CITY OF LONDON
INVESTMENT GROUP PLC

ANNUAL REPORT & ACCOUNTS 2011

"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."

City of London Investment Group PLC

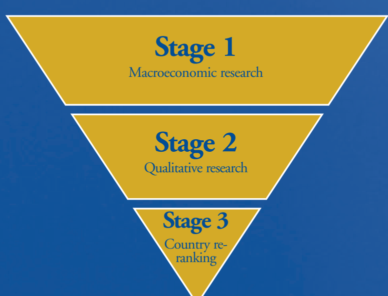
We are an established asset management group which has built its reputation, with an institutional client focus, by specialising in Emerging Market closed-end fund investment. At 31st May 2011 our funds under management amounted to US$5.8 billion.

In recent years we have successfully added equities (Natural Resources and Emerging Markets) and Developed Market closed-end fund strategies to our product range. We operate our business from offices in London, the US, Singapore and Dubai.

What we do

At City of London, we focus 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, which in turn spawned regional and global emerging market equity funds. Most recently, we have applied our unrivalled knowledge of closed-end funds 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.



Investment process

We have developed and nurtured a team 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 20 years of trading expertise. Whether it is taking advantage of discount anomalies in closed-end funds, or company specific valuation in our equity business, through three full market cycles in Emerging Markets, the process has delivered consistent relative outperformance combined with low volatility relative to our clients' benchmarks.

www.citlon.co.uk

Where we operate

United Kingdom

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

USA

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

Singapore

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

Dubai

In 2008, we opened our fourth office, in Dubai, which allowed us to access investment opportunities in the region as well as to increase the Group's visibility with funds in the area.

Our competitive advantage

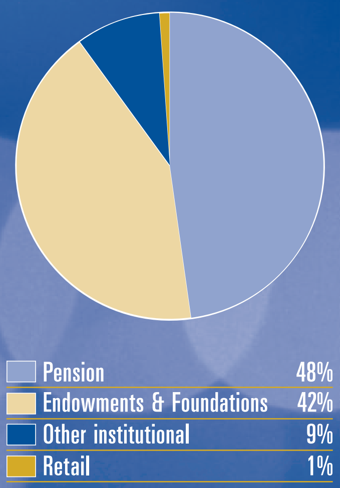
"We use technology to leverage our capabilities, allowing us to trade worldwide 24/7 based on real time information on underlying investment portfolios."

We believe that our approach and philosophy differs significantly from our peers. Our resolute focus is on generating consistent investment performance – over time and through economic cycles.

We use technology to leverage our capabilities, allowing us to trade worldwide 24/7 based on real time information on underlying investment portfolios. Our process driven investment approach is applicable to markets other than the core, original emerging markets closed-end funds. We have internalised our marketing to aid this process of diversification.

The way in which we manage our business is important too. We are above all risk-averse. Profits, margins and costs are carefully managed to provide our staff with appropriate remuneration and shareholders with progressive, meaningful dividends.

Our clients



City of London's client base is, and always has been, overwhelmingly institutional. Our clients include pension funds, foundations and endowments and other professional money managers.

What they have in common is a desire to access the returns available in 'difficult' emerging markets. We have provided that access over many years and cycles with a consistent record of investment performance against their benchmarks. Clients can then focus on their asset class allocation decisions.

Investor relations

We recognise that our shareholders have trusted us with their money.

We seek to communicate with our shareholders in a transparent and open fashion, whether at face-to-face meetings with our larger institutional holders or at group meetings with advisers and individual shareholders. We try to make all of our announcements simple and accessible. We believe that our shareholders have a right to know what to expect from us.

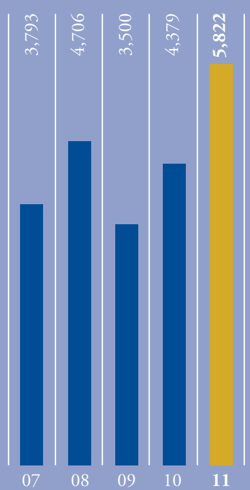
We have sought, for example, to make our dividend policy – the most direct way we have of rewarding shareholders – understandable to all. We pay out the major part of post-tax profits in dividends, based on a formula of one and a half times cover with one third payable as an interim dividend and two thirds as a final.

Financial calendar

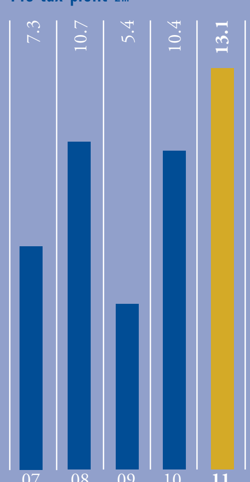
Year end	31st May 2011
Pre-close trading update	13th June 2011
Preliminary final results, first quarter funds under management (FuM) and final dividend announcement	6th September 2011
Posting of Annual Report and Notice of Meeting (AGM)	9th September 2011
AGM and Interim Management Statement (IMS)	3rd October 2011
Ex-dividend date for the final dividend	5th October 2011
Final dividend record date	7th October 2011
Final dividend payment	21st October 2011
Second quarter FuM announcement	5th December 2011
Half year results and interim dividend announcement	23rd January 2012
Ex-dividend date for the interim dividend	8th February 2012
Interim dividend record date	10th February 2012
Interim dividend payment	27th February 2012
Third quarter FuM announcement and IMS	5th March 2012
Year end	31st May 2012

Contents

Funds under management US$m



Pre-tax profit £m



Financial highlights

- Funds under management (FuM) at 31st May 2011 increased by 33% in US$ terms to US$5.82 billion (2010: US$4.38 billion) and by 18% in sterling terms to £3.54 billion (2010: £3.01 billion). The rise in the MSCI Emerging Markets Index (MXEF) was 29%.

- FUM at the end of August 2011 were US$5.22 billion, a fall of 10.3% since the financial year end. This compares to a fall of 10.6% in MXEF over the same period.

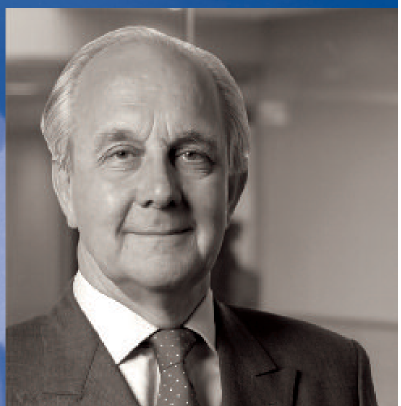
- Profit before tax was up 27% to £13.1 million (2010: £10.4 million) with basic earnings per share up 23% to 35.1p (2010: 28.5p).

- Recommended final dividend of 16p per share (2010: 15p), payable on 21st October 2011, subject to shareholder approval, to shareholders on the register on 7th October 2011, making a total for the year of 24p (2010: 22p).

Operational highlights

- Listed on the main market of the London Stock Exchange on 29th October 2010.

Chairman's statement



"Despite the volatility in the markets in which we operate, we are confident that our investment process can continue to produce good returns for our clients and shareholders."

For the second year in a row, our principal investment markets (as measured by the MSCI Emerging Markets Index, MXEF) grew by in excess of 20%. Funds under management ("FuM") were US$5.82 billion (£3.54 billion) at 31st May 2011 (2010: US$4.38 billion or £3.01 billion), representing a 33% increase in US$ terms and an 18% increase in sterling terms. This reflects net new client monies as well as out performance over and above MXEF, which increased by 29% over the same period (31st May 2010 to 31st May 2011).

As anticipated by our investment management team, emerging markets since our year end have essentially tracked down as investors, domestic and international, have settled for the (almost) risk-free returns available on cash as a result of a series of rate rises in the principal emerging markets. As at 31st August 2011, MXEF has fallen 10.6% since our year end. FUM were US$5.22 billion at 31st August 2011, a fall of 10.3% over the figure at 31st May 2011.

Results

Revenue for the year to 31st May 2011 (being the fees derived from the Group's management charges on FuM) increased by 22% to £36.5 million (2010: £30.0 million). Profit before tax increased by 27% to £13.1 million (2010: £10.4 million) net of a one-off charge of £0.4 million relating to the costs of our upgrade to the main market of the London Stock Exchange (2010: nil). Basic profit per share, after a tax charge of £4.4 million, representing 33% of pre-tax profits (2010: £3.4 million, representing 33% of pre-tax profits), increased by 23% to 35.1p (2010: 28.5p). Fully diluted profit per share increased by 26% to 34.0p (2010: 26.9p). Cash and cash equivalents at the year-end were £6.1 million (2010: £4.8 million).

Dividends

In line with the Group's policy of paying dividends that are approximately 1.5 times covered by profit per share, the Board is recommending a final dividend for the year to 31st May 2011 of 16p per share (2010: 15p) to be paid some four weeks earlier than last year on 21st October 2011 to shareholders on the register on 7th October 2011. This would bring the total for the year, including the interim dividend of 8p paid on 28th February 2011 (2010: 7p), to 24p (2010: 22p), representing an increase of 9%. The level of payout this year is covered 1.46 times by basic profit per share compared to 1.30 times last year.

Upgrade to the Main Market

At the end of October 2010, the Company's ordinary shares were delisted from AIM, where they had traded for four and a half years, and admitted to the Official List of the UK Listing Authority and the London Stock Exchange's main market. The Board believed that this natural progression would result in a wider potential investor universe for City of London Investment Group shares. This has proved to be the case in the 10 months since, both for individual investors (who can now hold our shares in ISAs) and for institutional investors (a number of whom are unable to invest in AIM listed entities).

Chairman's statement

Continued

Diversification

We are seeing significant progress in two of our diversification products. The first is Natural Resources where the Group has recently won a number of mandates to be funded over the next few months. The second is developed market closed-end funds where we have recently won a significant mandate which we hope will be the first of many, based upon the consistent outperformance demonstrated by this product. In both cases there is significant consultant interest in the products.

From 1st June 2011, the Group has employed two additional marketers, bringing the total team to three people. Our aim is to attract new monies which for the most part earn significantly higher margins for the Group because they do not attract the marketing commission charged by the Group's former third party marketing agency. We hope to see further increases in the net margins earned by the Group as the expanded internal marketing team gains traction and we focus increasingly on the diversification products.

Board and management

Post our year end, on 3rd June 2011, the Group announced the appointment of an additional non-executive Director, Rian Dartnell. Rian is a US citizen and resident and is Chief Investment Officer for Granite Associates, responsible for setting and implementing the firm's investment strategy and for managing the investment team. He joined Granite Associates in 2001, prior to which he held a number of senior international investment management appointments, latterly with Global Asset Management. Rian knows both our investment and client markets well and I am sure that his experience and knowledge will benefit the Board's decisions. I welcome him to the Group.

The Board has carefully considered the important matter of Barry Olliff's succession. He has the roles of both Chief Executive Officer (CEO) and Chief Investment Officer (CIO), and he has already told shareholders that he wishes to be able to retire in 2015 – his well publicised share sale programme is a preparation for this event. He now holds 13.5% of the shares. Working closely with Barry the Board decided that Doug Allison, who is currently Chief Financial Officer (CFO) and has been with the company 14 years, will make an excellent successor CEO and intend to make this appointment in 2013. The Board is also discussing with Barry the best way to ensure that his role as CIO is passed on so as to ensure the continuation of the Group's successful investment performance.

Staff

During the year great demands have been made on the staff in all areas of the Group, reflecting the challenging markets in which we trade and the need to be properly equipped to maintain the highest standards of professionalism. I heartily thank them all for their hard work, initiative and loyalty.

Outlook

This year has already felt the effects of the economic turbulence resulting from the difficulties of Governments to manage their economies satisfactorily. We believe that our core products together with our newer strategies will place us in a relatively good position to confront the future uncertainties. Despite the volatility in the markets in which we operate, we are confident that our investment process can continue to produce good returns for our clients and shareholders.

I will update shareholders on progress at the time of the AGM, which will be held on 3rd October 2011.

Andrew Davison
Chairman
1st September 2011

Chief Executive Officer's review

"As Corporate Governance is such a topical subject at present, I thought it would be good to go through some of our core values in this regard which, as a result of us being CEF specialists, are in some instances a little nuanced."

Looking back at our financial year to the end of May 2011 it seems to have been in two halves. During the first half, MXEF which, as we have said before, is a good proxy for measuring both what we do and also for our investment performance, appreciated 25%.

In the second half of our financial year, while demonstrating a little volatility, it was relatively unchanged.

It was this period of sideways-moving markets that has led to some widening of the Discounts to NAV in several of the Closed-End Funds (CEFs) in which we invest.

This has happened under similar circumstances in the past. Whilst this has impacted investment performance it has also been seen by a few of our clients as an opportunity to add further assets.

Going back through many cycles, the CEF industry seems to take advantage of significant issuance opportunities when relevant markets are doing well. We have watched this time and time again. Retail seems to support markets that are appreciating, encouraging brokers and investment banks (who as we say, have very active minds!) to grow our industry via rights issues and new issuance of additional CEF products. While this is good for us in the long term as a result of providing additional investment opportunities, sometimes it can lead to an overhang.

