CITY OF LONDON
INVESTMENT GROUP PLC

ANNUAL REPORT & ACCOUNTS

2010

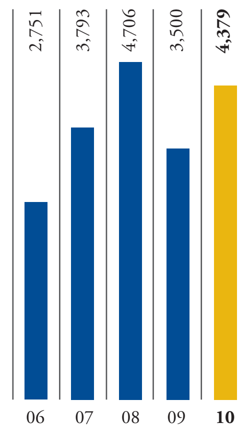
City of London Investment Group Plc is an established asset management group which has built its reputation, with an institutional client focus, by specialising in emerging market closed-end fund investment. In recent years the Group has by way of diversification successfully added natural resource and developed market strategies to its product range. City of London operates its business from offices in London, the US, Singapore and Dubai.

Contents

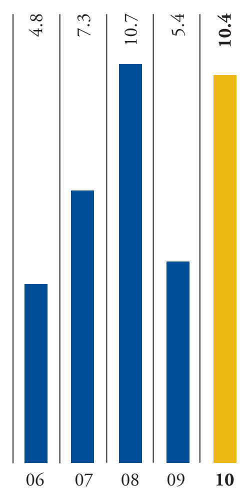
Highlights

- Funds under management (FuM) at 31st May 2010 increased by 25% in US$ terms to US$4.38 billion (2009: US$3.50 billion) and by 39% in sterling terms to £3.01 billion (2009: £2.17 billion). The rise in the MSCI Emerging Markets Index (MXEF) was 20%
- FuM at 31st August 2010 were US$4.86 billion, a rise of 10% since the financial year end. The rise in MXEF was 5%
- Profit before tax was up 93% to £10.4 million (2009: £5.4 million) with basic earnings per share up 77% to 28.5p (2009: 16.1p)
- Recommended final dividend of 15p per share (2009: 10p), payable on 19th November 2010, subject to shareholder approval, to shareholders on the register on 29th October 2010, making a total for the year of 22p (2009: 15p), an increase of 47%
- Our focus on diversification continues successfully regarding the direct equity business, global developed closed-end funds and the frontier emerging markets strategy
- Intention to list Ordinary shares on the main market of the London Stock Exchange following granting of shareholder approval on 14th July 2010

Funds under management US$m



Pre-tax profit £m



"The Board believes that a transfer to the main market in London will widen the potential universe of investors in City of London, both institutional and private individuals. We also believe that a main market listing could enhance the Group's reputation and brand with the large and sophisticated institutional investors that account for the largest proportion of our current client base."
Andrew Davison, Chairman

"The past six months, running up to the most recent month end of 31st August, have been the most profitable period that we have experienced. Operating profit, measured before profit-share, share option charges and tax, has averaged close to £1.4 million per month."
Barry Olliff, Chief Executive Officer

Coming of age

2010 is our fifth year as a publicly traded company

Our shares were admitted to the AIM market of the London Stock Exchange in April 2006 and since then we have grown the business significantly with funds under management increased to US$4.4 billion, a new office opened in Dubai and a market capitalisation that has risen by 50% to £73 million. As a result of this progress we expect to upgrade to a full listing on the London Stock Exchange later this year, enhancing our status with our institutional clients and widening the Group's appeal to international investors.

Our history

1987 Establishment of stockbrokers Olliff & Partners in London by Barry Olliff after a twenty-plus year career in equity markets, specialising in investment trusts

1991 Launch of the first City of London Group product, the Emerging Markets Country Trust

1995 Launch of the first US based mutual fund for institutional investors, beginning the development of the US business

1997 Opening of the US office in Pennsylvania. Stockbroking activities terminated and the Group's sole focus becomes fund management

2000 Singapore office established, linking with London and US hubs and enabling 24 hour coverage of global investment markets

2006 The Group becomes a publicly traded company via an IPO on the AIM market in London

2008 Fourth Group office opened in Dubai

2010 Proposed listing on the main market of the London Stock Exchange

The way in which we run our business has remained essentially the same since our inception and it is worth restating our key strengths that we set out in last year's annual report.

Expertise

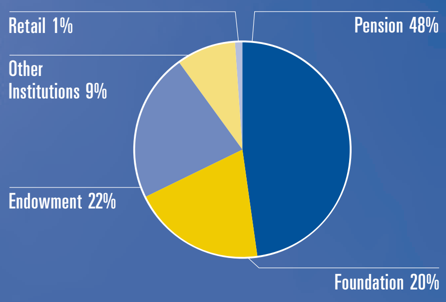
At City of London, we focus not on gathering assets, but on building products that reflect our expertise. Initially, and for many years since the firm was founded, that expertise was very specific to closed-end funds which offered emerging markets exposure. This was subsequently complemented by research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

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 2010



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.

Process

We have always striven 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 valuations in our equity business, our aim is to deliver consistent relative outperformance combined with low volatility relative to the applicable emerging markets benchmarks.

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 offer personal visits by our senior investment officers to all of our institutional clients and achieve a significant take up rate. We believe that our focus on client service is a key driver of our long term client retention.

Chairman's statement

"The substantial improvement in the Group's financial results principally reflects the sustained recovery in emerging markets during the period..."

Our financial year to 31st May 2010 saw a marked and sustained recovery in our principal markets from the lows recorded in the prior year following the end of the credit boom and the collapse of financial markets around the world. Measured by the MSCI Emerging Markets Index (MXEF), emerging markets increased by some 20% during the year under review as global investors increased their exposure to countries growing, and forecast to continue to grow, at rates considerably ahead of developed economies. City of London's funds under management (FuM) grew over the same period by 25% to a year-end total of US$4.38 billion, reflecting performance in line with the benchmark and the addition of net new money from clients as they increased their weighting in emerging markets.

Since the year end, the MXEF has continued to strengthen and at 31st August the index was 5% higher than at 31st May. FuM have also continued to increase, ending August at US$4.86 billion, a rise of 11% over the financial year-end figure.

Due to the weakness of sterling against the US dollar in particular (a topic covered in more detail in the Financial Review), the increase in FuM in sterling terms has been even stronger with a 39% rise to £3.01 billion being recorded in the year to 31st May 2010. FuM in sterling increased by a further 5% to £3.16 billion during the three months to 31st August 2010, less than the US dollar increase as sterling weakness continued to unwind.

Results

The substantial improvement in the Group's financial results principally reflects the sustained recovery in emerging markets during the period and the consequent increase in FuM, together with new monies received from existing clients and the award of new mandates.

Gross fee income for the year to 31st May 2010 (being the revenues derived from the Group's management charges on FuM) increased by 49% to £30.0 million (2009: £20.2 million). Profit before profit share, investment losses and tax was up 77% to £15.2 million (2009: £8.6 million), demonstrating once again the operational leverage inherent in the Group's business.

Profit before tax increased by 93% to £10.4 million (2009: £5.4 million) and after a tax charge of £3.4 million, representing 33% of pre-tax profits (2009: £1.5 million or 28% of pre-tax profits), profit for the period was up by 82% to £7.0 million (2009: £3.8 million).

Basic earnings per share were up 77% to 28.5p (2009: 16.1p) and fully diluted earnings per share, reflecting dilutive options held by directors and employees, increased by 79% to 26.9p (2009: 15.0p). Cash and cash equivalents at the year-end were £4.8 million (2009: £4.7 million).

Dividends

The Group's dividend policy is essentially unchanged. We pay dividends to shareholders that are covered approximately 1.5 times by earnings per share, split one third: two thirds between the interim and final payments. Following the exceptional, and volatile market conditions experienced last year, the level of cover was temporarily reduced to reflect the Board's belief that these conditions were unlikely to be repeated. It is our intention to restore dividend cover to the long term level over the next two years.

The Board is recommending a final dividend for the year to 31st May 2010 of 15p per share (2009: 10p) to be paid on 19th November 2010 to shareholders on the register on 29th October 2010. Taken together with the interim dividend of 7p paid in March, this makes a total for the year of 22p (2009: 15p), an increase of 47%. This level of payout is covered 1.30 times by basic earnings per share compared to 1.07 times last year.

Transfer from AIM to the main market

I advised shareholders in my statement accompanying the half year results that we were revisiting our plans to migrate our share listing from AIM to the main market of the London Stock Exchange. We determined that these plans should be implemented this year and shareholders received a notice convening a meeting to approve the move together with a letter explaining the benefits to the Company and its owners. Approval was granted at the meeting (held in July) and the next step in the process will be the publication, and despatch to shareholders, of Listing Particulars ahead of the grant of listing and delisting from AIM. We currently expect this to take place around the end of October.

The Board believes that a main market listing in London will widen the potential universe of investors in City of London, both institutional and private individuals – who will be able, for instance, to hold our shares in an ISA. We also believe that a main market listing could enhance the Group's reputation and brand with the large and sophisticated institutional investors that account for the largest proportion of our current client base.

There are a limited number of current private shareholders who have expressly invested in the Company as an AIM stock in order to take advantage of UK Inheritance Tax benefits. Hopefully they will feel that they have received adequate notice of our intentions.

Operations

We have continued to develop and progress our strategy to diversify our client base, the type of funds we run and our geographical coverage. This strategy is long term in its execution and reflects the Group's core tenet of risk aversion. During the year under review our focus has been on the recruitment of experienced individuals who bring new skills to the Group and who are able to help us implement our plans to offer additional investment products to existing and potential clients. These new products include funds investing directly in equities, in frontier emerging markets and in global closed-end funds.

The process of internalising the Group's marketing functions is now almost complete. We are extending and strengthening our contacts and relationships with the consultant community worldwide that forms our principal source of new business. We are optimistic that the dedicated marketing resources in place in the US, London and Singapore will not only generate high quality new business for us in due course but also ultimately improve net margins as payments to present external new business finders decrease.

A more detailed review of the Group's operations and strategy is provided by our Chief Executive Officer, Barry Olliff, on page 8.

Board change

In August 2010, we announced the resignation of Omar Ashur as a non-executive director to devote more time to his business interests in Dubai. Omar had been a director of the Company since 2001 and has been a source of wise and commercially experienced advice for many years. On behalf of the Board, I wish him success and happiness in the future.

Outlook

Developed economies remain difficult to forecast as government finances continue to worsen prompting near universal cutbacks in public spending that may well reduce or extinguish the recovery in activity seen in the last 12 months. The outlook for emerging markets appears to be more hopeful with relatively high growth in GDP forecast, at least compared to the developed economies. If this translates into increased weightings towards emerging markets and if we maintain our investment performance, then the current financial year should see further growth in revenues for the Group. Increased revenues, given our low cost base and loyal and experienced staff, should result in increased profitability.

I will update shareholders on progress in this financial year at the time of the AGM.

Andrew Davison
Chairman
9th September 2010

Closed-end funds

The original expertise

A closed-end fund (or an investment trust or company) is one with a fixed number of shares outstanding, and one which does not redeem shares in the way an open-ended one (such as a mutual fund or unit trust) does. The price of a share in a publicly traded closed-end fund is determined entirely by supply and demand, so shares can either trade below their net asset value ("at a discount") or above it ("at a premium"). It is this characteristic that we seek to exploit, buying those shares we consider cheap, generally at what we believe to be an unjustifiable discount, and selling those we consider expensive, those at an unwarranted small discount or at a premium.

1868

Launch of what is generally regarded as the first investment trust by Foreign & Colonial in the form of a collective investment scheme protected by limited liability for its shareholders. The Foreign & Colonial Government Trust set out to raise an initial £1 million with a stated objective of providing "the investor of moderate means the same advantage as the large capitalist in diminishing risk in Foreign & Colonial stocks by spreading the investment over a number of stocks".

