CITY OF LONDON
INVESTMENT GROUP PLC

ANNUAL REPORT & ACCOUNTS 2012

City of London Investment Group PLC is an established asset management group which has built its reputation, with an institutional client focus, by specialising in Emerging Market closed-end fund investment. In recent years the Group has expanded its range to include both Developed and Frontier closed-end fund strategies, as well as products which offer Emerging Market and Natural Resources exposure directly via equities.

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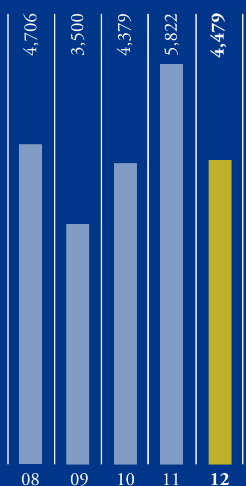
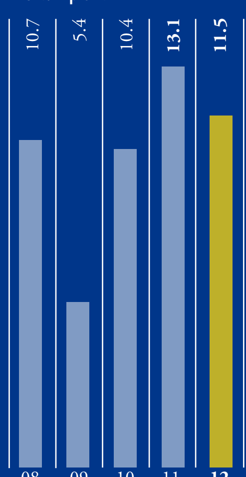
Summary

Funds under management US$m



Pre-tax profit £m



- Funds under management ("FuM") at 31st May 2012 were US$4.5 billion (2011: US$5.8 billion), a decline of 23%. In sterling terms, FuM fell by 18% to £2.9 billion (2011: £3.5 billion). The MSCI Emerging Markets Index ("MXEF") registered a 20% decline over the whole of the financial year with the major part of the fall occurring in the final quarter.

- Revenues, representing the Group's management charges on FuM, were £34.1 million (2011: £36.5 million). Profit before tax was £11.5 million (2011: £13.1 million).

- Basic earnings per share were 33.8p (2011: 35.1p) after a reduced tax charge of 26% (2011: 33% of pre-tax profits), reflecting the positive impact of prior year adjustments to the Group's US and Singapore tax charges.

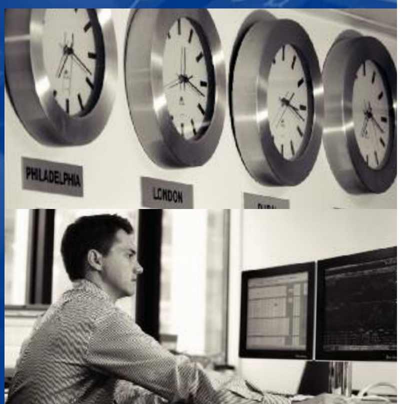
- Recommended maintained final dividend of 16p per share, payable on 19th October 2012 to shareholders on the register on 5th October 2012, making a total for the year of 24p (2011: 24p).

- Cash and cash equivalents at 31st May 2012 were £5.4 million (2011: £6.1 million).

www.citlon.co.uk

City of London Investment Group PLC

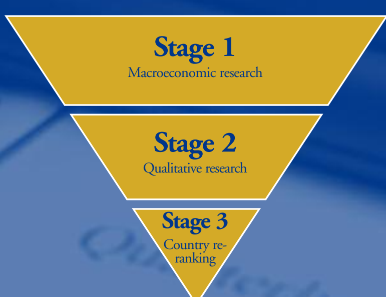
What we do



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 long term relative outperformance combined with low volatility relative to our clients' benchmarks.

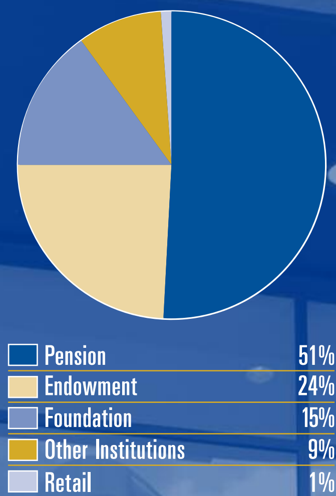
Our competitive advantage

> "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 significant, repeatable 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 and have generated long term outperformance for our clients. Clients can then focus on their asset class allocation decisions.

Investor relations

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

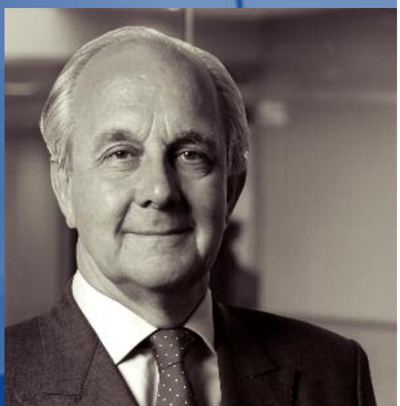
We seek to communicate with our shareholders in a transparent and open fashion, whether at face-to-face meetings with our larger institutional holders or at group meetings with advisers and individual shareholders. We try to make all of our announcements simple and accessible. We believe that our shareholders 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 around 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 2012
Pre-close trading update	18th June 2012
Preliminary final results, first quarter funds under management (FuM) and final dividend announcement	3rd September 2012
Posting of Annual Report and Notice of Meeting (AGM)	7th September 2012
AGM and Interim Management Statement (IMS)	1st October 2012
Ex-dividend date for the final dividend	3rd October 2012
Final dividend record date	5th October 2012
Final dividend payment	19th October 2012
Second quarter FuM announcement	3rd December 2012
Half year results and interim dividend announcement	21st January 2013
Ex-dividend date for the interim dividend	6th February 2013
Interim dividend record date	8th February 2013
Interim dividend payment	25th February 2013
Third quarter FuM announcement and IMS	4th March 2013
Year end	31st May 2013

Chairman's statement



"These results provide a demonstration of the Group's ability to generate profits and dividends for our shareholders even in the difficult market conditions that we have had to deal with over the last 12 months. This is a reflection of our core belief in keeping fixed costs to a minimum, and our continual striving to achieve superior investment performance so as to reward, and therefore to retain and grow, our client base."

Our principal investment markets in the year under review were marked by an unwelcome return to high, and continuing, levels of volatility as investors became increasingly risk averse. This volatility has been reflected in a 31% rise in the MSCI Emerging Markets Index ("MXEF") from a low recorded in October 2011 to a high in March 2012, which was followed by a 15% fall in the period up to the Group's year end on 31st May 2012.

As a consequence, Funds under Management ("FuM") declined by 17% to US$4.8 billion in the first half of our financial year to 30th November 2011 and ended the year at US$4.5 billion, representing an annual decline of 23% in US$ terms from the US$5.8 billion recorded at 31st May 2011. In sterling terms, FuM declined by 18% to £2.9 billion (2011: £3.5 billion). MXEF registered a 20% decline over the whole of our financial year with the major part of the fall occurring in our final quarter.

Despite the volatility, our clients have remained loyal and the vast majority have, sensibly in our view, taken a longer term view of the undoubted attractions of emerging markets, which in many instances are better placed to withstand shocks than the perceived 'safe haven' markets of the developed economies.

Results

Revenues, representing the Group's management charges on FuM, for the year to 31st May 2012 were £34.1 million (2011: £36.5 million) with the decline resulting from the fall in MXEF, and thus our FuM, over the period. Profit before tax was £11.5 million (2011: £13.1 million after one-off listing costs of £0.4 million) including a gain of £0.4 million on the sale of an investment in options on unquoted equity (2011: £nil). The tax charge for the year, at 26% of pre-tax profits (2011: 33% of pre-tax profits), reflects the positive impact of prior year adjustments to the Group's US and Singapore tax charges. Basic earnings per share were 33.8p (2011: 35.1p) and fully diluted earnings per share were 32.8p (2011: 34.0p). Cash and cash equivalents at 31st May 2012 were £5.4 million (2011: £6.1 million).

Dividends

The Board has recommended the payment of a maintained final dividend of 16p per share to be paid on 19th October 2012 to shareholders on the register on 5th October 2012. Together with the interim dividend of 8p per share (2011: 8p) paid in February 2012, this makes a total for the year of 24p per share (2011: 24p), covered 1.41 times by earnings per share (2011: 1.46 times).

Board

There have been three changes to the Non-executive Directors during the year. We appointed Rian Dartnell to the Board in June 2011 and George Robb, one of our longest serving Non-executive Directors, retired from the Board in January this year and was replaced by Lynn Ruddick.

Rian, a US citizen and resident, is Chief Investment Officer for global asset managers Granite Associates, and has spent his career focusing on investment in emerging markets worldwide. Lynn retired from Merrill Lynch Investment Managers, where she headed their investment trust business unit, in 2004, and is a Director of a number of investment trusts in the UK and a former Chairman of the Investment Committee of the National Association of Pension Funds.

I welcome Rian and Lynn to the Board and wish George, who has provided wise advice and cheerful company, a long and happy retirement.

Finally, I must advise shareholders of my own intention to retire from the Board at the conclusion of our forthcoming Annual General Meeting. I have been Chairman of City of London for the past 13 years, during which time the Company has gone through an IPO on AIM, with an upgrade to the main market almost two years ago, and the value of the Company has grown from around £13 million to £94 million today. I will retire with confidence that the Company's future is secure and that the high quality Board and senior management team will provide shareholders with the guidance and leadership necessary to navigate successfully the volatile markets that we are currently experiencing.
My successor as Chairman will be David Cardale, who joined the Board at the time of our going public in 2006 and has been the Senior Independent Director since 2008.

Newlin Foundation

Barry Olliff has previously made clear his intention to sell 250,000 shares at each of £4.50, £5.00, £5.50 and £6.00, and that commitment is re-affirmed. The Newlin Foundation, a US foundation endowed by Barry, has been released from its similar commitment in order to preserve its status as an independent charity.

