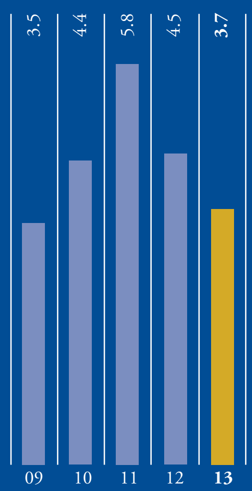
CITY OF LONDON
INVESTMENT GROUP PLC

ANNUAL REPORT & ACCOUNTS 2013

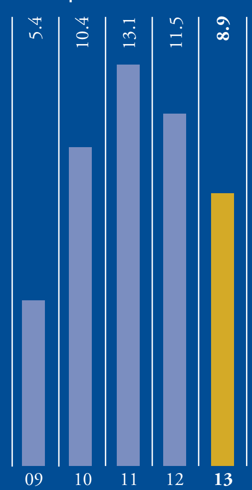
City of London Investment Group PLC is an established asset management group which has built its reputation, with an institutional client focus, by specialising in Emerging Market closed-end fund investment. In recent years the Group has expanded its range to include both Developed and Frontier closed-end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

Contents

Funds under management US$m



Pre-tax profit £m



www.citlon.co.uk

Summary

- Funds under management ("FuM") at 31st May 2013 were US$3.7 billion (2012: US$4.5 billion), a decline of 17%. In sterling terms, FuM fell by 16% to £2.4 billion (2012: £2.9 billion). The MSCI Emerging Markets Index ("MXEF") registered an 11% increase over the same period.

- We are now open to new investors, with a view to accepting up to US$500 million by 31st December 2014

- Revenues, representing the Group's management charges on FuM, were £29.4 million (2012: £34.1 million). Profit before tax was £8.9 million (2012: £11.5 million).

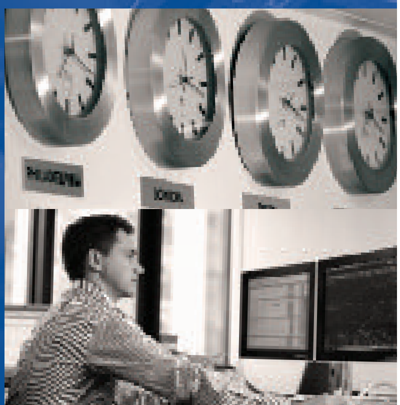
- Basic earnings per share were 24.9p (2012: 33.8p) after a tax charge of 29% (2012: 26%) of pre-tax profits.

- A maintained final dividend of 16p per share is recommended, payable on 25th October 2013 to shareholders on the register on 11th October 2013, making a total for the year of 24p (2012: 24p).

- Cash and cash equivalents at 31st May 2013 were £10.1 million (2012: £5.4 million).

City of London Investment Group PLC

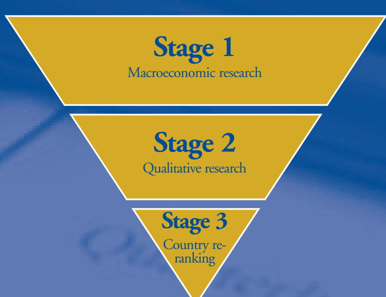
What we do



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 analysis 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.

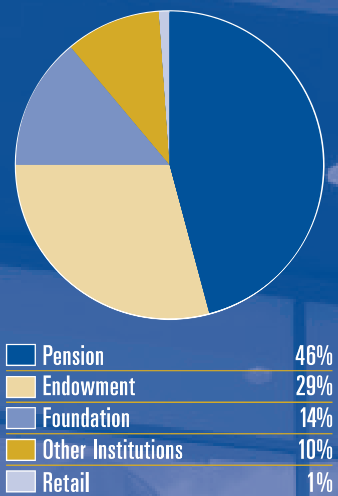
Our competitive advantage

"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.

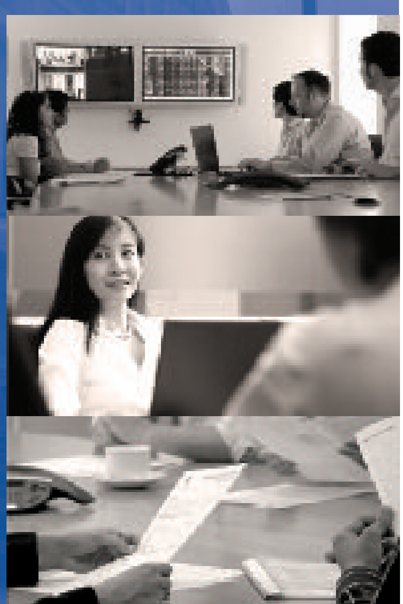
The way in which we manage our business is important too. We are above all risk-averse. Profits, margins and costs are carefully managed to provide our staff with appropriate remuneration and shareholders with significant, repeatable dividends.



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.

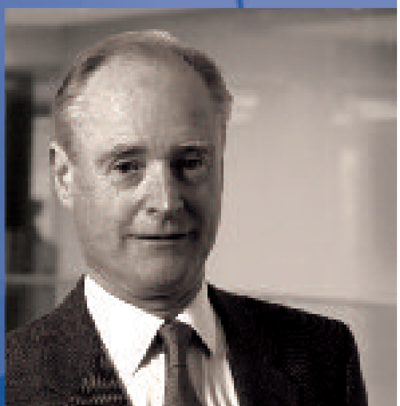
We have sought, for example, to make our dividend policy – the most direct way we have of rewarding shareholders – understandable to all. We pay out the major part of post-tax profits in dividends based around a formula of one and a half times cover which is applied with flexibility, with one third payable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

Financial calendar

Year end	31st May 2013
Pre-close trading update	17th June 2013
Preliminary final results, first quarter funds under management (FuM) and final dividend announcement	9th September 2013
AGM and Interim Management Statement (IMS)	7th October 2013
Ex-dividend date for the final dividend	9th October 2013
Final dividend record date	11th October 2013
Final dividend payment	25th October 2013
Second quarter FuM announcement	2nd December 2013
Half year results and interim dividend announcement	20th January 2014
Ex-dividend date for the interim dividend	5th February 2014
Interim dividend record date	7th February 2014
Interim dividend payment	28th February 2014
Third quarter FuM announcement and IMS	4th March 2014
Year end	31st May 2014

For further information please see the shareholders page on our website www.citlon.co.uk

Chairman's statement



"Following stabilisation of our business, the improved investment performance and with the recent operational efficiencies working through to the bottom line, then based on current market levels and assuming reasonable trading activity, I anticipate a satisfactory outcome for the current year."

