CITY OF LONDON
INVESTMENT GROUP PLC

ANNUAL REPORT & ACCOUNTS
2009

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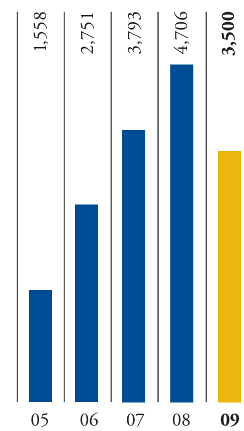
City of London Investment Group Plc is a leading emerging market and natural resource asset management group, specialising in the provision of investment products and services to institutional clients. City of London operates its business from offices in London, the US, Singapore and Dubai.

Contents

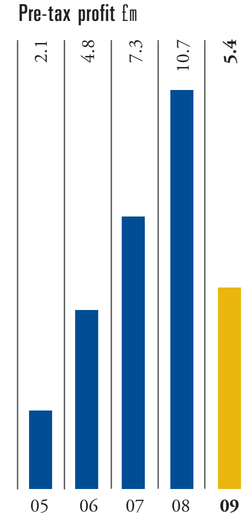
Highlights

- Funds under management at 31st May 2009 were US$3.5 billion (2008: US$4.7 billion), a decline of 26% compared to a fall in the benchmark emerging market index (MXEF) of 36%
- Funds under management at 31st August 2009 were US$4.0 billion, a rise of 13% since the financial year end compared to a rise of 9% in the MXEF
- Unprecedented market volatility during the period with the MXEF falling by some 70% to its low before recovering significantly by our year end
- Profit before tax down 50% to £5.4 million (2008: £10.7 million)
- Basic earnings per share down 45% to 16.1p (2008: 29.3p)
- Recommended final dividend of 10p per share (2008: 13.5p), payable on 20th November 2009 to shareholders on the register on 30th October 2009, making a total for the year of 15p (2008: 19.5p)
- Good progress made on diversifying the Group's product offering with the award of a first mandate to invest in closed end funds in developed markets and the launch, post period end, of a fund investing directly in Asia ex-Japan equities

Funds under management US$m



Pre-tax profit £m



"We believe that leveraging our expertise in closed end funds and global markets represents a risk-managed route to enhancing the quality and stability of the Group's earnings and is a strategy which plays to our proven strengths."

Andrew Davison, Chairman

"In my opinion, what we should be attempting to do is to reward clients (who pay the bills) with superior returns, our shareholders (who own the business) with significant dividends and capital growth, and our employees (who manage the business) with relative security and participation in the firm's success. If we can continue to achieve these three goals relatively fairly I would hope that we will be one of the survivors as many parts of our industry are restructured."

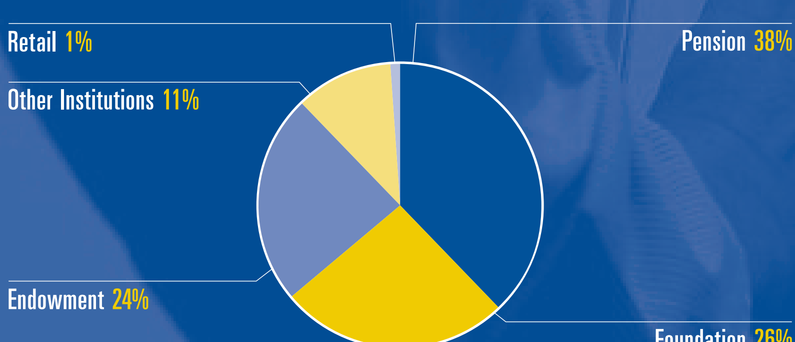
Barry Olliff, Chief Executive Officer

City of London's operating philosophy can best be represented by the six key drivers:

1. Investment performance drives our business
2. Technology leverages our capabilities
3. Focus on profits, margins, costs
4. Aversion to risk in the management of our business
5. 1-4 above create opportunities for further growth
6. CoL differentiation and diversification

Client type

As a percentage of total assets as at 31st May 2009



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.

At a glance

USA

Our second office was established near Philadelphia in the United States in 1995 to better service the growing client base in North America and to enable us to provide investment management from the Americas 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

In 2008, we opened our fourth office, in Dubai. The office is in a prime location in the Dubai International Financial Centre and allows us to access investment opportunities in the region as well as to increase the Group's visibility with funds in the area.

Chairman's statement

The emerging markets in which the Group principally invests declined significantly during the year ended 31st May 2009 but have staged a substantial recovery in the period since. I am pleased to report that our investment performance was resilient during the last financial year as our markets fell, but also has provided clients with outperformance of benchmarks during their recent recovery.

From the end of May 2008 to the end of May 2009, the MSCI Emerging Markets Index (MXEF) fell by 36%. Our funds under management (FuM) declined by 26% over the same period to end the year at US$3.5 billion, or £2.2 billion, (2008: US$4.7 billion or £2.4 billion). Since our year end, the MXEF has risen by 9% to the end of August while City of London's FuM have increased by 13% to US$4.0 billion, or £2.4 billion.

The period end comparisons to MXEF mask considerable volatility in emerging markets during the year with the index at the end of May 2009 being some 70% above the lows in October 2008. Volatility is not new to us, and our investment model has been honed over our history in an attempt to provide clients with outperformance against benchmarks in both falling and rising markets. Indeed, during the almost unprecedented volatility of emerging markets over the last two years, the Group has added significant new FuM from both existing and new clients as recognition of the virtues of our approach has increased.

Results

Fee income, predominantly US dollar denominated, for the year to 31st May 2009 fell by 19% to £20.2 million (2008: £24.9 million) reflecting the significantly lower FuM resulting from the falls in emerging markets during the second and third quarters but benefitting from the relative weakness of sterling during most of the period.

Profit before profit share, interest and similar income, impairment charges and tax declined by 41% to £8.6 million (2008: £14.5 million). Pre-tax profit declined by almost 50% to £5.4 million (2008: £10.7 million), after £2.8 million of profit related staff payments (2008: £4.7 million), reduced interest receivable of £0.1 million (2008: £0.4 million) and a £0.2 million loss on liquidation of seed investments (2008: gain of £0.4 million). After a reduced tax charge of £1.5 million, representing 29% of pre-tax profits (2008: £3.6 million representing 33% of pre-tax profits), basic earnings per share were 16.1p (2008: 29.3p), a decline of 45%. Diluted earnings per share were 15.0p (2008: 26.0p).

The Group ended its financial year with cash balances of £4.7 million (2008: £5.5 million) and no borrowings (2008: same).

Dividends

Shareholders will be aware that City of London's dividend policy is based on paying dividends that are covered approximately one and a half times by full year earnings per share. Although the Board has no plans to change this policy, a temporary reduction in earnings cover has been applied this year in determining the level of dividends. This is a reflection of the exceptional market conditions, our expected strong cash position and the recovery in our markets and FuM since our year end. As a consequence, the Board is recommending a final dividend of 10p per share (2008: 13.5p), making a total for the year of 15p (2008: 19.5p), covered 1.06 times by earnings per share (2008: 1.50 times). The final dividend will be paid on 20th November 2009 to shareholders on the register on 30th October 2009.

Operational highlights

The Group took the decline in the markets as an opportunity and maintained its focus on organic growth, both in terms of new products and geographical expansion of the client base. We made good progress on both fronts.

In the US, we received our first mandate – of some US$100 million - to invest in developed markets via closed end funds and recruited a fund manager to support this new product area. In the UK, shortly after the year end on 1st July, we launched the Asian Value & Growth fund (a spoke of the World Markets Umbrella Fund), which will invest directly in equities in Emerging Asia. Again, a senior fund manager specialising in Asian investment was appointed to provide the necessary expertise for this product, which is currently being marketed to UK institutional investors before roll-out, once a track record has been established, to the Group's client base in North America.

Towards the end of 2008 a marketing manager was appointed to implement our decision to bring our US marketing in-house, and ultimately therefore to avoid the commissions which we have historically paid to North Bridge Capital who have served us well since we started the US marketing activity. He will be responsible for developing direct relationships with the consultant industry which advises institutional investors.

