising our investment focus. The results for the year ended 31st May 2008 provide evidence of the success of this strategy in a period of significant market uncertainty and volatility and illustrate what can be achieved by our focus on investment process (rather than just talented individuals) to deliver performance for clients, whilst keeping fixed costs to a minimum.

Results

Our Financial Statements for the year have been prepared under policies consistent with International Financial Reporting Standards ("IFRS"). As a consequence, results for comparative periods, reported under UK Generally Accepted Accounting Principles (UK GAAP), have been restated.

Fee income increased by 36% to £24.9 million (2007: £18.3 million), reflecting the rise over the year of funds under management from US$3.8 billion (£1.9 billion) in May 2007 to US$4.7 billion (£2.4 billion) at this year end. Profit before profit share, interest and similar income and tax increased by 42% to £14.5 million (2007: £10.2 million). Pre-tax profit increased by 46% to £10.7 million (2007: £7.3 million), after £4.7 million of profit related staff payments (2007: £3.1 million), interest received of £0.44 million (2007: £0.18 million) and £0.43 million (2007 restated: £0.05 million) of profits on the disposal of seed shareholdings in new funds and options traded. Earnings per share, after a 33% tax charge of £3.6 million (2007 restated: £2.4 million representing 33% of pre-tax profit), was 29.3p (2007 restated: 20p) and fully diluted earnings per share was 26p (2007 restated: 17.6p).

Dividends

City of London's dividend policy is based on paying dividends to shareholders that are covered approximately one and a half times by full year profit per share with an annual distribution pattern of roughly one third as an interim dividend and two thirds as a final dividend. The Board has already declared an interim dividend of 6p per share, which was paid in March 2008 and is now pleased to recommend a final dividend for the year of 13.5p per share payable on 21st November 2008 to shareholders on the register on 31st October 2008. This makes a total for the year of 19.5p per share and represents a 95% increase over the 10p paid in respect of the year to end May 2007.

Listing

The Board has reviewed the listing of the Company's shares and considers that a move from AIM to a full listing on the London Stock Exchange would benefit both City of London and its existing shareholders by improving the standing of the Company, particularly in the USA, and by broadening the universe of potential investors in the Company and, thereby, increasing liquidity. Landsbanki Securities have been appointed as sponsors to the Company. Accordingly, the AGM notice on pages 47 to 52 of this report includes resolutions covering appropriate changes to the Company's Articles of Association and the proposed delisting from AIM.

Review

We have again made very good progress in growing the Company through the careful and cautious diversification of our business – in terms of clients, investment products and geographical reach. A detailed review of this progress is contained in the Chief Executive Officer's Review on pages 8 to 11, but I set out the highlights here.

Funds under management began the year at US$3.8 billion and peaked at US$4.9 billion in October 2007 before falling slightly to US$4.7 billion at the year end as emerging markets recovered from a relatively sharp correction in the first quarter of the calendar year. The substantial year-on-year increases in our funds under management include significant new money from Europe. However, as a result of strong performance in the emerging and other market sectors in which the Company invests, and also the out performance created by the Company, a number of clients' exposures to the sector have become overweight within their overall portfolios. This imbalance was corrected by a series of rebalancing realisations, largely replenished in our overall funds under management by new money. We believe that rebalancing has been completed and that further new monies will therefore increase funds under management.

City of London has also diversified its geographical base, both for the management of existing funds and, in due course, for the sourcing of new mandates, with the opening in November of the new Dubai office. After several months in temporary serviced accommodation we took possession of our new offices in the Dubai International Financial Centre in July, and are already benefiting from a presence on the ground at the centre of the fast growing Middle Eastern markets.

In order to maximise efficiencies throughout the business and across our four offices around the world, we have committed to a programme to upgrade our IT systems. IT is a critical component of City of London's performance delivery and this year will see a complete revamp of our network and communications infrastructure to be followed by the roll-out of a new front office and compliance system. These improvements and upgrades result from our strategic aim to leverage proven technology to deliver tangible financial benefits to clients and shareholders.

Finally, one of our original founder shareholders, FMH Investments NV, decided to realise its investment in the Company and in February the entire stake, representing 29.6% of City of London's then issued share capital, was placed out. The majority of the shares were placed with existing and new institutional investors by Landsbanki and Evolution Securities (our newly appointed joint brokers). The balance of some 30% of the stake was bought back for cancellation or acquired by directors and the Company's ESOP. Full details of the transaction are contained in the Financial Review on page 15.

Board

In May, I was delighted to welcome to the Board Dr Allan Bufferd, Treasurer Emeritus of the Massachusetts Institute of Technology, as a non-executive director. Dr Bufferd's directorships and trusteeships include Och-Ziff Capital Management Group, Ram Re Holdings, Bessemer Trust BGO Fund, Boston Advisors, Controlled Risk Insurance Company/Risk Management Foundation, Morgan Stanley Prime Properties Fund and the Robert Wood Johnson Foundation. His experience, contacts and wise counsel will, I am sure, benefit City of London greatly.

Outlook

In the first three months of the current financial year, the emerging markets in which we principally invest have declined significantly due to the deteriorating global economic outlook. This has resulted in funds under management reducing from the year end figure of US$4.7 billion to a first quarter end figure of US$3.9 billion as at 31st August 2008. This is a 16% fall and compares to a decline of 21% in the MXEF index. The significant depreciation of sterling against the dollar since the year end should have a positive effect on earnings.

2008/9 results will be earned against a much more uncertain background than that of last year. We have already seen funds under management fall since the year end to a level closer to that at the start of last year. We are however fortunate that the Company's strategy has positioned us relatively favourably. With maintained focus on our core disciplines and further diversification of our products and client base, we hope, subject as always to the performance of our investment markets, to report satisfactory results for the current year.

Andrew Davison
Chairman
12th September 2008

Institutional not retail

Some fund managers focus on retail investors. City of London does not. As an institutional manager we are not subjected to the volatility of subscriptions and redemptions of many retail houses, resulting in stronger client retention.

Rio de Janeiro, Brazil

Whilst in the overall scheme of things we remain a small specialist boutique manager, we do intend to continue to grow our business as long as we do not compromise our investment performance.

In my previous annual review, I referenced the fact that the year to May 2007 had been our first full year as a listed company and that I was surprised that it had, to a great extent, been business as usual.

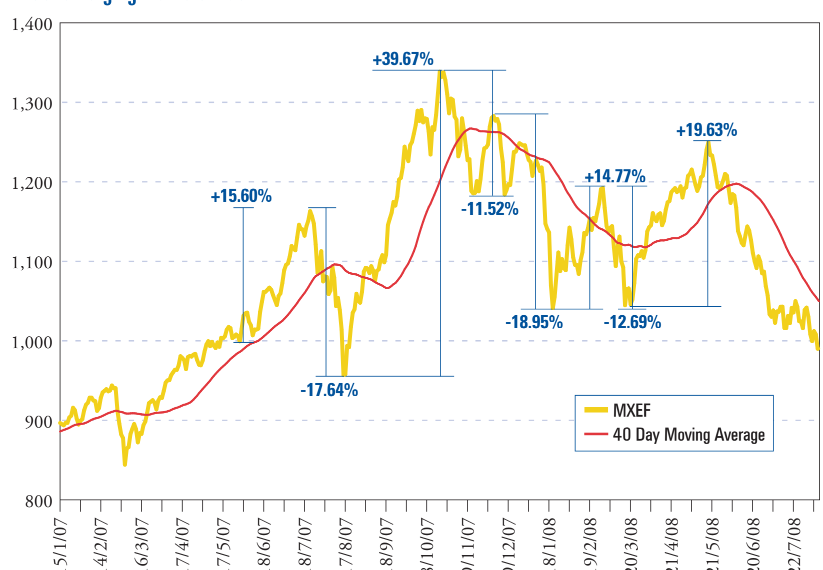
This year we have been tested rather more both by way of markets and also our clients' reaction to the events in the markets.

Market volatility

First, using the MSCI emerging markets index (MXEF, as shown below) as a

index was trading at a standard deviation of around 4X expensive, this being the most expensive in around 20 years according to our calculations. Both of these risk controls assisted in the out performance that we achieved over the next few months and by the end of March 2008 we had achieved a significant level of out performance against all of our Emerging Markets benchmarks. We maintained this level of out performance to the end of the financial year.

MSCI emerging markets index



Source: Bloomberg

proxy for about 95% of our business, we have had to deal with some significant volatility over the past year. During August and September as the index rose towards 1,350 we reduced the beta across our clients' portfolios to around 0.7. In addition we increased cash during this period, from close to zero to nearly 5%. As a relative return manager each of our accounts is obviously measured against a benchmark and as a result we are not prepared, or in some mandates allowed, to increase cash to above 5%.

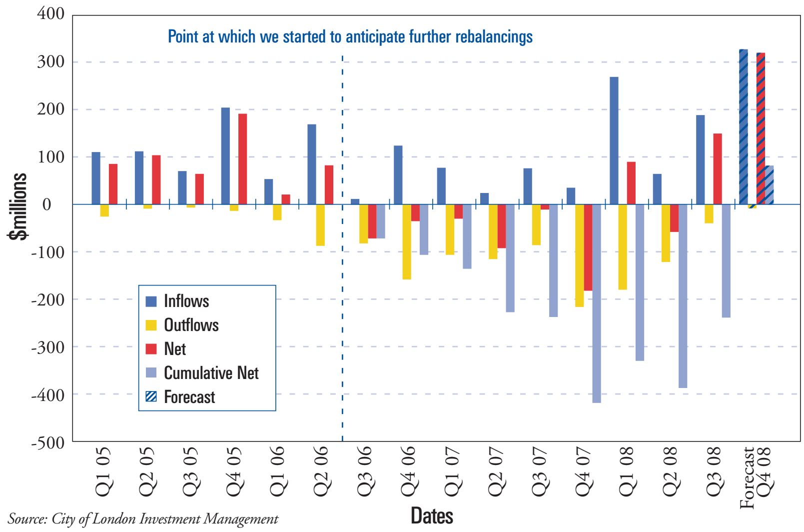
In terms of our beta management we had calculated that at the end of October the

Rebalancing

Second, and as referenced in the bar chart on page 9, we have over the past year dealt with a significant level of rebalancing away from our asset class as a result of our asset class's out performance when compared with other asset classes and also as a result of our own out performance against the benchmarks. What is shown on page 9 is inflows (blue), outflows (yellow) and net (red). Over the financial year the cumulative net outflow was $224 million (light blue).

Over the past 24 months, the totals were $1,059 million out and $673 million in,

Asset flows



Source: City of London Investment Management

leading to a net outflow of $386 million. An explanation needs to be provided to shareholders regarding these events because the amounts are very significant in terms of our total funds under management.

As a relative return manager we are given an amount of money to manage for, let us say, an endowment. This endowment will have decided to place, let us say, 5% of its assets in an emerging markets mandate. Let us further assume that the consultant who has both screened and assisted in the appointment of CLIM has suggested that the allocation to the emerging markets should be maintained within a band of 4% to 6%, and that this has been agreed by the endowment's committee. At the point that, as a result of the emerging markets out performing the other asset classes within the endowment's portfolio (further assisted by CLIM's out performance), the exposure gets to let us say 7%, it is quite likely that we would receive a rebalancing request thus placing the endowment's exposure to emerging markets via CLIM back within the 4% to 6% range.

In fact as referenced earlier we have replaced these departing assets with new client assets of $673 million over the past two years.

Going forward the outlook is considerably better as not only have rebalancing requests (yellow) reduced significantly recently, but in addition we are continuing to receive substantial inflows as shown below. I would further add that in the event that the Emerging Markets were to underperform for a period (as long as our performance was maintained) we would be likely to be the beneficiary of rebalancing in the reverse direction.