1873

Launch of the first Scottish investment trust by Robert Fleming, The Scottish American Investment Trust, to invest surplus capital originally generated in Dundee from the weaving of imported jute into tenting and sailcloth and supplied in vast quantities to forces in the US Civil War. This was "the first Association in Scotland for investments in American railroad bonds, carefully selected and widely distributed, and where investments would not exceed one-tenth of the capital in any one security".

In response to the world's first telecommunications boom, The Globe Telegraph and Trust Company was launched in London to participate in the business of laying and operating cable links between countries. Globe went on to become the largest UK investment trust, a position it held for over 100 years.

1900 – 1930

The 20th century began with over 80 investment trusts in the UK, reflecting the success of the earlier launches and the popularity of the schemes with the fast growing number of individual investors. These investors could access, via the trusts, opportunities that until then had been reserved for only the very richest families – from railroads and telegraphs to rubber plantations and infrastructure in every continent. In the US as well, investment trusts slowly gained in popularity but really took off during the bull market preceding the Wall Street Crash of 1929.

1932

With the worldwide Great Depression came a wave of defaults by companies and over-leveraged trusts on both sides of the Atlantic. The conservatively managed survivors in the UK took the then radical step of forming an 'association' of investment trust companies (not managers) to address common issues such as: taxation and gearing levels, represent the interests of the trusts and their shareholders, speak with one, powerful voice on behalf of its members and begin the processes that would lead to greater transparency in their dealings.

1950 – 1980

The trust sector in the UK enjoyed a period of significant growth after the calamity of the Second World War despite having to deal with increasing taxation levels, exchange controls and the emergence of institutional investors. Increasing transparency and technology combined to allow the accurate analysis of each trust's underlying portfolio (by now almost exclusively in publicly traded equities) by brokers and therefore whether the shares were cheap or dear. Sector or geographic specialisation became increasingly popular in a return to the very beginning of the investment trusts' history.

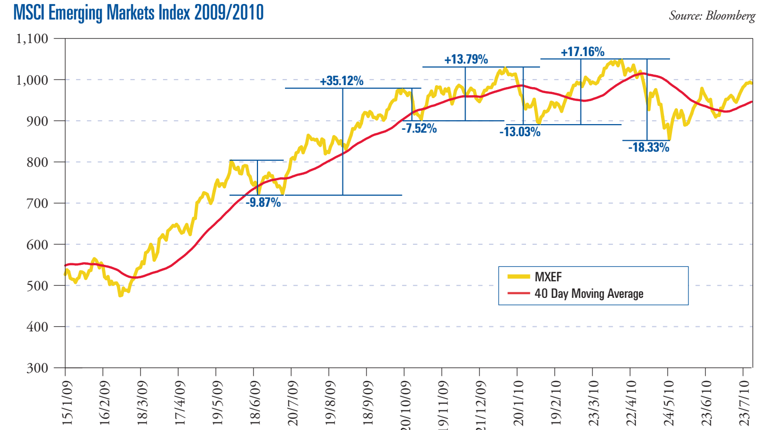
1980 to date

The trends begun in the last 50 years continued as institutional investors came to dominate ownership of closed-end funds and ever more sophisticated analysis was carried out into their underlying assets. In addition, the rise of activist investors, and in some cases successful predators, has sharpened the focus of all managers around the world, whether they are in developed or emerging financial centres. Today's trust sector offers investors professionally managed, diversified exposure to almost any sector and geography they wish – just as they were designed to do 140 years ago.

Chief Executive Officer's review

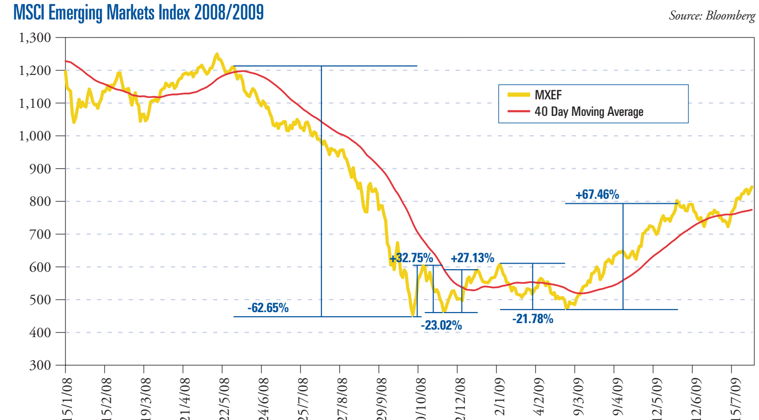
MSCI Emerging Markets Index 2009/2010

Source: Bloomberg



MSCI Emerging Markets Index 2008/2009

Source: Bloomberg



Significantly less emotional behaviour this year

For us this was a boring year.

As shown below our index hardly moved!

Whereas in 2008/9, moves of the order of magnitude of over 20% in MXEF were common (there were at least six), in 2009/10 there was one!

Our business was very stable as well. Clients seem to be happy and the asset class seems to be well supported at around current levels. Looking out a few years, at least at present, the Emerging asset class seems likely to be one of the few listed asset classes of choice potentially for many years to come.

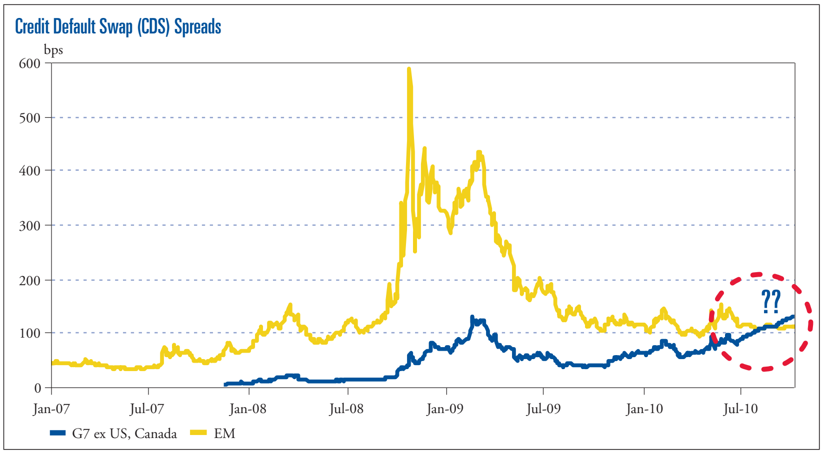
On the right I've shown a graph of CDS Spreads which compares the Developed with the Emerging countries. This has to be one of the most remarkable turnarounds in terms of reversal of roles within our industry over the past twenty years. The interesting thing is that where the CDS relationship went over the past year, P/E's could easily follow next. Imagine that – paying a higher P/E for exposure to a basket of Emerging countries (say Brazil, China, Korea and Taiwan) than for a Developed basket (say US, UK, Germany and France). We are not only fortunate to be exposed to this asset class at this point in its development but it is worth pointing out that the Developed world is now suffering from many of the same problems that the Emerging countries had to deal with a few years ago. Many of our shareholders will recall the advice given out at that time by the US: confront the problem, reduce deficits, eliminate excess capacity and pay down or renegotiate leverage. Now that the boot is on the other foot it seems likely that, as a result of this advice being too painful to heed, the adjustment process will be extended.

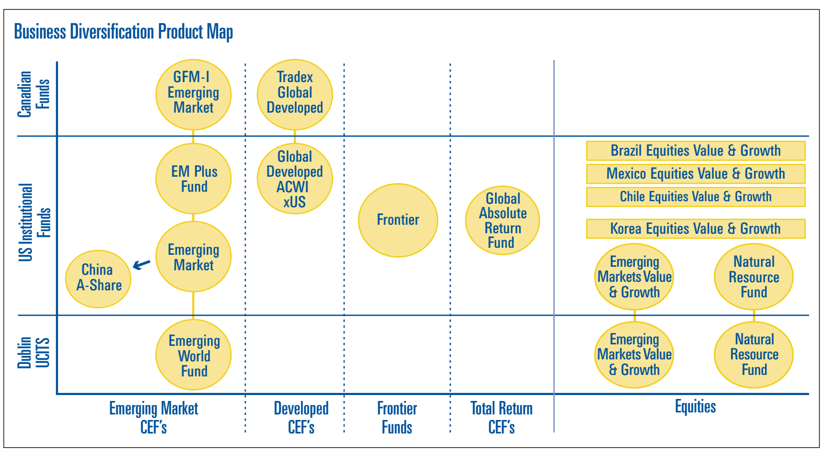
Diversification

We have continued to develop our diversification plans over the past year.

The Business Diversification Product Map opposite shows the extent of this diversification.

Current areas of focus include Natural Resources and the Developed CEF Products. Both have performed well from





an investment perspective and there seems to be significant appetite for our Developed CEF expertise which effectively does what we presently undertake within the Emerging space. Since winning our first mandate in September 2009 this account has outperformed its benchmark by around 300bps. Obviously shareholders are not interested in the investment performance of a specific fund but this performance has afforded us the opportunity to significantly short-circuit the normal time required to create a relevant record. We will start marketing this product in November and I'll provide more information regarding progress in the Interim Statement. In addition, in the above Product Map you can see the breakdown of the different businesses that we are attempting to develop. In all cases these are part of our diversification plans. Apart from the Developed CEF Fund and Natural Resources we are expecting these products to take around two to three years to build adequate track records. Each of these areas of business is being developed on a stand-alone basis with separate staffing and the creation of a team environment from their beginning.

North Bridge Capital

As referenced in earlier CEO's statements, and apart from one consultant where there was a one year extension, as of 13th October 2009 the agreement that we had with North Bridge Capital with regard to marketing came to an end. As of 13th October 2010 we will be responsible for all of our US Marketing, having internalised this process. Todd Fawaz, who is in charge of our US Marketing effort, having now been with the firm for two years, has effectively started again regarding our attempts at diversification. One of the issues that we have had to confront is that while we consider that there is a significant need to diversify our business for reasons I'll go into later, North Bridge in retrospect seem to have been keener to focus on our old business, that of Emerging Markets CEF's. This effectively has meant that while we had assumed that the relevant profile building was proceeding, it would now appear that it was not. The bottom line is that in our experience third party marketing works very well when small and having a single product to sell. It does not work, or at least is unlikely to work, when there is an established wish to grow and market a *number* of products. Obviously from our perspective it is not until a contract of this type comes to an end that it is possible to take a new direction.

Regarding our need to diversify our business, in my opinion there are three main reasons for this:

1) Staff. In my opinion employees thrive in a growing business. In fact I would suggest that it's difficult to keep good employees if you do not intend to grow a business. Staff have needs, they are ambitious and they have a need for security. If they consider that they are in a dead end job they will move on to another business where there are plans for growth.

2) Clients. For similar reasons clients should expect continuity of staffing. Changing staff leads to risk. For example the Investment Process would potentially alter in the event that investment staff were to change. In my opinion, while it used to be argued that diversification was a risk, I would suggest that recent experience amongst our peer group would imply that zero plans for growth leads to staff departures which leads to insecurity in terms of investment performance.

3) Competitive Pressure. In my opinion there is going to be ongoing pressure on margins, salaries and the costs associated with the general infrastructure of doing business. Not surprisingly the regulatory responsibilities of doing business are increasing too. In my opinion there is a need to ensure that these costs are spread over increased assets, otherwise there is the potential appearance of reduced profitability.

Thus while I would not accept that we are on a treadmill, there is a very real need to grow our business via diversification and at the core of delivering in that regard is our decision to internalise marketing.

Chief Executive Officer's review

Continued

I have produced below the projected run off payments to North Bridge Capital over the next ten years, this being the extent of their participation. These figures are based upon two key assumptions: first that the clients remain and second a constant index level. Obviously there are additional variables as well including investment performance and currency rates, but in terms of the big picture as these ten year trails run out so we start to receive those fees that otherwise would be paid to North Bridge Capital. In all cases this relates to an increase of 20% in our fees received.