These developments are reported in more detail in the Chief Executive Officer's review.

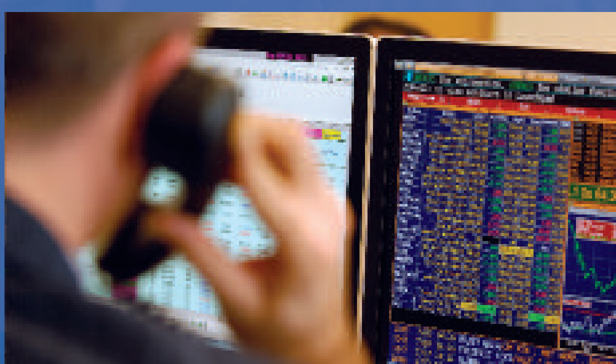
Outlook

From the lows recorded following the collapse of Lehman Brothers in September 2008, emerging markets recovered strongly to our financial year end. The recovery has continued into our new financial year as investors recognised that the prospects for many emerging markets are better, in both the short and longer term, than those for developed economies. This is not to say that we believe there will be no further volatility but we anticipate that the very pronounced troughs and peaks of the last year will be moderated.

The comparative attractions of emerging markets for our core institutional clients has led, and is still leading, to the commitment of new money to the asset class as evidenced by the outstanding commitments to be funded in excess of US$500 million, which will benefit FuM in the current year. In addition, investors are becoming receptive to increased weightings in the natural resource sector following the protracted period when they were out of favour.

We plan to take advantage of these trends by continuing to diversify our product offering with an increased focus on natural resources and the launch of both the Asia Value & Growth fund (investing directly in Asian equities ex-Japan) and the Emerging Markets Value & Growth fund (also investing directly in equities). Additionally, as noted above, we have been mandated to manage a new global closed end funds account. We believe that this leveraging of our expertise in emerging markets and in closed end funds represents a risk-managed route to enhancing the quality and stability of the Group's earnings and is a strategy which plays to our proven strengths.

Andrew Davison
Chairman
10th September 2009



At City of London, we focus not on gathering assets, but on building products that reflect our expertise. Initially, and for many years since the firm was founded, that expertise was very specific to closed end funds which offered emerging markets exposure.

This was subsequently complemented by research into the underlying equities, both via natural resources and via country specific emerging markets stocks, which in turn spawned regional and global emerging market equity funds. Most recently, we have applied our unrivalled knowledge of closed end funds around the world to the development of a global (ex US) closed end fund product.

So today, while we remain both proud and protective of our “boutique” status, we offer a range of products which are defined by the twin pillars of our expertise: emerging markets, and closed end funds.

Expertise

Chief Executive Officer's review

"In my opinion, without additional new bad news, if this market follows its predecessors, MXEF in 2009 will have appreciated between 50% and 75% before there is the first sign of good news. This is what occurred in 1999 and 2003 after similar falls under similar emotional circumstances in our asset class."

Extract from CEO review – January 2009

Extreme emotional behaviour

I have reproduced on the left a paragraph from my review at the time of our Interim Report, not just because the markets have appreciated significantly from then, but rather to demonstrate yet again the extreme emotional behaviour demonstrated by our asset class.

Placed in context, from the low of 450 in October 2008 the MSCI Emerging Markets Index (MXEF) rose 75%, virtually uninterrupted over the next seven months. You will recall that this was around the time of some of the initial references to "green shoots" in May, which coincided with our year end.

Since the end of May, MXEF rose to around 870 in August, an increase of just over 90% from the low.

Our FuM have appreciated similarly, from US$1.95 billion in October 2008, doubling to just over US$4 billion at the beginning of August. However to compare like with like, and to measure the actual progress that we are making, I would suggest using straight index tracking which would mean that we would be managing US$5.4 billion if we returned to the high that the index achieved in October 2007, at which time we were in fact managing US$4.95 billion. This figure of "index-adjusted" FuM excludes monies won via new mandates as yet unfunded that are referenced under the "New mandates" heading later in this statement.

Returning to the theme of "extreme emotional behaviour", what should happen over the next few months based upon precedent is that our asset class should now take a breather for quite some time. After the rises of 1999 and 2003 it took at least a year before further highs were established, and whilst I'm not suggesting that the circumstances are similar this time around, the emotional behaviour of participants within our asset class will in my opinion be similarly demonstrated. The index will have increased in value too far too fast and there will be some time taken for reflection prior to any further significant advance.

Since the low last October, we have been focusing our business with two objectives in mind:

1. Diversification

We have established that our shareholders, our staff and, I would suggest, our clients do not like our asset class' volatility. Volatility equates to risk and risk leads to insecurity. Whilst our shareholders understand both what we do and how we attempt to mitigate risk, our staff, even in a year when we outperform our benchmarks, potentially receive significantly smaller bonuses. By diversifying our business, employees, and in particular our investment management staff, will benefit in the same manner as shareholders, and so interests are aligned.

In this regard therefore, we have been attempting to diversify our business in a number of ways, some of which have been, very unusually, successful in the short term, while other initiatives are taking us longer to deliver. A recent success has been the winning of a substantial mandate that is to be invested in the MSCI All Country World Index (ACWI) ex US. This is a Closed End Fund mandate and is becoming a significant area of focus for us using the well established volatility of Closed End Fund pricing as the major source of alpha generation.

Other areas of diversification involving our Emerging Markets Closed End Fund business include the Emerging Markets Plus Fund which allows us opportunistically to invest in Developed Markets when the Emerging Markets are considered to be too high or when the Developed Markets are attractively priced. That Fund, which when initially funded at the end of March 2009 had assets of US$17 million, is now US$43 million (end August) after an additional subscription of US$23 million and then a rebalancing redemption of US$10 million at the end of June.

Our Equities (as compared to Closed End Funds) Group has also developed. We recently added both an Asia Value and Growth spoke to The World Markets Umbrella Fund (our Dublin based mutual fund) and created a new Delaware Statutory Trust called Emerging Markets Value and Growth, with the intention of marketing these funds to institutional investors after they have established first or second quartile performance track records.

2. Employees

As referenced in the Interim Report we have not made any of our staff redundant during the difficult market conditions of the past year or so. This is for two reasons with which you are familiar:

(i) We run a low cost business. We do not spend what we consider to be shareholders' money unnecessarily. Our offices are by no means the most fancy, and when we travel we do not stay in expensive hotels or use corporate jets! Neither are we great entertainers, believing that good investment performance is what counts as an aid to winning mandates.

(ii) Our business model is (particularly as our asset class is risky) as risk averse as possible. We do not agree with very long term plans, knowing that markets (as we have just witnessed) can derail them. Also we do not overstaff. We attempt to use staff flexibly, increasing the head count only when we are sure that in so doing we would not potentially create a position only to find that we were then forced to reconsider due to changed market circumstances.

Obviously we are fortunate in this regard as we still remain small. I expect that as we grow some of these values will be compromised, but to the extent that we can be careful with the allocation of our human resources, I would suggest that this should be for the benefit of our shareholders, our clients, and ultimately our staff.

However, having just implied that we do not take any risks, we have in fact taken on a number of experienced staff to fill certain specialist positions in support of our diversification plans. In this regard we were taking on staff at a point when other fund managers were letting staff go for whatever reason.

The areas involved (all of which are areas of diversification) are as follows:

Asian Equities, Developed Closed End Funds, Absolute Return, US Marketing, Asia Marketing.