Put another way, as an institutional manager we are not subjected to the volatility of subscriptions and redemptions of many retail houses, rather our subscriptions and redemptions (which are generally monthly events) are reflected as above. Obviously, subject to ongoing satisfactory investment performance the existing assets should remain very sticky.

Cost control

As you are aware we try very hard to run a low cost business. Over the past few years we have reduced the cost/income ratio of our business from 53% to 28% (as measured before profit-share and treating third party marketing commission and custody as a deduction from fees rather than as an expense). Whilst in the overall scheme of things we remain a small specialist boutique manager, we do intend to continue to grow our business as long as we do not compromise our investment performance. We have been quite successful in continuing to expand our non-US business which now represents 28% of our total FUM as compared with 17% in March of 2006. Over the next year I would hope to be able to report further success with particular emphasis from a product perspective in areas such as Frontier Markets, Natural Resources and our Developed Markets closed-end fund business.

Charles River implementation

In keeping with our strategy for the continuing development of our business we have selected The Charles River Investment Management System (CR IMS) to further automate front office processes and streamline the portfolio management, trading and compliance monitoring of our global operations. CLIG will benefit from extensive portfolio management tools, integrated trade order management and real-time pre-trade compliance testing and monitoring on a scalable platform. Implementation of the CR IMS has been initiated and we expect to complete the first phase of this project early in the 2009 calendar year. Most fund managers would perhaps suggest that $10bn was the size at which this would be justified, but we have based our decision on our belief that as a result of superior investment performance our FUM will continue to grow. Obviously if we are correct, this will further reduce the earlier referenced cost/income ratio.

The financial services industry

We are continuing to watch the significant reduction in market capitalisation that is being suffered by many financial service companies.

Chief Executive Officer's review

Continued

I would like to thank CLIG employees for their continued hard work in what has been a difficult market environment. The relative success enjoyed by the Group is entirely down to your hard work.

Many of these have grown very rapidly in the past into areas that they did not understand, with inadequate systems and risk controls in place. In many instances the pay and other rewards received by many practitioners would seem to be out of all proportion to their expertise or experience. Further the shareholders who own these businesses do not seem to have done very well from these events either. Even now it seems amazing that many bonuses remain so high when businesses are losing money. At some point there has to be a realisation that in many instances these have been flawed business models, that shareholders, the owners, do need to make money, and that a balance of reward between the various stakeholders rather than greed is what this business is all about.

I would point out that the formula that we employ within CLIG is that the Employee bonus pool is 30% of the pre tax, pre bonus profit. Shareholders receive the balance of the earnings subject to cover for the dividend being around 1.5 times. Our established policy is to pay this dividend approximately one third as an interim and the other two thirds as a final dividend.

We believe that our clients pay the bills and our shareholders own the business. We believe that we are charged with the role of managing that business.

A new board member

Recently, Allan Bufferd joined the Board of CLIG. We were introduced to Allan via his role as Treasurer of the Massachusetts Institute of Technology, where he worked for 34 years. As a result of Allan's arrival we now have some experienced US Institutional Fund Management expertise on our Board which I believe will assist us regarding making good strategic decisions regarding the Group over the next few years.

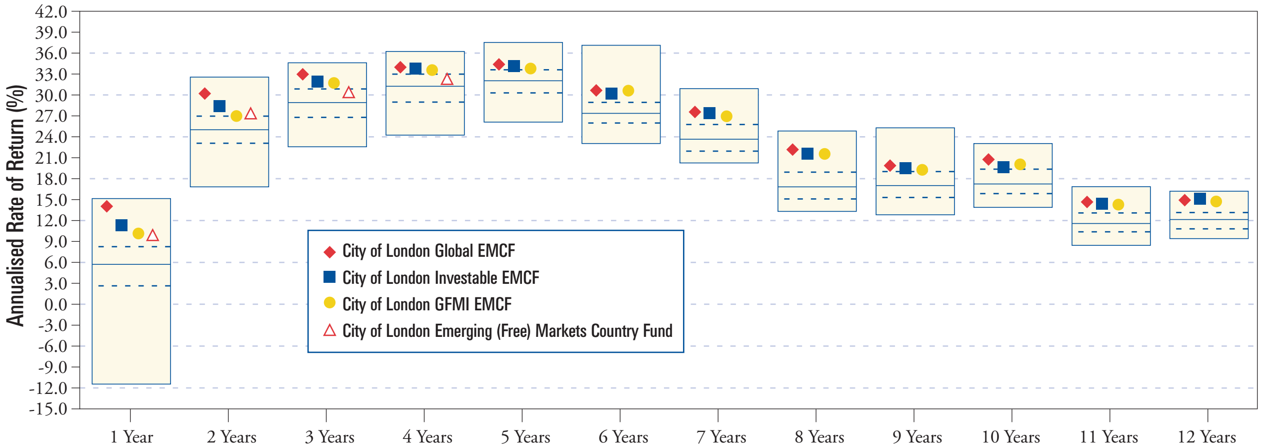
Currency hedging and sensitivity to our US$ exposure

There are two pieces of information that I would reference in this Statement that appear elsewhere in this report. First our currency hedging programme, and second the sensitivity of our GBP denominated income to (primarily USD denominated) fee income. These are described on pages 15 and 45. Obviously, USD/GBP currency sensitivity is particularly relevant at this time of significant volatility in currencies.

My retirement

Rather than there be any misunderstanding regarding my potential retirement I thought it might be helpful to go into some detail regarding my present intentions. Obviously I have zero ability to impose my will on either Shareholders or the Group Board, but ideally and taking into account the previous caveat, it would be my intention to continue to work for at least another five years. Since I reached the age of sixty, three years ago, I have repeated this each year

City of London Emerging Markets North American Performance versus Peers ending 30th June 2008



Source: eVestment Alliance

and would intend to continue to repeat it in this Statement each year for as long as the plan was unchanged. I would however like to make the point that I do need to start planning for retirement.

To this end it is my present intention to offer an option for 1m of my CLIG shares to the CLIG ESOP at a price of, say, 300p for these shares to be distributed via the ESOP according to the rules of the ESOP. Further, separate from any ESOP transaction, in the event that the CLIG share price appreciates to 400p during the next year it would be my intention, subject to relevant Close Period restrictions, to sell a further 500,000 shares and to undertake the same at 450p and 500p.

I'm stating this in this review because many founder employee shareholders such as myself, come in for a significant amount of criticism as a result of these types of transaction. It's my opinion that if this is communicated well in advance of the event, that any criticism would be unjustified. This should also be seen within the context of my own personal financial circumstances. Effectively all of my wealth is tied up in CLIG shares, and whilst I have no present intention of retiring I would like to have the opportunity for planning for such an event at some point in the future.

Dubai office

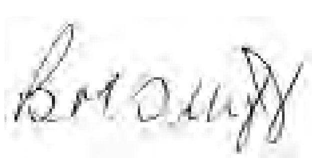
We opened our Dubai office last November. This office was established to enable us to continue to develop our investment process. We were of the opinion in establishing the office there were going to be some major investment opportunities in the region over the next few years. Prior to the opening of the office we had decided to overweight the region in our emerging market portfolios. Subsequent to opening the office we have further increased our weighting to the region. This over weighting is one of the major reasons for the out performance we have achieved in comparison to our benchmarks over the past year.

Continued growth

If one were to index our FUM from the high of the Index (MXEF 1,340 at the end October '07) our FUM should have been around \$3.17bn at yesterday's recent low of 840. Instead, FUM were \$3.52bn, representing both the effects of our relative out-performance versus the Index as well as net positive subscription activity from our clients. Looking forward to the fourth calendar quarter, we have at this juncture commitments for another \$325 million in the pipeline (see Asset Flows chart on page 9).

CLIG employees

I would like to thank CLIG employees for their continued hard work in what has been a difficult market environment. The relative success enjoyed by the Group is entirely down to your hard work. I would like to say as a shareholder that the overall team work displayed by you all is something of which you should be very proud.



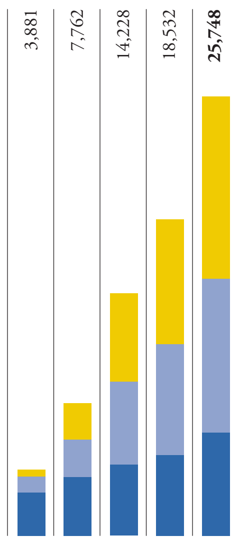
B M Olliff
Chief Executive Officer
12th September 2008

Relative not absolute

From a strategic perspective, many fund managers manage money on an absolute basis. City of London manages all client assets on a relative basis against a benchmark which reflects the client's asset allocation objectives.

Taj Mahal, India

Financial review



International Financial Reporting Standards

This is the Group's first complete set of annual financial statements prepared in accordance with the requirements of International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board as adopted by the European Union. With the exception of the exemptions set out below, the Group is required to establish its IFRS accounting policies as at 1st June 2007 and to apply these retrospectively to determine prior period comparatives from 1st June 2006, the date of transition to IFRS.

The one material change arising from the adoption of IFRS is the creation of a deferred tax asset of £3.2 million (2007: £2.4 million), to reflect the potential tax relief available to the Group as a result of the future exercise of share options. The resulting reserve is combined with the existing share option reserve. There is no material effect on profit in the current or prior period.

In accordance with the transitional provisions of IFRS 1, the Group has taken advantage of two exemptions available from the general requirement described above: IFRS 2 – Share-based Payments has been applied only to share-based awards granted after 7th November 2002 that had not vested as at 1st June 2006. Second, IFRS 3 – Business Combinations has not been applied retrospectively to business combinations that occurred prior to 1st June 2006.

Consolidated income statement

Group turnover comprises management fees charged as a percentage of funds under management (FUM) and increased by 36% over the period under review to £24.9 million as a result of the increase in FUM, which ended the year at US$4.7 billion, compared to $3.8 billion at the start. While US accounts continue to provide the major part of turnover, the proportion generated in Europe doubled for the second year in a row to £2.8 million (2007: £1.4 million) and now represents 11% of Group turnover (2007: 8%), reflecting the translation of marketing activity in Europe to new mandates won.

The operating profit derived from this increased turnover was £9.8 million (2007: £7.1 million), an increase of 39%.

Administrative expenses increased in line with turnover to £15.1m, up 34%. This is the natural result of the Group's strategy which seeks to align a significant proportion of costs with income and profit, principally through the mechanisms of marketing commissions (up from £2.7 million to £3.6 million) and profit-share (up from £2.9 million to £4.3 million). Overall, taking into account employment taxes on profit-share payments (including taxes on share option exercises, which are charged to the profit-share pool) of £0.4 million (2007: £0.4 million), these two variable costs at £8.3 million in total constituted nearly 55% of total administrative expenses (2007: £5.9 million, 52%). Of the balance, the most significant element was payroll costs, excluding profit-share, which rose by 19% to £3.6 million, reflecting an increase in the average number of employees during the year to 50 (previously 44), while the balance of "general overhead" increased from £2.3 million to £3.2 million, for the most part due to product structuring costs in respect of the European market.

Interest receivable and similar income increased almost fourfold to £0.9 million (2007: £0.2 million), with close to half of this figure deriving from profit arising on "sale of investments" – i.e. gains realised on the withdrawal of seed funding provided by the Group in respect of new products, where third party funding or market growth has rendered those investments unnecessary or excessive.

The tax charge for the year was £3.6 million (2007: £2.4 million) representing 33% of profit before taxation (2007: 33%). As usual the charge is higher than the 30% prevailing rate of UK corporation tax (28% from 1st April 2008) because net income attributable to the US operations attracts the higher US corporate tax rate of around 45%.