When markets disappoint, and the Emerging markets have now been trending sideways for nearly a year, and discounts become wide, we expect the reverse to occur – that is, we expect corporate actions to reduce the supply of CEF shares.

In our view responsibility for this lies with the CEF Directors because it is unlikely that a CEF Manager will volunteer to have his fees reduced via some type of corporate action such as a buy back, a tender offer or an in specie distribution.

Bigger is better, seems to be the motto. But smaller? Only if Shareholders insist! That this has been going on for over 100 years is not in doubt. You just have to read the history of the CEF sector to see that.

What we are referencing however are the relevant events over the past twenty years since we started our business.

In this regard the first really relevant corporate governance document that we produced was in 1999, our "Statement on Corporate Governance and Voting Intentions for Closed-End Funds." This was sent to all of our clients and relevant Directors of the CEFs in which we invested at that time. Subsequently we have regularly updated this document, with the last version, dated 2011, having just been sent to our clients, consultants and relevant CEF Directors. It is also available on our website, www.citlon.co.uk.

As Corporate Governance is such a topical subject at present, I thought it would be good to go through some of our core values in this regard which, as a result of us being CEF specialists, are in some instances a little nuanced.

First, an observation: it's extraordinary the extent to which the UK and the US are so different in terms of the CEF regulatory environment in which we work.

Chief Executive Officer's review

Continued

Regarding "Control" as an example. In the UK, if a corporation owns 30% of a company, that corporation will have to make a bid. In the US, control is not rules-based, but there are some principles that suggest that ownership above 40% could be assumed to imply "Control". An additional subtlety is that at 40% you would not have to make a bid, rather you might be responsible for "Short Swing Profits" which in the event that it was proven would mean that you would make a payment (a disgorgement of your profits) to the relevant CEF.

In other areas too, London is simpler. In the UK we know what 3% and 5% ownership represents, but what about 13D's, 13G's and 13F's? These are all relevant parts of the US Securities Exchange Act of 1934 as amended, but obtaining a clear definition from a US lawyer of some of the more subtle differences can be difficult.

Voting is different as well. In London CLIM can vote "For" or "Against" a Director. That's easy, and in the event that a Director of a fund in which we are invested does not meet our criteria (please see our list on the opposite page) then we will vote against him or her. In the US it is much more opaque; we can either vote "For" or "Withhold." The "Withhold" vote does absolutely nothing in terms of airing a grievance and inevitably there will be enough votes cast "For" to ensure that the relevant Director is appointed.

In some cases, where a company has an entire suite of CEFs, you'll find Directors collecting in excess of US$250,000 in fees on an annual basis, and serving on more than 30 boards! In the table below, we've listed several such Directors (names omitted) who serve on the boards of some of the funds in which we invest on behalf of our clients:

Date of first appointment	Board seats within the combine	Fees (US$)
2005	141	579,062
1996	133	508,000
2003	133	484,000
1994	133	468,000
1994	105	290,000
1991	104	400,000
1991	104	260,000
2006	38	511,000
2008	31	355,000
1998	23	189,000

It should be noted that, apart from serving on many Boards and receiving significant fees, some of these Directors have been in place for around 20 years!

Which brings me back to the topic of independence.

In the UK, independence has a relevant definition. In addition, we are able to work within the UK Corporate Governance Code and the AIB Guidelines with the result that it is possible to understand from a practical standpoint how we should vote. Sometimes we look to a higher standard, one that is more relevant to CEFs, but the bottom line is that our vote counts and there have been a few recent examples of where we have actually made a difference.

In the US, all of the above – the large number of Directorships, the high fees, the excessive length of service – is legal and is also considered ethical. All of the Directors referenced in the table are regarded as Independent!

We have tried very hard to make the point that having in excess of three or four Directorships must be very time consuming. Possibly four within a combine could be contemplated, but this is where the difference between the UK and the US becomes even more pronounced.

First in the US, Board meetings are often batched. What this means is that in some cases every 15 or 20 minutes a different CEF's Board Paper is reviewed. The Board then moves on.

Further, and bearing in mind that these Funds are fighting for recognition in a crowded financial service marketplace, in many instances investment matters are discussed over dinner the previous night and investment matters hardly factor in the actual Board Meeting at all!

An additional issue is that in just about every US Board meeting that we hear about, lawyers are effectively in "the Chair".

The business of the Board meeting seems to be largely about legal issues and the real business of the company, which in our opinion should be about investing, benchmarks, volatility and risk is forgotten. Whether the Manager is actually doing a good job is often discussed over dinner.

Put around the other way, surely, if anything illegal was occurring this could be ascertained via a box-ticking exercise with a relevant sign off, and the real reason for holding the Board Meeting in the first place (an agenda based upon investment issues) could then occur.

The trouble with the US system as it relates to CEFs is that Boards while considering themselves independent are not, and, more importantly, as we are unable to vote "Against", it means that they are invariably reappointed.

There is however one remedy open to US CEF shareholders and that is the ability to propose termination of the investment management contract, which is one of the subtleties of the 1934 Act. In the event of a successful vote, it would require the Directors to find another Manager and, after a few attempts at this, the likely outcome would be either liquidation or some type of reduction in size that would get rid of the shareholder promoting the termination.

The trouble with the solution referenced above is that in the US, the checks and balances that can be demonstrated by a sensibly constructed Board cannot occur. First we do not get an opportunity to place a relevant vote. Next, they the Board spend a very short time actually asking the right questions as they are limited regarding time. Also, having responsibility for many CEF's does not help from another perspective. They have little time to listen and learn. You would say that they should at the very least be expert in their knowledge of the CEF industry; we would suggest that they are neither resourced adequately nor able to demonstrate control over their brief. In reality we would also suggest that they are, on a Fund by Fund basis, underpaid. From the table on page 6 it can be seen that the average of the averages per fund is around US$5,700. This is a small price to pay for the responsibilities of a CEF Director and we would suggest that it should at least be four or five times that amount, but we would also suggest that boards be reduced to say five, that they take on the responsibilities of a conventional US Director directing a corporation, that they oversee the Manager and that they familiarise themselves with the industry in which they work, that they concern themselves with the competitiveness of the product that they have responsibility for… and yes that they should give up those dinners!

Over the past few years the standards of corporate governance demonstrated by the average UK CEF (I should say an Investment Trust) Director has improved significantly. It seems to be accepted that having a "good" Board actually assists in marketing, in potentially growing the relevant fund (or at the very least not overseeing shrinkage), and assisting with regard to oversight of the Discounts to NAV at which so many of these funds trade.

In no way am I suggesting that the UK is all good and the US is all bad. What I would say is that at present it could be said that based on a level playing field from a tax perspective etc. the opportunity to invest or raise money knowing the above should favour the UK Investment Trust industry.

As a shareholder you will be aware of the fact that around 95% of our profits come from our Closed-End Fund business. You will also be aware that we are an institutional firm and that our 300 institutional clients make up 99% of our assets. You will also be aware of our wish to diversify our business.

Separate from our view regarding Closed-End Funds which have been referenced in some detail above, we have been attempting to develop our business into other areas away from the Emerging Markets Closed-End Fund industry for some time. Having originally been a single product company focused on CEFs and having recently ended a third party relationship (North Bridge Capital are also mentioned by Doug Allison our Finance Director later in these accounts), the marketing process has to be developed one step at a time, as I referenced last year. As you are aware we now have a number of new products as shown in the Business Review on page 10.

How do we measure a "good" Investment Trust Board?

In our opinion it:

- Is able to demonstrate real independence
- Is correctly remunerated
- Is resourced properly
- Is available
- Understands the Investment Management industry
- Has Directors who sit on no more than four Boards
- Has at least one Director who understands the Investment Trust industry
- Is aware of issues surrounding the Discount to NAV at which Investment Trusts trade
- Holds the investment manager accountable and thus understands the investment process employed
- Understands risk management and sees the investment returns achieved within that context
- Views the Fund as a consumer product and understands the Fund's peer group
- Is regularly externally evaluated

Chief Executive Officer's review

Continued

Obviously having new products is only half of the story. They also need to be performing well. In addition we need marketing and we have recently taken on two additional experienced marketers. One to complement our existing marketer in the US and the other to develop our marketing presence ex-US. As of the time of writing our diversification products represented US$143m of the total AUM of US$5.22bn that we manage. We are anticipating significant progress this year in terms of the development of our diversification products.

Regarding the past year we have begun to benefit from the run off in the North Bridge Capital contract. Doug Allison has referenced this in the Financial review. As shareholders will be aware over the next few years this should have a significant effect on our margin.

Recent market volatility has seen FUM at US$4.97bn at the low on 9th August (MXEF: 968), recovering to US$5.22bn at 31st August (MXEF: 1,033). This has presented us with opportunities to significantly benefit in terms of our investment performance.

Cash, a defensive country allocation and discount volatility have all played their part recently in allowing us to create significant alpha.

In an attempt to provide shareholders with more up to date information regarding FUM flows, reviewing the month to 31st August we have received three redemption requests totalling US$10m and have received commitments of just over US$44m in additional funds. Our clients have remained very sticky.

As a result of Board deliberations, in 2013 Doug Allison will become CEO. As with many things at City of London this plan has been in place for some time, and the transition is expected to be seamless. I would intend to retain my responsibilities as CIO for at least another four years, during which time our objective will be to achieve an equally seamless transition of the CIO role, thereby enabling me to consider retirement.

Regarding my CLIG shareholding, currently 3,632,580 shares, or 13.5%, I intend to continue with my long term plan to reduce my holding at pre-defined price intervals. As part of my tax planning I have made a commitment to pass an additional 1,000,000 shares to the Newlin Foundation, which currently holds 472,207 shares. The Foundation and I will each make available for sale 250,000 shares at £4.50, and the same number again at each of £5.00, £5.50 and £6.00.

I would like to thank all staff for your ongoing contribution to the success of the business, and for your loyalty, which has in many instances been demonstrated over an extended period of time.

B M Olliff
Chief Executive Officer
1st September 2011

Business review

"We have adopted a deliberate approach in our marketing that focuses on investment performance, which then makes it possible to establish long-term relationships with the most sophisticated consultants."

Institutional investor demand for emerging market equities continued over the period, helping us raise almost US$300 million in new assets under management, all in the context of managing a restricted pipeline of new opportunities. The focus of business development continues to be on building awareness of our equity and developed closed-end fund strategies.

To this end, two new marketers were hired and joined the firm on June 1st, one in the US, the other in Europe, to raise the profile of our investment strategies with consultants and institutional plan sponsors.

In the US, we now have two marketing professionals covering the substantial institutional marketplace which we expect should result in heightened awareness of our strategies. Likewise, the addition of a dedicated marketer in Europe will allow us to begin to raise the firm's profile among European institutions.

We have adopted a deliberate approach in our marketing that focuses on investment performance, which then makes it possible to establish long-term relationships with the most sophisticated consultants. Over time, this has proven to be an excellent means of attracting and retaining client assets resulting in significantly higher fee margins and longer client retention.

Products

We are pleased to report that US$10 million in new monies were awarded to the Natural Resource strategy in the second quarter of 2011, which at the end of the period was US$87.3 million in size. In addition to segregated mandate capabilities, we have both a US fund and a Dublin UCITS that provide Natural Resource strategies.

As this Natural Resource strategy clears the US$100 million threshold it should become eligible for inclusion in more consultant searches. As part of the due diligence process undertaken by many consultants, the asset threshold is always the most difficult to overcome when launching a new strategy. Nonetheless, good progress has been made and with continued interest in the commodity and natural resource space we hope to make further inroads.

In January 2011 we launched a new strategy in Asia, ex Japan, small capitalisation stocks, which will supplement our global emerging markets equity strategy launched in August 2009. We intend to support and grow our equity product offerings as opportunities present themselves.

Also of note over the period was the recent mandate win of US$50 million, by our Developed closed-end fund strategy (from an existing client of the firm). This is a key win for the strategy and will certainly assist in building momentum. Our initial feedback from select clients has been positive with many appreciating that we are using a dedicated team with the same process of buying and selling closed-end funds for global stocks as we employ in

Business review

Continued

emerging markets. A fund for US institutions was launched during the period and was seeded by the firm to begin the track record.

An adjunct of our emerging markets expertise via closed-end funds has been our Frontier strategy, which has an investment record dating back to 2005 and is now beginning to attract institutional interest in the form of educational visits from the investment team.

Performance

Global composite investment returns for the emerging market closed-end fund strategy for the rolling one year ending May 31st, 2011 were 30.2% vs 29.2% for MXEF in USD (14.9% vs 14% in GBP). Market volatility contributed to widening discounts to net asset value across the closed-end fund universe as debt problems in Europe and the US stoked risk aversion in the emerging markets.