Employee Share Option Plan ("ESOP")

The City of London Employee Benefit Trust currently holds 6.4% of the Company's issued share capital on behalf of the Group's Employee Share Option Plan. In order to increase our ability to attract and retain staff through the issue of non-dilutive options – the EBT buys shares in the market – the Board wishes to have the flexibility to hold up to 10% of the Company's issued share capital in the ESOP. For holdings above 5%, the ABI recommends that shareholder approval be obtained and we have accordingly proposed an appropriate resolution to be put to shareholders at the AGM.

Outlook

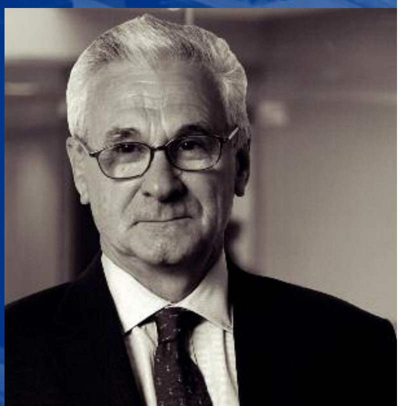
These results provide a demonstration of the Group's ability to generate profits and dividends for our shareholders even in the difficult market conditions that we have had to deal with over the last 12 months. This is a reflection of our core belief in keeping fixed costs to a minimum, and our continual striving to achieve superior investment performance so as to reward, and therefore to retain and grow, our client base.

We are aware of the inevitable and unforecastable fluctuations in the world economy which will impact on the Group. Times are difficult, but providing we produce acceptable results for our clients, we should continue to report acceptable results to our shareholders.

As usual, I must thank all of our hardworking staff in London, the US, Singapore and Dubai for their efforts in these challenging times. Without their commitment we would not be reporting these very creditable results. I will update shareholders on our progress in the first part of our financial year at the time of the Annual General Meeting, which will be held on 1st October 2012.

Andrew Davison
Chairman
30th August 2012

Chief Executive Officer's review



"The outlook for both our business and the emerging markets at present remains difficult to forecast. Euro problems seem likely to be with us for some time and will not be solved until there is more pain. Inevitably the solution will be for the underleveraged or good credits to assist the poor credits on terms that they find mutually acceptable. Meanwhile we will continue to find that we swing around in multiples of 10% (MXEF), just based upon emotion. We will continue to attempt to take advantage of these mood swings and will use these anomalies of mispricing as we have over many years."

Funds under Management ("FuM")

FuM ended the year at US$4.5 billion, having fallen from US$5.0 billion at the end of April due purely to a downturn in markets, with the MSCI Emerging Markets Index ("MXEF") falling by 11% during the last month of our financial year, and 15% in the final quarter. Disappointing as this was, the impact on results was limited, because fee income accrues throughout the year based (generally) on each of twelve month end valuation points, and I believe that the post-tax profit of £8.5 million (2011: £8.8 million) was a creditable return within the context of another year of relatively high market volatility.

Transition

As you are aware from previous shareholder communications, over the next year Doug Allison will be taking over the role of CEO from me. I will retain the position of Chief Investment Officer.

This transfer of responsibilities has been planned for over three years. I would like to wish Doug well in terms of his additional responsibilities. Doug joined CLIG in 1997 as Finance Director. Over the past fifteen years Doug and I have worked very closely together and with Tom Griffith and Carlos Yuste, who both joined in 2000, we have been very fortunate to have a consistent management team for twelve years.

With the same team but with transferred CEO responsibilities the face of CLIG will effectively remain the same hopefully until my retirement, which based upon current plans will be in 2017.

Andrew Davison has announced his intention to stand down from the Board at the AGM. I would like to record my thanks to Andrew for his contribution over many years, and to wish him a long and happy retirement. I am confident that David Cardale, who succeeds Andrew as Chairman having been a non-executive director for over five years, will provide a seamless transition.

Investment performance

This year has been a year of consolidation. After a poor start the Emerging Markets Closed-End Funds' (CEF) Group investment performance picked up towards the end of the financial year as a result of CEF's (a majority of which were in the US) announcing buy backs, tender offers, open endings and liquidations. Invariably this was in response to the wide discounts at which many of the securities within our universe were trading. While we have since given back some of that performance, and the CEF environment remains challenging, corporate actions seem likely to continue until discounts return to a more acceptable level. This year the focus will be to a greater extent on UK investment trusts. Meantime the Group's other products experienced different fortunes, with the Developed CEF and Frontier products performing strongly, but the Emerging Markets and Natural Resource equity strategies faring significantly less well.

CEF Discounts

Last year one of the themes of my CEO Statement was regarding the responsibilities and remuneration of specifically US CEF Directors.

In terms of the past year these responsibilities have been one of our key areas of focus. In excess of 75% of the transactions that have been announced as they relate to our clients assets have involved US Emerging Market CEF's. We would like to believe that not only has the oversupply of product started to be reduced but that the sector is in a state of improvement. One of the main complaints regarding the CEF industry is the unacceptably high volatility of share price performance relative to NAV performance. It seems extraordinary that CEF Boards do not understand that what is often tracking (NAV) investment performance relative to a relevant benchmark is associated with, on many occasions, in excess of 6% of share price volatility.

When this is compared with around 2% of share price volatility from an ETF one can see why retail investors can often find ETF's a better product. Having said that just about every ETF underperforms a comparable CEF benchmark over an extended period.

The raising of awareness amongst CEF Boards regarding standards generally, including accountability, openness, the quality of research information, profile, the quality of attribution information and outreach, are issues that many Boards unfortunately do not consider their responsibility. It's only when we and others make the point to CEF Boards that these are businesses – it's just that their business involves the provision of a portfolio – that Directors seem to start to understand that as businesses they have all of the requirements of a US corporation or a UK PLC.

The competitive positioning of CEF's

We would suggest that it is of paramount importance that CEF products need to be relevant and competitive with other comparable products in the marketplace. They need to be well designed, they need to be marketed, they need to be attractively priced and they need to perform well. Obviously in the event that Boards get push-back from Management regarding these issues then we would suggest that they should undertake what any Board of a corporation would do under similar circumstances, they should change the Management.

We are often asked what we consider to be fair value for a collection of well selected securities that outperform a relevant benchmark when a CEF is successfully marketed. Obviously the answer to this question is the same relative value as was placed on the Fund at the point of launch. That is to say as if the fund is as relevant as it was on the day of launch.

In our opinion CEF's are consumer products. But how many consumer products look the same even after five, let alone ten or in some instances 100 years! Our point is that they have to be made relevant for today's marketplace or go the way of tyrannosaurus rex.

Our Business and Employee Share Ownership

We have continued to manage our business very conservatively. We have continued to attempt to keep costs down. We do not spend shareholders' funds entertaining and we generally attempt to manage our business as if shareholders were present in our offices every day of the week. One reason I would suggest that expenses are kept down is because staff are either shareholders themselves or own shares via the CLIG ESOP. At present staff own (including ESOP ownership) 27.9% of CLIG shares, and 75 out of 82 of us are incentivised in this way (a handful of more recent recruits do not yet hold options). I would make the additional point that while my own ownership has reduced from a high of 20.2% to the present 13.5%, ownership by the other directors and staff has increased since the Group was first listed on AIM from 2.3% to 8.0% (excluding the ESOP).

As shareholders are aware, we run a business with a very simple business model. We collect fees from our clients for our services, we pay our bills which are both forecastable and to a great extent fixed. We don't use leverage, nor off-balance sheet instruments, nor do we trade derivatives as principal (other than occasional low level hedging). There are no associated companies or minority interests within the Group. We do not use tax havens. We do not handle client monies. We have a significant amount of cash in the bank relative to our size and we basically stick to what we know.

Corporate Governance

As noted in the Corporate Governance Report on pages 22 and 23, we have successfully completed an SSAE 16 examination of our internal controls. This internationally recognised standard reports on the design and operating effectiveness of the controls within a service organisation. As part of the examination, we developed control objectives for critical internal functions that support the key services offered to Clients.

Chief Executive Officer's review

Continued

Diversification

As shareholders are aware we have tried to diversify our business using the two skill-sets that we possess where we believe that we can add value, namely Closed-End Funds and Emerging Markets. Recent continuing volatility has meant that it's been a difficult environment for us to market new products. Potential clients have generally been more interested in focusing on existing issues rather than contemplating new risks via new managers.

While growth to date has been exclusively organic, we have looked at a number of potential acquisition opportunities in the past and it's probably fair to say that in recent times we have become increasingly active in that respect. This is a people business, so not only does the logic have to be there but the chemistry has to be right. The logic is probably in fact the easiest part. We have an infrastructure that has the capacity to support additional products and teams, we have the marketing resource, and we are keen to add to our Emerging Market capability, in particular as regards equities and perhaps bonds. Chemistry, or maybe the right word is culture, has tended to be the harder fit to find. My point is though that we continue to evaluate opportunities and we expect at some point to have something to show for our efforts.

Profit-share

With regard to remuneration we continue to distribute 30% of our profits as profit-share. Our staff, clients and shareholders understand this formulaic approach. It's a pity that this approach has not been embraced by the financial service industry generally. As it is, in many parts of the financial services industry it seems as if losses are not the responsibility of managers rather it's the shareholders who take the rap. Whilst our formulaic approach seems out of keeping with many in our industry, at least our shareholders have an idea that our returns go up and down together with theirs.

Outlook

The outlook for both our business and the emerging markets at present remains difficult to forecast. Euro problems seem likely to be with us for some time and will not be solved until there is more pain. Hopefully with more pain will come an awareness that kicking the can down the road (via a lack of leadership) does not work?

Inevitably the solution will be for the underleveraged or good credits to assist the poor credits on terms that they find mutually acceptable. This is what has happened on previous occasions such as, for example, the Asia Crisis and with Brady Bonds. Meanwhile we will continue to find that we swing around in multiples of 10% (MXEF) just based upon emotion.

We will continue to attempt to take advantage of these mood swings and will use these anomalies of mispricing as we have over many years.

I would like to thank staff for their support in what has been a challenging year.