Profit for the period, after tax, therefore rose to £7.1 million (2007: £4.9 million), an increase of 46%.

Consolidated balance sheet and statement of changes in shareholders' equity

While the profit after tax contributed £7.1 million to retained earnings, total equity declined by 9% to £9.8 million (2007: £10.7 million) principally because the Group took advantage of the authority to purchase its own shares and during the year invested a total of £6.1 million (2007: £0.7 million) in ordinary shares, £5.8 million of this relating to the placing of the stake held by one of the Group's then largest investors, FMH Investments NV. Out of 1.9 million shares purchased during the year, 1.4 million were cancelled, thereby reducing equity by £4.5 million, while the balance was retained by the Group's Employee Share Option Trust ("the Trust"), funded by a loan from the Group, and is classified as investment in own shares. The Trust issues options to the Group's employees and the loan, which at the year end amounted to £2.8 million (2007: £1.6 million), is repaid as and when these options are exercised.

Dividends paid to shareholders during the year totalled £3.2 million, representing the cost of the final dividend in respect of 2007 of 7p paid in November 2007 and this year's interim dividend of 6p paid in March 2008, the latter reflecting the new dividend cover policy of approximately 1.5x (previously 2x). The 2007 comparative was the £0.7 million cost of the interim dividend for that year of 3p per share paid in March 2007.

Despite the share purchase and the dividends, the balance sheet remains highly liquid, with cash balances at the year end of £5.5 million (2007: £6.6 million) representing 56% of net assets (2007: 62%).

The revaluation reserve, which represents the unrealised profit on the Group's seed investments in new products, stood at an unchanged £0.5 million, which is of course net of the £0.4 million of gains which were realised during the year, as described above.

Currency exposure

Approximately 90% of the Group's income is in US dollars, but its expenses are roughly evenly divided between sterling and US dollars (with a small Singapore dollar and smaller UAE Dirham element). Consequently, reported sterling income is significantly exposed to movements in the sterling/US dollar exchange rate, which during the year moved within an approximate range of US$1.93 – 2.10 to £1 (2007: US$1.80 – 2.00 to £1), and since the year end has dipped beneath 1.80.

The table below illustrates the approximate effect of moves in the exchange rate on post tax profits across a range of funds under management levels, given the current geographical distribution of the expense base:

	FUM – US$bn			
	3.5	4.0	4.5	5.0
US$/£	Post-tax, £m			
1.75	5.6	6.8	8.0	9.2
1.80	5.4	6.6	7.8	9.0
1.85	5.3	6.4	7.5	8.7
1.90	5.1	6.2	7.3	8.4
1.95	4.9	6.0	7.1	8.2

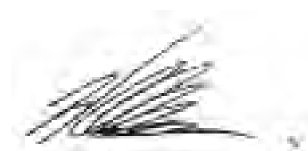
Assumes:
1. Average net fee 0.90%
2. Annual operating costs £2.8 million plus $5.6 million
3. Profit share equivalent to 30% of operating profits
4. Average tax rate of 33%

For example, if funds under management were constant at US$4.5 billion throughout the year, then the impact on sterling post-tax profit of a move in the exchange rate from US$1.95 to US$1.75 to £1 would be approximately plus £0.9 million on an annualised basis, assuming unhedged exposure. There is of course a significant degree of natural hedge inherent in the Group's investment process, given that a weaker US dollar gives an uplift to funds under management as measured in US dollars, and therefore to US dollar fees, so it is no coincidence that FUM tends to move inversely to the $ strength, *ceteris paribus.*

As in previous years, balance sheet currency exposure is hedged by forward sales, with a total of US$6.2 million sold forward at the balance sheet date (2007: US$4.5 million).

Share options

As at 31st May 2008, there were 3,958,310 options on ordinary shares outstanding (2007: 4,797,675), representing 15.6% of the current issued share capital. Of the options outstanding at the year end, 1,458,310 (2007: 2,297,675) are over shares held by the Employee Share Option Trust and their eventual exercise will therefore result in no dilution to existing shareholders' interests. Dilutive share options represent 9.9% of issued share capital.



D F Allison
Finance Director
12th September 2008

Team not individual

Oil refinery, United Arab Emirates

Many fund managers encourage the cult of the individual. City of London presents a team, process driven approach to fund management that produces consistent performance for clients and low staff turnover.

Board of directors

A J Davison
NON EXECUTIVE CHAIRMAN

Andrew Davison, a Chartered Accountant, joined County Bank Limited in 1972 and by 1984 had become Managing Director of NatWest Ventures. In 1987 he became Chairman and CEO of Business Mortgages Bank which was sold in 1991. He subsequently joined the Boards of a number of listed and unlisted companies.

B M Olliff
CHIEF EXECUTIVE OFFICER

Barry Olliff's career has spanned over 40 years within the investment trust (closed-end fund) sector. He began his career in 1964 with Denny Brothers, ultimately Pinchin Denny, as a market maker in the sector. In 1979 he moved to Laing & Cruickshank as a member of their investment trust department, and became a director in 1984. In 1987 he established Olliff & Partners, the stockbroker business from which City of London was founded in the early 1990's.

D F Allison
FINANCE DIRECTOR

Doug Allison graduated in Economics & Accountancy at the University of Southampton, and went on to qualify as a Chartered Accountant with Ernst & Young in 1980. He moved to the financial services sector in 1984, and joined City of London in 1997. Doug is also an Associate of the Chartered Institute of Bankers.

C M Yuste
BUSINESS DEVELOPMENT DIRECTOR

Carlos Yuste holds a BS in International Relations from the University of Ottawa, and an MA in International Political Economy from Carleton University, also in Ottawa. He worked at the International Development Research Centre in Ottawa from 1994 to 1998, leaving to undertake an International MBA at York University, Toronto, which he completed in 2000 before joining City of London in the same year.

T W Griffith
CHIEF OPERATING OFFICER

Prior to joining City of London Group in 2000, Thomas Griffith held various positions in the institutional client division of The Vanguard Group including roles as both a Client Relationship Manager and a Marketing Executive. In 1986 he obtained a bachelor's degree in Corporate Finance and Investment Management from the University of Alabama.

O I Ashur
NON EXECUTIVE DIRECTOR

Omar Ashur is the chief financial officer of Future Management Holdings SA, one of the founders of the Company and CFO of Future Pipe Industries Group Limited, a leading fibreglass pipe manufacturer and has an MBA and PhD from the Wharton School of the University of Pennsylvania, in Philadelphia.

D M Cardale
NON EXECUTIVE DIRECTOR

David Cardale has worked extensively in both Corporate Finance and Private Equity. He has advised a number of fund management groups including Gartmore, Ivory & Sime and MIM, and ran the European operations of NatWest Equity Partners. He has been a director of two London listed Investment Trusts. David Cardale holds an MBA from INSEAD.

G A Robb
NON EXECUTIVE DIRECTOR

George Robb qualified as a solicitor before becoming fully involved with the asset management sector in 1971. In 1994 he established Asset Management Investment Company PLC as a specialist vehicle investing in the asset management sector and was appointed managing director on its flotation. He is a non-executive director of Integrated Asset Management plc and a number of the companies in which AMIC is invested.

Dr A S Bufferd
NON EXECUTIVE DIRECTOR

Allan Bufferd is Treasurer Emeritus of Massachusetts Institute of Technology ("MIT"), where he served for over 30 years prior to his retirement in 2006. At MIT, Allan was an ex-officio member of the governing board, and supervised the formulation and implementation of investment policy for $12 billion of endowment and retirement fund assets. He is a current or former member of a large number of corporate, foundation and investment advisory boards.

Officers and Board Committees

	Board	Audit Committee	Remuneration Committee	Nominations Committee
D F Allison	*Executive, and Secretary*			
O I Ashur	*Non-executive*	● *Chairman*	●	●
A S Bufferd	*Non-executive*		●	●
D M Cardale*	*Non-executive*	●	●	●
A J Davison	***Chairman*** *Non-executive*		●	● *Chairman*
T W Griffith	*Executive*			
B M Olliff	*Executive*			
G A Robb	*Non-executive*	●	● *Chairman*	
C M Yuste	*Executive*			

*Senior independent non-executive director.

Professional advisers

Nominated advisers and joint brokers
Landsbanki
Beaufort House
15 St Botolph Street
London
EC3A 7QR

Joint brokers
Evolution Securities Ltd
100 Wood Street
London
EC2V 7AN

Auditors
Moore Stephens LLP
Chartered Accountants
St. Paul's House
Warwick Lane
London
EC4M 7BP

Bankers
The Royal Bank of Scotland plc
London City Office
62-63 Threadneedle Street
London
EC2R 8LA

Financial communications
Tavistock Communications
13 Finsbury Pavement
London
EC2A 1NT

Registrars
Capita Registrars
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Registered office

10 Eastcheap
London
EC3M 1LX

Note: In connection with the Company's move to new offices, the board has resolved to move the Company's registered office address to:
77 Gracechurch Street
London
EC3V 0AS

Notification of this change will be lodged for registration at Companies House on 1st November 2008

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31st May 2008.

Principal activity and review of business

City of London Investment Group Plc is the holding company for a number of investment management subsidiaries. The principal operating subsidiary is City of London Investment Management Company Limited, which acts as an investment adviser and which advises on 30 accounts (2007 – 27 accounts) with a total of £2,379m (2007 – £1,916m) under management as at the end of the year. Accounts may be commingled or segregated, with the number of underlying clients at 31st May 2008 being approximately 400 institutional and 1,000 retail (2007 – approximately 340 and 1,100 respectively).

The Report of the directors should be read in conjunction with the Chairman's statement, the Chief Executive Officer's review, and the Financial review on pages 4 to 15, which together provide a commentary on the operations of the Group.

Future prospects

The Board is optimistic as to the future and is committed to increasing the Group's funds under management.

Results and dividend

The results of the Group for the year, together with details of amounts transferred to reserves, are set out on pages 28 and 30. The Company has paid dividends of £3,237,691 during the year (2007 – £735,864). The final dividend for the year to 31st May 2008 will be paid in November 2008, subject to approval.

Corporate governance

(a) The Board of directors

The Board recognises the importance of good corporate practice and is committed to maintaining high standards of corporate governance throughout the Group. The Board comprises four executive directors and five non-executive directors. The directors intend to comply with the Combined Code in such respects as are appropriate for a company of this size, nature and stage of development.

The Board meets regularly and has overall responsibility for ensuring that the Group is properly led and controlled, and is accountable to shareholders for financial and operational performance. These responsibilities include the overall strategy of the Group, approval of significant items of expenditure and consideration of significant financing matters pertaining to the Group.

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee (each comprising of at least three non-executive directors, who will invite other members of the Board to join meetings as appropriate) with formally delegated duties and responsibilities.

(b) The Remuneration Committee

The Remuneration Committee is chaired by George Robb. It reviews the performance of executive directors and sets the scale and structure of their remuneration and reviews the basis of their service agreements with due regard to the interests of the shareholders. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to executive directors and employees. It also reviews individual compensation over £100,000. The remuneration and terms of appointment of non-executive directors is set by the Board.

The Company has a remuneration policy, the aim of which is to provide, in the context of the Group's business strategy, remuneration that will attract and retain high calibre executives and staff. In order to achieve this, total rewards are set at levels that are competitive within the relevant market. Rewards are earned through the achievement of objectives based on measures consistent with shareholder interests.

(c) The Audit Committee

The audit committee was chaired by Andrew Davison until 11th September 2008 when Omar Ashur took the chair. It meets at least twice each year and is responsible for monitoring the quality of internal control, ensuring that the financial performance of the Company is properly measured and reported on, meeting with the auditors and reviewing reports from the auditors relating to accounting and internal controls.