Migration to main market listing

There are many additional responsibilities that we assume as a result of moving from AIM to the main market. These not only include a number of existing differences that are well established, but in addition from 1st June 2011 we will have to meet the requirements of the new Corporate Governance Code.

Rather than attempt to achieve all of the relevant changes this year (within this Annual Report and Accounts) we will complete most of the other requirements next year, leaving a few of our responsibilities for the year after. The main difference in this set of accounts is the new Corporate Governance Report, which I'm sure will be expanded over time. Within this context, I would like to draw particular attention to our Remuneration Policy, as it is very different in many respects from recently released guidelines, and I think it is important for shareholders to understand why we believe that our way is better, at any rate for us. What follows is some background plus some core values:

From my experience of the City, when I consider remuneration and remuneration packages, I'm taken in the direction of *instability, greed and selfishness.* I'm also taken away from the creation and the maintenance of a brand.

Picking up on these three points:

Instability, because the existing system seems to be broken. Turnover of staff around the City implies that employees do not get job satisfaction and / or that existing remuneration packages do not create loyalty.

Greed. The City is made up of many selfish people who are encouraged by management, and management's approach to remuneration, to develop egotistical tendencies. This culture of greed, in my opinion, manifests itself often via a lack of risk awareness, poor team spirit and significant key man risk.

Selfishness creates an attitude of negotiation at the point of salary, bonus and option notification. At City of London we do not negotiate any aspect of remuneration. Selfishness can also be observed when analysing the extent to which colleagues train the rest of their team. Again our senior employees are encouraged to take responsibility for the training of their team.

North Bridge Capital commission run-off

(based upon end July 2010 FuM)

Financial year	2010-11 £m	2011-12 £m	2012-13 £m	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2019-20 £m	2020-21 £m
(@ $1.55/£1)	5.2	5.2	5.2	5.0	4.4	3.3	2.7	2.2	1.2	0.4	–

Effects of £/$ rate on projected commission to be paid to North Bridge Capital

	May-11	May-12		May-13		May-14		May-15		May-16		May-17		May-18		May-19		May-20	
Projected USD values ($m):	$8.1	$8.1	$nil	$8.1	$nil	$7.7	$0.40	$6.8	$1.30	$5.2	$2.90	$4.3	$3.80	$3.5	$4.60	$1.9	$6.20	$0.6	$7.50
£/$ rate	GBP values (£m)																		
1.40	£5.79	£5.79	£nil	£5.79	£nil	£5.50	£0.29	£4.86	£0.93	£3.71	£2.08	£3.07	£2.72	£2.50	£3.29	£1.36	£4.43	£0.43	£5.36
1.50	£5.40	£5.40	£nil	£5.40	£nil	£5.13	£0.27	£4.53	£0.87	£3.47	£1.93	£2.87	£2.53	£2.33	£3.07	£1.27	£4.13	£0.40	£5.00
1.60	£5.06	£5.06	£nil	£5.06	£nil	£4.81	£0.25	£4.25	£0.81	£3.25	£1.81	£2.69	£2.37	£2.19	£2.87	£1.19	£3.87	£0.38	£4.68
1.70	£4.76	£4.76	£nil	£4.76	£nil	£4.53	£0.23	£4.00	£0.76	£3.06	£1.70	£2.53	£2.23	£2.06	£2.70	£1.12	£3.64	£0.35	£4.41
1.80	£4.50	£4.50	£nil	£4.50	£nil	£4.28	£0.22	£3.78	£0.72	£2.89	£1.61	£2.39	£2.11	£1.94	£2.56	£1.06	£3.44	£0.33	£4.17
1.90	£4.26	£4.26	£nil	£4.26	£nil	£4.05	£0.21	£3.58	£0.68	£2.74	£1.52	£2.26	£2.00	£1.84	£2.42	£1.00	£3.26	£0.32	£3.94
2.00	£4.05	£4.05	£nil	£4.05	£nil	£3.85	£0.20	£3.40	£0.65	£2.60	£1.45	£2.15	£1.90	£1.75	£2.30	£0.95	£3.10	£0.30	£3.75

Blue figures represent the cumulative savings to CoL from North Bridge Capital clients reaching the end of their 10 year commission period (based on NAV figures from July 2010)

Assumptions:
- No change in client holdings
- Constant market level
- Indexed investment performance
- No change in management fees

Source: City of London Investment Management

If we are genuine in wishing to create a team culture then there is a need to treat employees as a team. This in effect means that we do not pit them one against another. Rather we attempt to instil in them that the competition is outside the firm, which actually is where it is.

The net result of this is that there is little intrigue at the point of salary and general compensation disclosures. Staff accept that the way it is, is the way it is. If they do not like it they can leave which sometimes happens within a year of joining.

I would make the point that directors' remuneration is disclosed via the Report and Accounts.

In essence, we are not looking for freedom fighters. Rather we would say it is better to appoint decent people, who can genuinely work in a team environment, than appoint just no1's.

We often say, better to appoint a good no2 who is a decent person than a no1 who is greedy, political and does not consider the maintenance and development of the brand.

The net result of the above is that the Group salary, bonus, and option pool to a great extent reflects seniority and loyalty.

From time to time, usually quarterly, we review these three but sometimes two components. Our recommendations are forwarded to the Remuneration Committee which requests substantiation for recommendations that involve salary levels in excess of £100,000.

Most quarters we will make a change or two to reflect changes to our perception of seniority and loyalty, but I would emphasise that these are gradualist alterations and are relatively rare.

In conclusion, and as referenced earlier, I would suggest that remuneration packages and the system via which they are arrived at in the City is broken. Our system however is not broken.

Our approach has been developed by management using many years of experience in the UK and the US.

Like our Risk Controls, our Bonus Formula and our Dividend and Bonus relationship, I hope that elements of what we undertake might one day be considered best practice.

Recent recommendations regarding best practice as it relates to Remuneration include deferred bonus. Is this really the way to go? Why not pay someone on time for their work. Or, is this meant to delay their departure, a sort of enforced loyalty? Or is it that there is insecurity regarding the profits that the individual has created? If this is so then surely the focus should be on the quantum, measurement and the quality of the corporation's earnings. Either way I would suggest that deferral of remuneration is irrelevant in our case. We are running a cash business where clients pay us for work undertaken calculated on a monthly basis.

The other structural weakness that I would suggest needs to be confronted in the City is the cult of the individual. This seems to me to embody the very volatility of earnings and the extreme risk taking that was displayed by parts of our industry over the past few years. Unfortunately the passage of time does not seem to have altered what seems to have become considered best practice.

Staffing and outlook

Over the past year we have taken on around a dozen additional staff. Staff have been added primarily in the areas of Compliance, Fund Management, Fund Accounting and Performance and Attribution. In most cases this has been to accommodate further growth.

As a small boutique with a number of conservative Core Values, as we grow it would be very easy to not only compromise but in some cases forget those Values. We remain committed to our brand. We are a small specialist fund manager positioned at the Performance end of our industry. We are not seeking to grow fast, we do not want hot money and we are as a result not only committed to but are able to maintain our margins. To preserve a culture you have to recruit and keep the right people, and that applies at every level because if you get recruitment right at the junior level you build for the future. We remain committed to our team approach and more specifically, not employing greedy, selfish people. The employees at City of London have remained very loyal over a significant period of time and at the end of another testing year have much to be proud of. On behalf of the shareholders I would like to say that we would like more of the same over the next few years. Suffice it to say, the new financial year has started very well and I would hope that we will have further progress to report in a few months time.

The past six months, running up to the most recent month end of 31st August, have been the most profitable period that we have experienced. Operating profit, measured before profit-share, share option charges and tax, has averaged close to £1.4 million per month.

I would like to reiterate my intentions regarding any sale of shares which remain unchanged, that is to say that I would intend, subject to close periods and other regulatory requirements to sell 375,000 shares at 310p, 500,000 at 350p and 500,000 at 400p. Should these intentions alter, perhaps as a result of a material change in market conditions, I will inform the Board and an appropriate announcement will be released.

B M Olliff

B M Olliff
Chief Executive Officer
9th September 2010

Emerging markets

The first application of our expertise

Emerging Markets as a description of young high growth economies first appeared in 1981 when only six such markets (Hong Kong, Malaysia, Mexico, the Philippines, Singapore and Thailand) could be accessed by foreign investors. Today there are almost 60, including the 'frontier' markets that are at earlier stages of development, with the largest being the so-called BRIC's economies – those of Brazil, Russia, India and China. City of London realised early on that institutional investors were struggling to access these markets in a professionally managed, risk-diversified way and that a product focused on the closed-end funds run by specialist managers could hold great appeal.

1980s

Investing in emerging markets becomes an equity play rather than debt as stock markets open up and companies in developing economies, particularly in Asia, begin to raise equity capital on their local markets. International investors, attracted by high growth and increasing liquidity build positions. Because successful emerging market investment requires specialist skills and knowledge, collective investment vehicles, including closed-end funds start to become popular with all classes of investor.

1991

In response to growing demand from institutional investors for exposure to high growth emerging markets and the number of closed-end funds now available, City of London Group launches the Emerging Markets Trust, a UK unit trust with a global remit. This was one of the first products to access emerging markets via closed-end funds, the historic core expertise of City of London.

1992 – 1996

Investment in emerging markets booms as more and more countries reduce controls on foreign direct investment and growth in manufacturing output together with a surge in natural resource prices significantly increases GDP for the emerging markets. The high growth forecast for many countries encouraged them to borrow heavily on international markets. During this period, City of London launches additional products and successfully exports its conservative approach to US institutional investors.

1997 – 1998

Asian currency devaluations, led by Thailand, and severe financial and structural issues in Russia leading to default, prompt a collapse in emerging market stock prices as international investors attempt to withdraw and liquidity shrinks. The downturn, following the boom of the early and mid 1990s, leads many investors to question again the potential volatility of emerging markets and creates an opportunity for specialist, risk-averse managers such as City of London to gain additional mandates.

2000 – 2007

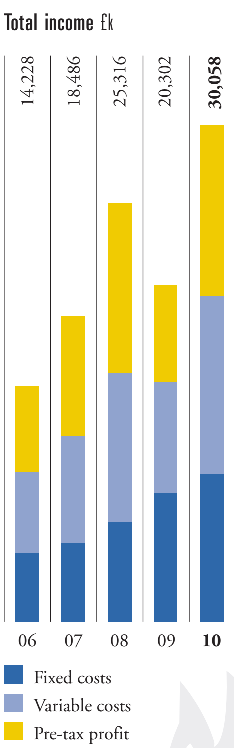
Lessons were learned by both companies and governments in emerging markets. In a period of cheap money, many reduce borrowing – with some building large financial surpluses – and the boom in commodity prices particularly benefits the exporters. Stock prices increase substantially in the period as emerging economies' growth rates outperform those of developed economies and investors seek to add to their holdings.

Emerging markets become a core asset class in the portfolios of almost all institutional investors.

2008 to date

The worldwide financial crash saw emerging markets initially falling further and faster than many developed markets as liquidity shrank and panicked international investors sought an exit. But the economic fundamentals of emerging countries and companies soon reasserted themselves and performance to date from the lows post crash is significantly better than developed markets. Higher growth rates are forecast to continue and transparency and liquidity to improve further. Emerging market investment has become mainstream.