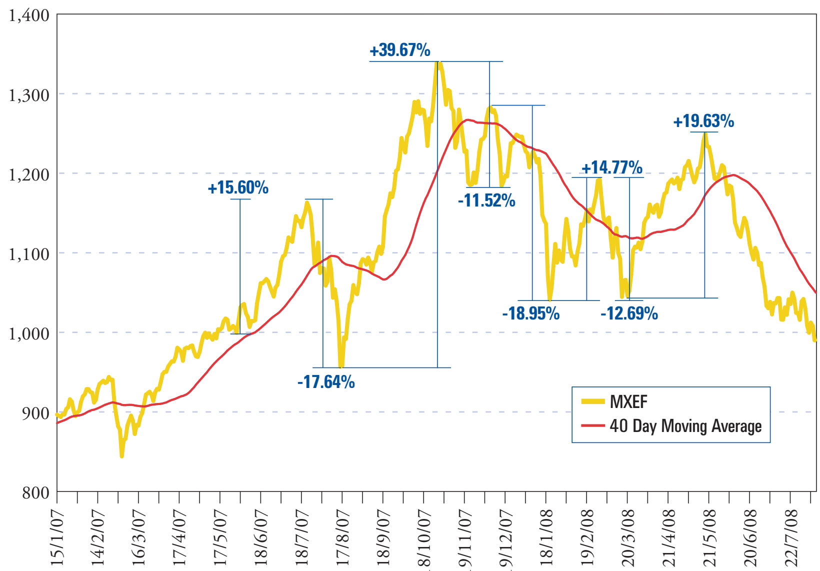
Asian Equities, Developed Closed End Funds and Absolute Return are all product specific. However US Marketing, as referenced in the Interim CEO Review is a new position created as a result of the end of our agreement with North Bridge Capital, who have been our third party marketing provider for many years. This agreement ends in October and we decided well over a year ago to make an internal appointment that would enable us to benefit and keep 100% of the new fees generated from US assets going forward subsequent to October. There is one exception to this: one consultant relationship has been left with North Bridge Capital for one further year.

In addition, we have made an appointment in our Singapore office to explore marketing opportunities in Asia. We hope that as we diversify our business further we will be able to continue to develop our business in Asia potentially with new products from our Equities group.

Chief Executive Officer's review

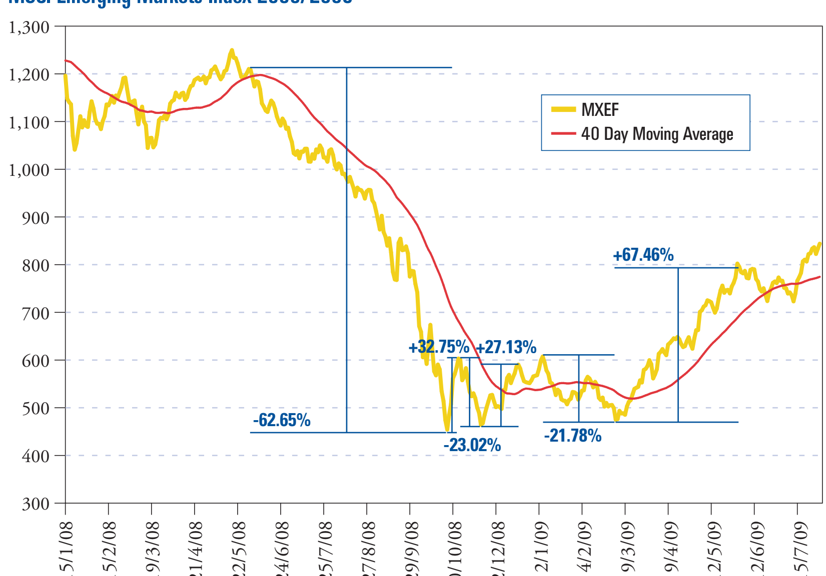
Continued

MSCI Emerging Markets Index 2007/2008



Source: Bloomberg

MSCI Emerging Markets Index 2008/2009



Source: Bloomberg

Investments

We now hold positions in three CLIM Funds. These positions have been taken to facilitate the development of a performance record in each of these areas. In each case, at the point that the requisite record has been established these investments will be reduced and ultimately liquidated. In the case of the Global Equity Fund these assets have been reallocated to the newly-launched funds. As can be seen below these investments total US$3.543 million as of the end of July.

	Market value	
Seed Investments	31 May 2009 US$k	31 July 2009 US$k
US DST's:		
Global Equity Fund	400	–
Emerging Markets Value & Growth	–	1,000
World Markets Umbrella Fund (Dublin)		
Natural Resources	296	306
Asia Value & Growth	–	2,237
Total	696	3,543

Exercise of options

In my Interim Review I gave notice that I would be intending to exercise an option over 189,000 shares at 29p prior to its expiry in May this year, and would be intending subject to market conditions to simultaneously sell around half of the resulting shares that I purchased. However, as a result of changed market conditions I took up the entire position and have no present plans for disposing of any shares.

Market volatility

Last year I made the point that we had dealt with a lot of volatility, in fact this financial year just finished was even worse. For information I have reprinted last year's graph and show it above this year's.

New mandates

As referenced earlier we have been successful in winning a number of new mandates. As of the end of August these were in excess of US$500 million. We expect these mandates to be funded over the next few months.

The financial services industry

I really had hoped that our industry had learnt some lessons as a result of what had happened over the past few years, but unfortunately already the signs are not good in this regard. In many instances (yet again) the rewards paid to staff seem to be out of all proportion to the gains left over for shareholders. In the US it seems that there is still a need to legislate away structural weaknesses with more and more time consuming and expensive regulation.

I had hoped that the managements of the companies that have demonstrated some of the worst excesses would have been held accountable by shareholders and thus would not have survived. But in the event this has not, at least at the present time, occurred.

I fear that what will in fact happen is that when the wake up call arrives the restructuring of our industry will be significantly broader and will leave significantly more scars than anyone could at present foresee. In my opinion the barriers to entry within many areas of the financial service industry are not high and it is inevitable that what are now considered very well capitalised emerging market banks and other institutions will assume a significant role within this industry over the next few years. It can be seen that there are many precedents for what I am suggesting. You just have to look around the changing competitive landscape for other consumer products around the world (separate from financial service products) to see the potential.

For our part we are determined to continue to run a competitive business that avoids many of the structural weaknesses demonstrated by our peers. In my opinion, what we should be attempting to do is to reward clients (who pay the bills) with superior returns, our shareholders (who own the business) with significant dividends and capital growth, and our employees (who manage the business) with relative security and participation in the firm's success. If we can continue to achieve these three goals relatively fairly I would hope that we will be one of the survivors as many parts of our industry are restructured.

Retirement plans

At the end of this year I will be 65, and subject to approval from the board and also from my colleagues and from shareholders, I would like to stay on in my present position until I am 70, and then to retire. The exact date of my retirement could obviously be managed to suit all parties. Over the next few years I will gradually be delegating certain responsibilities to ensure a smooth handover.

CLIG employees

I would again like to thank staff for their support and hard work in what has continued to be a volatile and testing environment.

B M Olliff

B M Olliff
Chief Executive Officer
10th September 2009

Process

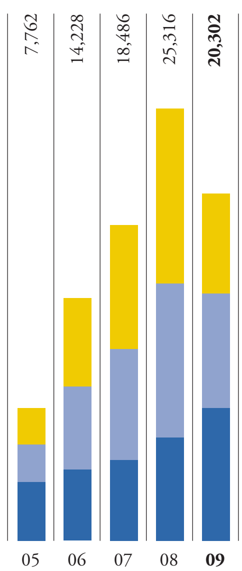
We have always strived to develop and nurture an investment process which does not rely on 'star' fund managers, but rather upon a series of analytical procedures that can produce repeatable and sustainable first or second quartile performance versus our peers.

Our process employs an array of proprietary tools for analysing and identifying value. These quantitative tools supplement both macroeconomic analysis and the trading expertise that has been developed over a period of nearly 20 years.

Whether it is taking advantage of discount anomalies in closed end funds, or company specific valuation in our equity business, through three full market cycles in Emerging Markets, the process has delivered consistent relative outperformance combined with low volatility relative to the applicable emerging markets benchmarks.

Financial review

Total income £k



Note: excludes AIM listing costs and gains/losses on investments.

Consolidated income statement

The financial year 2008-9 comprised four very different quarters, so far as profit was concerned. The year opened strongly on the back of funds under management (FuM) of US$4.7 billion and, despite some significant market erosion, averaged US$4.2 billion across the first three month ends. This relative stability ended suddenly in the quarter to end November 2008, as stock markets around the world fell precipitately, causing our monthly average FuM for the quarter to decline to US$2.6 billion. At the mid-year point FuM stood at a disappointing US$2.1 billion. The recovery from the low point began slowly during the third quarter as monthly average FuM rose to US$2.3 billion, and accelerated in the final quarter of the year as global markets rose rapidly, with emerging markets leading the way. Average monthly FuM for the fourth quarter was slightly over US$3 billion and the year end position was US$3.5 billion. In percentage terms, from the start point of US$4.7 billion FuM fell by 60% during the first half year, and then rose by 80% to the year end figure. Some of that recovery was the result of new money, but nevertheless the figures are indicative of a level of volatility which was perhaps without precedent.