The finance director is invited to attend meetings but the committee meets with the auditors at least once a year without the finance director being present.

Report of the directors

Continued

(d) The Nominations Committee

The Nominations Committee is chaired by Andrew Davison. It is responsible for reviewing and proposing appointments to the Board and the various Board committees. In addition, the committee has responsibility for reviewing the composition of the Board and for selecting candidates for appointment, to meet the desired composition.

Directors interests and remuneration

(a) Shareholdings

The directors who served throughout the year and their interests in the Company were as follows:

	Ordinary Shares of 1p each 2008	Ordinary Shares of 1p each 2007
A J Davison *(Chairman) (non-executive)*	**49,000**	49,000
B M Olliff	**4,888,025**	3,763,250
D F Allison	**260,625**	175,625
T W Griffith	**16,575**	16,575
C M Yuste	**29,575**	16,575
O I Ashur (non-executive)	**5,000**	5,000
D M Cardale (non-executive)	**156,250**	–
G A Robb (non-executive)	**–**	–
A S Bufferd (non-executive, appointed 1st May 2008)	**–**	–

(b) Share options

At 31st May 2008 share options were held by the following directors:

	Number	Exercise price £	Date from which exercisable	Expiry date
B M Olliff	62,500*	0.45	13th September 2004	13th September 2008
	189,000	0.29	14th May 2007	14th May 2009
	311,000	0.26	14th May 2007	14th May 2014
	25,000	1.40	31st March 2009	31st March 2016
	5,000	2.61	30th January 2010	30th January 2017
	5,000	2.73	30th March 2010	30th March 2017
D F Allison	250,000**	0.26	14th May 2007	14th May 2014
	18,750	1.40	31st March 2009	31st March 2016
	5,000	2.61	30th January 2010	30th January 2017
	5,000	2.73	30th March 2010	30th March 2017
T W Griffith	50,000	0.45	10th January 2004	10th January 2011
	33,350*	0.45	13th September 2004	13th September 2008
	16,650	0.45	13th September 2004	13th September 2011
	250,000	0.26	14th May 2007	14th May 2014
	12,500	1.40	31st March 2009	31st March 2016
	5,000	2.61	30th January 2010	30th January 2017
	5,000	2.73	30th March 2010	30th March 2017

(b) Share options continued

	Number	Exercise price £	Date from which exercisable	Expiry date
C M Yuste	50,000	0.45	10th January 2004	10th January 2011
	33,350*	0.45	13th September 2004	13th September 2008
	16,650	0.45	13th September 2004	13th September 2011
	250,000	0.26	14th May 2007	14th May 2014
	12,500	1.40	31st March 2009	31st March 2016
	5,000	2.61	30th January 2010	30th January 2017
	5,000	2.73	30th March 2010	30th March 2017

* Options exercised on 9th June 2008.

** 30,000 options exercised on 9th June 2008.

(c) Remuneration

The remuneration of the directors who held office during the year ended 31st May 2008 is set out below:

	Salary £	Profit share £	Health insurance £	**Total 2008 £**	Total 2007 £	**Pension 2008 £**	Pension 2007 £
Non-executive							
A J Davison	30,000	–	–	30,000	30,000	–	–
G A Robb	20,000	–	–	20,000	20,000	–	–
O I Ashur	20,000	–	–	20,000	20,000	–	–
D M Cardale	20,000	–	–	20,000	20,000	–	–
A Bufferd	2,500	–	–	2,500	–	–	–
	92,500	–	–	92,500	90,000	–	–
Executive							
B M Olliff	174,497	937,300	–	1,111,797	858,941	21,812	22,775
D F Allison	137,000	442,000	1,733	580,733	441,309	17,125	16,875
T W Griffith	101,209	229,340	–	330,549	269,525	12,651	13,014
C M Yuste	101,209	229,340	–	330,549	269,525	12,651	13,014
	513,915	1,837,980	1,733	2,353,628	1,839,300	64,239	65,678

Substantial shareholdings

At 25th August 2008, the Company had been notified of the following interests of 3% or more in the Company's ordinary shares:

Interested party	Number of shares	Percentage of issued shares
B M Olliff	5,012,580	19.74
BlackRock Investment Management	3,194,764	12.58
F&C Asset Management	2,862,862	11.28
The City of London Employee Share Option Trust	1,748,900	6.89
Asset Management Investment Company PLC	1,500,000	5.91
Insight Investment	1,363,653	5.37
JP Morgan Asset Management	1,090,800	4.30
Saracen Fund Managers	937,500	3.69

Report of the directors
Continued

Creditor payment policy
The Company's current policy concerning the payment of its trade creditors is to:

(a) settle the terms of payment with suppliers when agreeing the terms of each transaction;

(b) ensure that suppliers are made aware of the terms of payment; and

(c) abide by the terms of payment.

The payment policy applies to all payments to suppliers for revenue and capital supplies of goods and services without exception.

As at 31st May 2008, the creditor days were Nil (2007 – Nil).

Donations
During the year the Group made charitable donations of £595 (2007 – £5,000).

Purchase of own shares
During the year the Company repurchased 1,417,300 of its own shares, with a nominal value of £14,173, and representing 5.3% of the called up share capital, for cancellation. The total consideration paid was £4,535,360. Further details can be found in the financial review.

Auditors
A resolution to re-appoint Moore Stephens LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

Each of the persons who are directors at the time when this report is approved has confirmed that:

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

(b) each director has taken all the steps that ought to have been taken as a director, including making appropriate enquiries of fellow directors and the Company's auditors for that purpose, in order to be aware of any information needed by the Company's auditors in connection with preparing their report and to establish that the Company's auditors are aware of that information.

Approved by the Board of directors and signed on behalf of the Board

D F Allison
Company Secretary
12th September 2008

Statement of directors' responsibilities

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, 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.

The directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for the system of internal control, for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the shareholders of City of London Investment Group plc

We have audited the group and parent company financial statements (the "financial statements") of City of London Investment Group Plc for the year ended 31st May 2008 which comprise the Consolidated income statement, the Consolidated and Company balance sheets, the Consolidated and Company statement of changes in shareholders' equity, the Consolidated and Company cash flow statements and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report, the Financial review, the Chairman's Statement and the Chief Executive Officer's review. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st May 2008 and of its profit for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 31st May 2008;
- the financial statements have been properly prepared in accordance with the Companies Act 1985 and, as regards the group financial statements, Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the financial statements.

Moore Stephens LLP
12th September 2008
Registered Auditors and Chartered Accountants
St Paul's House, Warwick Lane, London EC4M 7BP

Consolidated income statement

For the year ended 31st May 2008

	Note	Total 2008 £	Total 2007 (as restated) £
Revenue	1,2	**24,878,839**	18,304,881
Administrative expenses			
Staff costs	4(b)	**7,925,916**	5,954,730
Other administrative expenses		**6,968,479**	5,139,946
Depreciation		**158,474**	120,494
		(15,052,869)	(11,215,170)
Operating profit	6	**9,825,970**	7,089,711
Interest receivable and similar income	7	**868,870**	226,731
Profit before taxation		**10,694,840**	7,316,442
Income tax expense	8	**(3,559,124)**	(2,420,500)
Profit for the period		**7,135,716**	4,895,942
Basic earnings per share	9	**29.3p**	20.0p
Diluted earnings per share	9	**26.0p**	17.6p

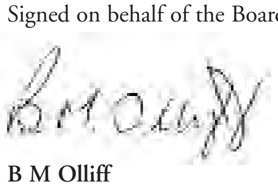
Consolidated and Company balance sheet

31st May 2008

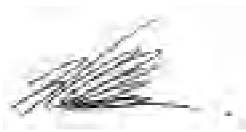
		Group		Company	
	Note	2008 £	2007 (as restated) £	2008 £	2007 (as restated) £
Non-current assets					
Property and equipment	11	**296,740**	193,362	**209,179**	74,748
Other financial assets	12	**52,048**	46,859	**847,684**	760,567
Deferred tax asset	13	**3,208,323**	2,357,851	**811,963**	705,669
		3,557,111	2,598,072	**1,868,826**	1,540,984
Current assets					
Trade and other receivables	14	**3,573,214**	2,613,212	**2,080,639**	2,616,861
Current tax receivable		**–**	–	**1,142,881**	791,011
Available-for-sale financial assets	15	**1,861,375**	2,231,989	**1,861,375**	2,231,989
Other financial assets	16	**30,335**	59,665	**30,335**	59,665
Cash and cash equivalents		**5,498,910**	6,616,824	**83,135**	427,988
		10,963,834	11,521,690	**5,198,365**	6,127,514
Current liabilities					
Trade and other payables	17	**(3,068,821)**	(2,162,168)	**(3,609,604)**	(3,318,544)
Current tax payable		**(1,487,571)**	(1,047,906)	**–**	–
Creditors, amounts falling due within one year		**(4,556,392)**	(3,210,074)	**(3,609,604)**	(3,318,544)
Net current assets		**6,407,442**	8,311,616	**1,588,761**	2,808,970
Total assets less current liabilities		**9,964,553**	10,909,688	**3,457,587**	4,349,954
Non-current liabilities					
Deferred tax liability	18	**(193,177)**	(196,059)	**(193,177)**	(196,059)
Net assets		**9,771,376**	10,713,629	**3,264,410**	4,153,895
Capital and reserves					
Called up share capital	19	**253,605**	267,777	**253,605**	267,777
Share premium account		**1,357,283**	1,357,283	**1,357,283**	1,357,283
Investment in own shares	20	**(2,811,878)**	(1,573,525)	**(2,811,878)**	(1,573,525)
Revaluation reserve		**450,747**	457,471	**450,747**	457,471
Share option reserve		**3,468,673**	2,519,442	**1,105,886**	910,735
Capital redemption reserve		**14,172**	–	**14,172**	–
Retained earnings		**7,038,774**	7,685,181	**2,894,595**	2,734,154
Total equity		**9,771,376**	10,713,629	**3,264,410**	4,153,895

The Board of directors approved these financial statements on 12th September 2008.