Financial review



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

Consolidated income statement
The financial year started with funds under management (FuM) of US$3.5 billion, and the market recovery which had started in early 2009 continued pretty much uninterrupted through to the end of November, our half year end, at which point FuM had reached US$4.9 billion (including of course the effect of net new money over the period). Thereafter, FuM moved within the range US$4.4 billion to US$4.9 billion for the remainder of the year, finishing in May at the lower end of that range. Sterling continued to weaken against the US dollar as the year progressed, maintaining a trend that had started back in January 2008. The average rate for the year was around 1.59, compared to around 1.63 for 2008-9 (both figures representing a straight average of twelve month-end rates), with the effect that, in sterling terms, FuM rose almost as a straight line from February 2009 to May 2010. With margins unchanged from the previous year, this combination delivered gross fee income of £30.0 million as against last year's £20.2 million, an increase of 49%.

The weighted average net fee margin (net of finder's commission and of custody and administration fees as applicable) across all of the client accounts was stable at around 85 basis points throughout the year, a small reduction from the 87 basis points average for the previous year. This was due not to any form of fee erosion but rather to the relative weightings of segregated accounts versus commingled funds within the overall portfolio, the former tending to attract slightly lower fees in recognition of the size of the investments.

There is very little to say about investment income this year, with realised losses of £0.1m from the liquidation of one seed investment being offset by a recovery of similar size against the impairment previously recognised against another one, leading to a net zero in rounded terms (2009: £0.4 million loss). Interest income rounds up to £0.1 million, having last year rounded down to that figure.

Administrative expenses of £19.7 million (2009: £14.5 million) includes the commissions that we pay against our fee income, as noted above, which this year totalled £4.8 million (2009: £3.0 million), and it includes the 30% of operating profit that forms the profit-share pool, at £4.9 million including payroll taxes (2009: £2.8 million). Stripping out these, plus custody and administration charges of £1.1 million (2009: £0.9 million), leaves core overhead of £8.9 million (2009:£7.8 million), representing a cost-income ratio of 37% (arrived at by comparing core overhead to net fee income), a marked improvement against the previous year's figure of 48%, which had of course been inflated by the extreme market conditions of September 2008 to March 2009. Human resource costs continued to form some 56% of overheads, a percentage unchanged from 2009 despite a marginal increase in headcount from 58 to 64, the latter attributable in part to supporting new products and in part to the strengthening of the firm's Singapore and Dubai offices.

Pre-tax profit of £10.4 million compares to £5.4 million for the previous year, the increase of 93% effectively restoring profitability to the pre September 2008 level. Tax accounts for nearly 33% of profit, significantly higher than the 29% level in 2008-9 as a result of an increased level of investment activity in the United States, where federal and state taxes combined can exceed 40%. Profit after tax of £7.0 million is up 82% from the previous year's £3.8 million.

Consolidated statement of financial position and statement of changes in equity

Net assets rose during the year from £8.7 million to £10.6 million, with the main components offsetting the profit for the period being the payment of dividends and the repurchase by the company of a number of its own shares.

The final dividend for 2008/9 was 10p per share (2007/8: 13.5p), and the interim for 2009/10 was 7p per share (2008/9: 5p). In cash terms these dividends amounted to £2.5 million and £1.7 million respectively (2008/9: £3.2 million and £1.2 million respectively), making a total paid in the year of £4.2 million (2009: £4.4 million).

Opportunities arose during the year to apply some of the cash which was considered surplus to the Company's needs to the buyback of shares. The following repurchases were undertaken:

November 2009	143,350 shares at £2.95
November 2009	100,000 shares at £3.0175
April 2010	439,000 shares at £2.65

The first two purchases were undertaken by the Company's ESOP, whereas the shares purchased in April were bought by the Company itself and were cancelled, thereby enhancing earnings per share for the remaining shareholders. In total, including transaction costs, the cash outlay on shares was £1.9 million, of which £0.7 million was in the form of an increase in the loan from the Company to the ESOP.

With respect to share options, the exercise by directors and employees of 426,200 dilutive options and 271,842 ESOP held options during the course of the year generated £0.4 million (2009: £0.3 million), and left at the end of the year 1,446,447 dilutive options and 1,427,533 ESOP options outstanding (2009: 1,872,647 and 1,262,375 respectively).

The increase in net assets was applied, in the main, to the diversification of the business, by setting aside a further £2.8 million (net) as seed funding for new products. Three new funds were created, two as US Delaware Statutory Trusts and one as a new sub fund under the Dublin Open End Investment Company umbrella structure. As at 31st May these new funds, plus the pre-existing Natural Resources sub fund in Dublin, represented a total investment of £3.6 million (2009: £0.4 million), with the balance of the increase over the year representing an uplift in market value of £0.4 million, which is reflected in the increase in the revaluation reserve.

Cash was virtually unchanged year on year at £4.8 million (2009: £4.7 million), and similarly the deferred tax asset of £1.5 million and share option reserve of £1.7 million were only marginally different from the prior year's figures of £1.6 million and £1.8 million respectively, despite the increase in the Company's share price from £2.285 to £2.81 over the year.

Currency exposure

The Company's approach to currency exposure is unchanged from previous years but it is worth revisiting the parameters each year and so I make no apologies for doing so again.

At first glance, the starting point would appear to be that as the Group's income is earned almost exclusively in US$, based as it is upon a percentage of FuM which is itself US$ denominated (with minor exceptions), there is a significant exposure to the value of the US$. In truth though, it is worth going back one stage, to see that the level of FuM in US$ terms is itself a function of the predominantly emerging market currencies that underlie the investments of our managed funds and client accounts. Accordingly, as the US$ strengthens against these currencies the level of FuM will tend to fall, and of course conversely as the US$ weakens FuM in US$ terms will rise.

The significance from an earnings perspective is that, at a given level of FuM in US$ terms, the fee income generated in reported sterling terms will rise and fall as the US$ strengthens and weakens respectively. The net effect of this is that in very general terms a weak US$ will provide uplift to FuM but the effect on fee income will be offset or perhaps nullified by the translation to sterling. To put this another way, it is in reality the relationship of sterling to the underlying investment currencies that influences the reported earnings, with the US$ being principally a conduit for the transaction. As emerging currencies strengthen relative to sterling, reported earnings will tend to rise, and of course the reverse is true.

Despite this, given that FuM is denominated and presented in US$, it is still relevant to consider the table below, which is included in this statement every year, as a guide to how the fluctuation of the US$/£ rate potentially impacts earnings at *any given level of FuM*:

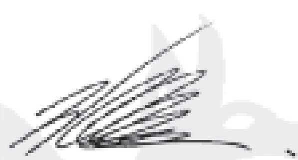
Post-Tax Profit: illustration of US$/£ rate effect:

	FuM – US$bn			
	4.0	4.5	5.0	5.5
US$/£	Post-tax, £m			
1.45	6.2	7.6	9.0	10.4
1.50	6.0	7.3	8.6	9.9
1.55	5.7	7.0	8.3	9.6
1.60	5.5	6.7	7.9	9.2
1.65	5.2	6.4	7.6	8.8

Assumes:
1. Average net fee 85 basis points
2. Annual operating costs £4.5 million plus US$8.2 million
3. Profit-share 30%
4. Average tax of 33%

The table shows annualised profit figures given the assumptions/conditions described, which approximate very closely to the Company's operating environment. To take an example, at FuM of US$5.0 billion and an exchange rate of 1.50 the annualised profit would be expected to be around £8.6 million, whereas at an exchange rate of 1.40 the expectation would increase to around £9.4 million.

As a separate point on currency exposure, the Company maintains a programme of forward sales of US$ with a view to eliminating or minimising the Group's balance sheet exposure to exchange rate risk, and at 31st May these forward sales amounted to a total of US$6.5 million at an average rate of 1.5973 (2009: $3.6 million at an average of 1.7694).



Doug Allison
Finance Director
9th September 2010

Natural resources

A core sector for closed-end funds and emerging markets

The global natural resources sector has been a key focus for investing in both closed-end funds and emerging markets for many years. It is a sector we have always understood and researched, making it one of the first choices for beginning to diversify the Group's product range. Our investment activity in emerging markets brings us detailed knowledge of a whole range of resources from oil and gas, metals, minerals and diamonds to grain, coffee and cocoa, and forestry. With end-user economies generally 'resource-poor' in many commodities, we believe the long term prospects for investment products in this area to be attractive.

19th century

Investors flocked to the natural resource booms of the nineteenth century – the California Gold Rush, Texas and Arabian oil discoveries and metals and minerals throughout Africa and South America. Many of the earliest investment trusts were targeted at these opportunities as well as those closer to home such as Cornish tin. Industrialisation had by the end of the century created vast appetites for natural resources and motor transport and electricity would enlarge these even further.

1900 – 1973

The insatiable demand for natural resources continued to mushroom through economic cycles, two world wars and the rise in developed economies of the consumer society, which increased still further the demand for energy and raw materials. By the end of the period, developed economies were reliant for some or all of their requirements on emerging, less developed economies, having depleted much of their own resources. In energy, the step change came with the oil price shock of 1973 when the oil exporting countries seized pricing power from consuming nations.

1970s

The sharply increased oil prices resulted in a renewed focus on 'safe', that is politically safe, sources of oil and gas in particular. In the UK, that meant the North Sea. After a number of commercial gas discoveries in the southern North Sea in the late 1960s, BP discovered the giant Forties oil field in 1970. As the decade progressed, many new oil discoveries were to follow

and a new independent, and often publicly traded, sector of oil and gas exploration and production companies grew up.

1980s

Following the first boom in mineral exploration in Australia in the 1960s, the late 1980s saw a second boom of even larger proportions, beginning a trend of larger and larger scale projects that continues today. Coal, iron ore, copper and uranium were discovered in size and it was the exports of iron ore that began to underpin China's emergence as a manufacturing powerhouse. The downside for Australia's own manufacturing industry was the steady rise in the Australian dollar making competition in international markets more and more difficult.

1990s

The decade saw the arrival, largely through consolidation, of the mining and oil majors with operations spanning the globe and the financial resources to fund, develop and operate the very largest projects. Around these projects grew up a host of locally based independents and service suppliers and by the end of the decade the 'natural resources' sector was among the biggest in the world, if not the biggest, on a number of measures.

Today

With much of the world's remaining natural resources contained within emerging markets, the two sectors have become inextricably entwined. The industrial growth of China, India, Brazil and Russia is driving commodity demand and prices and growing, in turn, the GDP of resource exporting countries. Debates still rage over the effect of resource booms on emerging economies, in terms of focus, equality and governance but as long as demand continues to grow, natural resources will remain an attractive sector for investors.

Board of directors

A J Davison
NON EXECUTIVE CHAIRMAN

B M Olliff
CHIEF EXECUTIVE OFFICER

D F Allison
FINANCE DIRECTOR

C M Yuste
BUSINESS DEVELOPMENT DIRECTOR

T W Griffith
CHIEF OPERATING OFFICER

O I Ashur
NON EXECUTIVE DIRECTOR

D M Cardale
NON EXECUTIVE DIRECTOR

G A Robb
NON EXECUTIVE DIRECTOR

Dr A S Bufferd
NON EXECUTIVE DIRECTOR

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 (resigned 14.8.10)
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, he served as an ex-officio member of the governing board and its executive committee, 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.

Corporate governance report

The Combined Code

While AIM listed companies are not strictly bound by the provisions of the June 2008 FRC Combined Code (the "Combined Code"), the Board recognises the importance of good corporate practice and is committed to maintaining high standards of corporate governance throughout the firm, and accordingly stated at the time of the AIM listing that its intention was to abide by the principles of the Combined Code and to meet the specific requirements to the extent appropriate for a company of this size, nature and stage of development. More recently, the Company has announced its intention to move the listing of its shares to the main market, whereupon the Combined Code (and in due course the Corporate Governance Code June 2010) will formally apply.