Unsurprisingly, given this background, fee income and therefore profitability was healthy in the first and fourth quarters but significantly impaired in the second and third quarters. Overall, for the year as a whole, fee income was £20.2 million (2008: £24.9 million) and while the year on year reduction was as unforeseen as it was marked, the fact that the year closed relatively strongly provided a considerable degree of comfort. The Group's FuM and income in sterling terms was smoothed by the 18% decline in the sterling/dollar exchange rate – in sterling the starting and ending FuM for the year were £2.4 billion and £2.2 billion respectively.

Administrative expenses were reduced but, net of the inflationary impact of the fall in the £/US$ exchange rate, that reduction was only marginal, from £15.0 million to £14.5 million. Variable costs – commission paid on fees plus the profit-share pool – fell back and as a result the overhead component of total administrative costs rose from 45% to 60%. The increase was principally attributable to people costs and systems, natural enough given that these two make up 75% of the fixed cost base (2008: 74%). Although reflecting an increase in headcount from 52 to 58 and some investment in systems (and in particular in the adoption of the Charles River front office system), in reality by far the most significant driver of the higher costs was the weakness of sterling, not just as it related to our US office costs but also, although less materially, as it related to the costs of the Singapore and Dubai offices.

In the half year results we took a write down of £0.7 million against our seed investments, reflecting a fall in value from original investment. As markets recovered during the second half, the charge to the income statement for the full year was reduced to £0.4 million (coincidentally almost precisely matching the gain of £0.5 million taken to profit in the preceding two years).

Pre-tax profit of £5.4 million represents a fraction over 50% of the previous year's £10.7 million. The tax charge is equivalent to 28.6% of pre-tax profits (2008: 33.3%) with the change resulting from the reduction in the UK corporation tax rate to 28%, the changing mix of business as apportioned under the Group's transfer pricing policy and a small write back of tax accrued in prior years. Profit after tax was £3.8 million (2008: £7.1 million).

Consolidated balance sheet and statement of changes in shareholders' equity

Dividends paid to shareholders during the year totalled £4.4 million, being £3.2 million for the 13.5p final dividend for 2007/8 and £1.2 million for the current year's interim dividend of 5p per share. The equivalent numbers for the previous year were £1.7 million (7p) final and £1.5 million (6p) interim, making a total of £3.2 million. None of the other components of the change in shareholders' equity impact cash in the current period. The revaluation reserve, reflecting the valuation of seed investments, was effectively eliminated during the year as value declined by £0.4 million, reversing the prior year upward revaluation of £0.5 million. The share option reserve was reduced to £1.8 million (2008: £3.5 million) based upon the effect on deferred tax of the change in price of the Group's shares, which stood at £2.285 at 31st May 2009 (31st May 2008: £3.35). Also with respect to share options, a receivable of £1.2 million has been recorded to reflect the anticipated recovery of corporation taxes in both the UK and the US in respect of share option exercises during the four years ending in May 2009, as the corporation tax filings had not hitherto acknowledged the deduction available against taxable profits. The net effect of these movements, together with the share-based payment charge of £0.1 million (2008: £0.1 million), was to reduce total equity from £9.8 million to £8.7 million.

Cash remains the major part of net assets: £4.7 million representing 54% of the total (2008: £5.5 million; 56%). The reduction in cash reflects the excess of the net cash used in financing activities at £4.1 million (2008: £9.0 million) over the net cash generated from operating activities of £3.3 million (2008: £7.4 million). Current and deferred taxes represent receivables of £2.2 million (2008: £1.5 million), including the reclaim of £1.2 million of prior year taxes as noted above. Investments in property and equipment and in financial assets total £1.3 million (2008: £2.2 million), and the balance of the total net assets of £8.7 million (2008: £9.8 million) is represented by net trade receivables/payables at £0.5 million (2008: £0.5 million).

Currency exposure

The strength or weakness of sterling relative to the US dollar has, and most likely always will have, a significant influence on reported earnings, as the Group's income is derived almost entirely in US dollars, whereas close to half of its expenses are incurred in sterling. As observed many times before, there is an inbuilt natural hedge, as US dollar fee income will tend to rise as the dollar weakens and fall as the dollar strengthens, assuming that the weakness/strength is reflected in the dollar's value relative to the currencies that underlie the funds under management. Ultimately, in effect, it is the value of sterling relative to those underlying currencies that feeds through to earnings. Nevertheless it is helpful to consider the table below, which illustrates the impact on post tax profits of moves in the dollar/sterling rate, *ceteris paribus:*

	FuM – US$bn			
	3.0	3.5	4.0	4.5
US$/£		Post-tax, £m		
1.55	4.2	5.5	6.9	8.2
1.60	4.0	5.3	6.6	7.9
1.65	3.8	5.1	6.4	7.6
1.70	3.6	4.9	6.1	7.3
1.75	3.5	4.7	5.9	7.1

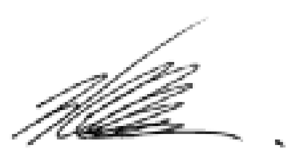
Assumes:
1. Average net fee 87 basis points
2. Annual operating costs £4.0 million plus US$6.5 million
3. Profit-share 30%
4. Average tax of 31%

The table illustrates annualised profits – for example at constant FuM of US$4.0 billion, and at a constant exchange rate of 1.65, post-tax earnings might be expected to be around £6.4 million, whereas the same level of FuM would generate £6.9 million post-tax at an exchange rate of 1.55.

While the Group does not aim to lock in the sterling value of future revenues by hedging, a portion of anticipated income is sold forward principally as a mechanism to hedge the long dollar position in the balance sheet (i.e. essentially accrued fees plus certain of the seed investments). At 31st May these forward sales amounted to US$3.6 million at an average rate of 1.7694 (2008: US$6.2 million at an average rate of 1.9716).

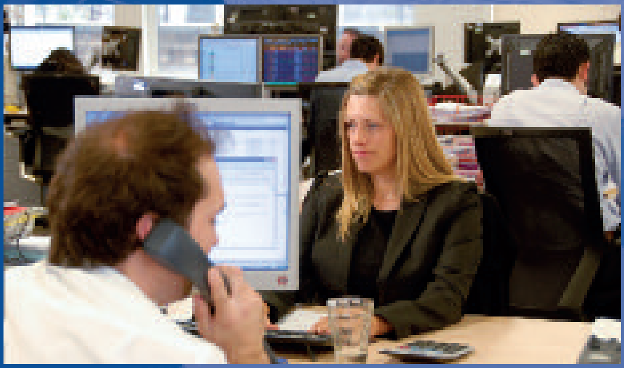
Share options

As at 31st May 2009 there were 3,135,022 options on ordinary shares outstanding (2008: 3,958,310). Of those outstanding options, 1,262,375 (2008: 1,458,310) relate to shares held by the Employee Share Option Trust, and the balance of 1,872,647 (2008: 2,500,000) relate to new shares that would be issued at exercise. The reduction in the number of dilutive options reflects the exercise of 621,103 options, which increased shareholders' equity by £0.3 million, and the lapse of 6,250 options. At the period end dilutive share options therefore represent 7.2% (2008: 9.9%) of issued share capital.



D F Allison
Finance Director
10th September 2009

Client service



Our clients are our business. If performance is our first priority, then client service is a close second. We understand that a "one size fits all" approach is not appropriate.

Our aim is to be open and accessible to each and every client, and while we have a designated client service team we also expect and encourage our institutional clients to enjoy direct contact with fund managers and other key individuals within the investment management team.

We acknowledge that our industry has faced some difficult issues in recent times, both with respect to the opaque practices of a few, and with respect to volatile market conditions. We are, and always have been, an open book to our clients. While we would never seek to impose, we try to anticipate the concerns of our clients, and with that in mind we offered personal visits by our senior investment officers to all of our institutional clients this year, and were delighted at the significant take up rate.