Signed on behalf of the Board of directors



B M Olliff
Chief Executive Officer



D F Allison
Finance Director

Consolidated and Company statement of changes in shareholders' equity

31st May 2008

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total £
Group								
At 1st June 2006	267,777	1,357,283	(1,027,283)	94,154	1,010,876	–	3,525,103	5,227,910
Purchase of own shares	–	–	(670,948)	–	–	–	–	(670,948)
Share option exercise	–	–	124,706	–	–	–	–	124,706
Increase in fair value*	–	–	–	363,317	–	–	–	363,317
Share-based payment	–	–	–	–	124,520	–	–	124,520
Deferred tax	–	–	–	–	1,384,046	–	–	1,384,046
Profit for the period	–	–	–	–	–	–	4,895,942	4,895,942
Dividends paid	–	–	–	–	–	–	(735,864)	(735,864)
At 1st June 2007	267,777	1,357,283	(1,573,525)	457,471	2,519,442	–	7,685,181	10,713,629
Purchase of own shares	–	–	(1,590,642)	–	–	–	–	(1,590,642)
Share option exercise	–	–	352,289	–	–	–	–	352,289
Share cancellation	(14,172)	–	–	–	–	14,172	(4,544,432)	(4,544,432)
Increase in fair value*	–	–	–	202,136	–	–	–	202,136
Released on disposal*	–	–	–	(208,860)	–	–	–	(208,860)
Share-based payment	–	–	–	–	141,083	–	–	141,083
Deferred tax	–	–	–	–	808,148	–	–	808,148
Profit for the period	–	–	–	–	–	–	7,135,716	7,135,716
Dividends paid	–	–	–	–	–	–	(3,237,691)	(3,237,691)
At 31st May 2008	**253,605**	**1,357,283**	**(2,811,878)**	**450,747**	**3,468,673**	**14,172**	**7,038,774**	**9,771,376**
Company								
At 1st June 2006	267,777	1,357,283	(1,027,283)	94,154	379,289	–	869,254	1,940,474
Purchase of own shares	–	–	(670,948)	–	–	–	–	(670,948)
Share option exercise	–	–	124,706	–	–	–	–	124,706
Increase in fair value*	–	–	–	363,317	–	–	–	363,317
Share-based payment	–	–	–	–	124,520	–	–	124,520
Deferred tax	–	–	–	–	406,926	–	–	406,926
Profit for the period	–	–	–	–	–	–	2,600,764	2,600,764
Dividends paid	–	–	–	–	–	–	(735,864)	(735,864)
At 1st June 2007	267,777	1,357,283	(1,573,525)	457,471	910,735	–	2,734,154	4,153,895
Purchase of own shares	–	–	(1,590,642)	–	–	–	–	(1,590,642)
Share option exercise	–	–	352,289	–	–	–	–	352,289
Share cancellation	(14,172)	–	–	–	–	14,172	(4,544,432)	(4,544,432)
Increase in fair value*	–	–	–	202,136	–	–	–	202,136
Released on disposal*	–	–	–	(208,860)	–	–	–	(208,860)
Share-based payment	–	–	–	–	105,188	–	–	105,188
Deferred tax	–	–	–	–	89,963	–	–	89,963
Profit for the period	–	–	–	–	–	–	7,942,564	7,942,564
Dividends paid	–	–	–	–	–	–	(3,237,691)	(3,237,691)
At 31st May 2008	**253,605**	**1,357,283**	**(2,811,878)**	**450,747**	**1,105,886**	**14,172**	**2,894,595**	**3,264,410**

*Net of deferred tax.

Consolidated and Company cash flow statement

For the year ended 31st May 2008

		Group		Company	
			2007		2007
		2008	(as restated)	2008	(as restated)
	Note	£	£	£	£
Cash flow from operating activities					
Operating profit		9,825,970	7,089,711	126,099	137,992
Adjustments for:					
Depreciation charges		158,474	120,494	67,255	43,386
Share based payment charge		141,083	124,520	51,385	47,399
Translation adjustments on investments		50,223	68,177	50,166	68,177
Cash generated from operations before changes in working capital		10,175,750	7,402,902	294,905	296,954
(Increase)/decrease in trade and other receivables		(960,002)	(476,900)	536,222	(2,325,247)
Increase in trade and other payables		906,653	782,691	291,060	2,225,362
Cash generated from operations		10,122,401	7,708,693	1,122,187	197,069
Interest received		438,109	196,487	23,439	10,655
Interest paid		(1,691)	–	(1,691)	–
Taxation paid		(3,161,783)	(2,190,642)	(532,257)	(531,407)
Net cash generated/(used) in operating activities		7,397,036	5,714,538	611,678	(323,683)
Cash flow from investing activities					
Dividends received from subsidiaries		–	–	7,500,000	2,490,000
Purchase of property and equipment		(261,852)	(87,917)	(201,686)	(54,882)
Purchase of non-current financial assets		–	(255)	(1,747)	(251)
Proceeds from sale of non-current financial assets		14,424	29,627	14,424	29,627
Purchase of current financial assets		(1,208,121)	(580,139)	(1,208,121)	(580,139)
Proceeds from sale of current financial assets		1,961,075	114,161	1,961,075	114,161
Net cash generated/(used) in investing activities		505,526	(524,523)	8,063,945	1,998,516
Cash flow from financing activities					
Ordinary dividends paid	10	(3,237,691)	(735,864)	(3,237,691)	(735,864)
Purchase and cancellation of own shares		(4,544,432)	–	(4,544,432)	–
Purchase of own shares by employee share option trust		(1,590,642)	(670,948)	(1,590,642)	(670,948)
Proceeds from sale of own shares by employee share option trust		352,289	124,706	352,289	124,706
Net cash used in financing activities		(9,020,476)	(1,282,106)	(9,020,476)	(1,282,106)
Net (decrease)/increase in cash and cash equivalents		(1,117,914)	3,907,909	(344,853)	392,727
Cash and cash equivalents at start of period		6,616,824	2,708,915	427,988	35,261
Cash and cash equivalents at end of period		5,498,910	6,616,824	83,135	427,988

Notes to the financial statements

For the year ended 31st May 2008

1 Basis of accounting

As an AIM listed company, the Group is required to prepare financial statements in accordance with the requirements of International Financial Reporting Standards ("IFRS") and their interpretations issued by the International Accounting Standards Board ("IASB") as adopted by the European Union from 1st June 2007. Therefore, this is the Group's first complete set of annual financial statements under IFRS.

(a) Adoption of IFRS

(i) Under the procedures set out in IFRS 1 – "First-time adoption of IFRS", the Group is required to establish its IFRS accounting policies as at 1st June 2007 and to apply these retrospectively to determine prior period comparatives from 1st June 2006, the date of transition to IFRS. The Group has taken advantage of two exemptions from this general principle. These are outlined below:

• Share-based Payments – IFRS 2

The Group has not applied IFRS 2 to share-based awards and payments granted before 7th November 2002 and which had vested before 1st June 2006.

• Business Combinations – IFRS 3

The Group has not applied IFRS 3 retrospectively to business combinations that occurred prior to the date of transition to IFRS.

As the transition date to IFRS was 1st June 2006, financial information for the financial year ended 31st May 2007 has been re-stated to comply with the new standards. The impact of IFRS on the Group's opening balance sheet at 1st June 2006 has been shown by re-stating the Group's equity on that date. The principal impacts of the adoption of IFRS on the comparative results are set out in Note 26.

(ii) New IFRS standards and interpretations

The Group adopted the following during the year:

IFRS 7 "Financial Instruments: Disclosures" and amendment to IAS1, "Presentation of financial statements". These introduce new disclosures relating to financial instruments and do not have any impact on the classification and valuation of the Group's financial instruments. As required by IFRS 7, comparative disclosures have also been made.

IFRS 2 "Share-based payments". The Group has applied the requirements of IFRS 2 and has adopted the requirements of IFRIC 11 in respect of share-based payments.

At the date of authorisation of these financial statements, the following Standards and Interpretations, which are relevant to the Group, were in issue but not yet effective:

IAS 1 (revised)	Presentation of financial statements
IAS 27 (revised)	Consolidated financial statements
IAS 28 (revised)	Investments in associates
IAS32 (revised)	Financial instruments
IFRS 3 (revised)	Business combinations
IFRS 8	Operating segments
IFRIC 8	Scope of IFRS 2
IFRIC 10	Interim financial reporting and impairment

In addition to these, the 2007 International Accounting Standards Board improvements project has now been completed with a number of existing Standards and Interpretations having been amended.

The directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

1 Basis of accounting continued

(b) Basis of consolidation and preparation

These financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. The Company's principal subsidiaries are City of London Investment Management Company Limited and City of London US Services Limited, all other subsidiaries being dormant at 31st May 2008.

The Company is domiciled in the UK and its shares are issued in sterling. The functional currency of the business is however US Dollars. Management have decided that the presentational currency of the financial statements should be sterling rather than the functional currency due to the Company being a UK registered entity.

The consolidated financial statements are prepared on the historical cost basis except for the revaluation of certain financial instruments as outlined in below.

The preparation of these financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Whilst estimates are based on management's best knowledge and judgement using information and financial data available to them, the actual outcome may differ from those estimates.

The most significant areas of the financial statements that are subject to the use of estimates and assumptions are noted below:

Income taxes

Significant judgement is required in determining provisions for income taxes and in determining deferred tax assets.

Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option pricing model.

The principal accounting polices adopted are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these accounts.

(c) Significant accounting policies

(i) Goodwill

Under IFRS 3 "Business Combinations", goodwill is no longer amortised but is instead tested annually for impairment. In accordance with the transitional provisions of IFRS 1 the Group has not applied IFRS 3 Business Combinations retrospectively to business combinations that occurred before 1st June 2006.

(ii) Property and equipment

For all property and equipment depreciation is calculated to write off their cost to their estimated residual values by equal annual instalments over the period of their estimated useful lives, which are considered to be:

Short leasehold property improvements	–	over the remaining life of the lease
Furniture and equipment	–	four years
Computer and telephone equipment	–	four years

(iii) Financial instruments

Under IAS 39, "Financial Instruments: Recognition and Measurement", financial instruments must be classified as either:

- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets
- A financial asset or liability at fair value through profit or loss

Notes to the financial statements

Continued

1 Basis of accounting continued

The Group has identified those assets that need to be re-classified under the new standards and these are outlined below:

The Group's investments in the funds that it manages are designated as "available-for-sale" financial assets. Such investments are initially recognised at fair value, being the consideration given together with any acquisition costs associated with the investment. They are subsequently carried at fair value, with any gains or losses arising from changes in fair value being recognised in equity. Fair value is determined using the price based on the net asset value of the fund. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred all risks and rewards of ownership. When derecognition occurs a realised gain or loss is recognised in the income statement, calculated as the difference between the net sales proceeds and the original cost of the financial asset. Any fair value gains or losses previously recognised directly in equity are recycled into the income statement as part of this calculation of the gain or loss arising on derecognition.

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of an investment classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator that the investment is impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement- is removed from equity and recognised in the income statement.

The Group's investments in options are designated as financial assets at fair value through profit and loss. Such investments are accounted for in the same way as "available-for-sale" assets but any gains or losses arising from changes in fair value are recognised in the income statement. Fair value is determined using the quoted market bid price.

The only exception is where the Group holds an investment in options on unquoted equity instruments, whose fair value cannot be reliably measured. Such investments are measured at cost less impairment.

The Group's investments have been classified here for recognition and measurement purposes under IAS39 but are not necessarily reported in the balance sheet under those headings.

The Group's investments are reported in the balance sheet as follows:

	2008 £	2007 £
Non-current assets		
Other financial assets:		
Investment in funds	14,129	6,737
Investment in unquoted options	37,919	40,122
	52,048	46,859
Current assets		
Available-for-sale financial assets: investment in funds	1,861,375	2,231,989
Other financial assets: investment in quoted options	30,335	59,665

Where the Group has invested in Delaware Statutory Trust funds there is a requirement to nominate a tax partner and as Investment Manager, the Group has adopted this role which requires that a nominal investment be held in each fund for the life of the fund. Therefore, such nominal investments are reported as other financial assets under non-current assets.

Where the Group has used its own cash to seed new funds, the investment is generally held until the fund's performance is established. Such investments are reported as available-for-sale financial assets under current assets.

(iv) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently carried at the lower of original fair value and their recoverable amount. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

1 Basis of accounting continued

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand, deposits with an original maturity of three months or less, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(vi) Trade payables

Trade payables are measured at initial recognition at fair value and subsequently measured at amortised cost.

(vii) Deferred taxation

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. However, deferred tax is not accounted for if it arises from goodwill or the initial recognition (other than in a business combination) of other assets or liabilities in a transaction that affects neither the accounting nor the taxable profit or loss.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. The tax rates used are those that have been enacted, or substantially enacted, by the end of the reporting period. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(viii) Share-based payments

The Company operates an Employee Share Option Plan. In accordance with IFRS2, the fair value of the employee services received in exchange for share options is recognised as an expense. The fair value has been calculated using the Binomial pricing model, and has then been expensed on a straight line basis over the vesting period of three years, based on the Company's estimate of the number of shares that will actually vest.