When I was appointed your chairman on 1st October 2012, succeeding Andrew Davison who had been in the chair for some 13 years, little did I know what an eventful six months lay ahead for City of London.

In the light of this, before dealing with our financial performance, I owe shareholders an explanation of the board and management changes that it has been my responsibility to oversee.

For some time now under our previous chairman the board has endeavoured to grapple with the problems of succession which all successful founder-managed businesses have to address over the course of their development. We are fortunate in that we are in an industry where certain key management, in particular the CIO, frequently have far greater longevity than in almost any other industry; you don't need me to cite well known examples ranging from Warren Buffet to Mark Mobius, who continues to manage emerging market money for Templeton after more than 25 years. The approach we took to succession planning was, in the first instance, for Barry Olliff, our founder CEO and CIO, to transfer his CEO duties to a successor CEO. In order to minimise transition risk we agreed on an internal candidate, Doug Allison. He had, as Finance Director since 1997, been very much part of the CLIG team which had so successfully built the firm over the past two decades.

Unfortunately both Doug Allison and Valerie Tannahill, who replaced him as Finance Director having worked for City of London for over 15 years, resigned with immediate effect on 15th April 2013. All of the Directors, including those who stepped down, were of the view that these changes reflected the best interests of the Group. We have, however, been greatly encouraged by the energy and knowledge demonstrated by the Finance team in picking up the reins and ensuring that business continued as normal whilst some welcome cost savings have also been achieved. Barry has stepped back into the role of CEO on an interim basis and your board continues to seek transition solutions.

Our results

Over the course of the year the MXEF index, our principal benchmark, has fluctuated between 882 and 1,083 having started the year at 906 and finishing at 1,009. Furthermore, sentiment towards the emerging markets amongst certain sections of the investment community has cooled at best and in certain instances has become positively bearish. We have seen redemptions on an almost unprecedented scale although it appears that we are now over the worst and instead are seeing some very welcome new money being subscribed by existing clients.

Our Funds under Management ("FuM") declined by 13% in the first half of our financial year to 30th November 2012 and ended the year at US$3.7.billion, representing an annual decline of 17% in US$ terms from the US$4.5 billion recorded at 31st May 2012. In sterling terms, FuM declined by 16% to £2.4 billion (2012: £2.9 billion).

Revenues, representing the Group's management charges on FuM, for the year to 31st May 2013 were £29.4 million (2012: £34.1 million). Profit before tax was £8.9 million (2012: £11.5 million). The tax charge for the year, was 29% of pre-tax profits (2012: 26% of pre-tax profits). Basic earnings per share were 24.9p (2012: 33.8p) and fully diluted earnings per share were 24.6p (2012: 32.8p). Cash and cash equivalents at 31st May 2013 were £10.1.million (2012: £5.4 million).

Dividends

The Board has recommended the payment of a maintained final dividend of 16p per share to be paid on 25th October 2013 to shareholders on the register on 11th October 2013. Together with the interim dividend of 8p per share (2012: 8p) paid in December 2012, this makes a total for the year of 24p per share (2012: 24p), covered 1.04 times by earnings per share (2012: 1.41 times).

Your Board

In addition to the changes referred to earlier, we have lost one non-executive director and gained another. Lynn Ruddick's resignation, to enable her to devote more time to her other business commitments, was announced in February. As I said at the time we were very sorry to see Lynn leave, but understood and respected her need to balance her commitments. On behalf of the Board I would like formally to express our gratitude for her insightful and professional contribution to our deliberations.

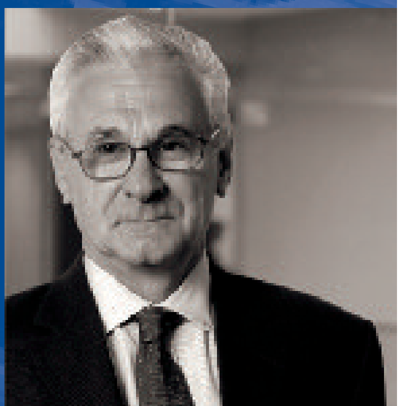
On 1st August 2013 we were pleased to welcome Barry Aling to the Board. Barry has worked extensively in international equity markets over a 40-year period and will add important strength to our board with his direct in depth experience of emerging markets over very many years.

Outlook

Whilst a comment on outlook is expected from a Chairman, when it comes to predicting market movements I have always been a sceptical crystal ball gazer. However, following stabilisation of our business, the improved investment performance and with the recent operational efficiencies working through to the bottom line, then based on current market levels and assuming reasonable trading activity, I anticipate a satisfactory outcome for the current year.

Lastly, I would like to thank all of our hardworking staff in London, the US, Singapore and Dubai for their efforts in these challenging times. 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 Monday 7th October 2013.

David Cardale
Chairman
4th September 2013



Chief Executive Officer's review

"As usual this CEO report will tell it the way it is. It will not therefore in many instances tell you, as a shareholder, what you want to hear. This has been a difficult period to review."

I have gone into a number of issues in more depth than usual as it seems to me that I/we owe shareholders a detailed explanation regarding a number of aspects of our business as it has evolved over the past year.

Board changes

Shareholders will be aware of the departures of our CEO and Finance Director earlier this year as addressed by the Chairman in his statement. Following this I have felt it right to take a reduction in what otherwise would have been my total remuneration for the year by accepting one half of my contractual bonus.

The CLIG team

With the above referenced exceptions, we have been successful over many years in retaining Group talent, experience, and DNA, and have been able to present to clients, potential clients, consultants and to shareholders a very consistent team.

Notwithstanding the Board departures earlier this year, it is important to emphasise the in-depth strength of the firm's staff. The core modus operandi of the CLIG team is akin to a partnership which functions in a collegiate manner that is designed to encourage continuity of employment for staff, while harnessing and developing employee potential.

This has been one of the strengths of the firm and is one of the reasons that clients and consultants have been so loyal to the firm during a difficult period in terms of our investment performance.

CLIM investment performance and investment process

In recent quarterly trading updates we have referred to the turnaround that has occurred in terms of our investment performance.