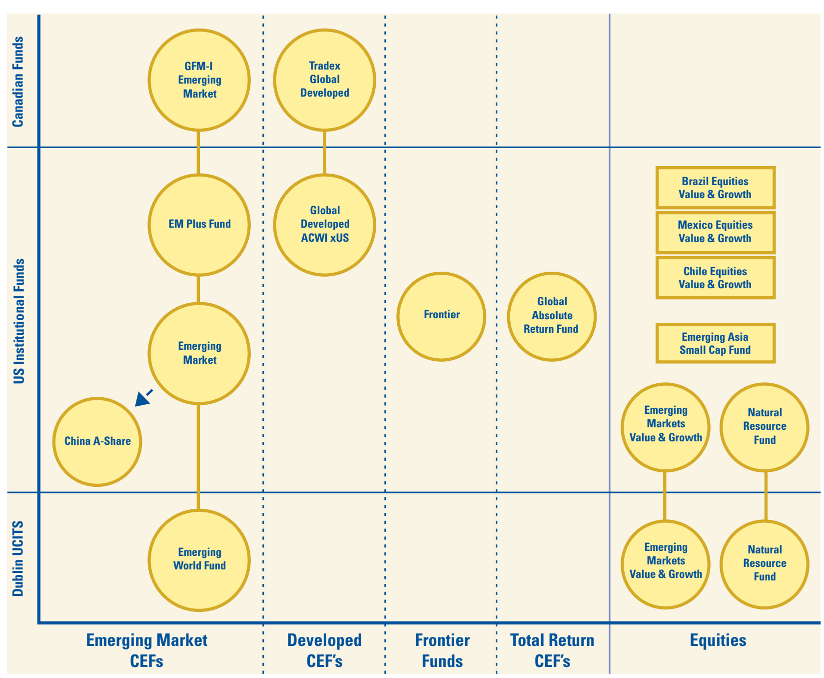
Widening discounts signal value in the closed-end fund universe and our investment team has been taking advantage of opportunities to invest in attractively priced funds during this period.

Outlook

Marketing efforts in the new fiscal year will be targeted at investment consultants, foundations, endowments and family offices in the US, Europe and Asia.
Our growing equity and developed closed-end fund capability will be the focus of our product diversification and business development activities.

Carlos Yuste
Business Development Director
1st September 2011

Business diversification – products map



Financial review

"Operating profit before profit-share was £19.7 million which net of the 30% profit-share and the £0.4 million cost of the main market listing gave a pre-tax profit of £13.1 million."

Consolidated income statement

The Group effectively has a single source of income – fees charged for the management of client accounts – this year totalling £36.5 million (2010: £30.0 million). The fee applied to any given account depends upon the particular mandate and on the size of the investment. For many of our accounts, 20% of the fee we earn is passed on to third party marketers, principally North Bridge Capital, under the terms of a contract which expired in October 2010, and for some of the commingled accounts the Group is responsible for the custody and administration costs. The commission paid to third parties this year was £5.8 million (2010: £4.8 million) and the custody and administration fees were £1.2 million (2010: £1.1 million). While these charges are presented in the income statement as administrative expenses, it is perhaps easier to think in terms of net fees (that include these charges), which during the year under review were £29.5 million (2010: £24.1 million), and which have represented over the last two years a fairly constant 85 basis points in weighted average terms across the range of accounts managed by the Group.

Having noted that the North Bridge contract has now expired, it is appropriate to expand a little as to the implications of this event for future years' results. The agreement with North Bridge was for a ten year "trail", meaning that their commission on any account runs for ten years from the point of initial investment, with the basis of their fee mirroring ours, i.e. net asset value as measured monthly or quarterly. As at the year end, the North Bridge commission is payable with respect to US$4.6 billion of the US$5.8 billion under management.

The original contract with North Bridge dates back to 1994, and there are a number of accounts won in the period 1994 to 1997 which have over recent years come through the ten year trail period. From 1998 to 2002 the Group was not active in raising new money, having closed the funds to new investors in 1997, so further run offs of the ten year trail will not occur until our financial year 2012-13, from which point the payments decline steadily through to 2020-21, the last year in which the commission will be payable (always assuming that the relevant accounts are still in place at that time). It is also worth making the point that to the extent that from time to time there may be redemptions against accounts which attract the commission, and there may be opportunities to replace these assets with new mandates, it would seem likely that there could be some uplift in the net fee rate. To some extent we can see this effect coming through at the end of the year, with the margin increasing just slightly to 86 basis points as the year drew to a close.

The table on page 12 illustrates the projected run off of the North Bridge commission assuming:

(1) constant market values

(2) constant US$/£ exchange rate

(3) all relevant accounts remain invested through to their tenth anniversary.

Financial review

Continued

North Bridge Capital commission run-off (based on FUM at 31st July 2011)

Financial year	£m (@ US$1.60/£1)
2011-12	5.8
2012-13	5.8
2013-14	5.5
2014-15	4.8
2015-16	3.6
2016-17	3.0
2017-18	2.4
2018-19	1.3
2019-20	0.3
2020-21	0.1

Aside from fee income, the Group has interest income and, from time to time, investment income. For the current year, interest income rounds to zero (2010: £0.1 million), while investment income of £0.2 million (2010: £nil) relates in the main to a gain realised on the reduction of one of the Group's seed investments during the year.

After separating out third party commissions and custody and administration costs, the administrative expenses which form "overheads" for the year totalled £10.1 million (2010: £8.9 million). Of this, 59% (2010: 56%) was human resources costs - salaries, in the main. With the US$/£ rate averaging 1.59 this year, exactly as it did in the previous year, the increase was attributable to an increase in headcount from 64 to 73, plus a small general increase in salaries. The cost-income ratio using this definition of costs, and taking fee income net of the commissions and net of custody and administration, was 34%, a further improvement on last year's 37% as would be expected based upon the growth in funds under management.

Operating profit before profit-share was £19.7 million (2010: £15.2 million), which net of the 30% profit-share (plus associated taxes of £0.5 million, 2010: £0.3 million) and the £0.4 million cost of the main market listing gave a pre-tax profit of £13.1 million (2010: £10.4 million). Taxes this year amount to 33.3% of profit (2010: 32.7%), resulting in profit after tax of £8.8 million, an increase of 25.6% against the prior year's £7.0 million.

Consolidated statement of financial position and statement of changes in equity

At the beginning of the period, the Group's net assets were £10.6 million. Profit after tax was £8.8 million, and dividends of £5.8 million were paid in the year, being the prior year's final dividend of 15p per share (2008/9: 10p) and the current year's interim dividend of 8p per share (2009/10: 7p). An unrealised profit of £0.4m (2010: £0.3m) arose in respect of the Group's investments in its own funds. The exercise of share options during the year directly contributed £0.8m to the increase in equity (2010: £0.4 million), whilst indirectly generating a further £1.1 million in the form of a reduced tax charge (2010: £0.3 million).

As in previous years, the Group sought to apply surplus cash opportunistically to add to the ESOP trust's shareholding, buying 365,000 shares for a total investment of £1.5 million (2010: 243,350 shares for £0.7 million). At the year end the ESOP trust held 1,632,167 shares, of which 1,421,292 shares were subject to options issued to Directors and staff (2010: 1,589,158 of which 1,427,533 were under option). The loan by the Group to the trust stood at £4.2 million (2010: £3.1 million), while the value of the trust's shareholding, using the lower of exercise prices and closing list price, was £4.9 million (2010: £3.6 million). Separate from the options issued against trust held shares, there were also 556,800 dilutive share options in issue at the year end (2010: 1,446,447).

"Available-for-sale financial assets" is a less than perfect description for investments which the Group has made in a range of funds in support of our diversification strategy. At the close of the year there were five such "seed investments", with a total net asset value of £5.8 million (2010: £3.6 million), reflecting an unrealised gain of £0.7 million (2010: £0.3 million) which forms the revaluation reserve.

Debtors (principally accrued fees receivable) and creditors (principally accrued fees payable plus profit-share) offset each other to a significant degree,

"Cash generated from operating activities, net of taxation, was £9.6 million and the principal applications of cash have been the payment of dividends of £5.8 million, net additions to the seed investments of £1.7 million and the purchase of shares for the ESOP for £1.5 million."

as tends to be the case, and thus the only remaining substantial figure in the statement of financial position is cash, £6.1 million compared to the opening position of £4.8 million.

Consolidated cash flow statement

As ever, operating cash flow is not materially different to pre-tax profit – unsurprising given that there are few extended time lags inherent in the business that would affect the conversion of profit to cash. Cash generated from operating activities, net of taxation, was £9.6 million (2010: £8.9 million), and the principal applications of cash have been the payment of dividends of £5.8 million (2010: £4.2 million), net additions to the seed investments of £1.7 million (2010: £2.8 million), and the purchase of shares for the ESOP, as noted above, for £1.5 million (2010: £0.7 million).

Currency exposure

This statement would not be complete without the usual commentary on currency exposure. The key point is that while a business that earns almost all of its income in US dollars, but reports results in sterling, may superficially be assumed to be critically exposed to the US$/£ exchange rate, in reality within the context of our business it is more appropriate to "see through" the US dollar to the underlying currencies in which the Group's client accounts are invested. The relative strength or weakness of the US$ against those (principally emerging market) currencies will feed directly through to US$ denominated funds under management and thus to fee income in US$ terms, whereas the translation into reported sterling income will be influenced by the strength or weakness of the US$ against sterling.

Notwithstanding the effects described above, and remaining conscious of the interdependency between US$ strength and the US$ net asset value of funds under management, it is appropriate to repeat in updated form the following table, which illustrates expected annualised post-tax profit outcomes given a range of combinations of funds under management and US$/£ exchange rates:

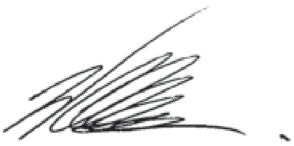
Post-tax profit: Illustration of US$/£ rate effect:

FuM US$bn:	5.0	5.5	6.0	6.5
US$/£		Post-tax, £m		
1.50	8.3	9.6	11.0	12.3
1.55	7.9	9.2	10.5	11.8
1.60	7.6	8.9	10.1	11.4
1.65	7.3	8.5	9.7	11.0
1.70	7.0	8.2	9.4	10.6

Assumes:
1. Average net fee 86 bp's
2. Annual operating costs £4.5m plus US$8.5m plus SGD1.7m (£1 = SGD2.00)
3. Profit-share 30%
4. Average tax 33%

The "assumptions", which are in fact a close approximation to the Group's current operating environment, reflecting as they do the net fee margin at 86 basis points and the split of the Group's expenses between the major underlying currencies, generate the values in the table by way of straightforward calculation. These values are not forecasts, of course – because it would be a strange year in which both funds under management and exchange rates held constant throughout – but they provide a useful point of reference. Given that the numbers are purely formulaic, it follows that it is perfectly valid to extrapolate between the numbers in the table to achieve any desired combination, and also that the annualised numbers can be time apportioned to provide an indication for periods of less than a year.

Finally, on the subject of currency exposure, we maintained the forward sales of US$ which hedge the Group's balance sheet exposure, and at 31st May these totalled US$13.5 million, with a weighted average exchange rate of 1.5837 (2010: US$6.5 million at a weighted average rate of 1.5973).



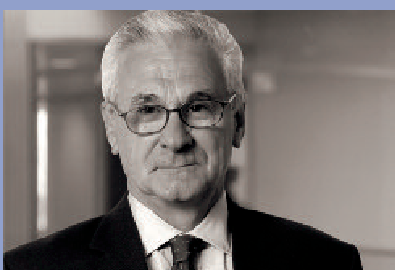
Doug Allison
Finance Director
1st September 2011

Board of Directors

A J Davison

NON EXECUTIVE CHAIRMAN

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



B M Olliff

CHIEF EXECUTIVE OFFICER

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

D F Allison

FINANCE DIRECTOR

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

C M Yuste

BUSINESS DEVELOPMENT DIRECTOR

Carlos Yuste joined the firm in 2000. From 1994 to 1998 he worked as a Project Officer at the International Development Research Centre in Ottawa, which specializes in emerging markets research. He holds an MBA (Finance) from the Schulich School of Business, York University, an MA in Political Economy from Carleton University, and a Bachelor of Social Sciences from the University of Ottawa.

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 chairman of Asset Management Advisers Limited and European Wealth Management Group Plc, and a director of several other companies.

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.

R A Dartnell (appointed 1.6.11)

NON EXECUTIVE DIRECTOR

Rian Dartnell is Chief Investment Officer for Granite Associates and is a trustee of, or adviser to, a number of US Foundation and Endowment committees. His past experience includes senior roles at Bankers Trust, where he focussed on Africa, Eastern Europe and the Middle East, and at Global Asset Management, where he was a fund manager responsible forinternational funds with an emphasis on Emerging Markets and Asia, initially based in London and subsequently in Brazil. Rian holds a BSc (Econ) and a MSc (Econ), both from the London School of Economics and Political Science.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31st May 2011.

Going concern

The Directors are satisfied that the Company has adequate resources to meet its business needs 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 33 accounts (2010 – 32 accounts) with a total of £5,822 million (2010– £3,012 million) under management as at the end of the year. Accounts may be commingled or segregated. City of London Investment Management Company Ltd has a subsidiary in Singapore and a branch in Dubai.