In accordance with the transitional provisions, IFRS2 has been applied only to grants of share options after 7th November 2002 that had not vested as at 1st June 2006, although, as required by IFRS2, the disclosures in note 23 include grants of share options prior to 7th November 2002.

(ix) Revenue

Revenue arises in North America, Europe and Australia and comprises investment management fees earned. Fees are recognised in revenue as the investment management services are provided, in accordance with the underlying agreements.

(x) Foreign currency translation

Foreign currency transactions are translated using the exchange rates prevailing at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of period-end monetary assets and liabilities are recognised in the income statement.

(xi) Leases

The cost of operating leases is charged to the income statement in equal periodic instalments over the periods of the leases.

(xii) Pensions

The Group operates defined contribution pension schemes covering the majority of its employees. The costs of the pension schemes are charged to the income statement as they accrue.

Notes to the financial statements

Continued

2 Revenue

	2008 £	2007 £
Management fees earned by subsidiary companies charged as a percentage of funds under management	24,878,839	18,304,881

3 Analysis of revenue, operating profit and net assets

The directors consider that the Group only undertakes one class of business, and hence only analysis by geographical location is given.

	Revenue		Operating profit	
	2008 £	2007 (as restated) £	2008 £	2007 (as restated) £
Europe	2,811,774	1,426,195	1,354,136	601,146
North America	21,541,398	16,484,085	8,216,889	6,301,978
Other	525,667	394,601	254,945	186,587
	24,878,839	18,304,881	9,825,970	7,089,711

	Total assets		Total liabilities		Net assets	
	2008 £	2007 (as restated) £	2008 £	2007 (as restated) £	2008 £	2007 (as restated) £
Europe	7,082,194	7,552,586	(526,660)	(250,108)	6,555,534	7,302,478
North America	7,320,819	6,468,813	(4,126,637)	(3,086,825)	3,194,182	3,381,988
Other	117,932	98,363	(96,272)	(69,200)	21,660	29,163
	14,520,945	14,119,762	(4,749,569)	(3,406,133)	9,771,376	10,713,629

4 Employees

(a) Average number of persons employed by the Group in the year:	2008 Number	2007 Number
Investment management staff	11	9
Research staff	10	10
Client Services	6	5
Administration, accounts and settlement staff	23	20
	50	44

(b) Staff costs incurred during the year in respect of these employees were:	2008 £	2007 £
Wages and salaries	2,600,303	2,256,950
Profit sharing payments	4,287,676	2,923,952
Social security costs	605,905	395,124
Defined contribution pension costs	290,949	254,184
Share options charge	141,083	124,520
	7,925,916	5,954,730

The Group made contributions of £290,949 (2007 – £254,184) in the period to individual defined contribution pension schemes established for directors and employees. There were no outstanding or prepaid contributions at the balance sheet date.

5 Directors

Directors' emoluments comprise:	2008 £	2007 £
Emoluments (excluding pension contributions and awards under share option schemes)	2,446,128	1,929,300
Pension contributions	64,239	65,678
Share option charge	24,346	34,684
Gains on exercise of share options	467,838	13,750

	2008 Number	2007 Number
Number of directors on whose behalf pension contributions were paid during the year	4	4
Number of directors who exercised share options during the period	2	1

Highest paid director's remuneration:	2008 £	2007 £
Emoluments (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	1,111,797	858,941
Pension contributions	21,812	22,775
Share option charge	8,723	13,182
Gains on exercise of share options	176,563	–

6 Operating profit

The operating profit is arrived at after charging:	2008 £	2007 £
Depreciation of owned assets	158,474	120,494
Auditors' remuneration:		
– Statutory audit	45,000	31,510
– Taxation services	18,018	12,337
– Other services	15,228	5,575
Operating lease rentals:		
– Land and buildings	231,075	135,148
– Other	9,258	6,543
Operating sublease rentals:		
– Land and buildings	8,919	–
Foreign exchange (gains)/losses	(94,753)	12,373

7 Interest receivable and similar income

	2008 £	2007 (as restated) £
Interest on bank deposit	436,418	196,487
Profit on sale of investments	426,220	45,616
Fair value of investments	6,232	(15,372)
	868,870	226,731

Notes to the financial statements

Continued

8 Tax charge on profit on ordinary activities

(a) Analysis of tax charge on ordinary activities:	2008 £	2007 (as restated) £
Tax at 30% (2007 – 30%) based on the profit for the year	3,255,640	2,260,228
Double taxation relief	(637,640)	(542,228)
Deferred tax	(42,324)	(37,356)
Adjustments in respect of prior years	(9,882)	(11,518)
	2,565,794	1,669,126
Foreign tax for the current period	950,355	778,144
Adjustments in respect of prior years	42,975	(26,770)
	993,330	751,374
	3,559,124	2,420,500

(b) Factors affecting tax charge for the current period:

The tax assessed for the period is different to that resulting from applying the standard rate of corporation tax in the UK: 30% (prior year: 30%). The differences are explained below:

	2008 £	2007 (as restated) £
Profit on ordinary activities before tax	10,694,840	7,316,442
Tax at 30% thereon	(3,208,452)	(2,194,933)
Effects of:		
Expenses not deductible for tax purposes	(20,122)	(41,353)
Capital allowances less than depreciation	(10,519)	(16,733)
Unrelieved overseas tax	(312,715)	(235,916)
Deferred tax on share based-payments	42,324	37,356
Prior period adjustments	(33,093)	38,288
Other	(16,547)	(7,209)
	(3,559,124)	(2,420,500)

9 Earnings per share

The calculation of earnings per share is based on the profit for the period of £7,135,716 (2007 restated – £4,895,942) divided by the weighted average number of ordinary shares in issue for the year ended 31st May 2008 of 24,338,540 (2007 – 24,432,528).

As set out in Note 20 the Employee Benefit Trust held 2,013,085 ordinary shares in the Company as at 31st May 2008. The Trustees of the Trust have waived all rights to dividends associated with these shares. In accordance with IAS 33 the ordinary shares held by the Employee Benefit Trust have been excluded from the calculation of the weighted average of ordinary shares in issue.

The calculation of diluted earnings per share is based on the profit for the year of £7,135,716 (2007 restated – £4,895,942) divided by the diluted weighted average of ordinary shares for the year ended 31st May 2008 of 27,404,870 (2007 – 27,823,144).

Reconciliation of the figures used in calculating basic and diluted earnings per share:

	2008 Number of shares	2007 Number of shares
Weighted average number of shares – basic earnings per share	**24,338,540**	24,432,528
Effect of dilutive potential shares – share options	**3,066,330**	3,390,616
Weighted average number of shares – diluted earnings per share	**27,404,870**	27,823,144

10 Dividend

	2008 £	2007 £
Dividends paid:		
Interim dividend of £0.06 per share (2007 – £0.03)	1,509,883	735,864
Final dividend in respect of year ended:		
31st May 2007 of £0.07 per share	1,727,808	–
	3,237,691	735,864

A final dividend of 13.5p per share has been proposed, payable on 21st November 2008.

Notes to the financial statements

Continued

11 Property and equipment

	2008				2007			
	Furniture and equipment £	Computer and telephone equipment £	Short leasehold improvements £	Total £	Furniture and equipment £	Computer and telephone equipment £	Short leasehold improvements £	Total £
Group								
Cost								
At 1st June	91,427	667,966	159,163	918,556	94,697	587,580	159,163	841,440
Additions	20,425	176,258	65,169	261,852	7,531	80,386	–	87,917
Disposals	–	(13,843)	–	(13,843)	(10,801)	–	–	(10,801)
At 31st May	**111,852**	**830,381**	**224,332**	**1,166,565**	91,427	667,966	159,163	918,556
Accumulated depreciation								
At 1st June	77,802	493,175	154,217	725,194	81,893	386,394	147,214	615,501
Charge for the year	11,817	140,939	5,718	158,474	6,710	106,781	7,003	120,494
Disposals	–	(13,843)	–	(13,843)	(10,801)	–	–	(10,801)
At 31st May	**89,619**	**620,271**	**159,935**	**869,825**	77,802	493,175	154,217	725,194
Net book value								
At 31st May	**22,233**	**210,110**	**64,397**	**296,740**	13,625	174,791	4,946	193,362
Company								
Cost								
At 1st June	40,878	260,109	132,419	433,406	46,678	207,978	132,419	387,075
Additions	19,491	117,026	65,169	201,686	2,751	52,131	–	54,882
Disposals	–	(7,016)	–	(7,016)	(8,551)	–	–	(8,551)
At 31st May	**60,369**	**370,119**	**197,588**	**628,076**	40,878	260,109	132,419	433,406
Accumulated depreciation								
At 1st June	36,869	191,908	129,881	358,658	43,459	155,787	124,577	323,823
Charge for the year	6,834	56,403	4,018	67,255	1,961	36,121	5,304	43,386
Disposals	–	(7,016)	–	(7,016)	(8,551)	–	–	(8,551)
At 31st May	**43,703**	**241,295**	**133,899**	**418,897**	36,869	191,908	129,881	358,658
Net book value								
At 31st May	**16,666**	**128,824**	**63,689**	**209,179**	4,009	68,201	2,538	74,748

12 Other financial assets (non-current)

Group	Unlisted investments £
Cost	
At 1st June 2007	46,859
Additions	2,762
Disposals	(3,741)
Fair value gains/(losses) transferred to equity	6,168
At 31st May 2008	**52,048**

Company	Unlisted investments £	Investment in subsidiary undertakings £	Total £
Cost			
At 1st June 2007 (as restated)	45,789	714,778	760,567
Additions	2,762	80,858	83,620
Disposals	(2,730)	–	(2,730)
Fair value gains/(losses) transferred to equity	6,227	–	6,227
At 31st May 2008	**52,048**	**795,636**	**847,684**

The additions in investments in subsidiary undertakings reflect the allocation of share-based payments from the Company to its subsidiaries under the adoption of IFRIC 11.

Subsidiary undertakings	Activity	Holding of ordinary shares
City of London Investment Management Company Limited	Management of funds	100%
City of London Unit Trust Managers Limited	Dormant company	100%
City of London US Investments Limited	Holding company for US companies	100%
City of London US Investments Limited holds 100% of the ordinary shares in the following:		
City of London US Services Limited	Service company	
City of London Quantitative Management Limited	Dormant company	
City of London Latin America Limited	Dormant company	

The above companies are incorporated in Great Britain and registered in England and Wales. They are included in the consolidated financial statements of the Group. In the opinion of the directors, the value of the subsidiaries is at least equal to their cost.