B M Olliff

B M Olliff
Chief Executive Officer
30th August 2012

Business review

"We are pleased to report that City of London Investment Management Company Limited (CLIM) was recently notified by the China Securities Regulatory Commission of approval for a Qualified Foreign Institutional Investor account allocation of US$100 million."

Ongoing volatility over the period in global equity markets led many institutional investors to reduce their exposure to risk assets, including emerging markets. Our clients have continued to take a long term view, and net withdrawals over the 15 months to 30th August 2012 totalled less than US$400 million.

Rather than continuing to spend shareholders' funds on marketing initiatives in this environment, we have focused on retaining clients and building awareness of some of the new products with a limited number of consultants.

As we noted in last year's annual report, 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

Diversification efforts continue to prioritise the Developed closed-end fund strategy, with the third anniversary of the launch of this product in September 2012 representing a significant milestone with respect to marketing opportunities, particularly within the context of the consultant universe. The product continues to exhibit consistent outperformance. In order to extend the product offering, a new sub-fund was launched under the World Markets Umbrella Fund in Dublin in January for our Developed closed-end fund strategy. This will complement our US institutional fund launched last year. Global composite investment returns for the developed market closed-end fund strategy for the year ending 31st May 2012 were -16.5% versus -20.5% for the benchmark in USD and -10.8% versus -15% for the benchmark in GBP.

The Frontier Emerging Markets Fund has also consistently outperformed its benchmark since its inception in 2005, and is now beginning to attract the attention of investment consultants and institutional prospects. Composite investment returns for the Frontier Emerging Market closed-end fund strategy for the year ending 31st May 2012 were -9.9% versus -16.6% for the benchmark in USD and -3.6% versus -10.8% for the benchmark in GBP.

Also of note over the period was the performance of the Asia, ex Japan, small capitalisation stock strategy, which now has an 18 month track record.

We are pleased to report that City of London Investment Management Company Limited (CLIM) was recently notified by the China Securities Regulatory Commission of approval for a Qualified Foreign Institutional Investor (QFII) account allocation of US$100 million. CLIM's China A Share Fund has been invested in Chinese A Shares since 2003 and has generated first quartile

Business review

Continued

performance over all annualised periods since inception. We will be marketing the new QFII allocation to prospects beginning immediately.

Performance

Global composite investment returns for the emerging market closed-end fund strategy for the year ending 31st May 2012 were -21.7% versus -19.9% for MXEF in USD and -16.3% versus -14.5% for MXEF in GBP. Underperformance was attributable to ongoing widening discounts to net asset value (NAV) across the emerging markets closed-end fund universe. NAV performance also contributed to underperformance.

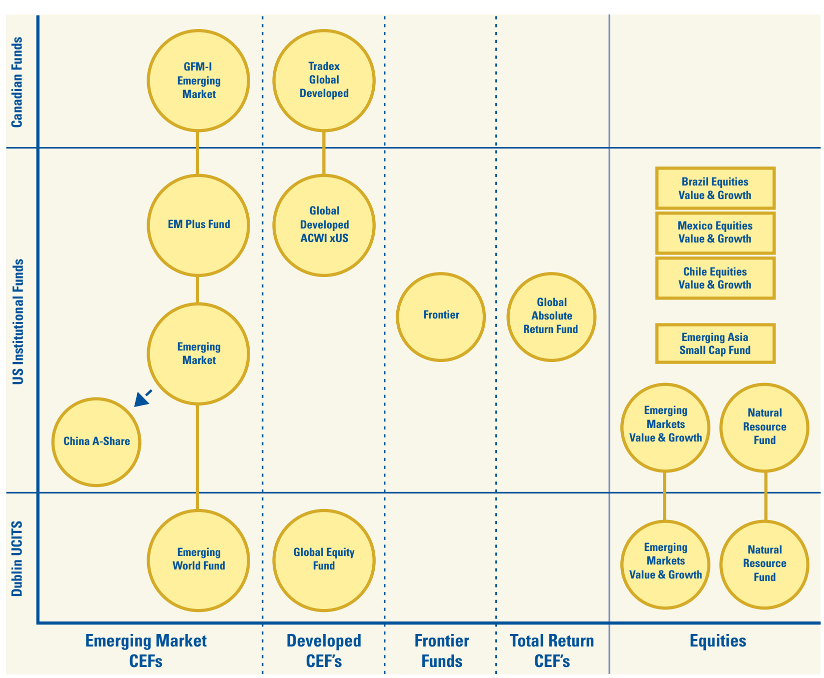
The investment team is engaging with boards of directors in order to improve corporate governance and reduce the number of shares in issue as a means to narrow historically wide discounts. We expect this focus on corporate governance to add an increment of outperformance above and beyond the alpha generated by the trading of discounts.

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 Developed closed-end fund capability, Frontier Emerging Market and China A Share closed-end fund capability will be the focus of our product diversification and business development activities.

Carlos Yuste
Business Development Director
30th August 2012

Business diversification – products map



Financial review

"Over the next eight years the fees payable to North Bridge Capital will run-off in accordance with the contractual ten year trail, which all things being equal will result in a higher net fee margin for the Group."

Consolidated income statement and statement of comprehensive income

The easiest way to understand the Group's income statement is to think in terms of net fee income, represented by gross fee income less "direct" costs (commissions payable and custody fees), and then deduct the various operating costs that are more indirect in nature (which could be referred to as "overheads"). Expanding on some of these elements:

Gross fee income of £34.1 million (2011: £36.5 million) is the management fees charged by the Group to its client accounts, some of which are in the form of commingled funds and others of which are segregated accounts (i.e. specific to a single client).

Commissions payable are fees that we pay to agents for the introduction of clients, which this year amounted to £5.2 million (2011: £5.8 million). All bar a tiny part of this relates to North Bridge Capital, who until October 2010 were engaged on the basis that they would receive 20% of the fee income charged to the client, for a "trail" period of ten years from first investment.

Custody fees of £1.4 million (2011: £1.2 million) are the fees that we pay to custodian banks for the safekeeping and administration of the assets of the commingled funds (segregated account clients pay their own custody fees).

The net of the above elements is £27.5 million (2011: £29.5 million), and this is what I would describe as "net fee income". As a percentage of the funds under management ("FuM"), net fee income is currently about 0.87%, or 87 basis points, which compares to the 86 basis points noted in last year's report. The reason for the slight increase is that there have been a small number of withdrawals related to accounts which remain subject to the North Bridge Capital charge (i.e. they are less than 10 years old), some of which have effectively been replaced by new money which is not subject to that charge, thereby nudging the weighted average net fee slightly higher. Over the next eight years the fees payable to North Bridge Capital will run-off in accordance with the contractual ten year trail, which all things being equal will result in a higher net fee margin for the Group. The table below illustrates the rate of run off of the North Bridge Capital commission, based upon current FuM and market levels.

North Bridge Capital commission run-off (based on FUM at 31st July 2012)

Financial year	£m (@ US$1.55/£1)
2012-13	4.4
2013-14	4.2
2014-15	3.7
2015-16	2.9
2016-17	2.5
2017-18	2.0
2018-19	1.1
2019-20	0.3
2020-21	0.1

"Overheads" then total £11.1 million (2011: £10.1 million), the largest component of which is staff costs (essentially salaries, benefits, and related

Financial review

Continued

employment taxes, *but in this context excluding profit-share payments)* at £6.8 million (2011: £ 6.0 million).

Net fee income less overheads therefore amounted to £16.4 million (2011: £19.4 million), and it is at this measure of profit that the 30% profit-share provision is applied, which with associated employment taxes totalled £5.4 million (2011: £6.1 million), thereby arriving at operating profit of £11.0 million (2011: £12.9 million, net also of listing costs of £0.4 million).

Finally, there is interest and investment income of £0.4 million (2011: £0.2 million). This is essentially the gain of £0.4 million (2011: £nil) on the disposal of the investment in Enhanced Investment Products, which was described fully in the Group's Half Year Report. Note that the potential additional gain of US$0.5 million, which was contingent upon certain outcomes unrelated to the Group, was unfortunately not realised. In addition, interest income of £0.1 million was offset by losses on traded options at a similar level.

Pre-tax profit rounded to £11.5 million (2011: £13.1 million). Corporation taxes at £3.0 million (2011: £4.4 million) were somewhat reduced by one-off adjustments with respect to prior year accruals for taxes on the Group's US and Singapore operations, each at around £0.2 million.

Post-tax profit of £8.5 million (2011: £8.8 million) is adjusted downwards by £0.7 million to arrive at total comprehensive income of £7.8 million (2011: £9.2 million), the adjustment being the downward revaluation of the Group's seed investments (2011: upward revaluation of £0.5 million, less £0.1 million taken as realised gains).

Consolidated statement of financial position and statement of changes in equity

The principal components of net assets of £15.3 million (2011: £14.3 million) are "available-for-sale financial assets" of £6.9 million (2011: £5.8 million) and cash of £5.4 million (2011: £6.1 million), with these two line items accounting for 92% of the net current assets of £13.4 million (2011: 98% of net current assets of £12.1 million). As noted in previous reviews, the title "available-for-sale financial assets" is potentially confusing, because these seed investments in our diversification products are intended to be long term – typically not less than three years – and would be liquidated only at the point they are no longer needed, which would be either because the relevant fund had attracted third party investment or, perhaps, because the Group had decided that the product in question should be withdrawn from distribution. At the end of the year the seed investments were spread across six funds, spanning the developed closed-end fund strategy, the absolute return closed-end fund strategy, and natural resource and emerging markets equities products.

The balance of net current assets is represented by the excess of trade and other receivables over trade and other payables, including tax. Non-current assets comprise property and equipment of £0.6 million (2011: £0.5 million), capitalised software licences of £0.4 million (2011: £0.4 million), and the deferred tax asset of £0.9 million (2011: £1.4 million). The latter is an estimate of the future corporation tax savings to be derived from the exercise of share options in issue at the financial year end.