This has continued to improve and while not as yet coming through in the three year numbers it is certainly demonstrated via YTD outperformance of the order of 3% depending on the relevant EM fund and benchmark.

Looking back and after analysing previous investment decisions there have been a number of reasons for our underperformance. Examples would include poor investment decisions (poor stock picking), buying securities too early (at too narrow a discount), and not focusing on trading natural discount ranges (by reducing that natural trading range from say 500/600bpts to say 400bpts).

These examples are all process weaknesses, and the fortunate thing about technology today is that with number crunching, time, and an open mind, it's possible to both find the issues (weaknesses) and put in place long term remedies that ensure future compliance with what has been over the years a very successful and consistent investment process.

Historically through a cycle via our Investment Process we have established the following:

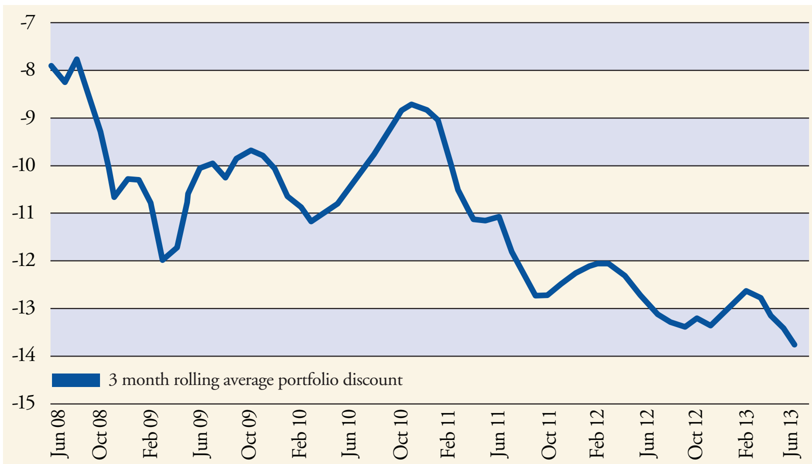
1) Our alpha has been generated approximately 1/3 from Country Allocation and 2/3 from trading Discount Volatility.

2) Securities demonstrate around 500 to 600bpts of discount volatility.

3) NAVs (from the securities within our Investible Universe) keep up with or marginally outperform their benchmarks.

There is one additional variable that we have to deal with and that is the SWAD. This is the Size Weighted Average Discount of a given portfolio on a specific day.

Three month rolling average SWAD



The graph above shows the SWAD of our largest fund, and highlights the extent to which it has widened over the past five years. The net result of a 5% increase in the SWAD, other things being equal, (with neutral country allocation, and also index tracking NAV's) leads to 5% underperformance. This has been an additional headwind for us to deal with.

I have gone into some detail regarding our Process because it's our Process that has led to the previous underperformance.

Having identified and corrected the weakness[es] we have now had a period of significant outperformance.

Reopening

Recent outperformance offers us an opportunity to reopen to new investors within our EM CEF strategy from the beginning of September.

This reopening will take some time to show results as we will need to establish some new relationships with consultants and potential clients.

In addition there are going to be some conditions attaching to our reopening and these are as follows:

- We will take in a maximum of US$100m per month.
- We will prioritise segregated accounts (US$25m+) over commingled account investors.
- We will accept only a total of US$500m in the first year (this is our target for the calendar year 2014).
- We will only remain open to new investors while the SWAD of our portfolios is in excess of 10%.

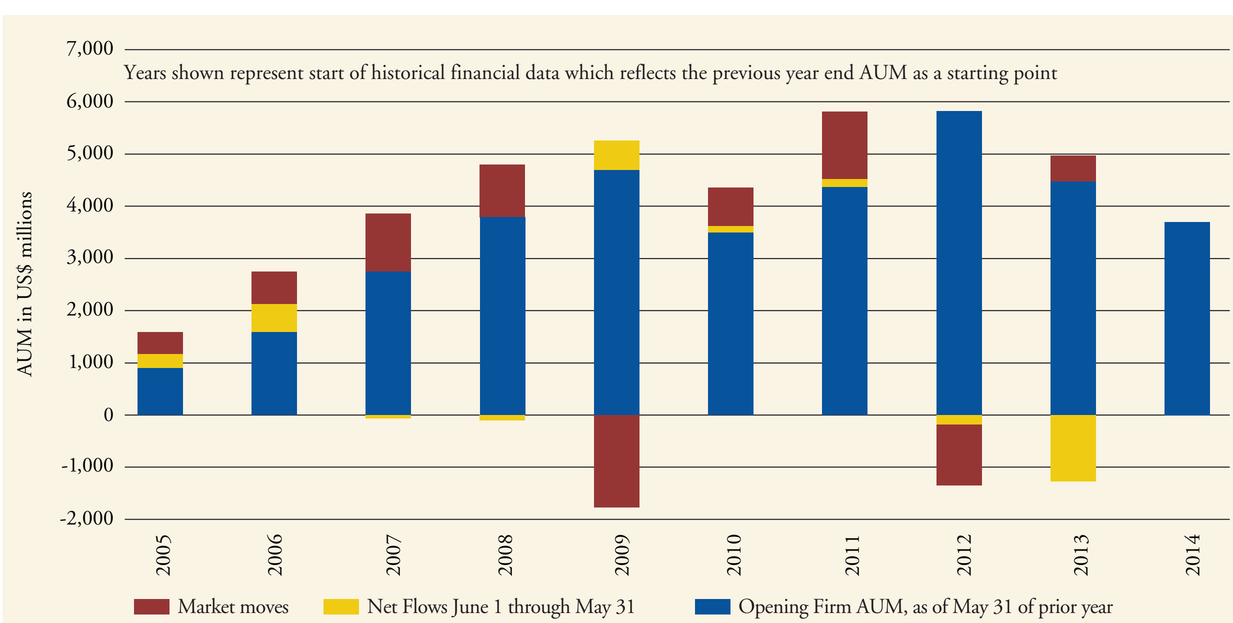
You will appreciate from the above that we have learnt from some of our past mistakes.

The message though is that we are getting back onto the front foot and are intending to start to replace some of the assets lost over the past few years.

Please see below total inflows and outflows over the period 2005 to 2013.

Our reopening to new investors is a reflection of the fact that we have lost assets (approximately US$1.3bn) during FY 2012 and 2013.

Total inflows and outflows 2005 – 2013



Chief Executive Officer's review

Continued

Dividend

In maintaining the dividend we accept that this is a statement of faith in the future.