The Board of directors

The Board now comprises four executive directors and four non-executive directors, following the resignation of Omar Ashur on 14th August 2010. Certain matters are reserved for the consideration and approval of the Board, principally:

- Group long term objectives and strategy
- Corporate announcements, including annual and interim reports
- Dividend policy
- Share buy-back policy
- Effectiveness of compliance
- Effectiveness of internal controls
- Annual budget
- Acquisitions
- Capital expenditure in excess of £100,000
- Board appointments

The role of the Chairman is to lead the board and ensure its effectiveness, and to oversee shareholder communications. The Chief Executive Officer's role is to achieve execution of group strategy through day to day management, and to communicate strategy and performance to the shareholders.

Committees

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.

The Audit Committee 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.

The Remuneration Committee 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 at salary levels in excess of £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.

The Nominations Committee 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.

Officers and Board Committees

	Board	Audit Committee	Remuneration Committee	Nominations Committee
D F Allison	*Executive, and Secretary*			
A S Bufferd	*Non-executive*	●	●	●
D M Cardale*	*Non-executive*	● *Chairman*	●	●
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.

Report of the directors

The directors present their annual report and the audited financial statements for the year ended 31st May 2010.

Going concern

The directors are satisfied that the Company has adequate resources to continue in operation for the foreseeable future, and the Financial Statements have therefore been prepared on the going concern basis.

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 32 accounts (2009 – 28 accounts) with a total of £3,012 million (2009 – £2,167 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 £4,182,692 during the year (2009 – £4,418,079). The final dividend for the year to 31st May 2010 will be paid in November 2010, subject to approval.

Directors' indemnity arrangements

The Company maintains appropriate directors' and officers' insurance. The directors also have the benefit of the indemnity provision in the Company's Articles of Association. These provisions which are qualifying third party indemnity provisions as defined by S232 of the Companies Act 2006, were in force throughout the year and are currently in force.

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 2010	Ordinary Shares of 1p each 2009
A J Davison ***(Chairman)*** *(non-executive)*	104,500	86,500
B M Olliff	5,168,683	5,243,683
D F Allison	310,625	310,625
T W Griffith	49,925	49,925
C M Yuste	314,925	62,925
O I Ashur *(non-executive)**	5,000	5,000
A S Bufferd *(non-executive)*	20,000	10,000
D M Cardale *(non-executive)*	106,250	156,250
G A Robb *(non-executive)*	45,000	45,000

*Resigned 14th August 2010.

(b) Share options

At 31st May 2010 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
	8,000	2.30	5th June 2012	5th June 2019
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
	8,000	2.30	5th June 2012	5th June 2019
	12,500	3.14	18th January 2013	18th January 2020
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
	8,000	2.30	5th June 2012	5th June 2019
	12,500	3.14	18th January 2013	18th January 2020
C M Yuste	31,300	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
	8,000	2.30	5th June 2012	5th June 2019
	12,500	3.14	18th January 2013	18th January 2020

Report of the directors

Continued

(c) Remuneration

The remuneration of the directors who held office during the year ended 31st May 2010 is set out below:

	Fees/ salary £	Profit share £	Health insurance £	Total 2010 £	Total 2009 £	Pension 2010 £	Pension 2009 £
Non-executive							
A J Davison	32,000	–	–	32,000	30,916	–	–
G A Robb	22,000	–	–	22,000	20,917	–	–
O I Ashur*	22,000	–	–	22,000	20,917	–	–
D M Cardale	22,000	–	–	22,000	20,917	–	–
A Bufferd	22,000	–	–	22,000	21,750	–	–
	120,000	–	–	120,000	115,417	–	–
Executive							
B M Olliff	219,346	905,587	–	1,124,933	740,022	27,418	26,624
D F Allison	141,000	397,000	2,255	540,255	356,128	17,625	17,375
T W Griffith	139,912	244,415	–	384,327	254,434	17,489	15,670
C M Yuste	139,442	244,415	–	383,857	254,434	17,430	15,670
	639,700	1,791,417	2,255	2,433,372	1,605,018	79,962	75,339

*Resigned 14th August 2010.

With effect from 1st October 2010 the fees paid to non-executive directors will be increased as follows:

	£
A J Davison	45,000
D M Cardale	37,000
G A Robb	30,000
A Bufferd	30,000

Substantial shareholdings

At 31st July 2010, 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	5,168,683	19.9
BlackRock Investment Management	2,978,994	11.5
F&C Asset Management	2,389,035	9.2
Hargreave Hale	1,838,087	7.1
The City of London Employee Share Option Trust	1,583,890	6.1

Own shares

The Company is, until the date of the next Annual General Meeting (AGM), generally and unconditionally authorised to buy back up to 2,603,000 of its own ordinary shares of £0.01. In the year under review the Company purchased and cancelled 439,000 ordinary shares. The shares were purchased at £2.65 representing approximately 1.7% of called up share capital at the time of the transaction. The Company is seeking a renewal of this authority at the 2010 AGM.

The number of own shares purchased by the Company's employee benefit trust during the year was 243,350 (2009 – nil) at a cost of £0.7 million (2009 – nil). The number of own shares held by the trust as at 31st May 2010 was 1,589,158 (2009 – 1,617,650). The trust has waived its entitlement to receive dividends in respect of the shares held. Further details can be found in note 20 of the financial statements and in the Financial review.

Creditor payment policy

The Group's policy is to follow its suppliers' terms of payment and to make payment in accordance with those terms subject to receipt of satisfactory invoicing. In practice, payments to creditors are generally made upon receipt of an invoice.

As at 31st May 2010, the creditor days were nil (2009 – nil).

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
9th September 2010

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 Group and Company 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 Group and Company and of the profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

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 2010 which comprises the Consolidated income statement, the Consolidated and Company statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in 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 Chapter 3 Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters 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 26, 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 2010 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;
- 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.

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.

Senior statutory auditor: Timothy West
10th September 2010
for and on behalf of Moore Stephens LLP, Statutory Auditor
150 Aldersgate Street, London EC1A 4AB

Consolidated income statement

For the year ended 31st May 2010

	Note	Total 2010 £	Total 2009 £
Revenue	1,2	**29,969,539**	20,151,149
Administrative expenses			
Staff costs	4(b)	**9,378,107**	6,716,230
Commissions payable		**4,768,780**	3,036,462
Other administrative expenses		**5,184,733**	4,426,140
Depreciation and amortisation		**348,196**	288,918
		(19,679,816)	(14,467,750)
Operating profit	6	**10,289,723**	5,683,399
Interest receivable and similar income	7	**(70,066)**	(60,177)
Impairment of seed investments	8	**159,418**	(238,790)
Profit before taxation		**10,379,075**	5,384,432
Income tax expense	9	**(3,396,293)**	(1,537,649)
Profit for the period		**6,982,782**	3,846,783
Basic earnings per share	10	**28.5p**	16.1p
Diluted earnings per share	10	**26.9p**	15.0p

Consolidated and Company statement of comprehensive income

For the year ended 31st May 2010

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Fair value gains/(losses) on available-for-sale investments*	**266,790**	(446,414)	**266,862**	(446,414)
Release of fair value gains/(losses) on disposal of available-for-sale investments*	**–**	(672)	**–**	(672)
Other comprehensive income	**266,790**	(447,086)	**266,862**	(447,086)
Profit for the period	**6,982,782**	3,846,783	**5,437,758**	2,742,961
Total comprehensive income for the period attributable to equity holders of the company	**7,249,572**	3,399,697	**5,704,620**	2,295,875

*Net of deferred tax, detailed in note 18.

Consolidated and Company statement of financial position

31st May 2010

	Note	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Non-current assets					
Property and equipment	11	687,657	801,554	359,466	476,454
Intangible assets	12	409,144	–	–	–
Other financial assets	13	76,679	57,535	829,940	893,380
Deferred tax asset	14	1,503,498	1,605,855	319,513	330,737
		2,676,978	2,464,944	1,508,919	1,700,571
Current assets					
Trade and other receivables	15	4,365,999	2,868,398	803,547	1,062,701
Current tax receivable		–	608,965	950,601	1,323,904
Available-for-sale financial assets	16	3,595,873	431,365	3,595,873	431,365
Cash and cash equivalents		4,774,473	4,718,766	255,677	108,638
		12,736,345	8,627,494	5,605,698	2,926,608
Current liabilities					
Trade and other payables	17	(3,887,781)	(2,349,334)	(5,081,468)	(2,819,866)
Current tax payable		(811,983)	–	–	–
Creditors, amounts falling due within one year		(4,699,764)	(2,349,334)	(5,081,468)	(2,819,866)
Net current assets		8,036,581	6,278,160	524,230	106,742
Total assets less current liabilities		10,713,559	8,743,104	2,033,149	1,807,313
Non-current liabilities					
Deferred tax liability	18	(105,203)	(1,424)	(105,203)	(1,424)
Net assets		10,608,356	8,741,680	1,927,946	1,805,889
Capital and reserves					
Called up share capital	19	259,688	259,816	259,688	259,816
Share premium account		1,640,667	1,518,441	1,640,667	1,518,441
Investment in own shares	20	(3,071,259)	(2,633,932)	(3,071,259)	(2,633,932)
Revaluation reserve		270,451	3,661	270,523	3,661
Share option reserve		1,721,492	1,767,730	651,056	609,542
Capital redemption reserve		18,562	14,172	18,562	14,172
Retained earnings		9,768,755	7,811,792	2,158,709	2,034,189
Total equity		10,608,356	8,741,680	1,927,946	1,805,889

The Board of directors approve and authorise for issue these financial statements on 9th September 2010.

Signed on behalf of the Board of directors of City of London Investment Group Plc, company number 2685257.

B M Olliff
Chief Executive Officer

D F Allison
Finance Director

Consolidated and Company statement of changes in equity

31st May 2010

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
Group								
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
Total comprehensive income	–	–	–	(447,086)	–	–	3,846,783	3,399,697
Share option exercise	6,211	161,158	177,946	–	–	–	–	345,315
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
Dividends paid	–	–	–	–	–	–	(4,418,079)	(4,418,079)
At 1st June 2009	259,816	1,518,441	(2,633,932)	3,661	1,767,730	14,172	7,811,792	8,741,680
Total comprehensive income	–	–	–	266,790	–	–	6,982,782	7,249,572
Share option exercise	4,262	122,226	293,512	–	–	–	–	420,000
Share cancellation	(4,390)	–	–	–	–	4,390	(1,165,678)	(1,165,678)
Purchase of own shares	–	–	(730,839)	–	–	–	–	(730,839)
Share-based payment	–	–	–	–	11,943	–	72,962	84,905
Deferred tax	–	–	–	–	(58,181)	–	(31,099)	(89,280)
Current tax on share options	–	–	–	–	–	–	280,688	280,688
Dividends paid	–	–	–	–	–	–	(4,182,692)	(4,182,692)
At 31st May 2010	**259,688**	**1,640,667**	**(3,071,259)**	**270,451**	**1,721,492**	**18,562**	**9,768,755**	**10,608,356**
Company								
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
Total comprehensive income	–	–	–	(447,086)	–	–	2,742,961	2,295,875
Share option exercise	6,211	161,158	177,946	–	–	–	–	345,315
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
Dividends paid	–	–	–	–	–	–	(4,418,079)	(4,418,079)
At 1st June 2009	259,816	1,518,441	(2,633,932)	3,661	609,542	14,172	2,034,189	1,805,889
Total comprehensive income	–	–	–	266,862	–	–	5,437,758	5,704,620
Share option exercise	4,262	122,226	293,512	–	–	–	–	420,000
Share cancellation	(4,390)	–	–	–	–	4,390	(1,165,678)	(1,165,678)
Purchase of own shares	–	–	(730,839)	–	–	–	–	(730,839)
Share-based payment	–	–	–	–	11,943	–	22,516	34,459
Deferred tax	–	–	–	–	29,571	–	(6,305)	23,266
Current tax on share options	–	–	–	–	–	–	18,921	18,921
Dividends paid	–	–	–	–	–	–	(4,182,692)	(4,182,692)
At 31st May 2010	**259,688**	**1,640,667**	**(3,071,259)**	**270,523**	**651,056**	**18,562**	**2,158,709**	**1,927,946**