The Directors' report should be read in conjunction with the Chairman's statement, the Business review, the Chief Executive Officer's review, and the Financial review on pages 11 to 13, which together provide a commentary on the operations of the Group and include relevant key performance indicators required by section 417 of the Companies Act 2006.

The principal risk that the Group faces is the potential loss of Funds under Management as a result of either client redemptions or market volatility. The Group seeks to attract and retain clients through consistent outperformance supplemented by first class client servicing, and the Directors have implemented a diversification strategy, as described in the Business Review on pages 9 to 10, which should further mitigate these risks. In addition to this key business risk, there are a number of less significant financial risks as outlined in note 28 on pages 50 to 54.

Results and dividend

The results of the Group for the year, together with details of amounts transferred to reserves, are set out on pages 30, 32 and 33. The Company has paid dividends of £5,786,600 during the year (2010 – £4,182,692). The final dividend for the year to 31st May 2011 of 16p per share (2010 – 15p) has been proposed, payable on 21st October 2011, subject to shareholder approval, to shareholders who are on the register of members on 7th October 2011.

Annual General Meeting

The Company's AGM will be held at 11.30am on Monday 3rd October 2011 at 77 Gracechurch Street, London EC3V 0AS.

Directors

The names and biographical details of the Directors of the Company who served during the year and who were appointed since the year end, are given on pages 14 and 15.

On 14th August 2010 the Board accepted the resignation of Omar Ashur as non-executive Director.

Rian Dartnell was appointed by the Board as non-executive Director from 1st June 2011.

Directors' interests in the share capital and equity of the Company at the year end were as follows:

	Ordinary Shares of	
	1p each 2011	1p each 2010
A J Davison ***(Chairman)*** *(non-executive)*	**104,500**	104,500
B M Olliff	**3,632,580**	5,168,683
D F Allison	**414,375**	310,625
T W Griffith	**268,625**	49,925
C M Yuste	**314,925**	314,925
A S Bufferd *(non-executive)*	**30,000**	20,000
D M Cardale *(non-executive)*	**106,250**	106,250
G A Robb *(non-executive)*	**45,000**	45,000

Substantial shareholdings

At 31st July 2011, 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	3,632,580	13.5
BlackRock Investment Management	2,514,818	9.4
The City of London Employee Share Option Trust	1,628,088	6.1
F&C Asset Management	1,628,088	6.1
Hargreave Hale	1,484,490	5.5
Artemis Investment Management	1,192,050	4.4
LV Asset Management	1,105,723	4.1
Slater Investments	1,055,000	3.9
Legal & General Investment Management	957,671	3.6

Directors' indemnity arrangements

The Company maintains appropriate Directors' and officers' insurance. The Directors also have the benefit of the indemnity provisions in the Company's Articles of Association. These provisions which are qualifying third party indemnity provisions as defined by S236 of the Companies Act 2006, were in force throughout the year and are currently in force.

Own shares

The Company is, until the date of the next Annual General Meeting (AGM), generally and unconditionally authorised to buy back up to 2,596,500 of its own ordinary shares of nominal value £0.01. The Company did not purchase any of its own shares in the year under review (2010 – purchased and cancelled 439,000 ordinary shares 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 2011 AGM.

The number of own shares purchased by the Company's employee benefit trust during the year was 365,000 (2010 – 243,350) at a cost of £1.5 million (2010 – £0.7million). The number of own shares held by the trust as at 31st May 2011 was 1,632,167 (2010 – 1,589,158). The trust has waived its entitlement to receive dividends in respect of the shares held. Further details can be found in note 22 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. The Group does not follow any specific published code or standard on payment practice.

As at 31st May 2011, the creditor days were nil (2010 – nil).

Environmental and social policy

The Board seeks to conduct the Company's affairs responsibly and considers relevant social and environmental matters where appropriate.

Auditors

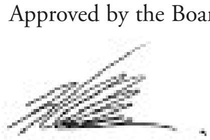
A resolution to re-appoint Moore Stephens LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

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
1st September 2011

Corporate governance report

Directors

The Board comprises:

- the non-executive Chairman, who is independent of the Company and its major shareholders and was considered independent at the time of his initial appointment;
- four executive Directors (the Chief Executive, Finance Director, Business Development Director and Chief Operating Officer); and
- four further non-executive Directors, all of whom are independent of the Company and its major shareholders.

Brief details of all the Directors may be found on pages 14 to 15.

Corporate governance

General corporate governance compliance

The Combined Code has applied to the Company from 29th October 2010, the date that its shares were admitted to the main market, through to its financial year end at 31st May 2011. Thereafter, it is superseded by the UK Corporate Governance Code. The Company considers itself a smaller company for the purposes of compliance with the Codes.

The Board is committed to high standards of corporate governance. There are however a small number of provisions within the Combined Code that the Board considers to be incompatible with the nature and size of the Company's operations, and these are described below. The discussion of the Company's compliance with the Combined Code applies equally to its compliance with the UK Corporate Governance Code as the principles set out below will not change under the UK Corporate Governance Code and there are no material additional principles with which the Company must comply when the UK Corporate Governance Code applies to the Company from 1st June 2011.

Remuneration policy

The Combined Code recommends that performance-related elements of remuneration should form a significant proportion of the total remuneration package of executive Directors and should be designed to link rewards to corporate and individual performance and align their interests with those of shareholders and to give those Directors strong incentives to perform at the highest levels. In particular, the Combined Code recommends that annual bonuses should be subject to performance conditions that are relevant, stretching and designed to enhance shareholder value and that upper limits should be set and disclosed. The Combined Code also recommends that there may be a case for part payment of bonuses in shares which are to be held for a significant period.

The Company operates a bonus scheme for all employees, including the executive Directors, that is linked to the Group's profitability, allocating 30% of pre-bonus, pre-tax, operating profit for this purpose. Bonus awards are made by the Board following recommendations by the Remuneration Committee. Barry Olliff is entitled under his service agreement to a bonus equal to 5% of the pre-tax profits of the Company, and payment of this entitlement is covered by Mr Olliff's allocation from the 30% bonus pool. Bonuses are not subject to individual performance conditions and are paid in cash. Although this remuneration policy does not comply with the Combined Code, the Board believes that this bonus scheme has worked well in motivating staff at all levels within the Company, and that this is demonstrated by the high employee retention rates experienced by the Group. The Remuneration Committee will keep the Company's remuneration policy under review but does not currently intend to make any changes in the short to medium term.

The Company is subject to, and adheres with, the FSA's Remuneration Code. In being a limited license firm, the Company is classified as a 'proportionality Tier 4' firm. Proportionality tier four firms are considered to be the lowest category from a risk perspective and as such can disapply a number of the FSA's remuneration code requirements. Prior to doing so however, firms must first consider their individual circumstances and be satisfied that risks relating to remuneration must not be unduly increased. The Company believes that its systems and processes relating to remuneration do not pose a risk to either itself, the industry, or the regulator's objectives. In line with FSA guidance, and following its own assessment, the Company has opted to disapply certain rules under the remuneration principles proportionality rule relating to deferral, payment in shares or other instruments and ratio between fixed and variable remuneration.

Share options

The ABI Guidelines recommend that dilutive share awards should be limited to 5% of the Company's issued share capital over a rolling 10 year period. As at the date of admission to the main market, dilutive awards were outstanding over 5.5% of the Company's share capital. As of 31st May 2011 this has been reduced to 2.1% as a result of the exercise of options.

In addition, the ABI Guidelines recommend that no more than 5% of a Company's issued share capital be held in an employee benefit trust (EBT). As of 31st May 2011 the EBT holding comprises 6.1% of the Company's share capital, unchanged since the date of admission.

The Company has found that the issue of share awards to executives and employees has been a very useful tool in motivating and retaining key staff and therefore maintains a pool of shares of a size it considers appropriate for such purposes. While there is no intention to issue further dilutive options in the future, the Board does intend to support further share purchases by the EBT from time to time so as to maintain the Company's ability to reward and motivate staff by the issue of non-dilutive options.

The Board

The Combined Code recommends that the Board should include a balance of executive and non-executive Directors (and in particular independent non-executive Directors) such that no individual or small group of individuals can dominate the board's decision making. The Combined Code recommends that smaller companies should have at least two independent non-executive Directors.

Currently, the Board is composed of nine members, consisting of the non-executive Chairman, the executive Directors (four in total) and the non-executive Directors (four in total). Accordingly, no individual or group of individuals can dominate the Board's decision making. The Board believes that it has sufficient members to contain a balance of experience and skills but is not so large as to be unwieldy.

The independence of non-executive Directors is considered at least annually and is based on criteria suggested in the Combined Code, and the composition of the Board and balance between executive and non-executive Directors is kept under review.

On the basis of the criteria set out in the Combined Code, of the non-executive Directors, David Cardale, Allan Bufferd and Rian Dartnell are considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement in accordance with the Combined Code.

Each of Andrew Davison and George Robb has served on the Board of the Company for more than nine years since his first election. The Company recognises and understands investor concerns over longer-serving non-executive Directors but nevertheless continues to regard Andrew Davison and George Robb as independent. Andrew Davison's and George Robb's long association with the Group enables each of them to provide a robust and effective challenge to management because of the sound and detailed knowledge of the Group's business that they have both developed. The Board believes that Andrew Davison's and George Robb's length of service, when taken in the context of the Board as a whole, enhances their effectiveness as non-executive Directors and that they remain independent in character and judgement.

The Combined Code recommends that the Board should appoint one of its independent non-executive Directors as Senior Independent Director and David Cardale fills this role. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate.

The roles of Chairman and Chief Executive are separate and are set out in writing. The non-executive Chairman's role is to ensure good corporate governance. His responsibilities include leading the Board, ensuring the effectiveness of the Board in all aspects of its role, ensuring effective communication with Shareholders, setting the Board's agenda and ensuring that all Directors are encouraged to participate fully in the activities and decision-making process of the Board. The Chief Executive is responsible for the leadership and day-to-day management of the Company, which includes formulating and recommending the Group's strategy for Board approval and executing the approved strategy.

The Board reviews trading performance, ensures adequate financing, sets and monitors strategy, examines investment and acquisition opportunities and discusses reports to Shareholders. The Board has a formal schedule of matters specifically reserved to it for decisions, which in addition to the above includes:

- Dividend policy
- Share buy-back policy
- Effectiveness of compliance
- Effectiveness of internal controls
- Annual budget
- Capital expenditure in excess of £100,000
- Board and committee appointments

The Company maintains appropriate Directors' and Officers' Liability Insurance.

Corporate governance report

Continued

Board Committees

The Board has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises. Each committee and each Director has the authority to seek independent professional advice where necessary to discharge their duties, in each case at the Company's expense. In addition, each Director and committee has access to the advice of the Company Secretary, Doug Allison.

The Board keeps the membership of its committees under review to ensure gradual refreshing of skills and experience and is satisfied that all Directors have sufficient time to devote to their roles and that it is not placing undue reliance on key individuals.

Nomination Committee

The Nomination Committee has defined terms of reference which are published on the Company's website and assists the Board in discharging its responsibilities relating to the composition and make up of the Board.

The Nomination Committee is responsible for making recommendations on the appointment of additional Directors and for reviewing the size, structure and composition of the Board and the membership of Board committees. Appointments are made on merit and against objective criteria; care is taken to ascertain that appointees have sufficient time available to devote to their position.

The Company's Nomination Committee is chaired by the non-executive Chairman and comprises two other independent non-executive Directors, David Cardale and Allan Bufferd. The Combined Code provides that a majority of the members of the Nomination Committee should be independent non-executive Directors. The Company therefore considers that it complies with the Combined Code recommendations in this regard.

The Nomination Committee will meet formally at least twice a year and otherwise as required. During the year to 31st May 2011 the committee met on five occasions, and composition of the Board's Committees and the appointment of new non-executive Directors was discussed. While external search consultancy was considered in respect of these appointments, it was not used because the committee identified two candidates by way of arms length introduction who were considered to have the experience and attributes that the committee and the Board had identified as necessary to complement the existing Board.

Remuneration Committee

The Remuneration Committee has defined terms of reference which are published on the Company's website and is responsible for setting and reviewing the remuneration and other terms of employment of the Company's executive officers and management and determining and reviewing any share incentive plans. The Remuneration Committee consults, where appropriate, with the Chief Executive about its proposals. No Director or senior executive participates in discussions about his own remuneration.

The membership of the Company's Remuneration Committee comprises George Robb, Andrew Davison, David Cardale, Allan Bufferd and Rian Dartnell. The Chairman of the Remuneration Committee is George Robb. The Combined Code provides that the Remuneration Committee of a smaller company should consist of at least two members who are independent non-executive Directors. The Company therefore considers that it complies with the Combined Code recommendations in this regard.

The Remuneration Committee will meet formally at least twice a year and otherwise as required. During the year to 31st May 2011 the committee met on four occasions.