We believe that our focus on client service is a key driver of our long term client retention.

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 Bachelor of Social Science 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 US$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
Singer Capital Markets
One Hanover Street
London
W1S 1YZ

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
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
West Yorkshire
HD8 0GA

Registered office

77 Gracechurch Street
London
EC3V 0AS

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31st May 2009.

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 28 accounts (2008 – 30 accounts) with a total of £2,167 million (2008 – £2,379 million) under management as at the end of the year. Accounts may be commingled or segregated.

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 and include relevant key performance indicators.

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 £4,418,079 during the year (2008 – £3,237,691). The final dividend for the year to 31st May 2009 will be paid in November 2009, 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 Group 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 is chaired by Omar Ashur. It meets at least twice each year and is responsible for monitoring the quality of internal control, ensuring that the financial performance of the Group 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 2009	Ordinary Shares of 1p each 2008
A J Davison *(Chairman) (non-executive)*	**86,500**	49,000
B M Olliff	**5,243,683**	4,888,025
D F Allison	**310,625**	260,625
T W Griffith	**49,925**	16,575
C M Yuste	**62,925**	29,575
O I Ashur (non-executive)	**5,000**	5,000
D M Cardale (non-executive)	**156,250**	156,250
G A Robb (non-executive)	**45,000**	–
A S Bufferd (non-executive)	**10,000**	–

(b) Share options

At 31st May 2009 share options were held by the following directors:

	Number	Exercise price £	Date from which exercisable	Expiry date
B M Olliff	303,897	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
	12,000	2.75	1st October 2011	1st October 2018
D F Allison	200,000	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
	12,000	2.75	1st October 2011	1st October 2018
T W Griffith	50,000	0.45	10th January 2004	10th January 2011
	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
	12,000	2.75	1st October 2011	1st October 2018
C M Yuste	50,000	0.45	10th January 2004	10th January 2011
	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
	12,000	2.75	1st October 2011	1st October 2018

(c) Remuneration

The remuneration of the directors who held office during the year ended 31st May 2009 is set out below:

	Salary £	Profit share £	Health insurance £	Total 2009 £	Total 2008 £	Pension 2009 £	Pension 2008 £
Non-executive							
A J Davison	30,916	–	–	30,916	30,000	–	–
G A Robb	20,917	–	–	20,917	20,000	–	–
O I Ashur	20,917	–	–	20,917	20,000	–	–
D M Cardale	20,917	–	–	20,917	20,000	–	–
A Bufferd	21,750	–	–	21,750	2,500	–	–
	115,417	–	–	115,417	92,500	–	–
Executive							
B M Olliff	212,993	527,029	–	740,022	1,111,797	26,624	21,812
D F Allison	139,000	215,200	1,928	356,128	580,733	17,375	17,125
T W Griffith	125,361	129,073	–	254,434	330,549	15,670	12,651
C M Yuste	125,361	129,073	–	254,434	330,549	15,670	12,651
	602,715	1,000,375	1,928	1,605,018	2,353,628	75,339	64,239

Substantial shareholdings

At 31st July 2009, 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	5,243,683	20.1
BlackRock Investment Management	3,174,903	12.2
F&C Asset Management	2,984,329	11.5
The City of London Employee Share Option Trust	1,597,565	6.1
Insight Investment	1,514,340	5.8
Asset Management Investment Company PLC	1,500,000	5.8
Hargreave Hale	1,320,750	5.1
Baillie Gifford	850,000	3.3
Saracen Fund Managers	787,500	3.0

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 2009, the creditor days were nil (2008 – nil).

Report of the directors

Continued

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
10th September 2009

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statement;
- 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of City of London Investment Group Plc for the year ended 31st May 2009 which comprises 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. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Sections 495 - 496 of the Companies Act 2006. 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

As explained more fully in the Directors' responsibilities statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31st May 2009 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Colin Moore (Senior statutory auditor)
11th September 2009
for and on behalf of Moore Stephens LLP, London, Statutory Auditor

Consolidated income statement

For the year ended 31st May 2009

	Note	Total 2009 £	Total 2008 £
Revenue	1,2	**20,151,149**	24,878,839
Administrative expenses			
Staff costs	4(b)	**6,716,230**	7,925,916
Other administrative expenses		**7,462,602**	6,968,479
Depreciation		**288,918**	158,474
		(14,467,750)	(15,052,869)
Operating profit	6	**5,683,399**	9,825,970
Interest receivable and similar income	7	**(60,177)**	868,870
Impairment of seed investments	8	**(238,790)**	–
Profit before taxation		**5,384,432**	10,694,840
Income tax expense	9	**(1,537,649)**	(3,559,124)
Profit for the period		**3,846,783**	7,135,716
Basic earnings per share	10	**16.1p**	29.3p
Diluted earnings per share	10	**15.0p**	26.0p

Consolidated and Company balance sheet

31st May 2009

	Note	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Non-current assets					
Property and equipment	11	**801,554**	296,740	**476,454**	209,179
Other financial assets	12	**57,535**	52,048	**893,380**	847,684
Deferred tax asset	13	**1,605,855**	3,208,323	**330,737**	811,963
		2,464,944	3,557,111	**1,700,571**	1,868,826
Current assets					
Trade and other receivables	14	**2,868,398**	3,573,214	**1,062,701**	2,080,639
Current tax receivable		**608,965**	–	**1,323,904**	1,142,881
Available-for-sale financial assets	15	**431,365**	1,861,375	**431,365**	1,861,375
Other financial assets	16	**–**	30,335	**–**	30,335
Cash and cash equivalents		**4,718,766**	5,498,910	**108,638**	83,135
		8,627,494	10,963,834	**2,926,608**	5,198,365
Current liabilities					
Trade and other payables	17	**(2,349,334)**	(3,068,821)	**(2,819,866)**	(3,609,604)
Current tax payable		**–**	(1,487,571)	**–**	–
Creditors, amounts falling due within one year		**(2,349,334)**	(4,556,392)	**(2,819,866)**	(3,609,604)
Net current assets		**6,278,160**	6,407,442	**106,742**	1,588,761
Total assets less current liabilities		**8,743,104**	9,964,553	**1,807,313**	3,457,587
Non-current liabilities					
Deferred tax liability	18	**(1,424)**	(193,177)	**(1,424)**	(193,177)
Net assets		**8,741,680**	9,771,376	**1,805,889**	3,264,410
Capital and reserves					
Called up share capital	19	**259,816**	253,605	**259,816**	253,605
Share premium account		**1,518,441**	1,357,283	**1,518,441**	1,357,283
Investment in own shares	20	**(2,633,932)**	(2,811,878)	**(2,633,932)**	(2,811,878)
Revaluation reserve		**3,661**	450,747	**3,661**	450,747
Share option reserve		**1,767,730**	3,468,673	**609,542**	1,105,886
Capital redemption reserve		**14,172**	14,172	**14,172**	14,172
Retained earnings		**7,811,792**	7,038,774	**2,034,189**	2,894,595
Total equity		**8,741,680**	9,771,376	**1,805,889**	3,264,410

The Board of directors approve and authorise for issue these financial statements on 10th September 2009.