Consolidated and Company cash flow statement

For the year ended 31st May 2010

	Note	Group 2010 £	Group 2009 £	Company 2010 £	Company 2009 £
Cash flow from operating activities					
Operating profit		10,289,723	5,683,399	167,856	82,488
Adjustments for:					
Depreciation charges		302,735	288,918	143,541	145,279
Amortisation of intangible assets		45,461	–	–	–
Share based payment charge		84,905	88,249	36,238	33,823
Translation adjustments		(293,254)	(462,181)	(18,308)	(378,578)
(Profit)/loss on disposal of fixed assets		(342)	5,418	–	5,418
Cash generated/(used) in operations before changes in working capital		10,429,228	5,603,803	329,327	(111,570)
(Increase)/decrease in trade and other receivables		(1,497,601)	704,816	259,154	1,017,938
Increase/(decrease) in trade and other payables		1,538,447	(719,487)	2,261,602	(789,738)
Cash generated from operations		10,470,074	5,589,132	2,850,083	116,630
Interest received		66,579	145,604	12,591	7,962
Interest paid		–	–	–	–
Taxation (paid)/received		(1,681,580)	(2,476,595)	351,888	421,621
Net cash generated from operating activities		8,855,073	3,258,141	3,214,562	546,213
Cash flow from investing activities					
Dividends received from subsidiaries		–	–	5,383,363	3,220,000
Purchase of property and equipment		(189,408)	(799,943)	(26,553)	(418,765)
Proceeds from sale of property and equipment		911	793	–	793
Purchase of intangible assets		(454,605)	–	–	–
Purchase of non-current financial assets		(10,318)	(663)	(3,439)	(663)
Proceeds from sale of non-current financial assets		–	663	–	663
Purchase of current financial assets		(3,146,241)	–	(3,146,241)	–
Proceeds from sale of current financial assets		379,853	744,207	379,853	744,207
Net cash (used)/generated from investing activities		(3,419,808)	(54,943)	2,586,983	3,546,235
Cash flow from financing activities					
Proceeds from issue of ordinary shares		126,488	167,369	126,488	167,369
Ordinary dividends paid	21	(4,182,692)	(4,418,079)	(4,182,692)	(4,418,079)
Purchase and cancellation of own shares		(1,165,678)	–	(1,165,678)	–
Purchase of own shares by employee share option trust		(730,838)	–	(730,838)	–
Proceeds from sale of own shares by employee share option trust		293,511	177,946	293,511	177,946
Net cash used in financing activities		(5,659,209)	(4,072,764)	(5,659,209)	(4,072,764)
Net (decrease)/increase in cash and cash equivalents		(223,944)	(869,566)	142,336	19,684
Cash and cash equivalents at start of period		4,718,766	5,498,910	108,638	83,135
Effect of exchange rate changes		279,651	89,422	4,703	5,819
Cash and cash equivalents at end of period		4,774,473	4,718,766	255,677	108,638

Notes to the financial statements

For the year ended 31st May 2010

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

The Group adopted the following during the year:

IAS 1 (revised 2007) "Presentation of financial statements". The amendments make certain changes to the format and titles of the primary financial statements and to the presentation of some items within these statements. Some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 affects the presentation of owner changes in equity and introduces a "Statement of comprehensive income".

IFRS 7 "Improving Disclosures about Financial Instruments". The amendments to IFRS 7 expand the disclosures required in respect of the fair value measurements of financial instruments recognised in the statement of financial position. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

IFRS 8 "Operating Segments". The adoption of IFRS 8 requires the disclosure of segment reporting as reviewed by management. The Group is managed as a single business unit, namely asset management, and therefore only has a single reportable segment.

There is also a requirement for an entity-wide disclosure of revenues from external customers and certain non-current assets attributable to the Group's country of domicile and foreign countries. The Group allocates revenue based on the domicile of its clients and non-current assets based on where the assets are held. Any individual client generating revenue of 10% or more would be disclosed separately, as would assets in a foreign country if they are material.

Under IFRS 8 the only change for the Group is a more detailed analysis of the countries to which revenue is attributed. Previously just three geographical locations were reported; Europe, North America and Other.

Comparative segmental information has been restated accordingly.

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 – Minor changes to reporting of other comprehensive income effective for annual periods beginning on or after 1st January 2011. IAS 1 will also be amended by the changes noted below in IFRS 9.
IFRS 7	Financial instruments: disclosures – Amendments effective for annual periods beginning on or after 1st January 2011 relating to clarification of qualitative and quantitative disclosures and removal of references to materiality in relation to risk. In addition, IFRS 7 will also be amended by the changes noted below in IFRS 9. In particular the disclosures by category of financial asset will be altered to reflect the new categorisation.
IFRS 9	Financial instruments – Effective for annual periods beginning on or after 1st January 2013. This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 replaces the four categories of financial assets with two; those carried at amortised cost and those at fair value. The Group will need to consider how it wishes to reclassify its financial assets, in particular those currently classified as available-for-sale. The Group's approach will determine the impact of the new standard on the financial statements.

There are a number of other Standards and Interpretations, and revisions to existing Standards and Interpretations, including the 2008 improvements project, in issue but not in force at 31st May 2010. These are not considered likely to have a material impact on the Group's financial statements.

1 Basis of accounting continued

(b) Basis of consolidation and preparation

These financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. The Company's principal subsidiaries are City of London Investment Management Company Limited and City of London US Services Limited, all other subsidiaries being dormant at 31st May 2010.

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) (iii) on page 34.

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

The Group is subject to income taxes in different jurisdictions. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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. Details of these assumptions are outlined in note 24.

Intangible assets

The useful economic life of intangible assets, such as computer software, is determined on acquisition using value in use calculations based on management's assumptions and estimates of future cash flows as well as other cost/benefit factors.

The principal accounting polices adopted are set out below and have, unless otherwise stated, been applied consistently to all periods presented in these accounts. In addition, where presentational changes are made in the current year, the prior year figures are also updated to present a true comparative.

(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) Intangible assets

Intangible assets acquired separately are capitalised at cost and amortised on a straight line basis. Amortisation charges are spread over the useful life of the asset as follows:

Long term software licences	–	ten years

This represents a perpetual licence for the Group's fund accounting system which is being brought in-house. The directors consider ten years as a reasonable estimate of useful life given the improved control and flexibility to manage and develop the software in-house.

Notes to the financial statements

Continued

1 Basis of accounting continued

(iii) Financial instruments

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

- Loans and receivables
- Held-to-maturity investments
- Available-for-sale financial assets
- At fair value through profit or loss

Financial liabilities must be classified at fair value through profit or loss or at amortised cost.

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 included as part of other comprehensive income. 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 profit 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 as part of other comprehensive income are recycled into the income statement as part of this calculation of the profit 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 other comprehensive income and recognised in the income statement.

The Group's investments in derivatives are designated as financial assets or liabilities at fair value through profit or loss. Such investments are initially recognised at fair value, and are subsequently remeasured at fair value, with any movement 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. Such investments are designated as available-for-sale financial assets and are measured at cost less impairment on the grounds that the fair value can not be reliably measured and the cost of the investment of $75,000 is not considered to be material.

The Group's investments have been classified here for recognition and measurement purposes under IAS39 but are not necessarily reported in the statement of financial position under those headings. A table showing how they are reported is shown in note 26.

(iv) Trade receivables

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

(v) Cash and cash equivalents

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

1 Basis of accounting continued

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. The tax rates used are those that have been enacted, or substantially enacted, by the end of the reporting period. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly as part of other comprehensive income, in which case the deferred tax is also dealt with as part of other comprehensive income. For share-based payments, where the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense, the excess deferred tax is recognised directly in equity.

(viii) Share-based payments
The Company operates an Employee Share Option Plan. 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 of IFRS2, the above treatment 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.

(ix) Revenue
Revenue comprises investment management fees earned. Fees are based on a percentage of Funds under Management and are recognised in revenue as the investment management services are provided, in accordance with the underlying agreements.

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

The functional currency of the Group's 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 other comprehensive income and the income statement.

Notes to the financial statements

Continued

1 Basis of accounting continued

(xi) Leases

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

(xii) Pensions

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

2 Revenue

	2010 £	2009 £
Management fees earned by subsidiary companies charged as a percentage of funds under management	29,969,539	20,151,149

3 Segmental analysis

The directors consider that the Group has only one reportable segment, namely asset management, and hence only analysis by geographical location is given.

	USA £	Canada £	Europe (ex UK) £	UK £	Other £	Total £
Year to 31st May 2010						
Revenue	24,185,206	1,702,328	1,909,388	2,026,138	146,479	29,969,539
Non-current assets:						
Property and equipment	328,191	–	–	239,529	119,937	687,657
Intangible assets	409,144	–	–	–	–	409,144
Year to 31st May 2009						
Revenue	16,008,991	1,337,978	1,464,309	900,300	439,571	20,151,149
Non-current assets:						
Property and equipment	325,100	–	–	302,026	174,428	801,554
Intangible assets	–	–	–	–	–	–

The Group has classified revenue based on the domicile of its clients and non-current assets based on where the assets are held. Any individual client generating revenue of 10% or more would be disclosed separately, as would assets in a foreign country if they are material.

4 Employees

(a) Average number of persons employed by the Group in the year:	2010 Number	2009 Number
Investment Management/Research	23	18
Performance and Attribution	4	4
Business Development/Marketing	3	3
Client Services	8	8
Administration, Accounts and Settlements	24	22
	62	55

(b) Staff costs incurred during the year in respect of these employees were:	2010 £	2009 £
Wages and salaries	3,876,432	3,220,921
Profit sharing payments	4,524,986	2,527,130
Social security costs	448,613	508,416
Defined contribution pension costs	443,171	371,514
Share options charge	84,905	88,249
	9,378,107	6,716,230

The Group made contributions of £443,171 (2009 – £371,514) in the period to individual defined contribution pension schemes established for directors and employees. There were no outstanding or prepaid contributions at 31st May 2010.