Audit Committee

The Audit Committee has defined terms of reference which are published on the Company's website and is responsible for ensuring that the financial performance of the Company is properly monitored and reported on, reviewing and monitoring the independence of the external auditors and the effectiveness of the audit procedure, meeting with the auditors and reviewing reports from the auditors relating to the Company's accounting and internal controls, reviewing the effectiveness of the Company's systems of internal control (including considering annually the need or otherwise for an internal audit function), and agreeing the terms of appointment and remuneration of the auditors. The membership of the Company's Audit Committee comprises four independent non-executive Directors, namely David Cardale, Allan Bufferd, Andrew Davison and Rian Dartnell. The Chairman of the Audit Committee is David Cardale. The Combined Code provides that the Audit Committee of a smaller company should consist of at least two members who are independent non-executive Directors. It also requires that at least one member of the Audit Committee should have recent and relevant financial experience, and the Board considers that Andrew Davison, as a Chartered Accountant, satisfies this requirement.

The Company therefore considers that it complies with the Combined Code as regards these requirements. The Audit Committee will meet formally at least three times a year and otherwise as required. During the year to 31st May 2011 the committee met three times.

The Audit Committee has considered the non-audit services provided by the Company's auditors this year and are satisfied that they have not affected the auditors' independence and objectivity in conducting the annual audit process.

Board and committee attendance

The table below sets out the number of pre-scheduled meetings of the Board and its committees and individual attendance by the Directors and committee members respectively:

	Board	Audit Committee	Remuneration Committee	Nominations Committee
Total number of meetings between 1st June 2010 and 31st May 2011	7	3	4	5
Attendance:				
Doug Allison	7	–	–	–
Omar Ashur (resigned 14th August 2010)	1	–	1	–
Allan Bufferd	6	3	4	5
David Cardale	7	3	4	5
Rian Dartnell (appointed 1st June 2011)	–	–	–	–
Andrew Davison	7	3	4	5
Tom Griffith	7	–	–	–
Barry Olliff	7	–	–	–
George Robb	7	2	3	–
Carlos Yuste	7	–	–	–

Board performance evaluation

The Board has established a formal process, led by the Chairman and the Senior Independent Director, for the annual evaluation of the performance of the Board and its appointed committees. The Directors complete performance evaluations to ensure that the Board and its committees are operating effectively and that each Director is contributing effectively and continues to demonstrate commitment to the role.

Internal control

The Group has maintained a comprehensive system of internal control, including financial, operational and compliance controls. Each function within the firm is subject to formal quarterly review by senior management, who are required to identify and report on the key controls pertinent to their responsibilities. The Board reviews the effectiveness of the system of internal control annually in December, and the Audit Committee evaluates this process annually in January.

In advance of the Group's move from AIM to the main market, the Board commissioned the Group's auditors, Moore Stephens LLP, to conduct a review of the Group's financial reporting procedures and related internal controls, and to report their findings to the Board and to the sponsors, Singer Capital Markets Ltd. The report did not identify any material weaknesses.

The Board and the Audit Committee have considered the need for an internal audit function and has concluded that, given the size of the business, the nature of its activities, and the other control mechanisms that are in place, an internal audit function is currently unnecessary.

Shareholder relations

Communication with shareholders is of paramount importance to the Group. The Directors, including on occasions the Senior Independent non-executive Director and the Chairman, endeavour to meet with large shareholders at least twice annually, generally following interim and final results announcements. Where possible, all of the Directors attend the Annual General Meeting in person.

Remuneration report

This report describes the role of the remuneration committee, its responsibilities and membership, and matters considered during the year. It has been compiled in accordance with the Directors' Remuneration Report regulations contained in the Companies Act 2006 and the relevant UK Listing Rules. It also describes how the Company has complied with the Combined Code on Corporate Governance as it relates to Directors' remuneration.

Role of the committee

The remuneration committee has defined terms of reference which are published on the Company's website and is responsible for setting and reviewing the remuneration and other terms of employment of the Company's executive officers and management and determining and reviewing any share incentive plans. The remuneration committee consults, where appropriate, with the Chief Executive about its proposals. No Director or senior executive participates in discussions about his own remuneration.

Membership

The membership of the Company's remuneration committee comprises George Robb, Andrew Davison, David Cardale and Allan Bufferd. The Chairman of the remuneration committee is George Robb. The Combined Code provides that the remuneration committee of a smaller company should consist of at least two members who are independent non-executive Directors. The Company therefore considers that it complies with the Combined Code recommendations in this regard.

Meetings

The remuneration committee meets formally at least twice a year and otherwise as required. During the year to 31st May 2011 the committee met on four occasions principally to review and approve the quarterly assessment of the profit share pool, and allocations therefrom to Directors and senior employees, and the semi-annual salary review including both the overall level of awards and individual awards to Directors and senior employees. In addition, the committee discussed and refreshed its terms of reference, which are available on the Group's website, and reviewed the fees paid to non-executive Directors.

Service contracts

Executive Directors' service contracts are valid until the Director reaches retirement age, currently 65, and have notice periods of not more than one year. In the event of termination, compensation payouts will not exceed one year's notice. This relates to all executive Directors except Barry Olliff, whose contract is valid until he reaches 70 years of age and his payment is capped at 135% of one year's salary.

Details of Directors' service contracts are below:

Group	Date of contract	Notice period from company	Notice period from Directors	Provision of compensation for loss of office
Barry Olliff	28th January 2009	One year	One year	135% of one year's salary
Doug Allison	6th April 2006	One year	One year	One year's salary
Tom Griffith	6th April 2006	One year	One year	One year's salary
Carlos Yuste	6th April 2006	One year	One year	One year's salary

Non-executive Directors

Non-executive Directors do not have service contracts. They are appointed for an initial period of three years and, subject to shareholder approval, may be re-appointed for a further three years. After three such periods, non-executive Directors are subject to annual re-election. Their appointment can be terminated by serving six months' notice by either party.

Non-executive Directors receive a basic annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairman of the Group. Non-executive Directors do not participate in any performance-related incentive plans and receive no other benefits.

The non-executive Directors' fees were reviewed in the year by the Group Board, and having regard to the Company's move to the main market and the individual time commitment for the specific responsibilities of each role, the following took effect as of 1st October 2010:

	£
For services as non-executive Chairman and Director	45,000
For services as Senior Independent Director	37,000
For services as a Director	30,000

The non-executive Directors' letters of appointment became effective on the following dates:

Andrew Davison	6th April 2006
George Robb	6th April 2006
David Cardale	6th April 2006
Allan Bufferd	24th June 2010
Rian Dartnell	1st June 2011

Components of remuneration

1) Salaries

The salaries of all employees, including executive Directors, are reviewed at least twice a year and are adjusted as appropriate, subject to budget constraints and to Remuneration Committee approval. The firm's policy is to pay salaries which are at mid-market or lower, and to use profit-share and share options in order to offer a competitive overall package.

2) Discretionary bonuses

The Company operates a bonus scheme for all employees, including the executive Directors, that is linked to the Group's profitability, allocating 30% of pre-bonus, pre-tax, operating profit for this purpose. Bonus awards are made by the Board following recommendations by the Remuneration Committee. Barry Olliff is entitled under his service agreement to a bonus equal to 5% of the pre-tax profits of the Company, and payment of this entitlement is covered by Mr Olliff's allocation from the 30% bonus pool. Bonuses are not subject to individual performance conditions and are paid in cash. Although this remuneration policy does not comply with the Combined Code, the Board believes that this bonus scheme has worked well in motivating staff at all levels within the Company and that this is demonstrated by the high employee retention rates experienced by the Group. The Remuneration Committee will keep the Company's remuneration policy under review but does not currently intend to make any changes in the short to medium term.

3) Share option scheme

The Company operates an Employee Share Option Plan which is administered by the remuneration committee. The scheme is open to employees of all Group companies and Directors who are required to work more than 25 hours per week provided they do not have a material interest in the Company, that is to say the ability to control more than 25% of the ordinary share capital.

The ABI Guidelines recommend that dilutive share awards should be limited to 5% of the Company's issued share capital over a rolling 10 year period. As at the date of admission to the main market, dilutive awards were outstanding over 5.5% of the Company's share capital. As of 31st May 2011 this has been reduced to 2.1% as a result of the exercise of options.

Remuneration report

Continued

In addition, the ABI Guidelines recommend that no more than 5% of a company's issued share capital be held in an employee benefit trust (EBT). As of 31st May 2011 the EBT holding comprises 6.1% of the Company's share capital, unchanged since the date of admission.

The Company has found that the issue of share awards to executives and employees has been a very useful tool in motivating and retaining key staff and therefore maintains a pool of shares of a size it considers appropriate for such purposes.

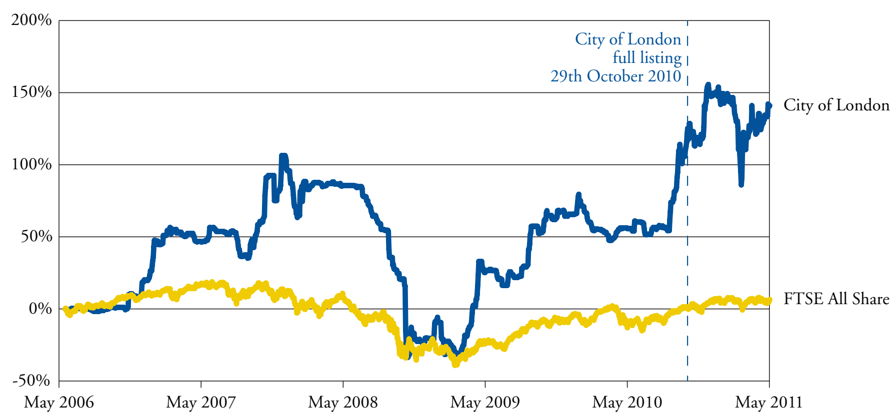
4) Pension

All employees, including executive Directors, are entitled to membership of the Group's defined contribution pension arrangements. The employer's contribution on behalf of all permanent employees, including executive Directors, is 12.5% of basic salary, except where local overseas regulations stipulate otherwise.

Total shareholder return

The Regulations require the inclusion of a graph which illustrates the total shareholder return for a holding in the Company's shares against a broad equity market index. The FTSE All-Share Index has been used on the basis that it includes all UK listed stocks, including the Company's ordinary shares. The Board considers this to be an appropriate index against which to measure performance because it includes all other UK listed financial stocks and therefore represents the closest comparator for benchmark purposes. The index is calculated on a total return basis, i.e. assuming reinvestment of dividends. The Regulations require this information to be provided for the five years up to 31st May 2011, however it should be noted that the Company was only included in the official list as of 29th October 2010.

Five year total shareholder return (dividends reinvested) to 31st May 2011



Directors' interests and remuneration (audited information)

(a) Directors' interests in share options as at 31st May 2011

	Number							
	Total 2010	Exercised during the year	Issued during the year	Total 2011	Exercise price £	Market price at exercise £	Date from which exercisable	Expiry date
B M Olliff	303,897	(303,897)	–	–	0.26	4.060	14th May 2007	14th May 2014
	25,000	(25,000)	–	–	1.40	4.060	31st Mar 2009	31st Mar 2016
	5,000	(5,000)	–	–	2.61	4.060	30th Jan 2010	30th Jan 2017
	5,000	(5,000)	–	–	2.73	4.060	30th Mar 2010	30th Mar 2017
	12,000	–	–	12,000	2.75	–	1st Oct 2011	1st Oct 2018
	8,000	–	–	8,000	2.30	–	5th Jun 2012	5th Jun 2019
	358,897	(338,897)	–	20,000				
D F Allison	200,000	(200,000)	–	–	0.26	3.50	14th May 2007	14th May 2014
	18,750	(18,750)	–	–	1.40	3.50	31st Mar 2009	31st Mar 2016
	5,000	(5,000)	–	–	2.61	4.40	30th Jan 2010	30th Jan 2017
	5,000	(5,000)	–	–	2.73	4.40	30th Mar 2010	30th Mar 2017
	12,000	–	–	12,000	2.75	–	1st Oct 2011	1st Oct 2018
	8,000	–	–	8,000	2.30	–	5th Jun 2012	5th Jun 2019
	12,500	–	–	12,500	3.14	–	18th Jan 2013	18th Jan 2020
	–	–	7,500	7,500	3.625	–	13th Oct 2013	13th Oct 2020
	–	–	5,000	5,000	4.03	–	5th Apr 2014	5th Apr 2021
	261,250	(228,750)	12,500	45,000				
T W Griffith	50,000*	(50,000)	–	–	0.45	3.12	10th Jan 2004	10th Jan 2011
	16,650*	–	–	16,650	0.45	–	13th Sept 2004	13th Sept 2011
	250,000*	(218,700)	–	31,300	0.26	4.475	14th May 2007	14th May 2014
	12,500	–	–	12,500	1.40	–	31st Mar 2009	31st Mar 2016
	5,000	–	–	5,000	2.61	–	30th Jan 2010	30th Jan 2017
	5,000	–	–	5,000	2.73	–	30th Mar 2010	30th Mar 2017
	12,000	–	–	12,000	2.75	–	1st Oct 2011	1st Oct 2018
	8,000	–	–	8,000	2.30	–	5th Jun 2012	5th Jun 2019
	12,500	–	–	12,500	3.14	–	18th Jan 2013	18th Jan 2020
	–	–	7,500	7,500	3.625	–	13th Oct 2013	13th Oct 2020
	–	–	5,000	5,000	4.03	–	5th Apr 2014	5th Apr 2021
	371,650	(268,700)	12,500	115,450				
C M Yuste	31,300*	(31,300)	–	–	0.26	3.50	14th May 2007	14th May 2014
	12,500	–	–	12,500	1.40	–	31st Mar 2009	31st Mar 2016
	5,000	–	–	5,000	2.61	–	30th Jan 2010	30th Jan 2017
	5,000	–	–	5,000	2.73	–	30th Mar 2010	30th Mar 2017
	12,000	–	–	12,000	2.75	–	1st Oct 2011	1st Oct 2018
	8,000	–	–	8,000	2.30	–	5th Jun 2012	5th Jun 2019
	12,500	–	–	12,500	3.14	–	18th Jan 2013	18th Jan 2020
	–	–	7,500	7,500	3.625	–	13th Oct 2013	13th Oct 2020
	–	–	5,000	5,000	4.03	–	5th Apr 2014	5th Apr 2021
	86,300	(31,300)	12,500	67,500				

*Options granted before appointment to Director.