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 2009

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total £
Group								
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 1st June 2008	253,605	1,357,283	(2,811,878)	450,747	3,468,673	14,172	7,038,774	9,771,376
Share option exercise	6,211	161,158	177,946	–	–	–	–	345,315
Decrease in fair value*	–	–	–	(446,414)	–	–	–	(446,414)
Released on disposal*	–	–	–	(672)	–	–	–	(672)
Share-based payment	–	–	–	–	7,113	–	81,136	88,249
Deferred tax	–	–	–	–	(1,708,056)	–	(7,663)	(1,715,719)
Current tax on share options	–	–	–	–	–	–	1,270,841	1,270,841
Profit for the period	–	–	–	–	–	–	3,846,783	3,846,783
Dividends paid	–	–	–	–	–	–	(4,418,079)	(4,418,079)
At 31st May 2009	**259,816**	**1,518,441**	**(2,633,932)**	**3,661**	**1,767,730**	**14,172**	**7,811,792**	**8,741,680**
Company								
At 1st June 2007	267,777	1,357,283	(1,573,525)	457,471	901,735	–	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 1st June 2008	253,605	1,357,283	(2,811,878)	450,747	1,105,886	14,172	2,894,595	3,264,410
Share option exercise	6,211	161,158	177,946	–	–	–	–	345,315
Decrease in fair value*	–	–	–	(446,414)	–	–	–	(446,414)
Released on disposal*	–	–	–	(672)	–	–	–	(672)
Share-based payment	–	–	–	–	43,008	–	31,024	74,032
Deferred tax	–	–	–	–	(539,352)	–	(16,262)	(555,614)
Current tax on share options	–	–	–	–	–	–	799,950	799,950
Profit for the period	–	–	–	–	–	–	2,742,961	2,742,961
Dividends paid	–	–	–	–	–	–	(4,418,079)	(4,418,079)
At 31st May 2009	**259,816**	**1,518,441**	**(2,633,932)**	**3,661**	**609,542**	**14,172**	**2,034,189**	**1,805,889**

*Net of deferred tax.

Consolidated and Company cash flow statement

For the year ended 31st May 2009

	Note	Group 2009 £	Group 2008 £	Company 2009 £	Company 2008 £
Cash flow from operating activities					
Operating profit		5,683,399	9,825,970	82,488	126,099
Adjustments for:					
Depreciation charges		288,918	158,474	145,279	67,255
Share based payment charge		88,249	141,083	33,823	51,385
Translation adjustments on investments		(372,759)	50,223	(372,759)	50,166
Loss on disposal of fixed assets		5,418	–	5,418	–
Cash generated/(used) in operations before changes in working capital		5,693,225	10,175,750	(105,751)	294,905
Decrease/(increase) in trade and other receivables		704,816	(960,002)	1,017,938	536,222
(Decrease)/increase in trade and other payables		(719,487)	906,653	(789,738)	291,060
Cash generated from operations		5,678,554	10,122,401	122,449	1,122,187
Interest received		145,604	438,109	7,962	23,439
Interest paid		–	(1,691)	–	(1,691)
Taxation (paid)/received		(2,476,595)	(3,161,783)	421,621	(532,257)
Net cash generated from operating activities		3,347,563	7,397,036	552,032	611,678
Cash flow from investing activities					
Dividends received from subsidiaries		–	–	3,220,000	7,500,000
Purchase of property and equipment		(799,943)	(261,852)	(418,765)	(201,686)
Proceeds from sale of property and equipment		793	–	793	–
Purchase of non-current financial assets		(663)	–	(663)	(1,747)
Proceeds from sale of non-current financial assets		663	14,424	663	14,424
Purchase of current financial assets		–	(1,208,121)	–	(1,208,121)
Proceeds from sale of current financial assets		744,207	1,961,075	744,207	1,961,075
Net cash (used)/generated from investing activities		(54,943)	505,526	3,546,235	8,063,945
Cash flow from financing activities					
Proceeds from issue of ordinary shares		167,369	–	167,369	–
Ordinary dividends paid	21	(4,418,079)	(3,237,691)	(4,418,079)	(3,237,691)
Purchase and cancellation of own shares		–	(4,544,432)	–	(4,544,432)
Purchase of own shares by employee share option trust		–	(1,590,642)	–	(1,590,642)
Proceeds from sale of own shares by employee share option trust		177,946	352,289	177,946	352,289
Net cash used in financing activities		(4,072,764)	(9,020,476)	(4,072,764)	(9,020,476)
Net (decrease)/increase in cash and cash equivalents		(780,144)	(1,117,914)	25,503	(344,853)
Cash and cash equivalents at start of period		5,498,910	6,616,824	83,135	427,988
Cash and cash equivalents at end of period		4,718,766	5,498,910	108,638	83,135

Notes to the financial statements

For the year ended 31st May 2009

1 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

(a) New IFRS Standards and Interpretations

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 – comprehensive revision including the requirement to extract "non-owner changes in equity" from the statement of changes in shareholders' equity and present in a new "statement of comprehensive income".
IFRS 2	Share-based payment – amendments clarify that vesting conditions comprise only service conditions and performance conditions, and specifies the accounting treatment for a failure to meet a non-vesting condition.
IFRS 7	Financial instruments disclosures – amendment relating to the reclassification of financial assets.
IFRS 8	Operating segments – introduces the "management approach" to segmental reporting whereby information is to be disclosed on the same basis as that used for internal reporting purposes.

There are a number of other Standards and Interpretations, and revisions to existing Standards and Interpretations, including the improvements project, in issue but not in force at 31st May 2009. These are not considered relevant to the Group's financial statements.

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

(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 2009.

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 point (c) (ii) 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.

1 Basis of accounting continued

(c) Significant accounting policies

(i) 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

(ii) 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

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 derivatives 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. The fair value of the derivatives held by the Group is determined as follows:

- Options – priced using the quoted market bid price
- Forward currency trades – priced using prevailing exchange rates

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.

Notes to the financial statements

Continued

1 Basis of accounting continued

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

	2009 £	2008 £
Non-current assets		
Other financial assets:		
Investment in funds	11,107	14,129
Investment in unquoted options	46,428	37,919
	57,535	52,048
Current assets		
Available-for-sale financial assets: investment in funds	431,365	1,861,375
Other financial assets: investment in quoted options	–	30,335

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.

(iii) 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.

(iv) 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.

(v) Trade payables

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

(vi) 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.

1 Basis of accounting continued

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.

(vii) 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, 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 24(b) include grants of share options prior to 7th November 2002.

(viii) 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.

(ix) 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.

The functional currency of the Group and its main trading subsidiaries, City of London Investment Management Company Limited and City of London US Services Limited, is US dollars. The functional currency of City of London Investment Group Plc (the "Company") is sterling. The Group uses sterling as the presentation currency. Under IAS 21 this means that exchange differences caused from translating from the functional currency to presentational currency for the main trading subsidiaries would be recognised in equity. However, the Group operates a policy whereby the foreign exchange positions of the subsidiaries are sold to the Company and therefore it is the only entity with any exchange differences. As such any exchange differences arising in the Company are "real" in that the functional currency matches the presentational currency. This means that all such exchange differences are included in the income statement and no split is required between equity and the income statement.

(x) Leases

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

(xi) 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

	2009 £	2008 £
Management fees earned by subsidiary companies charged as a percentage of funds under management	20,151,149	24,878,839

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.

	2009				2008			
	Europe £	N.America £	Other £	Total £	Europe £	N.America £	Other £	Total £
Revenue	2,364,609	17,346,969	439,571	20,151,149	2,811,774	21,541,398	525,667	24,878,839
Operating profit	1,093,440	4,411,205	178,754	5,683,399	1,354,136	8,216,889	254,945	9,825,970
Total assets	6,011,630	4,955,295	125,512	11,092,438	7,082,194	7,320,819	117,932	14,520,945
Total liabilities	(275,679)	(2,023,831)	(51,248)	(2,350,758)	(526,660)	(4,126,637)	(96,272)	(4,749,569)
Net assets	5,735,951	2,931,465	74,264	8,741,680	6,555,534	3,194,182	21,660	9,771,376
Other information:								
Capital additions	418,765	381,178	–	799,943	201,686	60,166	–	261,852
Depreciation	145,279	143,639	–	288,918	67,255	91,219	–	158,474

4 Employees

(a) Average number of persons employed by the Group in the year:	2009 Number	2008 Number
Investment Management/Research	18	16
Performance and Attribution	4	5
Business Development/Marketing	3	–
Client Services	8	6
Administration, Accounts and Settlements	22	23
	55	50

(b) Staff costs incurred during the year in respect of these employees were:	2009 £	2008 £
Wages and salaries	3,220,921	2,600,303
Profit sharing payments	2,527,130	4,287,676
Social security costs	508,416	605,905
Defined contribution pension costs	371,514	290,949
Share options charge	88,249	141,083
	6,716,230	7,925,916