5 Directors

Directors' emoluments comprise:	2010 £	2009 £
Emoluments (excluding pension contributions and awards under share option schemes)	2,553,372	1,720,435
Pension contributions	79,962	75,339
Share option charge	14,274	13,072
Gains on exercise of share options	766,645	797,101

	2010 Number	2009 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 year	1	4

Highest paid director's remuneration:	2010 £	2009 £
Emoluments (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	1,124,933	740,022
Pension contributions	27,418	26,624
Share option charge	2,795	3,870
Gains on exercise of share options	–	487,171

Notes to the financial statements

Continued

6 Operating profit

The operating profit is arrived at after charging/crediting:	2010 £	2009 £
Depreciation of owned assets	302,735	288,918
Amortisation of intangible assets	45,461	–
Auditors' remuneration:		
– Statutory audit	44,227	45,271
– Taxation services	19,057	23,629
– Other services	14,097	23,852
Operating lease rentals:		
– Land and buildings	373,955	363,746
– Other	12,187	16,914
Operating sublease rentals:		
– Land and buildings	–	6,091
Foreign exchange (gains)/losses	(177,664)	94,256
(Profit)/loss on disposal of fixed assets	(342)	5,418

7 Interest receivable and similar income

	2010 £	2009 £
Interest on bank deposit	66,579	145,604
(Loss) on sale of investments	(136,645)	(214,981)
Fair value of investments	–	9,200
	(70,066)	(60,177)

8 Impairment of seed investments

Due to improved market conditions, the Group has written back £159,418 of the £238,790 impairment charge recognised in 2009 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:	2010 £	2009 £
Tax at 28% (2009 – 28%) based on the profit for the year	2,938,223	1,634,820
Double taxation relief	(951,584)	(422,174)
Deferred tax	13,077	(113,251)
Adjustments in respect of prior years	12,957	(39,037)
	2,012,673	1,060,358
Foreign tax for the current period	1,422,908	610,544
Adjustments in respect of prior years	(39,288)	(133,253)
	1,383,620	477,291
	3,396,293	1,537,649

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 – 28%). The differences are explained below:

	2010 £	2009 £
Profit on ordinary activities before tax	**10,379,075**	5,384,432
Tax at 28% (2008 – 28%) thereon	**(2,906,141)**	(1,507,641)
Effects of:		
Expenses not deductible for tax purposes	**(30,979)**	(35,685)
Capital allowances less than depreciation	**(63,911)**	(15,706)
Unrelieved overseas tax	**(471,324)**	(188,370)
Impairment in seed investments not tax deductible	**44,637**	(66,861)
Deferred tax on share based-payments and impairment	**(13,077)**	113,251
Prior period adjustments	**26,331**	172,290
Other	**18,171**	(8,927)
	(3,396,293)	(1,537,649)

10 Earnings per share

The calculation of earnings per share is based on the profit for the period of £6,982,782 (2009 – £3,846,783) divided by the weighted average number of ordinary shares in issue for the year ended 31st May 2010 of 24,491,592 (2009 – 23,844,801).

As set out in Note 20, the Employee Benefit Trust held 1,589,158 ordinary shares in the Company as at 31st May 2010. 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 £6,982,782 (2009 – £3,846,783) divided by the diluted weighted average of ordinary shares for the year ended 31st May 2010 of 25,953,758 (2009 – 25,587,418).

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

	2010 Number of shares	2009 Number of shares
Weighted average number of shares – basic earnings per share	**24,491,592**	23,844,801
Effect of dilutive potential shares – share options	**1,462,166**	1,742,617
Weighted average number of shares – diluted earnings per share	**25,953,758**	25,587,418

Notes to the financial statements

Continued

11 Property and equipment

	2010				2009			
	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	145,413	1,294,307	293,225	1,732,945	111,852	830,381	224,332	1,166,565
Additions	20,952	168,455	–	189,407	65,634	540,128	194,181	799,943
Disposals	(334)	(22,029)	–	(22,363)	(32,073)	(76,202)	(125,288)	(233,563)
At 31st May	**166,031**	**1,440,733**	**293,225**	**1,899,989**	145,413	1,294,307	293,225	1,732,945
Accumulated depreciation								
At 1st June	88,673	772,699	70,019	931,391	89,619	620,271	159,935	869,825
Charge for the year	26,287	241,193	35,255	302,735	24,916	228,630	35,372	288,918
Disposals	(334)	(21,460)	–	(21,794)	(25,862)	(76,202)	(125,288)	(227,352)
At 31st May	**114,626**	**992,432**	**105,274**	**1,212,332**	88,673	772,699	70,019	931,391
Net book value								
At 31st May	**51,405**	**448,301**	**187,951**	**687,657**	56,740	521,608	223,206	801,554
Company								
Cost								
At 1st June	93,930	493,268	266,481	853,679	60,369	370,119	197,588	628,076
Additions	8,230	18,323	–	26,553	65,634	158,950	194,181	418,765
Disposals	–	–	–	–	(32,073)	(35,801)	(125,288)	(193,162)
At 31st May	**102,160**	**511,591**	**266,481**	**880,232**	93,930	493,268	266,481	853,679
Accumulated depreciation								
At 1st June	38,852	295,098	43,275	377,225	43,703	241,295	133,899	418,897
Charge for the year	21,678	86,608	35,255	143,541	21,011	89,604	34,664	145,279
Disposals	–	–	–	–	(25,862)	(35,801)	(125,288)	(186,951)
At 31st May	**60,530**	**381,706**	**78,530**	**520,766**	38,852	295,098	43,275	377,225
Net book value								
At 31st May	**41,630**	**129,885**	**187,951**	**359,466**	55,078	198,170	223,206	476,454

12 Intangible Assets

Group	2010 Long term software licences £	2010 Total £	2009 Long term software licences £	2009 Total £
Cost				
At 1st June	–	–	–	–
Additions	454,605	–	–	–
At 31st May	454,605	–	–	–
Amortisation charge				
At 1st June	–	–	–	–
Charge for the year	(45,461)	–	–	–
At 31st May	(45,461)	–	–	–
Net book value				
At 31st May	409,144	–	–	–

The Company did not hold any intangible assets during the current or preceding year.

13 Other financial assets (non-current)

Group	Unlisted investments 2010 £	Unlisted investments 2009 £
Cost		
At 1st June	57,535	52,048
Additions	10,318	596
Disposals	–	(1,242)
Fair value gains recognised in other comprehensive income	8,826	6,133
At 31st May	76,679	57,535

Company	2010 Unlisted investments £	2010 Investment in subsidiary undertakings £	2010 Total £	2009 Unlisted investments £	2009 Investment in subsidiary undertakings £	2009 Total £
Cost						
At 1st June	57,535	835,845	893,380	52,048	795,636	847,684
Additions	3,439	53,392	56,831	596	74,584	75,180
Disposals	–	(55,171)	(55,171)	(1,242)	(34,375)	(35,617)
Impairment	–	(73,999)	(73,999)	–	–	–
Fair value gains recognised in other comprehensive income	8,899	–	8,899	6,133	–	6,133
At 31st May	69,873	760,067	829,940	57,535	835,845	893,380

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

13 Other financial assets (non-current) continued

The impairment reflects the reduction in share capital of City of London Unit Trust Managers Limited, a fully owned dormant subsidiary which will be wound up in due course.

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 Investment Management Company Limited holds 100% of the ordinary shares in the following:		
City of London Latin America Limited	Dormant company	
City of London Investment Management Singapore PTE Ltd	Dormant company	
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	

All the companies above are incorporated in Great Britain and registered in England and Wales except for City of London Investment Management Singapore PTE Ltd which 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, except for City of London Unit Trust Managers Limited which is carried at cost less impairment.

14 Deferred tax asset

	Share-based payments		Impairment		Total	
	Group	Company	Group	Company	Group	Company
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 1st June 2009	1,538,994	263,876	66,861	66,861	1,605,855	330,737
Credit/(charge) to income	31,560	10,147	(44,637)	(44,637)	(13,077)	(34,490)
Credit/(charge) to equity	(89,280)	23,266	–	–	(89,280)	23,266
At 31st May 2010	**1,481,274**	**297,289**	**22,224**	**22,224**	**1,503,498**	**319,513**

15 Trade and other receivables

	Group		Company	
	2010 £	2009 £	**2010 £**	2009 £
Trade receivables	**3,871,637**	2,508,242	**–**	–
Amounts owed by Group undertakings	**–**	–	**500,962**	817,885
Other debtors	**108,874**	68,828	**89,072**	57,988
Prepayments	**385,488**	291,328	**213,513**	186,828
	4,365,999	2,868,398	**803,547**	1,062,701

16 Available-for-sale financial assets

Group and Company	2010 £	2009 £
Unlisted investments at market value	3,595,873	431,365
Unlisted investments at cost	3,307,673	670,155

17 Trade and other payables

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
Trade creditors	71,894	13,133	–	–
Sundry creditors	467,435	209,886	65,775	15,978
Amounts owed to Group undertakings	–	–	3,800,462	1,980,420
Other taxation and social security	39,712	118,339	39,712	118,339
Accruals and deferred income	3,308,740	2,007,976	1,175,519	705,129
	3,887,781	2,349,334	5,081,468	2,819,866

18 Deferred tax liability

Group and Company	£
At 1st June 2008	193,177
Released due to decrease in value of available-for-sale investments	(191,465)
Released on disposal of available-for-sale investments	(288)
At 1st June 2009	1,424
Increased due to gain in fair value of available-for-sale investments	103,779
At 31st May 2010	105,203

19 Share capital

Group and Company	2010 £	2009 £
Allotted, called up and fully paid		
At start of year 25,981,603 (2009 – 25,360,500) Ordinary shares of 1p each	259,816	253,605
Dilutive share options exercised; 426,200 (2009 – 621,103)	4,262	6,211
Shares repurchased and cancelled; 439,000 (2009 – nil)	(4,390)	–
At end of year 25,968,803 (2009 – 25, 981,603) Ordinary shares of 1p each	259,688	259,816

Fully paid ordinary shares carry one vote per share and carry a right to dividends.

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 2010 the Trust held 1,589,158 ordinary 1p shares (2009 – 1,617,650), of which 1,427,533 ordinary 1p shares (2009 – 1,262,375) were subject to options in issue.

21 Dividend

	2010 £	2009 £
Dividends paid:		
Interim dividend of 7p per share (2009 – 5p)	**1,727,652**	1,197,492
Final dividend in respect of year ended:		
31st May 2009 of 10p per share (2008 – 13.5p)	**2,455,040**	3,220,587
	4,182,692	4,418,079

A final dividend of 15p per share has been proposed, payable on 19th November 2010, subject to shareholder approval, to shareholders who are on the register of members on 29th October 2010.

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 £5,437,758 (2009 – £2,742,961).

23 Operating lease commitments

At 31st May 2010 the Group had the following commitments for future minimum lease payments under non-cancellable operating leases:

	Group				Company			
	Land and buildings 2010 £	**Motor vehicle 2010 £**	Land and buildings 2009 £	Motor vehicle 2009 £	**Land and buildings 2010 £**	**Motor vehicle 2010 £**	Land and buildings 2009 £	Motor vehicle 2009 £
Within one year	**297,996**	**–**	316,960	8,200	**174,384**	**–**	174,384	–
In the second to fifth years inclusive	**506,226**	**–**	652,256	–	**363,301**	**–**	537,685	–
	804,222	**–**	969,216	8,200	**537,685**	**–**	712,069	–

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. 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
05/06/2009	05/06/2019	6.50	3.2805%	2.3000	2.3000	32.7809%	8.04%	0.5134	242,000
18/01/2010	18/01/2020	6.50	3.4428%	3.1400	3.1400	30.9664%	4.67%	0.8356	259,000

Historically, the expected life of the options has been assumed to be three years, however this assumption has been revised for the latest grants to six and a half 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. Historically, 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. Now that there is sufficient share price data for the Company it has been possible to calculate its expected volatility and this has been used to calculate the fair value of awards granted on and after 5th June 2009.

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

	2010		2009	
	Number	Weighted average exercise price	Number	Weighted average exercise price
Outstanding at the beginning of the year	**3,135,022**	**1.02**	3,958,310	0.71
Granted during the year	**501,000**	**2.73**	332,000	2.75
Forfeited during the year	**64,000**	**2.63**	138,750	1.30
Exercised during the year	**698,042**	**0.6**	1,016,538	0.34
Expired during the year	**–**	**–**	–	–
Outstanding at the end of the year	**2,873,980**	**1.38**	3,135,022	1.02
Exercisable at the end of the year	**2,149,980**	**0.87**	2,548,022	0.63
The weighted average share price at the date of exercise for share options exercised during the year was		**2.85**		2.15

Notes to the financial statements

Continued

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 24 and in note 5.