If there was a feeling that we were not now on the right track then the logical thing would have been to have cut the dividend and to conserve resources. As it is, with performance improving, and having the opportunity to reopen, there are a number of reasons why we are becoming optimistic.

Costs

As with any small firm we have to focus on the bottom line.

In addition, while we believe that our diversification plans will be successful, we remain for the present in effect a single product company.

This focus on the bottom line from the perspective of our firm investing in a volatile asset class therefore means that our salaries are kept towards the bottom end of relevant salary scales.

Focusing as we do on keeping the fixed overhead down means that we have as our major retention tool significant bonuses and equity participation when times are good. This is the trade-off for when times are bad.

I would have thought that this was the way to respond to potential volatility (risk) but it seems that what we are actually being encouraged to undertake by Eurocrats is to increase our fixed overhead so that bonuses will relate to an increased denominator!

Euro legislation

Returning to the topic of pay, as a Brit watching from the US what is going on in Europe, American corporations involved in investment management are rubbing their hands together.

Here we are with UCITS fund managers now potentially being threatened with the arbitrary remuneration rules that were introduced by the EU for bankers and/or prop desk traders.

Can EU bureaucrats (those that put together the proposed UCITS V legislation) not understand the difference between trading as principal and agent?

Bankers and prop desk traders can trade as principal (they use their firm's capital when they trade). Fund managers trade as agent (on behalf of their clients) and therefore do not.

Bankers and prop desk traders can cause systemic risk to banks. Fund managers cannot.

This was best said by Dougie Ferrans (Chairman of the IMA) in his December 2012 review:

"First, we are an agency business. Our clients assets are segregated and are not held on our balance sheets. We do not pose a systemic risk to financial markets or the wider economy. We play a critical role in the investment chain where we allocate capital from those who have it (savers and investors) to those who require it (corporations and governments). Regrettably, these basic facts are often unrecognized by those who shape the regulatory agenda. Here we are faced with relentless challenges that may be appropriate for sectors of the financial service industry that carry systemic risk – but one size does not fit all."

Possibly the proposal which is being considered as a part of the UCITS V directive will fail, but this issue, in my opinion, demonstrates that European lawmakers have little understanding of even the most rudimentary principles associated with supply and demand.

Sitting here in the US it will be interesting to watch as UCITS funds are closed and their fund managers are poached.

Alternatively salaries will be increased thus effectively legitimising the very increase in remuneration that lawmakers are attempting to oppose.

EU bureaucrats want to change the numerator whereas the response in the real world will be to increase the denominator!

Neither however is it just UCITS legislation that we have to bother with. There are other EU regulatory developments that will impact how investment managers determine remuneration, such as AIFMD, MiFID II, CRD IV. Again, what are the actual risks these initiatives are trying to manage?

As if this wasn't enough muddled thinking, the next area that we are seemingly going to have to deal with is an assumed relationship between bonuses and investment performance.

It seems to me that there are three points here:

1) As with car manufacturers, TV makers and house builders, if you make a poor product that is uncompetitively priced you lose market share. This is the way that markets work. You effectively find that consumers will not buy your product in the first place or they will take their money away by investing elsewhere in someone else's product.
2) In the case of fund managers however, should it be different? We are actually meant to give back. How does that work? Why don't designers and production-staff at car manufacturers and TV makers potentially have to give back their remuneration, too? Or with a poorly constructed house, does the house builder recompense the owner for shoddy work? Surely it's the marketplace that should discriminate?
3) With regard to investment performance, let's accept that European bureaucrats have taken on the role of an Investment Consultant or an Actuary and have mastered the skill set of how fund managers should be measured in terms of their investment performance. Are they going to use one year performance, or two year or three year performance? Are they going to measure volatility or risk adjusted returns or are they going to undertake peer group analysis? Are they going to measure those returns gross or net of fees?

Whilst some of the above intentions in some instances might seem to be good, in my opinion we should not forget that politicians and bureaucrats are not effective allocators of capital. Consumers are the best people to undertake that.

All that seems to be happening in this case is that market forces are being undermined as a result of politicians' need to show that they are doing "something". Remember, our industry was not the cause of the financial crisis and we pose no systemic risk to the banking system.

The bottom line is that, in my opinion, these proposals will weaken London as a financial centre and make Europe less relevant in terms of the provision of certain financial services.

Future prospects

New products (particularly those that use a similar Process such as Frontier or Developed) are difficult to sell in the event that your present (single) product has underperformed.

In addition, when there are significant Management changes in one year, potential clients could say that there must be some type of underlying instability.

In fact nothing could be further from the truth and as this is the first real chance that I have had to explain where the firm stands vis a vis recent Management changes the following is relevant:

The Investment Management team, as referenced earlier in this statement, is very stable.

Many of us have grown up together within a partnership environment and we are to a great extent a homogenous unit.

From a Shareholder perspective this is very important because if there were cracks within this structure, past performance would definitely be no guide to potential future returns.

In addition, and with the benefit of time, new potential clients and consultants will appreciate that with recently improved performance and a stable team, we should be considered for new mandates.

A different point, but certainly one of interest to Shareholders is the fact that significant savings in salaries have been made as a result of the two departures referenced above.

In addition, further savings have been made by closing under performing funds that were being supported using Group assets and subsidies. We have also saved money via providing technology solutions that have taken the place of employees. These savings overall total c. £1m on an annualised basis.

As a result of the above I would suggest that it would be fair to say that prospects are significantly better than a few months ago and that as a firm we are relatively optimistic.

B M Olliff

B M Olliff
Chief Executive Officer
4th September 2013

Business review

"Over the period, CLIM placed its US$100 million of Qualified Foreign Institutional Investor (QFII) quota and we have now applied for an additional US$100 million of QFII quota."

Over the period, investment performance of the emerging market strategies has continued to improve which provides scope for additional marketing of the firm's capabilities in this area.

In addition, the underperformance of emerging markets versus developed markets over the preceding two years has given rise to attractive valuations in the asset class which may prove a good entry point for institutional investors who are typically underweight their target benchmarks.