The main factor behind the £1.0 million increase in net assets (2011: £3.7 million increase) is of course the profit for the year of £8.5 million (2011: £8.8 million), net of dividends paid during the year which totalled £6.1 million (2011: £5.8 million). The dividend comprised the 16p final dividend for 2010/11 plus the 8p interim dividend for the current year (2011: 15p final for 2009/10 plus 8p interim for 2010/11).

Adverse market conditions, particularly in the last quarter of the year, resulted in a downward revaluation of the seed investments referred to above, which had the effect of reducing net assets by £0.7 million (2011: upward revaluation of £0.4 million, net of realised gains).

The remainder of the changes in net assets result in one form or another from transactions related to the Group's shares. Shares to the value of £0.5m (2011: £1.5 million) were purchased via the Group's

ESOP trust, this outlay being offset by the proceeds of share option exercises at £0.2 million, including corporation tax allowances (2011: £1.8 million). The share option reserve decreased by £0.3m net of the associated deferred tax provision (2011: £0.0 million, rounded).

Consolidated cash flow statement

Net cash generated from operating activities was £7.7 million (2011: £9.6 million), once again illustrating that there are relatively few significant timing differences that would cause cash flow to deviate materially from profits. The principal applications for this cash have been dividends of £6.1 million (2011: £5.8 million), and net additions to the Group's seed investments of £2.0 million (2011: £1.7 million). Taking into account the purchase of shares for the ESOP and the proceeds of share option exercises, as mentioned above, the overall effect was a decrease of £0.6 million in cash (2011: increase of £1.1 million).

Currency exposure

As in past years, the Group's income remains almost exclusively US dollar denominated, while expenses are incurred in sterling, Singapore dollars, and United Arab Emirates dirhams, as well as US dollars, reflecting the locations of the four offices through which the business is conducted. This would superficially suggest a potentially significant exposure to US dollars, but in reality the position is not that simple. Fee income is denominated in US dollars, and is assessed by reference to client account net asset values which are expressed in US dollar terms, but the currencies that underlie those net asset values, notwithstanding their translation into US dollars for valuation purposes, are to all intents and purposes those of the emerging market economies around the world to which our funds are exposed. In other words the US dollar is a tool to provide the measure of value and therefore the calculation of fees, but it is not the true currency base of the Group's fee income.

Putting this to one side, it is nevertheless true to say that *at a given level of FuM,* the US dollar/sterling exchange rate is a major determinant of reported income, because that income will be received in US dollars and translated for reporting purposes into sterling. Within this context, the impact of the US dollar/sterling exchange rate upon profit can be illustrated in the form of the table below, which takes the components of the profit figure as outlined above (net fee income; overheads; profit-share; tax), and on the assumption that those components are stable at the levels shown (which reflect current trading conditions), shows the resultant post-tax profit expectation at the specific levels of FuM and of the US dollar/sterling exchange rate listed.

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

FuM US$bn:	4.0	4.5	5.0	5.5
US$/£		Post-tax, £m		
1.45	5.9	7.4	8.8	10.2
1.50	5.6	7.0	8.4	9.8
1.55	5.4	6.7	8.0	9.4
1.60	5.1	6.4	7.7	9.0
1.65	4.9	6.1	7.4	8.7

Assumes:
1. Average net fee 87 bp's
2. Annual operating costs £4.7m plus US$8.7m plus S$1.7m (£1 = S$2.00)
3. Profit-share 30%
4. Average tax 32%

If the Group were to hold significant net assets in currencies other than sterling, the calculations in the table would potentially be affected by the translation effects of currency movements. In order to reduce or avoid unpredictable distortion of this nature, the Group's balance sheet exposure to the US dollar is hedged by forward sales of US dollars for sterling. At 31st May these forward sales totalled US$11.8 million, with a weighted average exchange rate of US$1.59 to £1 (2011: US$13.5 million at a weighted average rate of US$1.58 to £1).

Doug Allison
Finance Director
30th August 2012

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.

G A Robb (retired 19.01.12)

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.

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.

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 01.06.11)

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 for international 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.

L Ruddick (appointed 19.01.12)

NON EXECUTIVE DIRECTOR

Lynn Ruddick is a Fellow of the Chartered Association of Certified Accountants and a member of the Securities Institute. She worked for many years as an investment manager, and before retiring from Merrill Lynch Investment Managers in 2004, she headed their investment trust business unit. Lynn is currently a non-executive director of four investment trust companies and is an investment committee member of a health insurer. She also has an independent role on the trustee board or investment committee of three pension funds.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31st May 2012.

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 36 accounts (2011: 33 accounts) with a total of £2,908 million (2011: £3,540 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 Chief Executive Officer's review, the Business review and the Financial review on pages 4 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 Group's diversification strategy, as described in the Business Review on pages 9 and 10, 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 26 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 32, 34 and 35. The Company has paid dividends of £6,052,068 during the year (2011: £5,786,600). The final dividend for the year to 31st May 2012 of 16p per share (2011: 16p) has been proposed, payable on 19th October 2012, subject to shareholder approval, to shareholders who are on the register of members on 5th October 2012.

Annual General Meeting

The Company's AGM will be held at 11.30am on Monday 1st October 2012 at 77 Gracechurch Street, London EC3V 0AS.

Directors

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

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

On 19th January 2012 George Robb retired from the Board and Lynn Ruddick was appointed as a non-executive Director.

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

	Ordinary Shares of 1p each 2012	1p each 2011
B M Olliff	**3,632,580**	3,632,580
D F Allison	**414,375**	414,375
C M Yuste	**314,925**	314,925
T W Griffith	**218,625**	268,625
D M Cardale *(non-executive)*	**106,250**	106,250
A J Davison *(Chairman) (non-executive)*	**104,500**	104,500
A S Bufferd *(non-executive)*	**30,000**	30,000
R A Dartnell *(non-executive)*	**20,000**	–
L C Ruddick *(non-executive)*	**4,000**	–

Substantial shareholdings

At 31st July 2012, 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	2,615,354	9.7
Hargreave Hale	2,311,540	8.6
The City of London Employee Share Option Trust	1,711,867	6.4
Slater Investments	1,388,727	5.1
Kabouter Management	1,127,888	4.2
Legal & General Investment Management	838,938	3.1

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 2,685,845 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 (2011: nil). The Company is seeking a renewal of this authority at the 2012 AGM.

The number of own shares purchased by the Company's employee benefit trust during the year was 150,000 (2011: 365,000) at a cost of £0.5 million (2011: £1.5million). The number of own shares held by the trust as at 31st May 2012 was 1,711,867 (2011: 1,632,167), of which, 1,654,242 shares (2011: 1,421,292) were subject to options in issue. The trust has waived its entitlement to receive dividends in respect of the shares held.

Directors' report

Continued

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 2012, the creditor days were nil (2011: nil).

Corporate governance

The UK Corporate Governance Code is publically available on the Financial Reporting Council's website. A report on the Group's corporate governance and compliance with the provisions of the UK Corporate Governance Code, is set out on pages 19 to 23.

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
30th August 2012

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 UK Corporate Governance Code has applied to the Company from the 1st June 2011. The Company considers itself a smaller company for the purposes of compliance with the Code.

The Board is committed to high standards of corporate governance. There is however a small number of provisions within the UK Corporate Governance Code that the Board considers to be incompatible with the nature and size of the Company's operations, and these are described below.

Remuneration policy

The UK Corporate Governance 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 UK Corporate Governance 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 UK Corporate Governance 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 UK Corporate Governance 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 licence firm, the Company is classified as a 'proportionality Tier 4' firm. Proportionality Tier 4 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 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 of 31st May 2012 the dilutive awards outstanding represented 2.0% of issued share capital (2011: 2.1%).

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 2012 the EBT holding comprises 6.4% of issued share capital (2011: 6.1%).

Corporate governance report

Continued

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 the Board intends to continue to maintain a flexible approach to share incentives and to seek to encourage significant employee ownership. The Board believes that this policy is consistent with both client expectations and shareholder objectives.

The Board

The UK Corporate Governance 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 UK Corporate Governance 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 UK Corporate Governance Code, and the composition of the Board and balance between executive and non-executive Directors is kept under review.

At the time of his appointment as Chairman, Andrew Davison met the independence criteria set out in the UK Corporate Governance Code, as do the four non-executive Directors.

The UK Corporate Governance 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 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. There is a formal schedule of matters specifically reserved for the Board, which 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.

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 UK Corporate Governance 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 UK Corporate Governance 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 2012 the committee met on two occasions, and composition of the Board's Committees and the appointment of a new non-executive Director was discussed. While an external search consultancy was considered in respect of this appointment, it was not used because the committee identified a candidate by way of arm's length introduction who was considered to have the experience and attributes that the committee and the Board had identified as necessary to complement the existing Board.

The CEO succession planning was discussed in prior years, and the Committee had recommended that CEO responsibilities should pass from Barry Olliff to Doug Allison in 2013.

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 Andrew Davison, Allan Bufferd, Rian Dartnell, Lynn Ruddick and David Cardale who is the Chairman of the Committee. George Robb served as Chairman of the Committee up until his retirement on 19th January 2012. The UK Corporate Governance 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 UK Corporate Governance 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 2012 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 Committee also has responsibility for reviewing the Company's arrangements on whistle-blowing, ensuring that appropriate arrangements are in place for employees to be able to raise, in confidence, matters of possible impropriety, with suitable subsequent follow-up action.

Corporate governance report

Continued

The membership of the Company's Audit Committee comprises four independent non-executive Directors, namely Lynn Ruddick, David Cardale, Allan Bufferd, and Rian Dartnell. Andrew Davison stepped down from membership of the Committee and Lynn Ruddick was appointed Chairman of the Committee from 10th February 2012, replacing David Cardale who remains a member of the Committee. The UK Corporate Governance 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 Lynn Ruddick, as a Certified Accountant, satisfies this requirement. The Company therefore considers that it complies with the UK Corporate Governance 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 2012 the committee met three times.