The Group made contributions of £371,514 (2008 – £290,949) 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:	2009 £	2008 £
Emoluments (excluding pension contributions and awards under share option schemes)	1,720,435	2,446,128
Pension contributions	75,339	64,239
Share option charge	13,072	24,346
Gains on exercise of share options	797,101	467,838

	2009 Number	2008 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	4	2

Highest paid director's remuneration:	2009 £	2008 £
Emoluments (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	740,022	1,111,797
Pension contributions	26,624	21,812
Share option charge	3,870	8,723
Gains on exercise of share options	487,171	176,563

6 Operating profit

The operating profit is arrived at after charging:	2009 £	2008 £
Depreciation of owned assets	288,918	158,474
Auditors' remuneration:		
– Statutory audit	45,271	45,000
– Taxation services	23,629	18,018
– Other services	23,852	15,228
Operating lease rentals:		
– Land and buildings	363,746	231,075
– Other	16,914	9,258
Operating sublease rentals:		
– Land and buildings	6,091	8,919
Foreign exchange losses/(gains)	94,256	(94,753)

7 Interest receivable and similar income

	2009 £	2008 £
Interest on bank deposit	145,604	436,418
(Loss)/gain on sale of investments	(214,981)	426,220
Fair value of investments	9,200	6,232
	(60,177)	868,870

8 Impairment of seed investments

Due to the deterioration in market conditions, the Group has recognised an impairment charge of £238,790 against the fair value of its seed investments in new funds in-line with IAS 39.

9 Tax charge on profit on ordinary activities

(a) Analysis of tax charge on ordinary activities:	2009 £	2008 £
Tax at 28% (2008 – 30%) based on the profit for the year	1,634,820	3,255,640
Double taxation relief	(422,174)	(637,640)
Deferred tax	(113,251)	(42,324)
Adjustments in respect of prior years	(39,037)	(9,882)
	1,060,358	2,565,794
Foreign tax for the current period	610,544	950,355
Adjustments in respect of prior years	(133,253)	42,975
	477,291	993,330
	1,537,649	3,559,124

9 Tax charge on profit on ordinary activities continued

(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 – 28% (prior year – 30%). The differences are explained below:

	2009 £	2008 £
Profit on ordinary activities before tax	5,384,432	10,694,840
Tax at 28% (2008 – 30%) thereon	(1,507,641)	(3,208,452)
Effects of:		
Expenses not deductible for tax purposes	(35,685)	(20,122)
Capital allowances less than depreciation	(15,706)	(10,519)
Unrelieved overseas tax	(188,370)	(312,715)
Impairment in seed investments not tax deductible	(66,861)	–
Deferred tax on share based-payments and impairment	113,251	42,324
Prior period adjustments	172,290	(33,093)
Other	(8,927)	(16,547)
	(1,537,649)	(3,559,124)

10 Earnings per share

The calculation of earnings per share is based on the profit for the period of £3,846,783 (2008 – £7,135,716) divided by the weighted average number of ordinary shares in issue for the year ended 31st May 2009 of 23,844,801 (2008 – 24,338,540).

As set out in Note 20 the Employee Benefit Trust held 1,617,650 ordinary shares in the Company as at 31st May 2009. 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 £3,846,783 (2008 – £7,135,716) divided by the diluted weighted average of ordinary shares for the year ended 31st May 2009 of 25,587,418 (2008 – 27,404,870).

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

	2009 Number of shares	2008 Number of shares
Weighted average number of shares – basic earnings per share	23,844,801	24,338,540
Effect of dilutive potential shares – share options	1,742,618	3,066,330
Weighted average number of shares – diluted earnings per share	25,587,418	27,404,870

Notes to the financial statements

Continued

11 Property and equipment

	2009				2008			
	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	111,852	830,381	224,332	1,166,565	91,427	667,966	159,163	918,556
Additions	65,634	540,128	194,181	799,943	20,425	176,258	65,169	261,852
Disposals	(32,073)	(76,202)	(125,288)	(233,563)	–	(13,843)	–	(13,843)
At 31st May	**145,413**	**1,294,307**	**293,225**	**1,732,945**	111,852	830,381	224,332	1,166,565
Accumulated depreciation								
At 1st June	89,619	620,271	159,935	869,825	77,802	493,175	154,217	725,194
Charge for the year	24,916	228,630	35,372	288,918	11,817	140,939	5,718	158,474
Disposals	(25,862)	(76,202)	(125,288)	(227,352)	–	(13,843)	–	(13,843)
At 31st May	**88,673**	**772,699**	**70,019**	**931,391**	89,619	620,271	159,935	869,825
Net book value								
At 31st May	**56,740**	**521,608**	**223,206**	**801,554**	22,233	210,110	64,397	296,740
Company								
Cost								
At 1st June	60,369	370,119	197,588	628,076	40,878	260,109	132,419	433,406
Additions	65,634	158,950	194,181	418,765	19,491	117,026	65,169	201,686
Disposals	(32,073)	(35,801)	(125,288)	(193,162)	–	(7,016)	–	(7,016)
At 31st May	**93,930**	**493,268**	**266,481**	**853,679**	60,369	370,119	197,588	628,076
Accumulated depreciation								
At 1st June	43,703	241,295	133,899	418,897	36,869	191,908	129,881	358,658
Charge for the year	21,011	89,604	34,664	145,279	6,834	56,403	4,018	67,255
Disposals	(25,862)	(35,801)	(125,288)	(186,951)	–	(7,016)	–	(7,016)
At 31st May	**38,852**	**295,098**	**43,275**	**377,225**	43,703	241,295	133,899	418,897
Net book value								
At 31st May	**55,078**	**198,170**	**223,206**	**476,454**	16,666	128,824	63,689	209,179

12 Other financial assets (non-current)

Group	Unlisted investments 2009 £	Unlisted investments 2008 £
Cost		
At 1st June	52,048	46,859
Additions	596	2,762
Disposals	(1,242)	(3,741)
Fair value gains transferred to equity	6,133	6,168
At 31st May	57,535	52,048

	2009			2008		
Company	Unlisted investments £	Investment in subsidiary undertakings £	Total £	Unlisted investments £	Investment in subsidiary undertakings £	Total £
Cost						
At 1st June	52,048	795,636	847,684	45,789	714,778	760,567
Additions	596	74,584	75,180	2,762	82,756	85,518
Disposals	(1,242)	(34,375)	(35,617)	(2,730)	(1,898)	(4,628)
Fair value gains transferred to equity	6,133	–	6,133	6,227	–	6,227
At 31st May	57,535	835,845	893,380	52,048	795,636	847,684

The movement in investments in subsidiary undertakings reflect the allocation of share-based payments from the Company to its subsidiaries under 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 companies above are incorporated in Great Britain and registered in England and Wales.

City of London Investment Management Company Limited holds 100% of the ordinary shares in the following:

City of London Investment Management Singapore PTE Ltd	Dormant company

The company above is incorporated and registered in Singapore.

All of the above mentioned companies 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.

Notes to the financial statements

Continued

13 Deferred tax asset

	Share-based payments		Impairment		Total	
	Group	Company	Group	Company	Group	Company
At 1st June 2007	2,357,851	705,669	–	–	2,357,851	705,669
Credit/(charge) to income	42,324	16,331	–	–	42,324	16,331
Credit/(charge) to equity	808,148	89,963	–	–	808,148	89,963
At 1st June 2008	3,208,323	811,963	–	–	3,208,323	811,963
Credit/(charge) to income	46,390	7,527	66,861	66,861	113,251	74,388
Credit/(charge) to equity	(1,715,719)	(555,614)	–	–	(1,715,719)	(555,614)
At 31st May 2009	**1,538,994**	**263,876**	**66,861**	**66,861**	**1,605,855**	**330,737**

14 Trade and other receivables

	Group		Company	
	2009 £	2008 £	**2009 £**	2008 £
Trade debtors	**2,508,242**	3,258,666	**–**	–
Amounts owed by Group undertakings	**–**	–	**817,885**	1,858,061
Other debtors	**68,828**	72,002	**57,988**	58,278
Prepayments and accrued income	**291,328**	242,546	**186,828**	164,300
	2,868,398	3,573,214	**1,062,701**	2,080,639