With the improvement in investment performance, we are focused on marketing to new institutional prospects and, as we noted in last year's annual report, we have adopted a deliberate approach in our marketing that focuses on good 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

Our diversification efforts have not yielded the results we had hoped for at the time of writing this report last year. We have confronted this issue in two ways. First, in those cases where we could not expect to field a first or second quartile product, we have closed underperforming funds thus cancelling the operating subsidy provided by the firm. Second, with good investment performance restored in our core emerging markets product, we now feel confident that this headwind has been removed from marketing the key diversification products which are extensions of our closed end fund investment approach.

The Frontier Emerging Markets Fund has performed well 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 rolling one year ending 31st May 2013 were 30.7% vs 32.2% for the benchmark in US dollars (USD) and 32.7% vs 34.2% for the benchmark in Sterling (GBP).

Over the period, CLIM placed its US$100 million of Qualified Foreign Institutional Investor (QFII) quota and we have now applied for an additional US$100 million of QFII quota for the China A Share CEF Strategy which has been invested in Chinese A Shares since 2003 and has generated first quartile performance over all annualised periods since inception.

We continue to advance the Developed closed end fund strategy, with the fourth anniversary of the launch of this product in September 2013 representing a significant milestone with respect to marketing opportunities, particularly within the context of the consultant universe. The product continues to exhibit consistent outperformance. Global composite investment returns for the developed market closed end fund strategy for the rolling one year ending 31st May 2013 were 27% vs 25.8% for the benchmark in USD and 28.9% vs 27.7% for the benchmark in GBP.

Performance

Global composite investment returns for the emerging market closed end fund strategy for the rolling one year ending 31st May 2013 were 14.7% vs 14.1% for the MSCI Emerging Markets Index in USD and 16.4% vs 15.8% for the index in GBP. Outperformance was attributable to country allocation and NAV outperformance.

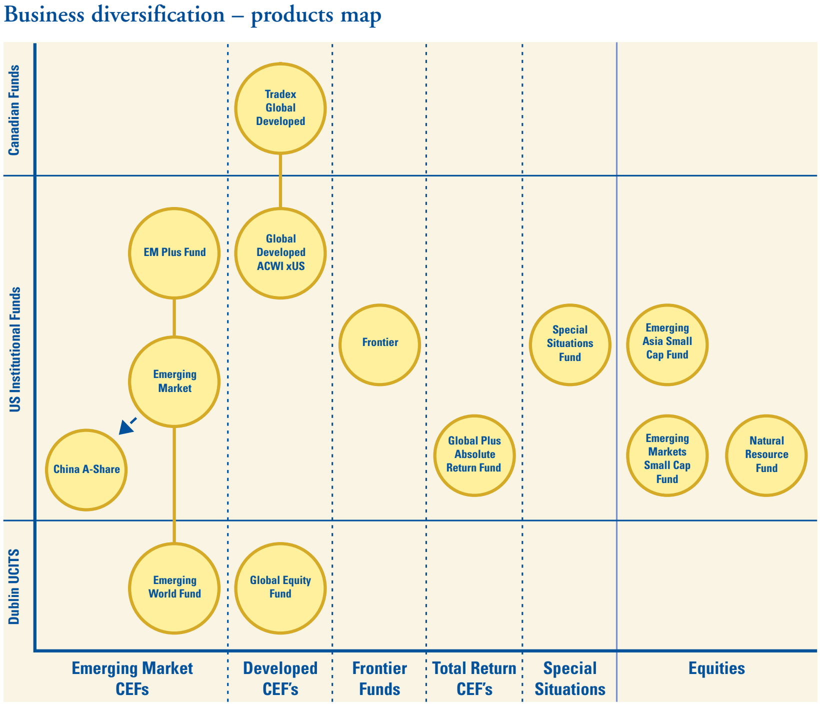
The investment team continues to engage with boards of directors in order to improve corporate governance and reduce the number of shares in issue as a means to narrow historically wide discounts.

Outlook

Marketing efforts will be targeted at investment consultants, foundations, endowments and pension funds in the US and Europe. Our growing Frontier Emerging Market, China A Share and Developed closed end fund capability will be the focus of our product diversification and business development activities.

Carlos Yuste
Business Development Director
4th September 2013

Business diversification – products map



Financial review

Consolidated profit and loss for year ended 31st May

£'000	2013	2012
Gross fee income	29,364	34,143
Finder's commission	(4,194)	(5,195)
Custody and administration	(1,244)	(1,433)
Net fee income	23,926	27,515
Interest	61	63
Total net income	23,987	27,578
Staff costs	7,611	6,753
Other administrative expenses	3,678	3,956
Depreciation and amortisation	223	348
Total overheads	11,512	11,057
Operating profit	12,475	16,521
Profit-share	(4,055)	(5,424)
Investment income	440	365
Pre-tax profit	8,860	11,462
Tax	(2,594)	(2,964)
Post-tax profit	6,266	8,498
Other comprehensive income	369	(735)
Total comprehensive income	6,635	7,763

Table 1

Consolidated income statement and statement of comprehensive income

The Group income statement is presented in line with International Accounting Standards but perhaps it is easier to understand the Group's results if we were to present them in a slightly differently way, as in table 1. From here it is clear to see the Group's net fee income, which is a more useful measure of the Group's income, and the operating profit to which the Group profit-share provision is applied.

Starting from the top, the gross fee income relates to management fees charged as a percentage of funds under management ("FuM") and decreased over the year under review by 14% to £29.4 million as a result of a fall in FuM, which ended the year at US$3.7 billion, compared to US$4.5 billion at the start. This was primarily due to a large redemption in November 2012, from a single client that took the strategic decision to manage its emerging market exposure in-house, having been a client of ours for nearly five years.

The commissions payable of £4.2 million (2012: £5.2 million) relates to fees due to third party marketing agents for the introduction of clients. The contract to which all but a small portion of these commissions relate expired in October 2010. Under the agreement, commission is based on a period of ten years from the date of initial investment.

Custody fees of £1.2 million (2012: £1.4 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 fee income for the year therefore rounds to £24.0 million (2012: £27.5 million). The weighted average net fee, or operating margin, is currently around 92 basis points, which compares to 87 basis points last year. The margin increase is primarily due to the single client redemption mentioned earlier, who was paying a lower fee due to the size of their investment.

The other contributing factors to the increase in the operating margin are:

1) as new money is invested we earn the full management fee as there is no introduction fee to pay

2) as clients subject to the marketing agreement reach their ten year anniversary no further commission is payable and we retain 100% of the management fee

With reference to point 2, the table below illustrates the rate of commission run-off relating to the expired contract, based upon current FuM and market levels.