The closing market price of the Company's ordinary shares at 31st May 2011 was £4.35 and the price moved during the year between a low of £2.735 and a high of £4.615.

(b) Remuneration

The remuneration of the Directors who held office during the year ended 31st May 2011 is set out below:

	Fees/salary £	Profit share £	Health insurance £	**Total 2011 £**	Total 2010 £	**Pension 2011 £**	Pension 2010 £
Non-executive							
A J Davison	41,000	–	–	**41,000**	32,000	**–**	–
G A Robb	27,667	–	–	**27,667**	22,000	**–**	–
O I Ashur*	13,417	–	–	**13,417**	22,000	**–**	–
D M Cardale	32,333	–	–	**32,333**	22,000	**–**	–
A Bufferd	27,667	–	–	**27,667**	22,000	**–**	–
	142,084	–	–	**142,084**	120,000	**–**	–
Executive							
B M Olliff	228,049	950,203	4,005	**1,182,257**	1,124,933	**28,506**	27,418
D F Allison	148,250	500,000	1,979	**650,229**	540,255	**18,531**	17,625
T W Griffith	148,865	316,734	4,005	**469,604**	384,327	**18,608**	17,489
C M Yuste	148,232	316,734	4,005	**468,971**	383,857	**18,529**	17,430
	673,396	2,083,671	13,994	**2,771,061**	2,433,372	**84,174**	79,962

*Resigned 14th August 2010.

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

G A Robb
Chairman of the Remuneration Committee
1st September 2011

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Directors' remuneration report and the financial statements in accordance with applicable laws 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.

Responsibilities statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

For and on behalf of the Board

B M Olliff
Chief Executive Officer

D F Allison
Finance Director

Independent auditors' report to the members 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 2011 which are set out on pages 30 to 54. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters 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 auditor

As explained more fully in the Directors' responsibilities statement set out on page 27, 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 and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing 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. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the Parent Company's affairs as at 31st May 2011 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 and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 16, in relation to going concern;
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and certain elements of the report to shareholders by the Board on Directors' remuneration.

Timothy West
Senior Statutory Auditor
5th September 2011

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 2011

	Note	Total 2011 £	Total 2010 £
Revenue	3,4	36,494,163	29,969,539
Administrative expenses			
Staff costs	6(b)	11,685,867	9,378,107
Commissions payable		5,785,441	4,768,780
Other administrative expenses		5,266,342	5,184,733
Main market listing costs		437,778	–
Depreciation and amortisation		370,902	348,196
		(23,546,330)	(19,679,816)
Operating profit	8	12,947,833	10,289,723
Interest receivable and similar gains/(losses)	9	122,322	(70,066)
Impairment of seed investments	10	79,372	159,418
Profit before taxation		13,149,527	10,379,075
Income tax expense	11	(4,380,204)	(3,396,293)
Profit for the year		8,769,323	6,982,782
Basic earnings per share	12	35.1p	28.5p
Diluted earnings per share	12	34.0p	26.9p

Consolidated and Company statement of comprehensive income

For the year ended 31st May 2011

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
Profit for the year	8,769,323	6,982,782	7,610,444	5,437,758
Fair value gains/(losses) on available-for-sale investments*	461,154	266,790	461,082	266,862
Release of fair value (gains)/losses on disposal of available-for-sale investments*	(62,394)	–	(62,394)	–
Other comprehensive income	398,760	266,790	398,688	266,862
Total comprehensive income for the year attributable to equity holders of the company	9,168,083	7,249,572	8,009,132	5,704,620

*Net of deferred tax, detailed in note 20.

Consolidated and Company statement of financial position

31st May 2011

	Note	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Non-current assets					
Property and equipment	13	543,748	687,657	277,946	359,466
Intangible assets	14	363,684	409,144	–	–
Other financial assets	15	73,210	76,679	828,777	829,940
Deferred tax asset	16	1,380,017	1,503,498	266,214	319,513
		2,360,659	2,676,978	1,372,937	1,508,919
Current assets					
Trade and other receivables	17	5,576,011	4,365,999	1,114,332	803,547
Current tax receivable		–	–	624,824	950,601
Available-for-sale financial assets	18	5,807,787	3,595,873	5,807,787	3,595,873
Cash and cash equivalents		6,104,673	4,774,473	161,683	255,677
		17,488,471	12,736,345	7,708,626	5,605,698
Current liabilities					
Trade and other payables	19	(4,013,419)	(3,887,781)	(5,224,742)	(5,081,468)
Current tax payable		(1,340,386)	(811,983)	–	–
Creditors, amounts falling due within one year		(5,353,805)	(4,699,764)	(5,224,742)	(5,081,468)
Net current assets		12,134,666	8,036,581	2,483,884	524,230
Total assets less current liabilities		14,495,325	10,713,559	3,856,821	2,033,149
Non-current liabilities					
Deferred tax liability	20	(235,129)	(105,203)	(235,129)	(105,203)
Net assets		14,260,196	10,608,356	3,621,692	1,927,946
Capital and reserves					
Called up share capital	21	268,584	259,688	268,584	259,688
Share premium account		1,975,084	1,640,667	1,975,084	1,640,667
Investment in own shares	22	(4,183,659)	(3,071,259)	(4,183,659)	(3,071,259)
Revaluation reserve		669,211	270,451	669,211	270,523
Share option reserve		1,621,936	1,721,492	622,646	651,056
Capital redemption reserve		18,562	18,562	18,562	18,562
Retained earnings		13,890,478	9,768,755	4,251,264	2,158,709
Total equity		14,260,196	10,608,356	3,621,692	1,927,946

The Board of Directors approve and authorise for issue these financial statements on 1st September 2011.

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 statement of changes in equity

31st May 2011

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
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
Profit for the year	–	–	–	–	–	–	6,982,782	6,982,782
Comprehensive income	–	–	–	266,790	–	–	–	266,790
Total comprehensive income	–	–	–	266,790	–	–	6,982,782	7,249,572
Transactions with owners								
Share option exercise	4,262	122,226	293,512	–	(72,962)	–	72,962	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	–	–	–	–	84,905	–	–	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)
Total transactions with owners	(128)	122,226	(437,327)	–	(46,238)	4,390	(5,025,819)	(5,382,896)
At 1st June 2010	259,688	1,640,667	(3,071,259)	270,451	1,721,492	18,562	9,768,755	10,608,356
Profit for the year	–	–	–	–	–	–	8,769,323	8,769,323
Comprehensive income	–	–	–	398,760	–	–	–	398,760
Total comprehensive income	–	–	–	398,760	–	–	8,769,323	9,168,083
Transactions with owners								
Share option exercise	8,896	334,417	414,431	–	(131,002)	–	131,002	757,744
Purchase of own shares	–	–	(1,526,831)	–	–	–	–	(1,526,831)
Share-based payment	–	–	–	–	130,241	–	–	130,241
Deferred tax	–	–	–	–	(98,795)	–	(49,575)	(148,370)
Current tax on share options	–	–	–	–	–	–	1,057,573	1,057,573
Dividends paid	–	–	–	–	–	–	(5,786,600)	(5,786,600)
Total transactions with owners	8,896	334,417	(1,112,400)	–	(99,556)	–	(4,647,600)	(5,516,243)
At 31st May 2011	**268,584**	**1,975,084**	**(4,183,659)**	**669,211**	**1,621,936**	**18,562**	**13,890,478**	**14,260,196**

Company statement of changes in equity

31st May 2011

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
At 1st June 2009	259,816	1,518,441	(2,633,932)	3,661	609,542	14,172	2,034,189	1,805,889
Profit for the year	–	–	–	–	–	–	5,437,758	5,437,758
Comprehensive income	–	–	–	266,862	–	–	–	266,862
Total comprehensive income	–	–	–	266,862	–	–	5,437,758	5,704,620
Transactions with owners								
Share option exercise	4,262	122,226	293,512	–	(72,962)	–	22,516	369,554
Share cancellation	(4,390)	–	–	–	–	4,390	(1,165,678)	(1,165,678)
Purchase of own shares	–	–	(730,839)	–	–	–	–	(730,839)
Share-based payment	–	–	–	–	84,905	–	–	84,905
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)
Total transactions with owners	(128)	122,226	(437,327)	–	41,514	4,390	(5,313,238)	(5,582,563)
At 1st June 2010	259,688	1,640,667	(3,071,259)	270,523	651,056	18,562	2,158,709	1,927,946
Profit for the year	–	–	–	–	–	–	7,610,444	7,610,444
Comprehensive income	–	–	–	398,688	–	–	–	398,688
Total comprehensive income	–	–	–	398,688	–	–	7,610,444	8,009,132
Transactions with owners								
Share option exercise	8,896	334,417	414,431	–	(131,002)	–	59,581	686,323
Purchase of own shares	–	–	(1,526,831)	–	–	–	–	(1,526,831)
Share-based payment	–	–	–	–	130,241	–	–	130,241
Deferred tax	–	–	–	–	(27,649)	–	(18,150)	(45,799)
Current tax on share options	–	–	–	–	–	–	227,280	227,280
Dividends paid	–	–	–	–	–	–	(5,786,600)	(5,786,600)
Total transactions with owners	8,896	334,417	(1,112,400)	–	(28,410)	–	(5,517,889)	(6,315,386)
At 31st May 2011	**268,584**	**1,975,084**	**(4,183,659)**	**669,211**	**622,646**	**18,562**	**4,251,264**	**3,621,692**

Consolidated and Company cash flow statement

For the year ended 31st May 2011

	Note	Group 2011 £	Group 2010 £	Company 2011 £	Company 2010 £
Cash flow from operating activities					
Operating profit		12,947,833	10,289,723	166,974	167,856
Adjustments for:					
Depreciation charges		325,442	302,735	152,136	143,541
Amortisation of intangible assets		45,460	45,461	–	–
Share-based payment charge		130,241	84,905	56,630	36,238
Translation adjustments		53,320	(293,254)	238,009	(18,308)
(Profit)/loss on disposal of fixed assets		–	(342)	–	–
Cash generated/(used) in operations before changes in working capital		13,502,296	10,429,228	613,749	329,327
(Increase)/decrease in trade and other receivables		(1,210,012)	(1,497,601)	(310,785)	259,154
Increase/(decrease) in trade and other payables		125,638	1,538,447	143,274	2,261,602
Cash generated from operations		12,417,922	10,470,074	446,238	2,850,083
Interest received		28,258	66,579	551	12,591
Interest paid		–	–	–	–
Taxation (paid)/received		(2,819,116)	(1,681,580)	81,040	351,888
Net cash generated from operating activities		9,627,064	8,855,073	527,829	3,214,562
Cash flow from investing activities					
Dividends received from subsidiaries		–	–	7,749,000	5,383,363
Purchase of property and equipment		(181,533)	(189,407)	(70,616)	(26,553)
Proceeds from sale of property and equipment		–	910	–	–
Purchase of intangible assets		–	(454,605)	–	–
Purchase of non-current financial assets		(608)	(10,318)	–	(3,439)
Purchase of current financial assets		(2,307,698)	(3,146,241)	(2,307,698)	(3,146,241)
Proceeds from sale of current financial assets		560,204	379,853	560,204	379,853
Net cash (used)/generated from investing activities		(1,929,635)	(3,419,808)	5,930,890	2,586,983
Cash flow from financing activities					
Proceeds from issue of ordinary shares		343,313	126,488	343,313	126,488
Ordinary dividends paid	23	(5,786,600)	(4,182,692)	(5,786,600)	(4,182,692)
Purchase and cancellation of own shares		–	(1,165,678)	–	(1,165,678)
Purchase of own shares by employee share option trust		(1,526,831)	(730,838)	(1,526,831)	(730,838)
Proceeds from sale of own shares by employee share option trust		414,431	293,511	414,431	293,511
Net cash used in financing activities		(6,555,687)	(5,659,209)	(6,555,687)	(5,659,209)
Net increase/(decrease) in cash and cash equivalents		1,141,742	(223,944)	(96,968)	142,336
Cash and cash equivalents at start of period		4,774,473	4,718,766	255,677	108,638
Effect of exchange rate changes		188,458	279,651	2,974	4,703
Cash and cash equivalents at end of period		6,104,673	4,774,473	161,683	255,677

Notes to the financial statements

For the year ended 31st May 2011

City of London Investment Group PLC ("the Company") is a public limited company which listed on the London Stock Exchange on 29th October 2010 and is domiciled and incorporated in the United Kingdom under the Companies Act 2006.