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	Nominations Committee	Remuneration Committee	Audit Committee
Total number of meetings between 1st June 2011 and 31st May 2012	6	2	4	3
Attendance:				
Doug Allison	6	–	–	–
Allan Bufferd	6	2	4	3
David Cardale	5	2	4	3
Rian Dartnell (appointed 1st June 2011)	5	–	3	1
Andrew Davison	6	2	4	3
Tom Griffith	6	–	–	–
Barry Olliff	6	–	–	–
George Robb (retired 19th January 2012)	3	–	3	1
Lynn Ruddick (appointed 19th January 2012)	2	–	–	1
Carlos Yuste	6	–	–	–

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 maintains 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.

City of London Investment Management Company Limited (CLIM) has successfully completed the Type 2 Statement on Standards for Attestation Engagements (SSAE) no. 16 examination of controls. SSAE 16, "Reporting on Controls at a Service Organisation" is a standard set by the American Institute of Certified Public Accountants (AICPA) that effectively replaces SAS 70 as the authoritative guidance for reporting on service organisations. SSAE 16 was drafted with the intention and purpose of updating the US service organisation reporting standard so that it mirrors and complies with the new international service organisation reporting standard – ISAE 3402. Specifically, SSAE 16 is an attestation standard geared towards addressing engagements conducted by practitioners (known as "service auditors") on service organisations for purposes of reporting on the design of controls and their operating effectiveness.

CLIM's examination was performed by a recognised independent auditing firm, and conducted between 1st December 2011 and 31st May 2012. As part of the examination, CLIM developed control objectives for critical internal functions that support its key services offered to clients, including:

- New account setup and maintenance
- Trading and settlement
- Subscriptions and redemptions
- New security setup and maintenance
- Valuations
- Corporate actions
- Reconciliations
- Client reporting
- Account fees
- System software change management
- Application change management
- Physical access
- Logical access
- Data transmissions
- Computer operations
- Physical environment
- Backup and recovery

The Board and the Audit Committee have considered the need for an internal audit function and have 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. So far as possible, all of the Directors attend the Annual General Meeting either in person or by video-conference.

Rights of the shareholder

The Company is financed by 26,878,450 (2011: 26,858,450) £0.01 ordinary shares carrying one vote per share and a right to dividends.

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 UK Corporate Governance 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 Andrew Davison, Allan Bufferd, Rian Dartnell (from September 2011), Lynn Ruddick (from March 2012) and David Cardale who is the Chairman of the Committee. George Robb served as Chairman of the Committee up until his retirement on 19th January 2012. The UK Corporate Governance 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 UK Corporate Governance 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 2012 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.

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:

Name	Date of contract	Notice period from company	Notice period from Director	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, but are engaged under letters of appointment. 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 last reviewed in September 2010. The following are the annual fees applicable:

	£
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:

David Cardale	6th April 2006
Andrew Davison	6th April 2006
Allan Bufferd	24th June 2010
Rian Dartnell	1st June 2011
Lynn Ruddick	19th January 2012

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 UK Corporate Governance 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. Share options are issued periodically to executive Directors and employees, but non-executive Directors are not eligible to receive options. The excercise price of the options is the closing mid-market price on the day prior to issue.

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 of 31st May 2012 the dilutive awards outstanding represented 2.0% of issued share capital (2011: 2.1%).

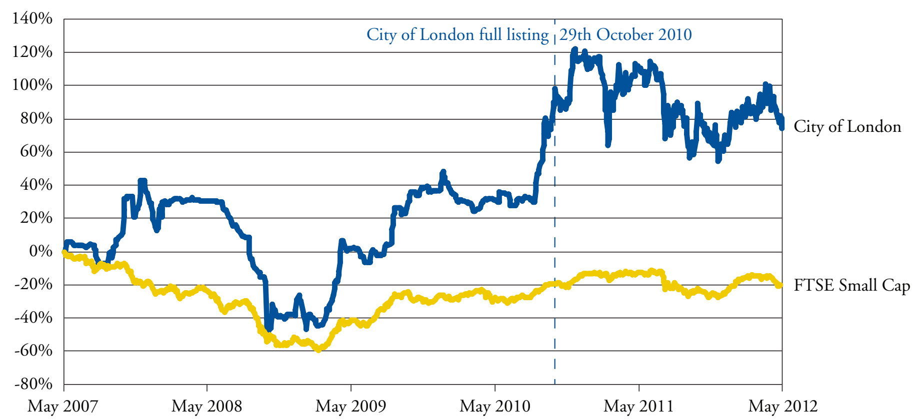
In addition, the ABI Guidelines recommend that no more than 5% of a company's issued share capital be held in an employee benefit trust (EBT). As of 31st May 2012 the EBT holding comprises 6.4% of issued share capital (2011: 6.1%).

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. The Board believes that a flexible approach to share incentives, which encourages significant employee ownership, is consistent with both client expectations and shareholder objectives.

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 Company is a constituent of the FTSE Small Cap Index and the Board considers this to be an appropriate index against which to measure performance 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 2012, 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 2012



Directors' interests and remuneration (audited information)

(a) Directors' interests in share options as at 31st May 2012

	Number				Exercise	Market price		
	Total 2011	Exercised during the year	Issued during the year	Total 2012	price £	at exercise £	Date from which exercisable	Expiry date
B M Olliff	12,000	–	–	12,000	2.75	–	1st Oct 2011	1st Oct 2018
	8,000	–	–	8,000	2.30	–	5th Jun 2012	5th Jun 2019
	20,000	–	–	20,000				
D F Allison	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
	–	–	6,000	6,000	3.4875	–	4th Nov 2014	4th Nov 2021
	45,000	–	6,000	51,000				
T W Griffith	16,650*	(16,650)	–	–	0.45	3.6537	13th Sept 2004	13th Sept 2011
	31,300*	–	–	31,300	0.26	–	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
	–	–	6,000	6,000	3.4875	–	4th Nov 2014	4th Nov 2021
	115,450	(16,650)	6,000	104,800				
C M Yuste	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
	–	–	6,000	6,000	3.4875	–	4th Nov 2014	4th Nov 2021
	67,500	–	6,000	73,500				

*Options granted before appointment to Director.

The closing market price of the Company's ordinary shares at 31st May 2012 was £3.50 (2011: £4.35) and the price moved during the year between a low of £3.04 and a high of £4.40 (2011: low £2.735 high £4.615).

Remuneration report

Continued

(b) Remuneration

The remuneration of the Directors who held office during the year ended 31st May 2012 is set out below:

	Fees/salary £	Profit share £	Health insurance £	Total 2012 £	Total 2011 £	Pension 2012 £	Pension 2011 £
Non-executive							
A J Davison	45,000	–	–	45,000	41,000	–	–
D M Cardale	37,000	–	–	37,000	32,333	–	–
A S Bufferd	30,000	–	–	30,000	27,667	–	–
R A Dartnell*	30,000	–	–	30,000	–	–	–
G A Robb**	20,000	–	–	20,000	27,667	–	–
L C Ruddick***	11,038	–	–	11,038	–	–	–
O I Ashur****	–	–	–	–	13,417	–	–
	173,038	–	–	173,038	142,084	–	–
Executive							
B M Olliff	226,372	754,575	3,557	984,504	1,182,257	28,297	28,506
D F Allison	150,000	415,000	3,240	568,240	650,229	18,750	18,531
T W Griffith	152,801	260,957	3,557	417,315	469,604	19,100	18,608
C M Yuste	152,173	260,957	3,557	416,687	468,971	19,022	18,529
	681,346	1,691,489	13,911	2,386,746	2,771,061	85,169	84,174
Total	854,384	1,691,489	13,911	2,559,784	2,913,145	85,169	84,174

* Appointed 1st June 2011
** Retired 19th January 2012
*** Appointed 19th January 2012
**** Resigned 14th August 2010

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

D M Cardale
Chairman of the Remuneration Committee
30th August 2012

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 auditor's 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 2012 which are set out on pages 32 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 29, 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 2012 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 UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Timothy West
Senior Statutory Auditor
31st August 2012

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 2012

	Note	Total 2012 £	Total 2011 £
Revenue	3(ix)	34,142,706	36,494,163
Administrative expenses			
Staff costs	5(b)	12,177,561	12,034,066
Commissions payable		5,194,630	5,785,441
Custody fees payable		1,433,342	1,158,086
Other administrative expenses		3,955,738	3,760,057
Main market listing costs		–	437,778
Depreciation and amortisation		347,591	370,902
		(23,108,862)	(23,546,330)
Operating profit	7	11,033,844	12,947,833
Interest receivable and similar gains	8	427,670	122,322
Reversal of impairment of seed investments	9	–	79,372
Profit before taxation		11,461,514	13,149,527
Income tax expense	10	(2,963,660)	(4,380,204)
Profit for the year		8,497,854	8,769,323
Basic earnings per share	11	33.8p	35.1p
Diluted earnings per share	11	32.8p	34.0p

Consolidated and Company statement of comprehensive income

For the year ended 31st May 2012

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Profit for the year	8,497,854	8,769,323	6,273,086	7,610,444
Fair value (losses)/gains on available-for-sale investments*	(720,952)	461,154	(720,952)	461,082
Release of fair value (gains) on disposal of available-for-sale investments*	(14,128)	(62,394)	(14,128)	(62,394)
Other comprehensive income	(735,080)	398,760	(735,080)	398,688
Total comprehensive income for the year attributable to equity holders of the company	7,762,774	9,168,083	5,538,006	8,009,132

*Net of deferred tax, detailed in note 19.