Marketing commission run-off (based on FuM at 31st July 2013)

Financial year	£m (@ US$1.55/£1)
2013-14	2.9
2014-15	2.5
2015-16	2.0
2016-17	1.7
2017-18	1.4
2018-19	0.9
2019-20	0.2
2020-21	0.0

The overheads for the year amount to £11.5 million (2012: 11.0 million), the largest component of which is staff costs at £7.6 million (2012: £6.8 million). This year staff costs include an exceptional charge of £0.7 million in connection with termination arrangements agreed with former executives Doug Allison and Valerie Tannahill, with the balance of payments to them on termination being covered by the profit-share provision. If we exclude this one-off cost, overheads become £10.8 million, which gives a monthly average of £0.9 million (2012: £0.9 million). As reported in the CEO interim review, we are focused on reducing costs and have put in place various initiatives which will result in an annualised saving of around £1.0 million. These savings kick in over various timeframes but looking specifically at the impact on overheads for the next financial year, and taking into account the additional cost savings from the recent executive departures, the monthly run-rate for overheads is expected to be closer to £0.8 million.

Total net income less overheads gives an operating profit of £12.5 million (2012: £16.5 million) to which the 30% profit-share provision is applied, which including related payroll taxes amounted to £4.1 million (2012: £5.4 million).

Investment income of £0.4 million (2012: £0.4 million) relates to the gain on sale of a number of our seed investments, approximately 60% of which was the result of partial redemptions and the balance due to closure of funds as a result of the rationalisation of our equity products.

This gives a pre-tax profit of £8.9 million (2012: £11.5 million). Corporation tax at £2.6 million (2012: £3.0 million) represents an average tax rate of 29% compared to 26% in 2012, which was 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 £6.3 million (2012: £8.5 million) is adjusted by £0.3 million to arrive at total comprehensive income of £6.6 million (2012: £7.8 million), the adjustment being an increase of £0.5 million in the valuation of the Group's seed investments less £0.2 million taken as a realised gain on disposal (2012: downward revaluation of £0.7 million).

Consolidated statement of financial position and statement of changes in equity

Net assets have remained relatively stable at £14.6 million (2012: £15.3 million) however there have been some substantial movements in the underlying components during the year. Year on year the value of non-current assets has fallen by approximately 44% primarily due to deferred tax. In the UK (and US, although the rules are slightly different), a corporation tax deduction is available when share options are exercised and the tax deduction is based on the intrinsic value of those options at the date of exercise. When preparing our financial statements we are required to calculate the expected tax deduction based on our share price at the reporting date. At 31st May 2013 our share price was £2.585 (2012: £3.50) which meant that most of the options were out of the money and this therefore resulted in a lower intrinsic value and a reduced deferred tax asset. All bar a very small element of this is charged against reserves.

There is also a small deferred tax liability of £0.1 million this year that relates to the unrealised gain on our seed investments.

Trade and other receivables of £3.5 million (2012: £5.3 million) are down year on year mainly due to a combination of the prompt settlement of the first quarter fees this year (2012: £0.5 million receivable) and client redemptions during the year (2012: £1.3 million receivable), although the bulk of this relates to one single client. "Available-for-sale financial assets" of £3.8 million (2012: £6.9 million) represents our seed investments in fledgling products and this year we took the decision to rationalise our business development activities by liquidating several of our emerging market and natural resource equity products.
In addition, we reduced our holdings in products that are now being actively marketed and the fair value gain on these remaining holdings has been taken to reserves. The offsetting, and rather significant increase, is in cash which ended the year at £10.1 million (2012: £5.4 million).

Creditors falling due within one year are down from last year by £0.5 million as a result of a reduction in the profit-share provision and commissions payable of roughly £0.4 million each, offset by a year on year increase in corporation tax payable of £0.3 million. This is primarily due to accrual adjustments made in 2011-12 relating to prior years, as mentioned earlier.

The major movement in capital and reserves is obviously this year's profit of £6.3 million (2012: £8.5 million) and the dividends paid during the year which, rounded up totalled £6.1 million (2012: £6.1 million). The dividend comprised the 16p final dividend for 2011/12 plus the 8p interim dividend for the current year.

Financial review

Continued

Half way through the year, the Group took the opportunity to use some of its surplus cash to fund the purchase of 404,086 Company shares at a price of £2.55. Half the shares were cancelled and the £0.5 million cost set against retained earnings. The other half were taken up by the Company ESOP thereby increasing its loan from the Company by £0.5 million. As the ESOP has waived its right to dividends, both transactions effectively enhance earnings per share for the remaining shareholders, albeit only the cancellation does so on a permanent basis. During the year Directors and employees exercised 261,300 dilutive options and 70,627 ESOP held options, raising £0.2 million.

Currency exposure

The movement of sterling against the US dollar has a significant influence on the Group's reported results as its income is almost entirely US dollar denominated whereas in the main, expenses are incurred locally by each office in sterling, Singapore dollars, United Arab Emirates dirhams as well as US dollars. During the year the US dollar/sterling exchange rate moved within an approximate range of US$1.50 - 1.60 to £1 (2012: US$1.55 - US$1.65 to £1). The following table illustrates the effect of a change in the US dollar/sterling exchange rate on the Group's post-tax profits at various FuM levels, based on the assumptions given, which are a close approximation of the Group's current operating parameters.

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

FuM US$bn:	3.0	3.5	4.0	4.5	5.0
US$/£			Post-tax, £m		
1.45	4.1	5.7	7.3	8.8	10.4
1.50	3.9	5.4	6.9	8.5	10.0
1.55	3.7	5.1	6.6	8.1	9.6
1.60	3.5	4.9	6.3	7.8	9.2
1.65	3.3	4.7	6.1	7.4	8.8

Assumes:
1. Average net fee 0.92%
2. Annual operating costs £4.6m plus US$7.7m plus S$1.7m (£1 = S$2.00)
3. Profit-share 30% of operating profit
4. Average tax rate 29%

This illustration only deals with the US dollar/sterling impact but the movement of the US dollar against other currencies is also very relevant to the Group as it provides a natural hedge within the context of fee income. The Group's FuM, on which the fee income is based, is valued in US dollars but the underlying assets represent a broad range of currencies (principally in emerging markets) so as the US dollar weakens (strengthens) against these underlying currencies the value of the FuM in US dollar terms rises (falls).