13 Deferred tax asset

	Share-based payments	
	Group	Company
At 1st June 2006 (as restated)	936,449	285,471
Credit/(charge) to income	37,356	13,272
Credit/(charge) to equity	1,384,046	406,926
At 1st June 2007 (as restated)	2,357,851	705,669
Credit/(charge) to income	42,324	16,331
Credit/(charge) to equity	808,148	89,963
At 31st May 2008	**3,208,323**	**811,963**

Notes to the financial statements

Continued

14 Trade and other receivables

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Trade debtors	3,258,666	2,352,826	–	–
Amounts owed by Group undertakings	–	–	1,858,061	2,456,417
Other debtors	72,002	111,631	58,278	53,292
Prepayments and accrued income	242,546	148,755	164,300	107,152
	3,573,214	2,613,212	2,080,639	2,616,861

15 Available-for-sale financial assets

Group and Company	2008 £	2007 (as restated) £
Unlisted investments at market value	1,861,375	2,231,989
Unlisted investments at cost	1,226,180	1,578,458

16 Other financial assets (current)

Group and Company	2008 £	2007 (as restated) £
Listed investments at market value	30,335	59,665
Listed investments at cost	39,476	75,038

17 Trade and other payables

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Trade creditors	491,321	369,140	–	–
Sundry creditors	43,209	366	366	366
Amounts owed to Group undertakings	–	–	2,468,605	2,445,607
Other taxation and social security	57,385	37,238	57,385	37,238
Accruals and deferred income	2,476,906	1,755,424	1,083,248	835,333
	3,068,821	2,162,168	3,609,604	3,318,544

18 Deferred tax liability

	Group		Company	
	2008 £	2007 (as restated) £	2008 £	2007 (as restated) £
Deferred tax on revaluation reserve	193,177	196,059	193,177	196,059

19 Share capital

Group and Company	2008 Number of shares	2007 Number of shares
Authorised		
Ordinary shares of 1p each (2007 – 1p each)	90,000,000	90,000,000
	£	£
Ordinary shares of 1p each (2007 – 1p each)	900,000	900,000

Group and Company	2008 Number of shares	2007 Number of shares
Allotted, called up and fully paid		
Ordinary shares of 1p each (2007 – 1p each)	25,360,500	26,777,800
	£	£
Ordinary shares of 1p each (2007 – 1p each)	253,605	267,777

During the year ended 31st May 2008 the Company repurchased 1,417,300 of its own shares at market value for cancellation.

20 Investment in own shares

Investment in own shares relates to City of London Investment Group Plc shares held by an Employee Benefit Trust on behalf of City of London Investment Group Plc.

At 31st May 2008 the Trust held 2,013,085 ordinary 1p shares (2007 – 2,303,125), of which 1,458,310 ordinary 1p shares (2007 – 2,297,675) were subject to options in issue.

21 Profit of the Parent Company

As permitted by section 230 of the Companies Act 1985, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial period, amounted to £7,942,564 (2007 restated – £2,600,764).

Notes to the financial statements

Continued

22 Operating lease commitments

At 31st May 2008 the Group had the following commitments for future minimum lease payments under non-cancellable operating leases:

	Group				Company			
	Land and buildings 2008 £	**Motor vehicle 2008 £**	Land and buildings 2007 (as restated) £	Motor vehicle 2007 £	**Land and buildings 2008 £**	**Motor vehicle 2008 £**	Land and buildings 2007 (as restated) £	Motor vehicle 2007 £
Within one year	**145,955**	**6,988**	131,150	3,886	**34,115**	**–**	62,550	–
In the second to fifth years inclusive	**48,787**	**6,696**	75,516	–	**–**	**–**	28,669	–
	194,742	**13,684**	206,666	3,886	**34,115**	**–**	91,219	–

Operating lease payments relating to land and buildings represent rents payable by the Group for its various offices and apartment rental for staff posted overseas. Included in this category is £6,010 (2007 – nil) relating to a sublease agreement on part of the London office space. The Group enters into formal occupational property leases ranging from two to ten years.

The Group is also committed to paying a minimum of £165,327 (2007 – £165,169) per annum in respect of a service agreement which expires in 2009.

23 Share-based payments

The estimated fair values of options which fall under IFRS2, and the inputs used in the Binomial pricing model to calculate those fair values, are as follows:

Date of grant	Expiry date	Expected life (yrs)	Risk-free rate	Share price at grant (£)	Exercise price (£)	Volatility	Dividend yield	Estimated fair value (£)	Number outstanding
14/05/2004	14/05/2014	3.00	5.0411%	0.2600	0.2600	33.5589%	4.50%	0.0668	2,000,000
17/12/2004	17/12/2014	3.00	4.5420%	0.4500	0.4500	30.9463%	4.50%	0.1061	536,250
31/03/2006	31/03/2016	3.00	4.5300%	1.4000	1.4000	25.4798%	4.50%	0.2450	818,750
10/10/2006	10/10/2016	3.00	4.9865%	1.8000	1.8000	29.3594%	4.50%	0.3196	50,000
30/01/2007	30/01/2017	3.00	5.4828%	2.6100	2.6100	29.8223%	4.50%	0.4834	140,500
30/03/2007	31/03/2017	3.00	5.4338%	2.7300	2.7300	29.3557%	4.50%	0.4948	143,500

The expected life of the options has been assumed to be three years based upon the empirical evidence available. The risk-free rate has been assumed to be represented by the yield to maturity at the date of grant of a UK Gilt strip with term to maturity equal to the expected life of the option. The volatility of the Company's share price at each date of grant has been calculated as the average of the standard deviations of daily continuously compounded returns on the stock of a group of comparable companies.

The number and weighted average exercise price of share options for each of the following groups is as follows:

	2008 Number	**2008 Weighted average exercise price**	2007 Number	2007 Weighted average exercise price
Outstanding at the beginning of the year	**4,797,675**	**0.68**	4,747,050	0.54
Granted during the year	**–**	**–**	334,000	2.54
Forfeited during the year	**56,500**	**1.93**	6,250	1.40
Exercised during the year	**782,865**	**0.45**	277,125	0.45
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**3,958,310**	**0.71**	4,797,675	0.68
Exercisable at the end of the year	**2,862,060**	**0.32**	3,108,675	0.33
The weighted average share price at the date of exercise for share options exercised during the year was		**3.12**		2.14

24 Related party transactions

(i) Remuneration of key management personnel
The remuneration of the directors who are the key management personnel of the Group is provided in the directors' interests and remuneration report on page 22 and in note 5.

Unconnected with remuneration, the Group held £42,843 on behalf of Barry Olliff at 31st May 2008 (2007: Nil). This amount is held in creditors and carries no interest. It has been paid to Mr Olliff since year end.

(ii) Intra-group transactions
During the period the Company received from its subsidiaries £5,610,196 (2007: £4,172,297) in respect of management service charges and dividends of £7,500,000 (2007: £2,490,000).

Amounts outstanding between the Company and its subsidiaries as at 31st May 2008 are given in notes 14 and 17.

25 Financial instruments

The Group's financial assets include cash and cash equivalents, investments and other receivables. Its financial liabilities include accruals and other payables. The fair value of the Group's financial assets and liabilities is materially the same as the book value.

(i) Foreign currency risk
Most of the Group's revenues, and a significant part of its expenses, are denominated in currencies other than sterling, principally United States' and Canadian Dollars. These revenues are derived from fee income which is based upon the net asset value of accounts managed, and have the benefit of a natural hedge by reference to the underlying currencies in which investments are held. Inevitably, debtor and creditor balances arise which in turn give rise to currency exposure. Each of the Group's subsidiaries eliminates its currency exposure by transfer to the holding company. All hedging activity is therefore assessed at the group level. Forward foreign exchange transactions are executed so as to substantially reduce the Group's exposure to currency market movements. The level of forward currency hedging is such as is judged by the directors to be consistent with market conditions.

As at 31st May 2008, the Group had net asset balances of US $6,625,564 (2007 – US $8,242,038), offset by forward sales totalling US $6,200,000 (2007 – US $4,500,000), and net asset balances of C $532,661 (2007 – C $574,804).

Had the US Dollar strengthened against Sterling as at 31st May 2008 by 10%, with all other variables held constant, the net assets of the Group would have decreased both profit and equity by approximately £10,000. A weakening of the US Dollar against Sterling would have had the opposite effect.

Further details on the effects on the Group's post-tax profits due to movements in the US Dollar/Sterling exchange rate have been demonstrated in the Financial review on page 15.

(ii) Market risk
Changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income and the value of its investments.

The Group is exposed to market risk directly via its investment holdings and indirectly via its assets under management, from which its fee income is derived. To hedge against any potential loss in fee income due to a fall in the markets, the Group invests in out of the money put options on the emerging markets index. The purchase and sale of these options are subject to limits established by the Board and are monitored on a regular basis. The investment management and settlement functions are totally segregated.

The cost of the hedging recognised in the Group income statement for the period is £26,886 (2007 – nil).

Details of the position held as at 31st May 2008 are given in note 16.

(iii) Credit risk
The majority of debtors relate to management fees due from funds and segregated account holders. As such the Group is able to assess the credit risk of these debtors as minimal. For other debtors a credit evaluation is undertaken on a case by case basis. The Group has zero experience of bad or overdue debts.

25 Financial instruments continued

The majority of cash and cash equivalents held by the Group are with leading UK banks. The credit risk is managed by carrying out regular reviews of each institution's credit rating and of their published financial position. Given their high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(iv) Liquidity risk

The Group's liquidity risk is minimal due to its strategy to maximise its cash position. In addition, the Group's current available-for-sale assets represent investments in funds that it manages and can be liquidated immediately if required.

(v) Interest rate risk

The Group has no borrowings, and therefore has no exposure to interest rate risk other than that which attaches to its interest earning cash balances. The Group's strategy is to maximise the amount of cash which is maintained in interest bearing accounts, and to ensure that those accounts attract a competitive interest rate. At 31st May 2008 the Group held £5,498,910 (2007 – £6,616,824) in cash balances, of which £5,492,455 (2007 – £6,581,480) was held in bank accounts which attract variable interest rates. The effect of a 100 basis points increase/decrease in interest rates would not have a material impact on pre-tax profits or equity.

(vi) Capital risk management

The Group manages its capital to ensure that all entities within the Group are able to operate as going concerns and exceed any minimum externally imposed capital requirements. The capital of the Group and Company consists of equity attributable to the equity holders of the parent company, comprising issued share capital, share premium, retained earnings and other reserves as disclosed in notes 19-20.

The Group's principal operating subsidiary company, City of London Investment Management Company Ltd is subject to the requirements of the Financial Services Authority ("FSA") in the UK. This subsidiary held surplus capital over its requirements throughout the year.

26 IFRS transition

The transition date from UK GAAP to IFRS was 1st June 2006. The tables below reconcile total shareholders' funds at 1st June 2006 and 31st May 2007 under UK GAAP to total equity under IFRS, and the profit after taxation for the year ended 31st May 2007 from UK GAAP to IFRS.

Reconciliation of shareholders' funds under UK GAAP to shareholders' equity under IFRS

	Group		Company	
	1st June 2006 £	31st May 2007 £	1st June 2006 (as restated) £	31st May 2007 (as restated) £
UK GAAP – Shareholders' funds	4,331,813	8,559,508	1,695,355	3,651,956
IFRS transition adjustments:				
IAS 12 – Deferred tax on share options	936,449	2,357,851	285,471	705,669
IAS12 – Deferred tax on revaluation reserve	(40,352)	(196,059)	(40,352)	(196,059)
IAS 39 – Fair value of investments	–	(7,671)	–	(7,671)
IFRS – Total equity	5,227,910	10,713,629	1,940,474	4,153,895

Reconciliation of profit after taxation under UK GAAP to profit after taxation under IFRS

	Group 2007 £	Company 2007 (as restated) £
UK GAAP – Profit on ordinary activities after taxation	4,873,958	2,602,864
IFRS transition adjustments:		
IAS12 – Deferred tax on share options	37,356	13,272
IAS 39 – Fair value of investments	(15,372)	(15,372)
IFRS – Profit for the period	4,895,942	2,600,764

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of City of London Investment Group Plc (the "Company") will be held at 77 Gracechurch Street, London EC3V 0AS on Monday 27th October 2008 at 11.30 am for the following purposes:

Ordinary business

1. To receive and adopt the financial statements for the year ended 31st May 2008 together with the reports of the directors and auditors thereon.

2. Having retired by rotation, to re-elect Andrew John Davison as a director of the Company in accordance with article 132 of the Company's articles of association.

3. Having retired by rotation, to re-elect George Alan Robb as a director of the Company in accordance with article 132 of the Company's articles of association.

4. Having retired by rotation, to re-elect Douglas Forbes Allison as a director of the Company in accordance with article 132 of the Company's articles of association.