The Group financial statements for the year ended 31st May 2011 comprise the Company and its subsidiaries ("the Group").

The significant accounting policies applied in the preparation of the Group financial statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1 Basis of preparation

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.

The Group financial statements have been prepared under the historical cost convention, except for the measurement at fair value of derivative financial instruments and certain financial assets that are held at fair value through profit or loss. The Group financial statements have been prepared on a going concern basis.

(a) New IFRS Standards and Interpretations

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

IAS 1 (revised) Presentation of financial statements – 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.

IFRS 10 Consolidated financial statements – This standard establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. It replaces the consolidation requirements in IAS 27 – Consolidated and Separate Financial Statements and builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. It is effective for annual periods beginning on or after 1st January 2013. The Company is considering the impact that this standard could have on the financial statements.

There are a number of other Standards and Interpretations, and revisions to existing Standards and Interpretations, including the 2009 improvements project, in issue but not in force at 31st May 2011. These are not considered likely to have a material impact on the Group's financial statements.

Notes to the financial statements

Continued

2 Basis of consolidation

These financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings. The Company's principal subsidiaries as at 31st May 2011 are City of London Investment Management Company Limited and City of London US Services Limited. A complete list of the Group companies can be found in note 15.

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 note 3(iii).

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:

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 26.

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.

3 Significant accounting policies

The principal accounting policies 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.

(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. 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.

3 Significant accounting policies 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.

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 28.

(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.

Notes to the financial statements

Continued

3 Significant accounting policies continued

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

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

(vii) Deferred taxation
Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying 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 26(b) include grants of share options prior to 7th November 2002.

(ix) Revenue
Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and such revenue can be reliably measured. Revenue is recognised as services are provided and comprises of investment management fees based on a percentage of Funds under Management, in accordance with the underlying agreements.

(x) Commissions payable
A significant portion of the Group's revenue is subject to commissions payable under third party marketing agreements. Commissions payable are recognised in the same period as the revenue to which they relate.

3 Significant accounting policies continued

(xi) 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.

(xii) Leases

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

(xiii) 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. Any amounts unpaid at the end of the period are reflected in other creditors.

4 Revenue

	2011 £	2010 £
Management fees earned by subsidiary companies charged as a percentage of funds under management	36,494,163	29,969,539

Notes to the financial statements

Continued

5 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 2011						
Revenue	**29,968,449**	**1,708,514**	**2,198,343**	**2,618,857**	**–**	**36,494,163**
Non-current assets:						
Property and equipment	**265,802**	**–**	**–**	**193,824**	**84,122**	**543,748**
Intangible assets	**363,684**	**–**	**–**	**–**	**–**	**363,684**
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

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.

6 Employees

(a) Average number of persons employed by the Group in the year:	2011 Number	2010 Number
Investment Management/Research	**25**	23
Performance and Attribution	**5**	4
Business Development/Marketing	**3**	3
Client Services	**10**	8
Administration, Accounts and Settlements	**25**	24
	68	62

(b) Staff costs incurred during the year in respect of these employees were:	2011 £	2010 £
Wages and salaries	**4,622,477**	3,876,432
Profit sharing payments	**5,573,953**	4,524,986
Social security costs	**845,599**	448,613
Defined contribution pension costs	**513,597**	443,171
Share options charge	**130,241**	84,905
	11,685,867	9,378,107

The Group made contributions of £513,597 (2010 – £443,171) in the period to individual defined contribution pension schemes established for Directors and employees. There were no outstanding or prepaid contributions at 31st May 2011.

7 Directors

Directors' emoluments comprise:	2011 £	2010 £
Emoluments (excluding pension contributions and awards under share option schemes)	2,913,145	2,553,372
Pension contributions	84,174	79,962
Share option charge	19,905	14,274
Gains on exercise of share options	2,174,795	766,645

	2011 Number	2010 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	4	1

Highest paid Director's remuneration:	2011 £	2010 £
Emoluments (excluding pension contributions and awards under share option schemes)	1,182,257	1,124,933
Pension contributions	28,506	27,418
Share option charge	1,996	2,795
Gains on exercise of share options	1,235,209	–

8 Operating profit

The operating profit is arrived at after charging/(crediting):	2011 £	2010 £
Depreciation of owned assets	325,442	302,735
Amortisation of intangible assets	45,460	45,461
Auditors' remuneration:		
– Reporting accountants on move to main market	85,000	–
– Statutory audit	57,761	44,227
– Taxation services	15,488	19,057
– Other services	9,763	14,097
Operating lease rentals:		
– Land and buildings	386,168	373,955
– Other	–	12,187
Foreign exchange (gains)/losses	(10,366)	(177,664)
(Profit)/loss on disposal of fixed assets	–	(342)

9 Interest receivable and similar gains/(losses)

	2011 £	2010 £
Interest on bank deposit	28,258	66,579
Gain/(loss) on sale of investments	94,064	(136,645)
	122,322	(70,066)

Notes to the financial statements

Continued

10 Impairment of seed investments

Due to improved market conditions, the Group has written back the remaining balance of £79,372 (2010 – £159,418) of the £238,790 impairment charge recognised in 2009 against the fair value of its seed investments in new funds held as available-for-sale financial assets.

11 Tax charge on profit on ordinary activities

(a) Analysis of tax charge on ordinary activities:	2011 £	2010 £
Tax at 28% (2010 – 28%) based on the profit for the year	3,859,859	2,938,223
Double taxation relief	(1,971,573)	(951,584)
Deferred tax	(24,889)	13,077
Change in tax rate to 26%	(19,830)	–
Adjustments in respect of prior years	4,791	12,957
Domestic tax total	1,848,358	2,012,673
Foreign tax for the current period	2,825,634	1,422,908
Adjustments in respect of prior years	(293,788)	(39,288)
Foreign tax total	2,531,846	1,383,620
Total tax charge in income statement	4,380,204	3,396,293

(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:

	2011 £	2010 £
Profit on ordinary activities before tax	13,149,527	10,379,075
Tax at 28% (2010 – 28%) thereon	(3,681,868)	(2,906,141)
Effects of:		
Unrelieved overseas tax	(854,061)	(471,324)
Expenses not deductible for tax purposes	(159,044)	(30,979)
Capital allowances less than depreciation	(57,754)	(63,911)
Prior period adjustments	288,997	26,331
Deferred tax on share based-payments and impairment	24,889	(13,077)
Impairment in seed investments not tax deductible	22,224	44,637
Change in tax rate to 26%	19,830	–
Other	16,583	18,171
Total tax charge in income statement	(4,380,204)	(3,396,293)

On 23rd March 2011 the Chancellor announced a reduction in the main rate of UK corporation tax to 26% with effect from 1st April 2011. Therefore the effect of the rate reduction has been reflected in the figures above.

12 Earnings per share

The calculation of earnings per share is based on the profit for the period of £8,769,323 (2010 – £6,982,782) divided by the weighted average number of ordinary shares in issue for the year ended 31st May 2011 of 24,998,168 (2010 – 24,491,592).

As set out in Note 22, the Employee Benefit Trust held 1,632,167 ordinary shares in the Company as at 31st May 2011. 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.

12 Earnings per share continued

The calculation of diluted earnings per share is based on the profit for the year of £8,769,323 (2010 – £6,982,782) divided by the diluted weighted average of ordinary shares for the year ended 31st May 2011 of 25,818,990 (2010 – 25,953,758).

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

	2011 Number of shares	2010 Number of shares
Weighted average number of shares – basic earnings per share	24,998,168	24,491,592
Effect of dilutive potential shares – share options	820,822	1,462,166
Weighted average number of shares – diluted earnings per share	25,818,990	25,953,758

13 Property and equipment

	2011				2010			
	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	166,031	1,440,733	293,225	1,899,989	145,413	1,294,307	293,225	1,732,945
Additions	12,735	126,519	42,279	181,533	20,952	168,455	–	189,407
Disposals	–	–	–	–	(334)	(22,029)	–	(22,363)
At 31st May	178,766	1,567,252	335,504	2,081,522	166,031	1,440,733	293,225	1,899,989
Accumulated depreciation								
At 1st June	114,626	992,432	105,274	1,212,332	88,673	772,699	70,019	931,391
Charge for the year	27,704	256,331	41,407	325,442	26,287	241,193	35,255	302,735
Disposals	–	–	–	–	(334)	(21,460)	–	(21,794)
At 31st May	142,330	1,248,763	146,681	1,537,774	114,626	992,432	105,274	1,212,332
Net book value								
At 31st May	36,436	318,489	188,823	543,748	51,405	448,301	187,951	687,657
Company								
Cost								
At 1st June	102,160	511,591	266,481	880,232	93,930	493,268	266,481	853,679
Additions	10,834	48,981	10,801	70,616	8,230	18,323	–	26,553
Disposals	–	–	–	–	–	–	–	–
At 31st May	112,994	560,572	277,282	950,848	102,160	511,591	266,481	880,232
Accumulated depreciation								
At 1st June	60,530	381,706	78,530	520,766	38,852	295,098	43,275	377,225
Charge for the year	23,815	88,663	39,658	152,136	21,678	86,608	35,255	143,541
Disposals	–	–	–	–	–	–	–	–
At 31st May	84,345	470,369	118,188	672,902	60,530	381,706	78,530	520,766
Net book value								
At 31st May	28,649	90,203	159,094	277,946	41,630	129,885	187,951	359,466

Notes to the financial statements

Continued

14 Intangible assets

Group	2011 Long term software licences £	2010 Long term software licences £
Cost		
At 1st June	454,605	–
Additions	–	454,605
At 31st May	454,605	454,605
Amortisation charge		
At 1st June	(45,461)	–
Charge for the year	(45,460)	(45,461)
At 31st May	(90,921)	(45,461)
Net book value		
At 31st May	363,684	409,144

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

15 Other financial assets (non-current)

Group	2011 Unlisted investments £	2010 Unlisted investments £
Cost		
At 1st June	76,679	57,535
Additions	608	10,318
Disposals	–	–
Fair value (losses)/gains recognised in other comprehensive income	(4,077)	8,826
At 31st May	73,210	76,679

	2011			2010		
Company	Unlisted investments £	Investment in subsidiary undertakings £	Total £	Unlisted investments £	Investment in subsidiary undertakings £	Total £
Cost						
At 1st June	69,873	760,067	829,940	57,535	835,845	893,380
Additions	–	80,767	80,767	3,439	53,392	56,831
Disposals	–	(152,578)	(152,578)	–	(55,171)	(55,171)
Impairment	–	73,999	73,999	–	(73,999)	(73,999)
Fair value (losses)/gains recognised in other comprehensive income	(3,351)	–	(3,351)	8,899	–	8,899
At 31st May	66,522	762,255	828,777	69,873	760,067	829,940

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.

15 Other financial assets (non-current) continued

In addition, last year's impairment was realised and transferred to disposals, reflecting the reduction in share capital of City of London Unit Trust Managers Limited, a fully owned dormant subsidiary which was dissolved on 12th October 2010.

Subsidiary undertakings	Activity	Holding of ordinary shares
City of London Investment Management Company Limited	Management of funds	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 Investment Management (Singapore) PTE Ltd	Management of funds	
City of London Latin America Limited	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	

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.