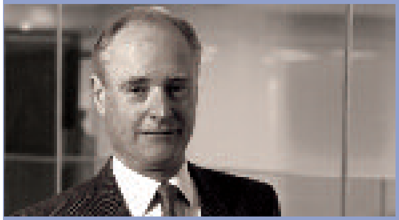
In terms of currency exposure relating to the Group's balance sheet, it is still only the net US dollar position that is of any consequence and we look to eliminate or minimise this through a series of forward sales of US dollars for sterling. At 31st May these forward sales totalled US$10.9 million, with a weighted average exchange rate of 1.586 to £1 (2012: US$11.8 million at a weighted average rate of 1.594 to £1).

Tracy Rodrigues
Financial Controller
4th September 2013

Tracy Rodrigues is the Head of the Group's Finance department, a team of four based in the London office, and has been with the firm for over thirteen years. Responsible to the Board for the Finance systems and activities of the Group, including statutory reporting, financial regulatory reporting in London, Singapore and Dubai, payroll, administration of the ESOP scheme, budget preparation, cash management and forecasting.

Board of Directors

D M Cardale (appointed 01.10.12) NON EXECUTIVE CHAIRMAN



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.

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.

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.

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 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.

B A Aling (appointed 01.08.13) NON EXECUTIVE DIRECTOR

Barry Aling has worked extensively in international equity markets over a 40-year period. Within the emerging market universe, Barry has held senior executive positions with W.I.Carr and Swiss Bank Corporation in Asia and the UK and more recently was a Director of Asset Management Investment Company plc, a listed investment trust specialising in the investment management industry and Gaffney Cline & Associates Limited, a leading petroleum consultancy, prior to its sale to Baker Hughes Inc. in 2007. He is a British national and resident.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31st May 2013.

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 25 accounts (2012: 36 accounts) with a total of £2,443 million (2012: £2,908 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 14, which together provide a commentary on the operations of the Group and include relevant key performance indicators required by section 417 of the Companies Act 2006.

The principal risk that the Group faces is the potential loss of Funds under Management as a result of either client redemptions or market volatility. The Group seeks to attract and retain clients through consistent outperformance supplemented by first class client servicing, and the Directors have implemented a diversification strategy, as described in the Business Review on pages 10 to 11, which should further mitigate these risks. In addition to this key business risk, there are a number of less significant financial risks as outlined in note 25 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 £6,046,712 during the year (2012: £6,052,068). The final dividend for the year to 31st May 2013 of 16p per share (2012: 16p) has been proposed, payable on 25th October 2013, subject to shareholder approval, to shareholders who are on the register of members on 11th October 2013.

Annual General Meeting

The Company's AGM will be held at 11.30am on Monday 7th October 2013 at 77 Gracechurch Street, London EC3V 0AS.

Directors

The names and biographical details of the current Directors of the Company are given on page 15.

Changes to the Board since the start of the year, 1st June 2012, are listed below:

Andrew Davison, non-executive Chairman	Resigned 1st October 2012
Lynn Ruddick, non-executive Director	Resigned 28th February 2013
Doug Allison, Director	Resigned 15th April 2013
Valerie Tannahill, Director	Appointed 1st January 2013 and resigned 15th April 2013
Barry Aling, non-executive Director	Appointed 1st August 2013

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

	Ordinary Shares of 1p each 2013	Ordinary Shares of 1p each 2012
B M Olliff	**3,080,000**	3,632,580
C M Yuste	**327,425**	314,925
T W Griffith	**249,925**	218,625
D M Cardale (Chairman) (non-executive)	**53,125**	106,250
A S Bufferd (non-executive)	**30,000**	30,000
R A Dartnell (non-executive)	**20,000**	20,000

Substantial shareholdings

At 31st July 2013, 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	3,080,000	11.4
BlackRock Investment Management	2,265,923	8.4
The City of London Employee Share Option Trust	1,843,283	6.8
Hargreave Hale	1,632,990	6.1
Kabouter Management	1,632,352	6.1
Chester County Community Foundation	1,204,787	4.5
Artemis Investment Management	861,133	3.2

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 2,694,095 of its own ordinary shares of nominal value £0.01. In the year under review the Company purchased and cancelled 202,043 shares (2012: nil). The shares were purchased at £2.55 representing approximately 0.75% of called up share capital at the time of the transaction. The Company is seeking a renewal of this authority at the 2013 AGM.

The number of own shares purchased by the Company's employee benefit trust during the year was 202,043 (2012: 150,000) at a cost of £0.5 million (2012: £0.5 million). The number of own shares held by the trust as at 31st May 2013 was 1,843,283 (2012: 1,711,867), of which, 1,773,865 shares (2012: 1,654,242) were subject to options in issue. The trust has waived its entitlement to receive dividends in respect of the shares held.

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 2013, the creditor days were nil (2012: nil).

Directors' report

Continued

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

B M Olliff
Chief Executive Officer
4th September 2013

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;
- three executive Directors (the Chief Executive, Business Development Director and Chief Operating Officer); and
- three 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 page 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 are 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 FCA's Remuneration Code. In being a limited license firm, the Company is classified as a 'proportionality Level 3' firm. Proportionality Level 3 firms are considered to be the lowest category from a risk perspective and as such can disapply a number of the FCA'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 FCA 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 2013 the dilutive awards outstanding represented 1.0% of issued share capital (2012: 2.0%).

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 2013 the EBT holding comprises 6.8% of issued share capital (2012: 6.4%).

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.

There have been several changes to the Board since 31st May 2012 but at no point were there less than two independent non-executive Directors. Currently, the Board is composed of seven members, consisting of the non-executive Chairman, the executive Directors (three in total) and the non-executive Directors (three in total). Accordingly, no individual or group of individuals can dominate the Board's decision making. The Board's intention is to appoint another non-executive Director and Finance Director in due course.

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, David Cardale met the independence criteria set out in the UK Corporate Governance Code, as do the three 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 Allan Bufferd fills this role. The Senior Independent Director is available to shareholders if they have concerns which contact through the normal channels of Chairman or Chief Executive 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, Philippa Keith.