5. To re-elect Allan Seymour Bufferd, who was appointed since the last Annual General Meeting, as a director of the Company.

6. To re-appoint Moore Stephens LLP as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting of the Company at which accounts are laid before the Company and authorise the directors to determine the auditors' remuneration.

Special business

To consider and, if thought fit, pass the following resolutions as special resolutions:

7. THAT the Company cancel admission of its ordinary shares from trading on AIM conditional upon the UKLA granting admission of the ordinary shares to the Official List and the London Stock Exchange confirming that the ordinary shares can commence trading on the Main Market.

8. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 163(3) of the Companies Act 1985) of any of its ordinary shares of £0.01 (1p) provided that:

   (a) the maximum number of ordinary shares which may be purchased is 2,539,000 (representing approximately 10% of the Company's issued ordinary share capital at the time of this resolution);

   (b) the minimum price which may be paid for each ordinary share is £0.01 (1p) which amount shall be exclusive of expenses, if any;

   (c) the maximum price, exclusive of any expenses, which may be paid for any ordinary share is an amount equal to 105% of the average of the middle market quotations for the ordinary shares of the Company as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the date on which such ordinary share is contracted to be purchased;

   (d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the Company's next annual general meeting, or on 31st May 2010 (whichever is the earlier),

   under this authority the Company may make a contract to purchase ordinary shares which would or might be executed wholly or partly after the expiry of this authority and may make purchases of ordinary shares pursuant to it as if this authority had not expired.

Notice of Annual General Meeting

Continued

9. THAT the articles of association produced to the meeting and initialled by the chairman of the meeting for the purpose of identification be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association.

By order of the board

D F Allison
Company Secretary
12th September 2008

Registered office
77 Gracecurch Street
London EC3V 0AS

Registered in England and Wales No 2685257

Note: in connection with the Company's move to new offices the board has resolved to move the Company's registered office address to:

77 Gracechurch Street,
London EC3V 0AS

Notification of this change will be lodged for registration at Companies House on 1st November 2008

Notes to the Notice of Annual General Meeting

1. A member entitled to receive notice, attend and vote at the annual general meeting ("AGM") is entitled to appoint a proxy or proxies to attend and, on a poll, vote instead of him. Such proxy need not be a member of the Company. Completion of a form of proxy does not preclude the member attending the meeting and voting in person if they so wish. To be valid, the instrument appointing a proxy, together, if appropriate, with a power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such authority, must be deposited at the offices of the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 11.30 am on 25th October 2008. A form of proxy accompanies this notice.

2. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members of the Company in order to have the right to attend and vote at the annual general meeting (and for the purposes of the determination by the Company of the numbers of votes they may cast) is *6.00 pm on 25th October 2008*. The rights of members to attend and vote at the meeting will be determined by reference to entries on the register of members at *6.00 pm on 25th October 2008*. Changes to entries on the register of members of the Company after that time will be disregarded in determining the rights of any person to attend or vote at the meeting.

3. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

4. The right to appoint a proxy does not apply to persons whose ordinary shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the ordinary shares as to the exercise of voting rights.

5. In the case of joint holders, the signature of only one of the joint holders is required on the form of proxy, but the vote of the first named on the register of members will be accepted to the exclusion of the other joint holders.

6. The following documents are available for inspection between 10.00 am and 12.00 noon at the registered office of the Company on any weekday and will also be available for inspection at the place of the AGM from the commencement of the meeting until the conclusion thereof:

   (a) The register of interests of the directors (and their families) in the share capital of the Company.

   (b) Copies of the directors' contracts of service and letters of appointment of the non-executive directors.

   (c) Terms of reference of the Audit, Remuneration and Nominations Committees.

   (d) Copies of the current and proposed articles of association of the Company.

Explanation of the business of the Annual General Meeting

Report and accounts (Resolution 1)

The first item on the agenda requires that the directors must present the accounts of the Company for the year ended 31st May 2008 together with the directors' report and the independent auditors' report thereon.

Re-appointment of directors (Resolutions 2 - 5)

The Company's articles of association require that at every annual general meeting, one-third of the directors or, if their number is not three or a multiple of three, the number nearest to one-third shall retire from office. In addition, the articles of association require that all directors who have been in office for more than three years or have been appointed by the directors since the last annual general meeting of the Company will stand for re-appointment.

Article 137 of the Company's articles of association requires that a resolution for the appointment or re-appointment of two or more persons as directors by a single motion may not be moved unless a resolution that it shall be so moved has first been agreed to by the meeting without any vote being given against it. Consequently separate resolutions will be put to the meeting.

Re-appointment of Auditors (Resolution 6)

The Company is required at each general meeting at which accounts are laid before the shareholders to appoint auditors for the next financial year to hold office from the conclusion of that meeting until the conclusion of the next general meeting at which audited accounts are laid. Moore Stephens LLP are the current auditors and have indicated their willingness to continue in office. If Resolution 6 is passed, Moore Stephens LLP will be re-appointed as auditors to the Company, at a fee to be agreed by the board of directors.

Migration of the Company from the AIM market of the London Stock Exchange to the Official List and to trading on the London Stock Exchange (Resolution 7)

The board has recently reviewed the listing of the Company's shares on the AIM market of the London Stock Exchange. The conclusion of this review was that, subject to regulatory and shareholder approvals, the Group will seek a primary listing of its ordinary shares on the Official List of the UK Listing Authority and a move to trading on the London Stock Exchange's Main Market for listed securities. The board considers this to be a logical response to the Company's growing size, profile and shareholder base and believes that a move to the Main Market will broaden the universe of potential new investors and, in time, increase liquidity in the Group's ordinary shares.

In order to move to trading on the London Stock Exchange's Main Market the Company must delist from the London Stock Exchange's Alternative Investment Market. It is anticipated that subject to obtaining the necessary regulatory approvals, delisting of the Company from AIM will occur simultaneously with the move to trading on the Main Market. Under Rule 41 of the AIM Rules for Companies, in order to delist from AIM the board is required to seek the consent of not less than 75% of votes cast by the Company's shareholders at a general meeting. Accordingly, Resolution 7, which will be proposed as a special resolution, will give the directors the authority to delist the Company from AIM. The board will only exercise this authority if the necessary regulatory approvals are obtained to move the Company to trading on the Main Market.

Purchase by the Company of its own shares (Resolution 8)

Under section 166 of the Companies Act 1985, the directors of a company may make market purchases of that company's shares if authorised to do so. The Company's articles of association give a general authority to the directors to purchase shares on the market but that authority is subject to the approval of shareholders. Your directors believe that granting such approval would be in the best interests of shareholders in allowing directors the flexibility to react promptly to circumstances requiring market purchases.

Accordingly, Resolution 8, which will be proposed as a special resolution, will give the directors the authority to purchase issued shares of the Company under section 166 of the Companies Act 1985. The authority contained in this Resolution will be limited to an aggregate nominal value of £25,390 which represents approximately 10% of the issued ordinary share capital of the Company as at 12th September 2008. The price which may be paid for those shares is also restricted as set out in the Resolution. This authority will expire at the conclusion of the Company's annual general meeting in 2009 or on 31st May 2010 (whichever is the earlier).

The board has no present intention of exercising this authority. However, this will be kept under review, and the board will use this power only if and when, taking account of market conditions prevailing at the time, other investment opportunities, appropriate gearing levels and the overall financial position of the Group, they believe that the effect of such purchases will be in the best interests of shareholders generally and that they will result in an increase in earnings per share.

Shares purchased under this authority may be held as treasury shares. The Company may purchase and hold shares as treasury shares up to a maximum amount equal to 10%. of the nominal value of the issued ordinary share capital at that time, rather than cancelling them. Shares held in treasury do not carry voting rights and no dividends will be paid on any such shares. Shares held in treasury in this way can be sold for cash or cancelled. This would allow the Company to manage its capital base more effectively and to replenish its distributable reserves.

If and when the board resolves to exercise its authority to make market purchases, it will at that time decide whether shares purchased are to be cancelled or held in treasury.

Adoption of new Articles of Association - Principal changes (Resolution 9)

It is proposed in resolution 9 to adopt new articles of association (the "New Articles") in substitution for and in order to update the Company's current articles of association (the "Current Articles"), primarily to take account of changes in English company law brought about by the Companies Act 2006. As the Companies Act 2006 is being implemented in phases, further changes to the Articles may be proposed in the future.

The principal changes introduced in the New Articles are summarised below. Other changes, which are of a minor, technical or clarifying nature and also some more minor changes which merely reflect changes made by the Companies Act 2006 have not been noted. The New Articles are available for inspection, as noted on page 49 of this document.

1. **Form of resolution**

   The concept of extraordinary resolutions has not been retained under the Companies Act 2006 and therefore all such references have been removed in the New Articles. All resolutions of the Company will therefore be passed as ordinary or special resolutions, as applicable.

2. **Convening annual general meetings and other meetings (New Articles – Article 82 and following)**

   The provisions in the Current Articles dealing with the convening of general meetings are being changed in line with the relevant matters provided for in the Companies Act 2006. In particular an extraordinary general meeting (now called a "general meeting") to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. The New Articles reflect this. Under the Companies Act 2006, 21 days' notice is generally still required in respect of the Company's AGM.

3. **Votes of members (New Articles – Articles 106, 111 and 115)**

   Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the Companies Act 2006 so that articles cannot provide that they should be received more than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The Companies Act 2006 also allows for multiple corporate representatives to be appointed, but if they purport to exercise their rights in different ways, the corporation is deemed to have abstained from exercising its vote. The New Articles reflect these changes.

Explanation of the business of the Annual General Meeting

Continued

4. **Retirement of directors (New Articles – Article 129)**
   The Current Articles require that the directors must provide details in the AGM notice of the age of any person who will be proposed for appointment or re-appointment as a director at the AGM where at the date of the AGM he/she has attained the age of 70 years or more. Such provision could now fall foul of the Employment Equality (Age) Regulations 2006 and so is not retained in the New Articles.

5. **Conflicts of interest (New Articles – Articles 156 and 157)**
   The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1st October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the Company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation.

   The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The Companies Act 2006 also allows the articles of association to contain other provisions so that the relevant company's directors may avoid breaching their duties. The New Articles give the directors authority to approve conflicts and potential conflicts of interest and include other provisions to allow conflicts of interest to be dealt with in a similar way to that which was set out in the Current Articles.

   There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the Company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

   The New Articles also introduce provisions relating to the receipt of confidential information, attendance at board meetings and availability of board papers in a conflict situation. This takes advantage of a new provision in the Companies Act 2006 which says that directors will not be in breach of their general duties to the company if they act in accordance with provisions in the company's articles dealing with conflicts and the conflict has previously been authorised by the directors. Such provisions serve to protect a director being in breach of duty after such authorisation.

6. **Electronic and web communications (New Articles – Article 226 and following)**
   Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles allow communications to members in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

Designed and produced by **fourth**quarter Printed by **SV.two**

London office
77 Gracechurch Street
London
EC3V 0AS
United Kingdom

Telephone: + 44 (0) 207 711 0771
Facsimile: + 44 (0) 207 711 0772

US office
The Barn
1125 Airport Road
Coatesville
PA 19320
United States

Telephone: + 1 610 380 2110
Facsimile: + 1 610 380 2116

Singapore office
20 Collyer Quay
10-04 Tung Centre
Singapore 049319

Telephone: + 65 6236 9136
Facsimile: + 65 6532 3997

Dubai office
Unit 2, 2nd Floor
The Gate Village Building 1
Dubai International Financial Centre
PO Box 506695
Dubai
United Arab Emirates

Telephone: + 971 (0)4 423 1780
Facsimile: + 971 (0)4 437 0510

www.citlon.co.uk