Consolidated and Company statement of financial position

31st May 2012

	Note	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Non-current assets					
Property and equipment	12	607,437	543,748	217,666	277,946
Intangible assets	13	352,319	363,684	–	–
Other financial assets	14	31,354	73,210	886,076	828,777
Deferred tax asset	15	929,692	1,380,017	182,880	266,214
		1,920,802	2,360,659	1,286,622	1,372,937
Current assets					
Trade and other receivables	16	5,345,334	5,576,011	279,491	1,114,332
Current tax receivable		–	–	657,709	624,824
Available-for-sale financial assets	17	6,924,552	5,807,787	6,924,552	5,807,787
Cash and cash equivalents		5,399,869	6,104,673	147,933	161,683
		17,669,755	17,488,471	8,009,685	7,708,626
Current liabilities					
Trade and other payables	18	(3,891,267)	(4,013,419)	(6,489,568)	(5,224,742)
Current tax payable		(410,705)	(1,340,386)	–	–
Creditors, amounts falling due within one year		(4,301,972)	(5,353,805)	(6,489,568)	(5,224,742)
Net current assets		13,367,783	12,134,666	1,520,117	2,483,884
Total assets less current liabilities		15,288,585	14,495,325	2,806,739	3,856,821
Non-current liabilities					
Deferred tax liability	19	–	(235,129)	–	(235,129)
Net assets		15,288,585	14,260,196	2,806,739	3,621,692
Capital and reserves					
Share capital	20	268,784	268,584	268,784	268,584
Share premium account		1,980,084	1,975,084	1,980,084	1,975,084
Investment in own shares		(4,560,603)	(4,183,659)	(4,560,603)	(4,183,659)
Fair value reserve		(65,869)	669,211	(65,869)	669,211
Share option reserve		1,267,553	1,621,936	680,509	622,646
Capital redemption reserve		18,562	18,562	18,562	18,562
Retained earnings		16,380,074	13,890,478	4,485,272	4,251,264
Total equity		15,288,585	14,260,196	2,806,739	3,621,692

Approved and authorised for issue by the Board of Directors on 30th August 2012.

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 2012

	Share capital £	Share premium account £	Investment in own shares £	Fair value reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
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 1st June 2011	268,584	1,975,084	(4,183,659)	669,211	1,621,936	18,562	13,890,478	14,260,196
Profit for the year	–	–	–	–	–	–	8,497,854	8,497,854
Comprehensive income	–	–	–	(735,080)	–	–	–	(735,080)
Total comprehensive income	–	–	–	(735,080)	–	–	8,497,854	7,762,774
Transactions with owners								
Share option exercise	200	5,000	136,632	–	(18,685)	–	18,685	141,832
Purchase of own shares	–	–	(513,576)	–	–	–	–	(513,576)
Share-based payment	–	–	–	–	195,940	–	–	195,940
Deferred tax	–	–	–	–	(531,638)	–	(8,267)	(539,905)
Current tax on share options	–	–	–	–	–	–	33,392	33,392
Dividends paid	–	–	–	–	–	–	(6,052,068)	(6,052,068)
Total transactions with owners	200	5,000	(376,944)	–	(354,383)	–	(6,008,258)	(6,734,385)
At 31st May 2012	**268,784**	**1,980,084**	**(4,560,603)**	**(65,869)**	**1,267,553**	**18,562**	**16,380,074**	**15,288,585**

Company statement of changes in equity

31st May 2012

	Share capital £	Share premium account £	Investment in own shares £	Fair value reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
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 1st June 2011	268,584	1,975,084	(4,183,659)	669,211	622,646	18,562	4,251,264	3,621,692
Profit for the year	–	–	–	–	–	–	6,273,086	6,273,086
Comprehensive income	–	–	–	(735,080)	–	–	–	(735,080)
Total comprehensive income	–	–	–	(735,080)	–	–	6,273,086	5,538,006
Transactions with owners								
Share option exercise	200	5,000	136,632	–	(18,685)	–	12,765	135,912
Purchase of own shares	–	–	(513,576)	–	–	–	–	(513,576)
Share-based payment	–	–	–	–	195,940	–	–	195,940
Deferred tax	–	–	–	–	(119,392)	–	(5,662)	(125,054)
Current tax on share options	–	–	–	–	–	–	5,887	5,887
Dividends paid	–	–	–	–	–	–	(6,052,068)	(6,052,068)
Total transactions with owners	200	5,000	(376,944)	–	57,863	–	(6,039,078)	(6,352,959)
At 31st May 2012	**268,784**	**1,980,084**	**(4,560,603)**	**(65,869)**	**680,509**	**18,562**	**4,485,272**	**2,806,739**

Consolidated and Company cash flow statement

For the year ended 31st May 2012

	Note	Group		Company	
		2012 £	2011 £	2012 £	2011 £
Cash flow from operating activities					
Operating profit		11,033,844	12,947,833	130,051	166,974
Adjustments for:					
Depreciation charges		336,226	325,442	145,257	152,136
Amortisation of intangible assets		11,365	45,460	–	–
Share-based payment charge		195,941	130,241	87,168	56,630
Translation adjustments		(108,680)	53,320	(222,144)	238,009
(Profit)/loss on disposal of fixed assets		(72)	–	–	–
Cash generated from operations before changes in working capital		11,468,624	13,502,296	140,332	613,749
Decrease/(increase) in trade and other receivables		230,677	(1,210,012)	834,841	(310,785)
(Decrease)/increase in trade and other payables		(122,152)	125,638	1,264,826	143,274
Cash generated from operations		11,577,149	12,417,922	2,239,999	446,238
Interest received		62,875	28,258	797	551
Taxation (paid)/received		(3,928,729)	(2,819,116)	96,525	81,040
Net cash generated from operating activities		7,711,295	9,627,064	2,337,321	527,829
Cash flow from investing activities					
Dividends received from subsidiaries		–	–	5,633,000	7,749,000
Purchase of property and equipment		(400,163)	(181,533)	(84,977)	(70,616)
Proceeds from sale of property and equipment		320	–	–	–
Purchase of non-current financial assets		(6,491)	(608)	(3,246)	–
Proceeds of non-current financial assets		483,434	–	483,434	–
Purchase of current financial assets		(2,132,613)	(2,307,698)	(2,132,613)	(2,307,698)
Proceeds from sale of current financial assets		178,438	560,204	178,438	560,204
Net cash (used)/generated from investing activities		(1,877,075)	(1,929,635)	4,074,037	5,930,890
Cash flow from financing activities					
Proceeds from issue of ordinary shares		5,200	343,313	5,200	343,313
Ordinary dividends paid	21	(6,052,068)	(5,786,600)	(6,052,068)	(5,786,600)
Purchase of own shares by employee share option trust		(513,576)	(1,526,831)	(513,576)	(1,526,831)
Proceeds from sale of own shares by employee share option trust		136,632	414,431	136,632	414,431
Net cash used in financing activities		(6,423,812)	(6,555,687)	(6,423,812)	(6,555,687)
Net (decrease)/increase in cash and cash equivalents		(589,592)	1,141,742	(12,455)	(96,968)
Cash and cash equivalents at start of period		6,104,673	4,774,473	161,683	255,677
Effect of exchange rate changes		(115,212)	188,458	(1,295)	2,974
Cash and cash equivalents at end of period		5,399,869	6,104,673	147,933	161,683

Notes to the financial statements

For the year ended 31st May 2012

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 2012 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 ("EU") 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 certain financial assets held by the Group that are reported at fair value. The Group and Company financial statements have been prepared on a going concern basis.

New IFRS Standards and Interpretations

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

IFRS 7 Financial instruments: disclosures – Amendments effective for annual periods beginning on or after 1st July 2011 comprise additional disclosures on transfer transactions of financial assets, including possible effects of any risks that may remain with the transferor of the assets. Additional disclosures are also required if a disproportionate number of transfer transactions are undertaken around the end of a reporting period. The adoption of the amendments is not expected to have a material impact on the Group's financial statements.

At 31st May 2012 there are a number of other Standards and Interpretations, and revisions to existing Standards and Interpretations, including the 2010 improvements project, in issue but not in force or adopted by the EU and so these have not been disclosed.

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 24.

Intangible assets

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

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 2012 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 14.

Notes to the financial statements

Continued

2 Basis of consolidation continued

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).

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 financial statements. 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.

(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.

3 Significant accounting policies continued

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

(iv) Trade receivables

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

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand, deposits with an original maturity of three months or less 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.

Notes to the financial statements

Continued

3 Significant accounting policies continued

(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.

(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.

(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 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 £	UK £	Europe (ex UK) £	Other £	Total £
Year to 31st May 2012						
Revenue	29,050,781	654,182	2,680,574	1,757,169	–	34,142,706
Non-current assets:						
Property and equipment	389,771	–	191,794	–	25,872	607,437
Intangible assets	352,319	–	–	–	–	352,319
Year to 31st May 2011						
Revenue	29,968,449	1,708,514	2,618,857	2,198,343	–	36,494,163
Non-current assets:						
Property and equipment	265,802	–	193,824	–	84,122	543,748
Intangible assets	363,684	–	–	–	–	363,684

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.

5 Employees

(a) Average number of persons employed by the Group in the year:	2012 Number	2011 Number
Investment Management/Research	29	25
Performance and Attribution	5	5
Business Development/Marketing	5	3
Client Services	9	10
Administration, Accounts and Settlements	29	25
	77	68

(b) Staff costs incurred during the year in respect of these employees were:	2012 £	2011 £
Wages and salaries	5,286,569	4,622,477
Profit sharing payments	5,082,083	5,573,953
Social security costs	738,168	845,599
Defined contribution pension costs	578,817	513,597
Share options charge	195,941	130,241
Other staff costs	295,983	348,199
	12,177,561	12,034,066

The Group made contributions of £578,817 (2011: £513,597) in the period to individual defined contribution pension schemes established for Directors and employees. There were no outstanding or prepaid contributions at 31st May 2012.