In addition, the City of London Employee Share Option Trust purchased ordinary shares from the following directors during the year:

D M Cardale	50,000 shares at £2.95
C M Yuste	33,350 shares at £2.95

(ii) Intra-group transactions

During the period the Company received from its subsidiaries £6,500,876 (2009 – £5,460,306) in respect of management service charges and dividends of £5,383,363 (2009 – £3,220,000).

Amounts outstanding between the Company and its subsidiaries as at 31st May 2010 are given in notes 15 and 17.

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) Financial instruments by category

The tables below show the Group and Company's financial assets and liabilities as classified under IAS39:

Group

31st May 2010 Assets as per statement of financial position	Loans and receivables £	Assets at fair value through profit or loss £	Available-for-sale £	Total £
Other financial assets	–	–	76,679	76,679
Trade and other receivables	4,365,999	–	–	4,365,999
Available-for-sale financial assets	–	–	3,595,873	3,595,873
Cash and cash equivalents	4,774,473	–	–	4,774,473
Total	9,140,472	–	3,672,552	12,813,024

Liabilities as per statement of financial position	Liabilities at fair value through profit or loss £	Financial liabilities at amortised cost £	Total £
Trade and other payables	401,660	3,486,121	3,887,781
Total	401,660	3,486,121	3,887,781

26 Financial instruments continued

31st May 2009 Assets as per statement of financial position	Loans and receivables £	Assets at fair value through profit or loss £	Available-for-sale £	Total £
Other financial assets	–	–	57,535	57,535
Trade and other receivables	2,868,398	–	–	2,868,398
Available-for-sale financial assets	–	–	431,365	431,365
Cash and cash equivalents	4,718,766	–	–	4,718,766
Total	7,587,164	–	488,900	8,076,064

Liabilities as per statement of financial position	Liabilities at fair value through profit or loss £	Financial liabilities at amortised cost £	Total £
Trade and other payables	193,908	2,155,426	2,349,334
Total	193,908	2,155,426	2,349,334

Company

31st May 2010 Assets as per statement of financial position	Investment in subsidiaries £	Loans and receivables £	Assets at fair value through profit or loss £	Available-for-sale £	Total £
Other financial assets	760,067	–	–	69,873	829,940
Trade and other receivables	–	803,547	–	–	803,547
Available-for-sale financial assets	–	–	–	3,595,873	3,595,873
Cash and cash equivalents	–	255,677	–	–	255,677
Total	760,067	1,059,224	–	3,665,746	5,485,037

Liabilities as per statement of financial position	Liabilities at fair value through profit or loss £	Financial liabilities at amortised cost £	Total £
Trade and other payables	–	5,081,468	5,081,468
Total	–	5,081,468	5,081,468

26 Financial instruments continued

31st May 2009 Assets as per statement of financial position	Investment in subsidiaries £	Loans and receivables £	Assets at fair value through profit or loss £	Available-for-sale £	Total £
Other financial assets	835,845	–	–	57,535	893,380
Trade and other receivables	–	1,062,701	–	–	1,062,701
Available-for-sale financial assets	–	–	–	431,365	431,365
Cash and cash equivalents	–	108,638	–	–	108,638
Total	835,845	1,171,339	–	488,900	2,496,084

Liabilities as per statement of financial position	Liabilities at fair value through profit or loss £	Financial liabilities at amortised cost £	Total £
Trade and other payables	–	2,819,866	2,819,866
Total	–	2,819,866	2,819,866

(ii) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1: fair value derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: fair value derived from inputs other than quoted prices included within level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: fair value derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The fair values of the financial instruments are determined as follows:

- Investments in own funds are determined with reference to the net asset value (NAV) of the fund. Where the NAV is a quoted price the fair value is shown under level 1, where the NAV is not a quoted price the fair value is shown under level 2.
- Forward currency trades are valued using the prevailing quoted exchange rates and are shown under level 2.

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

Group	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	1,816,491	1,804,472	–	3,620,963
Total	1,816,491	1,804,472	–	3,620,963
Financial liabilities at fair value through profit or loss				
Forward currency trades	–	401,660	–	401,660
Total	–	401,660	–	401,660

26 Financial instruments continued

Company	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	1,816,491	1,797,666	–	3,614,157
Total	1,816,491	1,797,666	–	3,614,157

There were no transfers between any of the levels in the reporting period.

All fair value gains and losses included in other comprehensive income relate to the investment in own funds.

Where there is an impairment in the investment in own funds the loss is reported in the income statement. Due to improved market conditions, the Group has written back £159,418 of the £238,790 impairment charge recognised in 2009.

The fair value loss on the forward currency trades is offset in the income statement by the foreign exchange gain on other currency assets and liabilities held during the year and at year end. The net gain reported for the year is £177,664 (2009 – net loss £94,256).

(iii) 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 2010, the Group had net asset balances of US$6,854,423 (2009 – US$4,422,628), offset by forward sales totalling US$6,500,000 (2009 – US$3,600,000), and net asset balances of C$411,851 (2009 – C$371,190).

Had the US Dollar strengthened or weakened against Sterling as at 31st May 2010 by 10%, with all other variables held constant, there would have been no material impact on the Group's net assets, because the US Dollar position net of forward sales is minimal.

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.

(iv) 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 cost of hedging recognised in the Group income statement for the period is £32,027 (2009 – income £21,194).

Notes to the financial statements

Continued

26 Financial instruments continued

(v) 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.

(vi) Liquidity risk

The Group's liquidity risk is minimal due to the liquidity profile of its debtors and creditors being evenly matched and 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.

(vii) 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 and forward currency contracts. 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 2010 the Group held £4,774,473 (2009 – £4,718,766) in cash balances, of which £4,168,469 (2009 – £4,693,287) was held in bank accounts which attract variable interest rates. The effect of a 100 basis points increase/decrease in interest rates on the Group's net assets would not be material.

(viii) Capital risk management

The Group manages its capital to ensure that all entities within the Group are able to operate as going concerns and exceed any minimum externally imposed capital requirements. The capital of the Group and Company consists of equity attributable to the equity holders of the Parent Company, comprising issued share capital, share premium, retained earnings and other reserves as disclosed in the statement of changes in 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 25th October 2010 at 11.30 am for the following purposes:

Ordinary business

1. To receive and adopt the financial statements for the year ended 31st May 2010 together with the reports of the directors and auditors thereon.

2. Having last been re-elected at the 2007 Annual General Meeting, to re-elect David Michael Cardale as a director of the Company in accordance with article 132(a) of the Company's articles of association.

3. Having last been re-elected at the 2007 Annual General Meeting, to re-elect Carlos Manuel Yuste as a director of the Company in accordance with article 132(a) of the Company's articles of association.

4. 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.

5. 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.

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

Special business

To consider and, if thought fit, pass resolution 7 as an ordinary resolution and resolutions 8 and 9 as special resolutions:

7. THAT, in accordance with section 551 of the Companies Act 2006, the directors be generally and unconditionally authorised to exercise all powers conferred pursuant to Article 10 of the Company's Articles of Association to allot shares in the Company (which for this purpose includes grants of rights to subscribe for or to convert any security into shares) up to an aggregate nominal amount of £86,500.00 (representing approximately one third of the Company's issued ordinary capital at the time of this resolution), provided that this authority shall, unless renewed, varied or revoked by the Company, expire at the conclusion of the Company's Annual General Meeting to be held in 2011, save that the Company may, before such expiry, make an offer of agreement which would or might require shares to be allotted (or rights to be granted) and the directors may allot shares (or grant rights) in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

   This authority is in substitution for all previous authorities conferred on the directors in accordance with section 80 of the Companies Act 1985 or section 551 of the Companies Act 2006.

8. THAT, subject to the passing of resolution 7 and in accordance with section 570 of the Companies Act 2006, the directors be generally and unconditionally authorised to exercise all powers conferred pursuant to Article 10 of the Company's Articles of Association to allot equity securities (as defined in section 560 of the Companies Act 2006) pursuant to the authority conferred by resolution 7, as if the pre-emption provisions of section 561(1) of the Companies Act 2006 did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities up to an aggregate nominal amount of £13,000.00 (representing approximately 5% of the Company's issued ordinary capital at the time of this resolution), provided that this authority shall, unless renewed, varied or revoked by the Company, expire at the conclusion of the Company's Annual General Meeting to be held in 2011, save that the Company may, before such expiry, make an offer of agreement which would or might require shares to be allotted (or rights to be granted) and the directors may allot shares (or grant rights) in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

Notice of Annual General Meeting

Continued

9. THAT the Company be generally and unconditionally authorised to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of any of its ordinary shares of £0.01 (1p) provided that:

   (a) the maximum number of ordinary shares which may be purchased is 2,596,500 (representing approximately 10% of the Company's issued ordinary share capital at the time of this resolution);

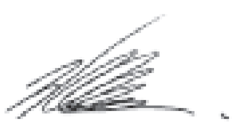
   (b) the minimum price which may be paid for each ordinary share is £0.01 (1p) which amount shall be exclusive of expenses, if any;

   (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 25th April 2012 (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
9th September 2010

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, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 11.30 am on 23rd October 2010. 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 23rd October 2010. 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 23rd October 2010. 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 2010 together with the directors' report and the independent auditors' report thereon.

Re-appointment of directors (Resolutions 2 – 5)

Articles 132 and 137 of the Company's articles of association require that at each annual general meeting, any director who has been in office for more than three years shall retire by rotation and that any director who 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 9th September 2010 (or if their number is not a multiple of three, the number nearest to but not greater than one third).

Article 138 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 resolution 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 (which is replaced by Section B.7.1 of the UK Corporate Governance Code for financial years beginning on or after 29th June 2010) 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 page 19 of the annual report.

Re-appointment of auditors (Resolution 6)

The Company is required at each general meeting at which its annual accounts and reports are laid before the shareholders (an "accounts meeting") to appoint auditors for the next financial year to hold office from the conclusion of that accounts meeting until the conclusion of the next accounts meeting. Moore Stephens LLP are the current auditors and have indicated their willingness to continue in office. If Resolution 6 is passed, Moore Stephens LLP will be re-appointed as auditors to the Company for the financial year ending 31st May 2011, at a fee to be agreed by the board of directors.

Authority to allot shares (Resolution 7)

Resolution 7 will be proposed as an ordinary resolution, in accordance with section 551 of the Companies Act 2006, to authorise the directors generally to allot shares and rights over shares up to an aggregate nominal value of £86,500.00 representing approximately one third of the existing issued ordinary share capital as at the date of this resolution.

Such authority will expire at the conclusion of the Annual General Meeting to be held in 2011, unless renewed, varied or revoked by the Company prior to or on that date.

Disapplication of pre-emption rights (Resolution 8)

Resolution 8 will be proposed as a special resolution, in accordance with section 570 of the Companies Act 2006, to authorise the directors of the Company to allot a limited number of shares for cash other than on a pre-emptive basis, up to an aggregate nominal value of £13,000.00, representing approximately 5% of the issued ordinary share capital at the time of this resolution. This authority will expire at the conclusion of the Annual General Meeting to be held in 2011, unless renewed, varied or revoked by the Company prior to or on that date.

Your Board of Directors is aware of the institutional guidelines which state that no more than 7.5% of a company's ordinary share capital should be issued for cash on a non pre- emptive basis in any three year rolling period. Over the last three years, the directors have not allotted shares for cash on a non pre-emptive basis other than pursuant to employee share schemes.

Purchase by the Company of its own shares (Resolution 9)

Under section 701 of the Companies Act 2006, 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 9, which will be proposed as a special resolution, will give the directors the authority to purchase issued shares of the Company under section 701 of the Companies Act 2006. The authority contained in this Resolution will be limited to an aggregate nominal value of £25,965 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 2011 or on 25th April 2012 (whichever is the earlier).

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

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

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

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