15 Available-for-sale financial assets

Group and Company	**2009 £**	2008 £
Unlisted investments at market value	**431,365**	1,861,375
Unlisted investments at cost	**670,155**	1,226,180

16 Other financial assets (current)

Group and Company	**2009 £**	2008 £
Listed investments at market value	**–**	30,335
Listed investments at cost	**–**	39,476

17 Trade and other payables

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Trade creditors	394,201	491,321	–	–
Sundry creditors	209,886	43,209	15,978	366
Amounts owed to Group undertakings	–	–	1,980,420	2,468,605
Other taxation and social security	118,339	57,385	118,339	57,385
Accruals and deferred income	1,626,908	2,476,906	705,129	1,083,248
	2,349,334	3,068,821	2,819,866	3,609,604

18 Deferred tax liability

	Group		Company	
	2009 £	2008 £	2009 £	2008 £
Deferred tax on revaluation reserve	1,424	193,177	1,424	193,177

19 Share capital

Group and Company	2009 £	2008 £
Authorised		
90,000,000 Ordinary shares of 1p each	900,000	900,000

Group and Company	2009 £	2008 £
Allotted, called up and fully paid		
At start of year 25,360,500 (2008 – 26,777,800) Ordinary shares of 1p each	253,605	267,777
Shares repurchased; nil (2008 – 1,417,300)	–	(14,172)
Dilutive share options exercised; 621,103 (2008 – nil)	6,211	–
At end of year 25,981,603 (2008 – 25,360,500) Ordinary shares of 1p each	259,816	253,605

Notes to the financial statements

Continued

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 2009 the Trust held 1,617,650 ordinary 1p shares (2008 – 2,013,085), of which 1,262,375 ordinary 1p shares (2008 – 1,458,310) were subject to options in issue.

21 Dividend

	2009 £	2008 £
Dividends paid:		
Interim dividend of 5p per share (2008 – 6p)	1,197,492	1,509,883
Final dividend in respect of year ended:		
31st May 2008 of 13.5p per share (2007 – 7p)	3,220,587	1,727,808
	4,418,079	3,237,691

A final dividend of 10p per share has been proposed, payable on 20th November 2009, subject to shareholder approval, to shareholders who are on the register of members on 30th October 2009.

22 Profit of the Parent Company

As permitted by section 408 of the Companies Act 2006, 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 £2,742,961 (2008 – £7,942,564).

23 Operating lease commitments

At 31st May 2009 the Group had the following commitments for future minimum lease payments under non-cancellable operating leases:

	Group				Company			
	Land and buildings 2009 £	Motor vehicle 2009 £	Land and buildings 2008 £	Motor vehicle 2008 £	Land and buildings 2009 £	Motor vehicle 2009 £	Land and buildings 2008 £	Motor vehicle 2008 £
Within one year	316,960	8,200	145,955	6,988	174,384	–	34,115	–
In the second to fifth years inclusive	652,256	–	48,787	6,696	537,685	–	–	–
	969,216	8,200	194,742	13,684	712,069	–	34,115	–

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 a sublease agreement on part of the old London office space which expired 11th November 2008 (2008 – £6,010). The Group enters into formal occupational property leases ranging from one to ten years.

24 Share-based payments

(a) 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 originally granted
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
01/10/2008	01/10/2018	3.00	4.0720%	2.3000	2.7500	32.9241%	7.00%	0.2401	312,000
13/01/2009	13/01/2019	3.00	1.9645%	1.6300	2.7500	41.9187%	11.82%	0.1324	20,000

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.

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

	2009		2008	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the beginning of the year	**3,958,310**	**0.71**	4,797,675	0.68
Granted during the year	**332,000**	**2.75**	–	–
Forfeited during the year	**138,750**	**1.30**	56,500	1.93
Exercised during the year	**1,016,538**	**0.34**	782,865	0.45
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**3,135,022**	**1.02**	3,958,310	0.71
Exercisable at the end of the year	**2,548,022**	**0.63**	2,862,060	0.32
The weighted average share price at the date of exercise for share options exercised during the year was		**2.15**		3.12

25 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 pages 22 to 23 and in note 5.

(ii) Intra-group transactions

During the period the Company received from its subsidiaries £5,460,306 (2008 – £5,610,196) in respect of management service charges and dividends of £3,220,000 (2008 – £7,500,000).

Amounts outstanding between the Company and its subsidiaries as at 31st May 2009 are given in notes 14 and 17.

Notes to the financial statements

Continued

26 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 US 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 2009, the Group had net asset balances of US$4,422,628 (2008 – US$6,625,564), offset by forward sales totalling US$3,600,000 (2008 – US$6,200,000), and net asset balances of C$371,190 (2008 – C$532,661).

Had the US Dollar strengthened or weakened against Sterling as at 31st May 2009 by 10%, with all other variables held constant, there would have been no material impact on the Group's profit or equity.

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, from time to time, 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 will look to invest 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 income from hedging recognised in the Group income statement for the period is £21,194 (2008 – cost £26,886).

(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.

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.

26 Financial instruments continued

(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 2009 the Group held £4,718,766 (2008 – £5,498,910) in cash balances, of which £4,693,287 (2008 – £5,492,455) was held in bank accounts which attract variable interest rates. The effect of a 100 basis points increase/decrease in interest rates on pre-tax profits or equity would not be material.

(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 the statement of changes in shareholders' equity on page 30.

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.

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 26th October 2009 at 11.30 am for the following purposes:

Ordinary business

1. To receive and adopt the financial statements for the year ended 31st May 2009 together with the reports of the directors and auditors thereon.

2. Having last been re-elected at the 2006 Annual General Meeting, to re-elect Barry Martin Olliff as a director of the Company in accordance with section 130(a) of the Company's articles of association.

3. Having last been re-elected at the 2006 Annual General Meeting, to re-elect Omar Issam Ashur as a director of the Company in accordance with section 130(a) of the Company's articles of association.

4. Having retired by rotation, to re-elect Thomas Wayne Griffith as a director of the Company in accordance with article 130(b) and article 131 of the Company's articles of association.

5. Having served longer than nine years as a non-executive director, to re-elect Andrew John Davison as a director of the Company in accordance with section A.7.2 of the Combined Code.

6. Having served longer than nine years as a non-executive director, to re-elect George Alan Robb as a director of the Company in accordance with section A.7.2 of the Combined Code.

7. 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 resolution as a special resolution:

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 and section 693(4) of the Companies Act 2006 which is scheduled to come into force on 1st of October 2009) of any of its ordinary shares of £0.01 (1p) provided that:

   (a) the maximum number of ordinary shares which may be purchased is 2,603,000 (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 2011 (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.

By order of the board

D F Allison
Company Secretary
10th September 2009

Registered office:
77 Gracecurch Street
London
EC3V 0AS

Registered in England and Wales No 2685257

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 24th October 2009. 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 24th October 2009*. 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 24th October 2009*. 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 Company's articles of association.

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 2009 together with the directors' report and the independent auditors' report thereon.

Re-appointment of directors (Resolutions 2 - 6)

Article 130 of the Company's articles of association requires that at each annual general meeting, any director who has been in office for more than three years or has been appointed by the directors since the last annual general meeting of the Company will stand for re-appointment. In addition, such further directors (if any) shall retire by rotation as would bring the number retiring by rotation up to one-third of the number of directors in office as at 10th September 2009 (or if their number is not a multiple of three, the number nearest to but not greater than one third).

Article 136 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.

Section A.7.2 of the Combined Code provides that non-executive directors may serve longer than nine years (e.g. three three year terms), subject to annual re-election.

Brief biographical details of all the directors may be found on pages 18 and 19 of the annual report.

Re-appointment of Auditors (Resolution 7)

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 7 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.

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

Under section 166 of the Companies Act 1985 and section 701 of the Companies Act 2006 scheduled to come into force on 1st October 2009, 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 and section 701 of the Companies Act 2006. The authority contained in this Resolution will be limited to an aggregate nominal value of £26,030 which represents approximately 10% of the issued ordinary share capital of the Company as at the current time. 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 2010 or on 31st May 2011 (whichever is the earlier).

Explanation of the business of the Annual General Meeting

Continued

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.

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