Notes to the financial statements

Continued

6 Directors

Directors' emoluments comprise:	2012 £	2011 £
Emoluments (excluding pension contributions and awards under share option schemes)	2,559,784	2,913,145
Pension contributions	85,169	84,174
Share option charge	24,189	19,905
Gains on exercise of share options	53,342	2,174,795

	2012 Number	2011 Number
Number of Directors on whose behalf pension contributions were paid during the year	4	4
Number of Directors who exercised share options during the year	1	4

Highest paid Director's remuneration:	2012 £	2011 £
Emoluments (excluding pension contributions and awards under share option schemes)	984,504	1,182,257
Pension contributions	28,297	28,506
Share option charge	1,338	1,996
Gains on exercise of share options	–	1,235,209

7 Operating profit

The operating profit is arrived at after charging/(crediting):	2012 £	2011 £
Depreciation of owned assets	336,226	325,442
Amortisation of intangible assets	11,365	45,460
Auditors' remuneration:		
Reporting accountants on move to main market	–	85,000
Statutory audit	65,470	57,761
Taxation services	18,123	15,488
Other services	7,211	9,763
Operating lease rentals:		
Land and buildings	349,858	386,168
Foreign exchange losses/(gains)	25,091	(10,366)
(Profit) on disposal of fixed assets	(72)	–

8 Interest receivable and similar gains

	2012 £	2011 £
Interest on bank deposit	62,875	28,258
Gain on sale of investments	364,795	94,064
	427,670	122,322

9 Reversal of impairment of seed investments

There was no impairment recognised during the year (2011: £79,372 write back of impairment).

10 Tax charge on profit on ordinary activities

(a) Analysis of tax charge on ordinary activities:	2012 £	2011 £
Tax at 26% (2011: 28%) based on the profit for the year	3,074,714	3,859,859
Double taxation relief	(1,656,439)	(1,971,573)
Deferred tax	(68,780)	(24,889)
Change in tax rate to 24% (2011: change in tax rate to 26%)	(18,097)	(19,830)
Adjustments in respect of prior years	(270,210)	4,791
Domestic tax total	1,061,188	1,848,358
Foreign tax for the current period	2,137,395	2,825,634
Adjustments in respect of prior years	(234,923)	(293,788)
Foreign tax total	1,902,472	2,531,846
Total tax charge in income statement	2,963,660	4,380,204

(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 – 26% (prior year – 28%). The differences are explained below:

	2012 £	2011 £
Profit on ordinary activities before tax	11,461,514	13,149,527
Tax at 26% (2011: 28%) thereon	(2,979,994)	(3,681,868)
Effects of:		
Unrelieved overseas tax	(480,956)	(854,061)
Expenses not deductible for tax purposes	(45,870)	(159,044)
Capital allowances less than depreciation	(50,886)	(57,754)
Prior period adjustments	505,133	288,997
Deferred tax	68,780	24,889
Impairment in seed investments not tax deductible	–	22,224
Change in tax rate to 24% (2011: change in tax rate to 26%)	18,097	19,830
Other	2,036	16,583
Total tax charge in income statement	(2,963,660)	(4,380,204)

On 21st March 2012 the Chancellor announced a reduction in the main rate of UK corporation tax to 24% with effect from 1st April 2012. The effect of the rate reduction has been reflected in the figures above.

11 Earnings per share

The calculation of earnings per share is based on the profit for the period of £8,497,854 (2011: £8,769,323) divided by the weighted average number of ordinary shares in issue for the year ended 31st May 2012 of 25,171,389 (2011: 24,998,168).

As set out in the Directors' report on page 17, the Employee Benefit Trust held 1,711,867 ordinary shares in the Company as at 31st May 2012. 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.

Notes to the financial statements

Continued

11 Earnings per share continued

The calculation of diluted earnings per share is based on the profit for the year of £8,497,854 (2011: £8,769,323) divided by the diluted weighted average of ordinary shares for the year ended 31st May 2012 of 25,917,327 (2011: 25,818,990).

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

	2012 Number of shares	2011 Number of shares
Weighted average number of shares – basic earnings per share	25,171,389	24,998,168
Effect of dilutive potential shares – share options	745,938	820,822
Weighted average number of shares – diluted earnings per share	25,917,327	25,818,990

12 Property and equipment

	2012				2011			
	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	178,766	1,567,252	335,504	2,081,522	166,031	1,440,733	293,225	1,899,989
Additions	17,074	126,941	256,148	400,163	12,735	126,519	42,279	181,533
Disposals	–	(331)	–	(331)	–	–	–	–
At 31st May	195,840	1,693,862	591,652	2,481,354	178,766	1,567,252	335,504	2,081,522
Accumulated depreciation								
At 1st June	142,330	1,248,763	146,681	1,537,774	114,626	992,432	105,274	1,212,332
Charge for the year	29,099	244,769	62,358	336,226	27,704	256,331	41,407	325,442
Disposals	–	(83)	–	(83)	–	–	–	–
At 31st May	171,429	1,493,449	209,039	1,873,917	142,330	1,248,763	146,681	1,537,774
Net book value								
At 31st May	24,411	200,413	382,613	607,437	36,436	318,489	188,823	543,748

	2012				2011			
Company								
Cost								
At 1st June	112,994	560,572	277,282	950,848	102,160	511,591	266,481	880,232
Additions	7,050	76,490	1,437	84,977	10,834	48,981	10,801	70,616
Disposals	–	–	–	–	–	–	–	–
At 31st May	120,044	637,062	278,719	1,035,825	112,994	560,572	277,282	950,848
Accumulated depreciation								
At 1st June	84,345	470,369	118,188	672,902	60,530	381,706	78,530	520,766
Charge for the year	22,937	80,254	42,066	145,257	23,815	88,663	39,658	152,136
Disposals	–	–	–	–	–	–	–	–
At 31st May	107,282	550,623	160,254	818,159	84,345	470,369	118,188	672,902
Net book value								
At 31st May	12,762	86,439	118,465	217,666	28,649	90,203	159,094	277,946

13 Intangible assets

Group	2012 Long term software licences £	2011 Long term software licences £
Cost		
At 1st June	454,605	454,605
Additions	–	–
At 31st May	454,605	454,605
Amortisation charge		
At 1st June	90,921	45,461
Charge for the year	11,365	45,460
At 31st May	102,286	90,921
Net book value		
At 31st May	352,319	363,684

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

14 Other financial assets (non-current)

Group	2012 Unlisted investments £	2011 Unlisted investments £
Cost		
At 1st June	73,210	76,679
Additions	6,491	608
Disposals	(48,685)	–
Fair value gains/(losses) recognised in other comprehensive income	338	(4,077)
At 31st May	31,354	73,210

	2012			2011		
Company	Unlisted investments £	Investment in subsidiary undertakings £	Total £	Unlisted investments £	Investment in subsidiary undertakings £	Total £
Cost						
At 1st June	66,522	762,255	828,777	69,873	760,067	829,940
Additions	3,246	117,890	121,136	–	80,767	80,767
Disposals	(48,685)	(15,037)	(63,722)	–	(152,578)	(152,578)
Impairment	–	–	–	–	73,999	73,999
Fair value (losses) recognised in other comprehensive income	(115)	–	(115)	(3,351)	–	(3,351)
At 31st May	20,968	865,108	886,076	66,522	762,255	828,777

The additions and disposals in investments in subsidiary undertakings reflect the allocation of share-based payments from the Company to its subsidiaries under IFRS 2.

Notes to the financial statements

Continued

14 Other financial assets (non-current) continued

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.

15 Deferred tax asset

	Share-based payments		Impairment/fair value		Total	
	Group £	Company £	Group £	Company £	Group £	Company £
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 1st June 2011	1,380,017	266,214	–	–	1,380,017	266,214
Credit/(charge) to income	68,780	20,920	–	–	68,780	20,920
Credit/(charge) to equity	(539,905)	(125,054)	20,800	20,800	(519,105)	(104,254)
At 31st May 2012	**908,892**	**162,080**	**20,800**	**20,800**	**929,692**	**182,880**

16 Trade and other receivables

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Trade receivables	**1,252,592**	210,154	**–**	–
Accrued income	**3,534,337**	4,320,512	**–**	–
Amounts owed by Group undertakings	**–**	–	**–**	807,466
Other debtors	**62,349**	471,688	**39,092**	43,488
Prepayments	**496,056**	573,657	**240,399**	263,378
	5,345,334	5,576,011	**279,491**	1,114,332

17 Available-for-sale financial assets

Group and Company	2012 £	2011 £
Unlisted investments at market value	6,924,552	5,807,787
Unlisted investments at cost	7,019,383	4,915,417

18 Trade and other payables

	Group		Company	
	2012 £	2011 £	2012 £	2011 £
Trade creditors	252,491	86,784	–	–
Sundry creditors	265,625	366	766	366
Amounts owed to Group undertakings	–	–	5,307,430	3,894,388
Other taxation and social security	169,823	93,432	169,823	93,432
Accruals and deferred income	3,203,328	3,832,837	1,011,549	1,236,556
	3,891,267	4,013,419	6,489,568	5,224,742

19 Deferred tax liability

Group and Company	£
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 1st June 2011	235,129
Decrease due to loss in fair value of available-for-sale investments	(230,165)
Released on disposal of available-for-sale investments	(4,964)
At 31st May 2012	–

20 Share capital

Group and Company	2012 No of shares	2011 No of shares
Authorised		
Ordinary shares of 1p each (2011: 1p each)	90,000,000	90,000,000
	£	£
Ordinary shares of 1p each (2011: 1p each)	90,000	90,000

20 Share capital continued

Group and Company	2012 £	2011 £
Allotted, called up and fully paid		
At start of year 26,858,450 (2011: 25,968,803) Ordinary shares of 1p each	268,584	259,688
Dilutive share options exercised; 20,000 (2011: 889,647)	200	8,896
At end of year 26,878,450 (2011: 26,858,450) Ordinary shares of 1p each	268,784	268,584

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

21 Dividend

	2012 £	2011 £
Dividends paid:		
Interim dividend of 8p per share (2011: 8p)	2,010,607	2,046,663
Final dividend in respect of year ended:		
31st May 2011 of 16p per share (2010: 15p)	4,041,461	3,739,937
	6,052,068	5,786,600

A final dividend of 16p per share has been proposed, payable on 19th October 2012, subject to shareholder approval, to shareholders who are on the register of members on 5th October 2012.