16 Deferred tax asset

	Share-based payments		Impairment		Total	
	Group £	Company £	Group £	Company £	Group £	Company £
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 1st June 2010	1,481,274	297,289	22,224	22,224	1,503,498	319,513
Credit/(charge) to income	47,113	14,723	(22,224)	(22,224)	24,889	(7,501)
Credit/(charge) to equity	(148,370)	(45,798)	–	–	(148,370)	(45,798)
At 31st May 2011	1,380,017	266,214	–	–	1,380,017	266,214

Notes to the financial statements
Continued

17 Trade and other receivables

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
Trade receivables	210,154	278,283	–	–
Accrued income	4,320,512	3,595,334	–	–
Amounts owed by Group undertakings	–	–	807,466	500,962
Other debtors	471,688	108,874	43,488	89,072
Prepayments	573,657	383,508	263,378	213,513
	5,576,011	4,365,999	1,114,332	803,547

18 Available-for-sale financial assets

Group and Company	2011 £	2010 £
Unlisted investments at market value	5,807,787	3,595,873
Unlisted investments at cost	4,915,417	3,307,673

19 Trade and other payables

	Group		Company	
	2011 £	2010 £	2011 £	2010 £
Trade creditors	86,784	71,894	–	–
Sundry creditors	366	467,435	366	65,775
Amounts owed to Group undertakings	–	–	3,894,388	3,800,462
Other taxation and social security	93,432	39,712	93,432	39,712
Accruals and deferred income	3,832,837	3,308,740	1,236,556	1,175,519
	4,013,419	3,887,781	5,224,742	5,081,468

20 Deferred tax liability

Group and Company	£
At 1st June 2009	1,424
Increase due to gain in fair value of available-for-sale investments	103,779
At 1st June 2010	105,203
Decrease due to change in tax rate from 28% to 26%	(7,515)
Increase due to gain in fair value of available-for-sale investments	161,705
Released on disposal of available-for-sale investments	(24,264)
At 31st May 2011	235,129

21 Share capital

Group and Company	2011 No of shares	2010 No of shares
Authorised		
Ordinary shares of 1p each (2010 – 1p each)	90,000,000	90,000,000
	£	£
Ordinary shares of 1p each (2010 – 1p each)	90,000	90,000

Group and Company	2011 £	2010 £
Allotted, called up and fully paid		
At start of year 25,968,803 (2010 – 25,981,603) Ordinary shares of 1p each	259,688	259,816
Dilutive share options exercised; 889,647 (2010 – 426,200)	8,896	4,262
Shares repurchased and cancelled; nil (2010 – 439,000)	–	(4,390)
At end of year 26,858,450 (2010 – 25,968,803) Ordinary shares of 1p each	268,584	259,688

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

22 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 2011 the Trust held 1,632,167 ordinary 1p shares (2010 – 1,589,158), of which 1,421,292 ordinary 1p shares (2010 – 1,427,533) were subject to options in issue.

23 Dividend

	2011 £	2010 £
Dividends paid:		
Interim dividend of 8p per share (2010 – 7p)	2,046,663	1,727,652
Final dividend in respect of year ended:		
31st May 2010 of 15p per share (2009 – 10p)	3,739,937	2,455,040
	5,786,600	4,182,692

A final dividend of 16p per share has been proposed, payable on 21st October 2011, subject to shareholder approval, to shareholders who are on the register of members on 7th October 2011.

24 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 £7,610,444 (2010 – £5,437,758).

Notes to the financial statements

Continued

25 Operating lease commitments

At 31st May 2011 the Group had the following commitments for future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	Land and buildings 2011 £	Land and buildings 2010 £	**Land and buildings 2011 £**	Land and buildings 2010 £
Within one year	**349,173**	297,996	**174,384**	174,384
In the second to fifth years inclusive	**470,987**	506,226	**188,917**	363,301
	820,160	804,222	**363,301**	537,685

Operating lease payments relating to land and buildings represent rents payable by the Group for its various offices. The Group enters into formal occupational property leases ranging from one to ten years.

26 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%	0.7924	259,000
13/10/2010	13/10/2020	6.50	2.2273%	3.6250	3.6250	33.7369%	5.92%	0.7406	191,500
05/04/2011	05/04/2021	6.50	3.0432%	4.0300	4.0300	33.7062%	5.65%	0.9307	166,000

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 historic volatility and this has been used to calculate the fair value of awards granted on and after 5th June 2009.

26 Share-based payments continued

(b) All share options granted are equity settled. The number and weighted average exercise price of share options for each of the following groups is as follows:

	2011		2010	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at the beginning of the year	2,873,980	1.38	3,135,022	1.02
Granted during the year	357,500	3.81	501,000	2.73
Forfeited during the year	41,750	2.81	64,000	2.63
Exercised during the year	1,211,638	0.63	698,042	0.60
Outstanding at the end of the year	1,978,092	2.25	2,873,980	1.38
Exercisable at the end of the year	882,342	1.21	2,149,980	0.87
The weighted average share price at the date of exercise for share options exercised during the year was		3.91		2.85

The total share-based payment charge for the year is £130,241 (2010 – £84,905).

27 Related party transactions

In the ordinary course of business, the Company and its subsidiary undertakings carry out transactions with related parties as defined under IAS 24 Related Party Disclosures. Material transactions are set out below.

(i) Remuneration of key management personnel

The remuneration of the Directors who are the key management personnel of the Group is provided in the Remuneration report on page 26 and in note 7.

(ii) Intra-group transactions

During the period the Company received from its subsidiaries £7,262,520 (2010 – £6,500,876) in respect of management service charges and dividends of £7,749,000 (2010 – £5,383,363).

Amounts outstanding between the Company and its subsidiaries as at 31st May 2011 are given in notes 17 and 19.

Notes to the financial statements

Continued

28 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 2011 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	–	–	73,210	73,210
Trade and other receivables	5,241,448	334,563	–	5,576,011
Available-for-sale financial assets	–	–	5,807,787	5,807,787
Cash and cash equivalents	6,104,673	–	–	6,104,673
Total	11,346,121	334,563	5,880,997	17,561,681

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	–	4,013,419	4,013,419
Total	–	4,013,419	4,013,419

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

28 Financial instruments continued

Company

31st May 2011 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	762,255	–	–	66,522	828,777
Trade and other receivables	–	1,114,332	–	–	1,114,332
Available-for-sale financial assets	–	–	–	5,807,787	5,807,787
Cash and cash equivalents	–	161,683	–	–	161,683
Total	762,255	1,276,015	–	5,874,309	7,912,579

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	–	5,224,742	5,224,742
Total	–	5,224,742	5,224,742

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

Notes to the financial statements

Continued

28 Financial instruments continued

(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

31st May 2011	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	2,336,763	3,498,636	–	5,835,399
Total	2,336,763	3,498,636	–	5,835,399
Financial assets at fair value through profit or loss				
Forward currency trades	–	334,563	–	334,563
Total	–	334,563	–	334,563

31st May 2010	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)

28 Financial instruments continued

Company

31st May 2011	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	2,336,763	3,491,948	–	5,828,711
Total	2,336,763	3,491,948	–	5,828,711

31st May 2010	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 again this year, the Group has written back the remaining balance of £79,372 (2010 – £159,418) of the £238,790 impairment charge recognised in 2009.

The fair value profit on the forward currency trades is offset in the income statement by the foreign exchange loss on other currency assets and liabilities held during the year and at year end. The net gain reported for the year is £10,366 (2010 – net gain £177,664).

(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 2011, the Group had net asset balances of US$11,694,999 (2010 – US$6,854,423), offset by forward sales totalling US$13,500,000 (2010 – US$6,500,000), and net asset balances of C$401,876 (2010 – C$411,851) and SGD1,051,314 (2010 – SGD1,049,466).

Had the US Dollar strengthened or weakened against Sterling as at 31st May 2011 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 is minimised by the forward sales.

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 13.

Notes to the financial statements

Continued

28 Financial instruments continued

(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.

Further details on the effects on the Group's post-tax profits due to movements in market prices have been demonstrated in the Financial review on page 13.

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 £62,682 (2010 – £32,027).

(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 because commission payable forms the major part of trade creditors, and payment is made only upon receipt of the related fee income 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 2011 the Group held £6,104,673 (2010 – £4,774,473) in cash balances, of which £5,514,198 (2010 – £4,168,469) 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 pages 32 and 33.

The Group's principal operating subsidiary company, City of London Investment Management Company Ltd is subject to the minimum capital 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 3rd October 2011 at 11.30 am for the following purposes:

Ordinary business

1. To receive and adopt the financial statements for the year ended 31st May 2011 together with the reports of the Directors and auditors thereon.

2. To approve the Directors' remuneration report for the year ended 31st May 2011.

3. To declare a final dividend of 16p per ordinary share for the year ended 31st May 2011 payable on 21st October 2011.

4. Having been appointed by the Board since the last Annual General Meeting, to re-elect Rian Avery Arthur Dartnell as a Director of the Company in accordance with article 137 of the Company's articles of association.

5. Having last been re-elected at the 2008 Annual General Meeting, to re-elect Douglas Forbes Allison as a Director of the Company in accordance with article 132(a) of the Company's articles of association.

6. Having last been re-elected at the 2008 Annual General Meeting, to re-elect Allan Seymour Bufferd as a Director of the Company in accordance with article 132(a) of the Company's articles of association.

7. Having served longer than nine years as a non-executive Director, to re-elect Andrew John Davison as a Director of the Company.

8. Having served longer than nine years as a non-executive Director, to re-elect George Alan Robb as a Director of the Company.

9. 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.

10. To authorise the Board to determine the auditors' remuneration.

Special business

To consider and, if thought fit, pass resolution 11 as an ordinary resolution and resolutions 12 and 13 as special resolutions:

11. 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 a maximum nominal amount of £89,528, (representing approximately one third of the Company's issued ordinary capital at the date of this notice), 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 2012, save that the Company may, before such expiry, make an offer or 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 551 of the Companies Act 2006.

12. THAT, subject to the passing of resolution 11 and in accordance with section 570 and section 573 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 11, 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 a maximum nominal amount of £13,429 (representing approximately 5% of the Company's issued ordinary capital at the date of this notice), 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 2012, save that the Company may, before such expiry, make an offer or 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.

Notes to the Notice of Annual General Meeting

Continued

13. THAT, in accordance with section 701 of the Companies Act 2006, 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 2,685,845 (representing approximately 10% of the Company's issued ordinary share capital at the date of this notice);

(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 shall be the higher of:

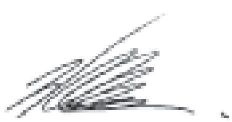
(i) an amount equal to 105% of the average of the middle market quotations for the ordinary shares of the Company as derived from the Daily Official List of the London Stock Exchange plc for the five business days immediately preceding the date on which such ordinary share is contracted to be purchased; and
(ii) the higher of the price quoted for
(a) the last independent trade of, and
(b) the highest current independent bid for,

any number of ordinary shares on the trading venue where the purchase is carried out, and

(d) unless previously renewed, revoked or varied, this authority shall expire at the conclusion of the Company's next annual general meeting, or on 3rd April 2013 (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
1st September 2011

Registered office: 77 Gracechurch Street, London EC3V 0AS
Registered in England and Wales No 2685257

Notes to the Notice of Annual General Meeting

1. Information about this meeting is available on the Company's website – www.citlon.co.uk

2. A member entitled to receive notice, attend and vote at the annual general meeting 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, 34 Beckenham Road, Beckenham, Kent BR3 4TU no later than 11.30 am on 29th September 2011. A form of proxy accompanies this notice.

3. 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 29th September 2011.

   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 29th September 2011. 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.

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 communications 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 annual general meeting 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 2011 together with the Directors' report and the independent auditors' report thereon.

Directors' remuneration (Resolution 2)

In line with regulations relating to the preparation and approval of a Directors' remuneration report, resolution 2 is to be proposed at the AGM. This resolution will provide shareholders with the opportunity to comment on the remuneration matters and policy, although shareholders should note that in accordance with the regulations the vote will be advisory in nature.

Declaration of final dividend (Resolution 3)

Your Directors are recommending a final dividend of 16p per ordinary share for the year ended 31st May 2011 which will be paid on 21st October 2011 to shareholders on the register at the close of business on 7th October 2011.

The Company's shares will trade ex-dividend from 5th October 2011 until the payment date.

Re-appointment of Directors (Resolutions 4 – 8)

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 1st September 2011 (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 B.7.1. of the UK Corporate Governance Code (which replaces Section A.7.2. of the Combined 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. Accordingly resolutions 7 and 8 are proposed for the re-election of Andrew Davison and George Robb as Directors of the Company.

Brief biographical details of all the Directors may be found on pages 14 and 15 of the annual report.

Re-appointment of auditors (Resolution 9)

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 9 is passed, Moore Stephens LLP will be re-appointed as auditors to the Company for the financial year ending 31st May 2012.

Remuneration of auditors (Resolution 10)

In accordance with the Companies Act 2006, the remuneration of the auditors appointed by the shareholders may be fixed in such manner as the shareholders in general meeting may determine. It is normal practice for a company's Directors to be authorised to agree the auditors' fees. If this resolution is passed, the Audit Committee will review and approve the fees for recommendation to the Board.

Authority to allot shares (Resolution 11)

Resolution 11 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 a maximum nominal amount of £89,528 representing approximately one third of the existing issued ordinary share capital as at the date of this notice.

Such authority will expire at the conclusion of the Annual General Meeting to be held in 2012, unless renewed, varied or revoked by the Company prior to or on that date.

Explanation of the business of the Annual General Meeting

Continued

Disapplication of pre-emption rights (Resolution 12)

Resolution 12 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 £13,429, representing approximately 5% of the issued ordinary share capital at the date of this notice. This authority will expire at the conclusion of the Annual General Meeting to be held in 2012, 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 13)

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 13, 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 £26,858 which represents approximately 10% of the issued ordinary share capital of the Company at the date of this notice. 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 2012 or on 3rd April 2013 (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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Chartered Accountants
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Bankers
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