22 Profit of the Parent Company

As permitted by section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial period, amounted to £6,273,086 (2011: £7,610,444).

23 Operating lease commitments

At 31st May 2012 the Group had the following commitments for future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	Land and buildings 2012 £	Land and buildings 2011 £	Land and buildings 2012 £	Land and buildings 2011 £
Within one year	356,131	349,173	174,384	174,384
In the second to fifth years inclusive	196,286	470,987	14,532	188,917
	552,417	820,160	188,916	363,301

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.

24 Share-based payments

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

Date of grant	Expiry date	Expected life (yrs)	Risk-free rate	Share price at grant (£)	Exercise price (£)	Volatility	Dividend yield	Estimated fair value (£)	Number originally granted
14/05/2004	14/05/2014	3.00	5.0411%	0.2600	0.2600	33.5589%	4.50%	0.0668	2,000,000
17/12/2004	17/12/2014	3.00	4.5420%	0.4500	0.4500	30.9463%	4.50%	0.1061	536,250
31/03/2006	31/03/2016	3.00	4.5300%	1.4000	1.4000	25.4798%	4.50%	0.2450	818,750
10/10/2006	10/10/2016	3.00	4.9865%	1.8000	1.8000	29.3594%	4.50%	0.3196	50,000
30/01/2007	30/01/2017	3.00	5.4828%	2.6100	2.6100	29.8223%	4.50%	0.4834	140,500
30/03/2007	31/03/2017	3.00	5.4338%	2.7300	2.7300	29.3557%	4.50%	0.4948	143,500
01/10/2008	01/10/2018	3.00	4.0720%	2.3000	2.7500	32.9241%	7.00%	0.2401	312,000
13/01/2009	13/01/2019	3.00	1.9645%	1.6300	2.7500	41.9187%	11.82%	0.1324	20,000
05/06/2009	05/06/2019	6.50	3.2805%	2.3000	2.3000	32.7809%	8.04%	0.5134	242,000
18/01/2010	18/01/2020	6.50	3.4428%	3.1400	3.1400	30.9664%	4.67%	0.7924	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
22/06/2011	22/06/2021	6.50	1.3165%	4.1000	4.1000	33.5132%	5.85%	0.9054	50,000
04/11/2011	04/11/2021	6.50	1.7472%	3.4875	3.4875	29.2405%	6.88%	0.5303	249,000
03/05/2012	03/05/2022	6.50	1.4197%	3.6000	3.6000	26.1549%	6.67%	0.4766	50,000

Historically, the expected life of the options has been assumed to be three years, however this assumption has been revised for the grants from 13th January 2009 onwards 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.

(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:

	2012		2011	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at the beginning of the year	1,978,092	2.25	2,873,980	1.38
Granted during the year	349,000	3.59	357,500	3.81
Forfeited during the year	45,750	3.41	41,750	2.81
Exercised during the year	90,300	1.57	1,211,638	0.63
Outstanding at the end of the year	2,191,042	2.47	1,978,092	2.25
Exercisable at the end of the year	1,087,042	1.59	882,342	1.21
The weighted average share price at the date of exercise for share options exercised during the year was		3.61		3.91

The total share-based payment charge for the year is £195,941 (2011: £130,241).

Notes to the financial statements

Continued

25 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 24 and in note 6.

(ii) Summary of transactions and balances

During the period the Company received from its subsidiaries £7,086,248 (2011: £7,262,520) in respect of management service charges and dividends of £5,633,000 (2011: £7,749,000).

Amounts outstanding between the Company and its subsidiaries as at 31st May 2012 are given in notes 16 and 18.

D Allison, a Director of the Company, is also a Director of the World Markets Umbrella Fund plc, a fund managed by City of London Investment Management Company Ltd. The management fees earned by the Group during the year from this fund totalled £1,757,168 (2011: £2,198,343), with £156,142 (2011: £167,997) outstanding at the year end.

26 Financial instruments

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

(i) Financial instruments by category

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

Group

31st May 2012 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	–	–	31,354	31,354
Trade and other receivables	5,345,334	–	–	5,345,334
Available-for-sale financial assets	–	–	6,924,552	6,924,552
Cash and cash equivalents	5,399,869	–	–	5,399,869
Total	10,745,203	–	6,955,906	17,701,109

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	264,859	3,626,408	3,891,267
Total	264,859	3,626,408	3,891,267

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

26 Financial instruments continued

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

Company

31st May 2012 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	865,108	–	–	20,968	886,076
Trade and other receivables	–	279,491	–	–	279,491
Available-for-sale financial assets	–	–	–	6,924,552	6,924,552
Cash and cash equivalents	–	147,933	–	–	147,933
Total	865,108	427,424	–	6,945,520	8,238,052

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	–	6,489,568	6,489,568
Total	–	6,489,568	6,489,568

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

Notes to the financial statements

Continued

26 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 2012	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	2,319,341	4,636,565	–	6,955,906
Total	2,319,341	4,636,565	–	6,955,906
Financial liabilities at fair value through profit or loss				
Forward currency trades	–	264,859	–	264,859
Total	–	264,859	–	264,859

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

26 Financial instruments continued

Company

31st May 2012	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	2,319,341	4,626,179	–	6,945,520
Total	2,319,341	4,626,179	–	6,945,520

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

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. No impairment was recognised during the year (2011: £79,372 write back of impairment).

The fair value loss on the forward currency trades is offset in the income statement by the foreign exchange gains on other currency assets and liabilities held during the year and at year end. The net loss reported for the year is £25,091 (2011: net gain £10,366).

(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 2012, the Group had a net asset balance of US$12,792,210 (2011: US$11,694,999), offset by forward sales totalling US$11,750,000 (2011: US$13,500,000), plus net asset balances of SGD227,728 (2011: SGD1,051,314), C$157,387 (2011: C$401,876), EUR67,218 (2011: nil) and AED95,217 (2011: AED166,997).

Had the US Dollar strengthened or weakened against Sterling as at 31st May 2012 by 10%, with all other variables held constant, there would have been less than 0.5% increase or decrease (respectively) to 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

26 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 £71,575 (2011: £62,682).

(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 plus the Group's strategy is 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 2012 the Group held £5,399,869 (2011: £6,104,673) in cash balances, of which £4,534,050 (2011: £5,514,198) 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 34 and 35.

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 1st October 2012 at 11.30am for the following purposes:

Ordinary business

1. To receive and adopt the financial statements for the year ended 31st May 2012 together with the reports of the Directors and auditors thereon.

2. To approve the Directors' remuneration report for the year ended 31st May 2012.

3. To declare a final dividend of 16p per ordinary share for the year ended 31st May 2012 payable on 19th October 2012.

4. Having been appointed by the Board since the last Annual General Meeting, to re-elect Lynn Christine Ruddick 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 2009 Annual General Meeting, to re-elect Tom Griffith 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 2009 Annual General Meeting, to re-elect Barry Martin Olliff as a Director of the Company in accordance with article 132(a) of the Company's articles of association.

7. To re-appoint Moore Stephens LLP as auditors of the Company to hold office from the conclusion of the meeting until the conclusion of the next general meeting of the Company at which accounts are laid before the Company.

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

Special business

To consider and, if thought fit, pass resolutions 9 and 10 as ordinary resolutions and resolutions 11 and 12 as special resolutions:

9. 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 £89,803, (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 next Annual General Meeting, or on 30th November 2013 (whichever is the earlier), 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.

10. THAT the trustees from time to time of the City of London Employee Benefit Trust (the "EBT") be and are hereby authorised to hold ordinary shares in the capital of the Company, for and on behalf of the ESOP, up to a maximum in aggregate equal to 10% of the issued ordinary share capital of the Company from time to time.

11. THAT, subject to the passing of resolution 9 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 9, 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 £13,470 (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 next Annual General Meeting, or on 30th November 2013 (whichever is the earlier), 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.

Notice of Annual General Meeting

Continued

12. 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 2,694,095 (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 30th November 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
30th August 2012

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 27th September 2012. 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 27th September 2012.

   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 27th September 2012. 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 2012 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 2012 which will be paid on 19th October 2012 to shareholders on the register at the close of business on 5th October 2012.

The Company's shares will trade ex-dividend from 3rd October 2012 until the payment date.

Re-appointment of Directors (Resolutions 4 – 6)

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 30th August 2012 (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.

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

Re-appointment of auditors (Resolution 7)

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 7 is passed, Moore Stephens LLP will be re-appointed as auditors to the Company for the financial year ending 31st May 2013.

Remuneration of auditors (Resolution 8)

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 auditors' fees for recommendation to the Board.

Authority to allot shares (Resolution 9)

Resolution 9 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 £89,803 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 Company's next Annual General Meeting, or on 30th November 2013 (whichever is the earlier), unless renewed, varied or revoked by the Company prior to or on that date.

Explanation of the business of the Annual General Meeting

Continued

The City of London Employee Benefit Trust (the "EBT") (Resolution 10)

In accordance with the Association of British Insurers' Principles of Remuneration, the prior approval of shareholders should be obtained before 5% or more of the Company's issued share capital is held on behalf of the EBT.

Your Board of Directors therefore seeks the approval of shareholders by ordinary resolution to permit the trustees of the EBT to hold up to a maximum of 10% of the Company's issued ordinary share capital from time to time. Your Directors believe that granting such approval would be in the best interests of shareholders because it will offer the opportunity to align more closely the interests of staff and shareholders, will extend the Company's opportunities with respect to attracting new talent and thereby diversifying its product range, and will promote confidence in the stability of the Company's investment process from a client perspective.

Disapplication of pre-emption rights (Resolution 11)

Resolution 11 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 £13,470, representing approximately 5% of the issued ordinary share capital at the date of this notice. This authority will expire at the conclusion of the Company's next Annual General Meeting, or on 30th November 2013 (whichever is the earlier), 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 12)

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 12, 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 £26,941 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 next Annual General Meeting, or on 30th November 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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