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 Rian Dartnell and comprises two other independent non-executive Directors, David Cardale and Allan Bufferd. Andrew Davison served as Chairman up until his resignation on 1st October 2012. 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 2013 the committee met on two occasions, and composition of the Board, its Committees and the search for two new non-executive Directors and a Finance Director was discussed. While an external search consultancy was considered in respect of these appointments, it was decided against using one at this time because the committee has identified potential candidates by way of arm's length introductions and after careful consideration, Barry Aling was recommended to the Board and appointed non-executive director on 1st August 2013. The Committee is still considering candidates for the other positions.

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 David Cardale, Rian Dartnell and Allan Bufferd who is the Chairman of the Committee. David Cardale served as Chairman of the Committee up until his appointment to Chairman of the Board on 1st October 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 four times a year and otherwise as required. During the year to 31st May 2013 the committee met on five occasions.

Corporate governance report

Continued

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.

The membership of the Company's Audit Committee comprises three independent non-executive Directors, namely David Cardale, Allan Bufferd, and Rian Dartnell who is the Chairman of the Committee. Rian Dartnell took over as Chairman of the Committee after Lynn Ruddick resigned on 28th February 2013. 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 Rian Dartnell, who has significant financial acumen and experience in appraising company accounts, 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 2013 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 2012 and 31st May 2013	6	2	5	3
Attendance:				
Doug Allison (resigned 15th April 2013)	6	–	–	–
Allan Bufferd	6	1	4	3
David Cardale	6	2	5	3
Rian Dartnell	6	1	5	3
Andrew Davison (resigned 1st October 2012)	3	1	3	1
Tom Griffith	6	–	–	–
Barry Olliff	6	–	–	–
Lynn Ruddick (resigned 28th February 2013)	5	–	4	2
Valerie Tannahill (appointed 1st January, resigned 15th April 2013)	2	–	–	–
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.

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 26,937,707 (2012: 26,878,450) £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 David Cardale, Rian Dartnell and Allan Bufferd who is the Chairman of the Committee. David Cardale served as Chairman of the Committee up until his appointment as Chairman of the Board on 1st October 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 four times a year and otherwise as required. During the year to 31st May 2013 the committee met on five 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, unless otherwise agreed. 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
Tom Griffith	1st February 2013	One year	One year	One year's salary
Carlos Yuste	1st February 2013	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
Allan Bufferd	24th June 2010
Rian Dartnell	1st June 2011
Barry Aling	1st August 2013

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. The scheme is open to Directors and to employees of all Group companies who are required to work more than 25 hours per week provided they do not have a material interest in the Company, that is to say the ability to control more than 25% of the ordinary share capital.

The ABI Guidelines recommend that dilutive share awards should be limited to 5% of the Company's issued share capital over a rolling 10 year period. As of 31st May 2013 the dilutive awards outstanding represented 1.0% of issued share capital (2012: 2.0%).

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 2013 the EBT holding comprises 6.8% of issued share capital (2012: 6.4%).

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.

Remuneration report

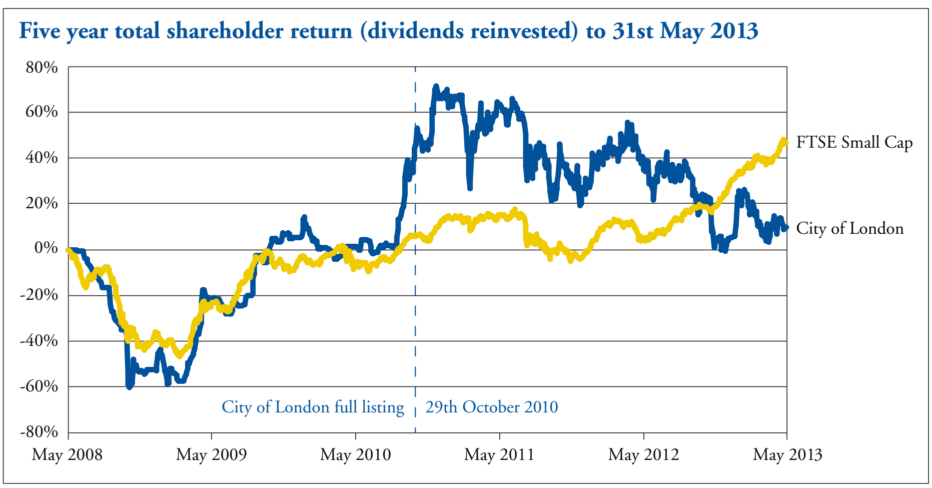
Continued

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 2013, however it should be noted that the Company was only included in the official list as of 29th October 2010.



Source: *Bloomberg.*

Directors' interests and remuneration (audited information)

(a) Directors' interests in share options as at 31st May 2013

	Number of options				Exercise price	Market price at exercise	Date from which exercisable	Expiry date
	Held 2012	Exercised during the year	Granted during the year	Held 2013	£	£		
B M Olliff	12,000	(12,000)	–	–	2.75	2.88	1st Oct 2011	1st Oct 2018
	8,000	(8,000)	–	–	2.30	2.88	5th Jun 2012	5th Jun 2019
	20,000	(20,000)	–	–				
T W Griffith	31,300*	(31,300)	–	–	0.26	2.52	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
	104,800	(31,300)	–	73,500				
C M Yuste	12,500	(12,500)	–	–	1.40	2.88	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
	73,500	(12,500)	–	61,000				

*Options granted before appointment to Director.

The closing market price of the Company's ordinary shares at 31st May 2013 was £2.585 (2012: £3.50) and the price moved during the year between a low of £2.40 and a high of £3.58 (2011: low £3.04 high £4.40).

Remuneration report

Continued

(b) Remuneration

The remuneration of the Directors who held office during the year ended 31st May 2013 is set out below:

	Fees/salary £	Profit share £	Health insurance £	Loss of office £	**Total 2013 £**	Total 2012 £	**Pension 2013 £**	Pension 2011 £
Non-executive								
D M Cardale	55,333	–	–	–	**55,333**	37,000	**–**	–
A S Bufferd	31,167	–	–	–	**31,167**	30,000	**–**	–
R A Dartnell	30,000	–	–	–	**30,000**	30,000	**–**	–
L C Ruddick*	25,417	–	–	–	**25,417**	11,038	**–**	–
A J Davison	15,173	–	–	–	**15,173**	45,000	**–**	–
G A Robb**	–	–	–	–	**–**	20,000	**–**	–
	157,090	–	–	–	**157,090**	173,038	**–**	–
Executive								
B M Olliff	229,387	319,230	3,632	–	**552,249**	984,504	**28,673**	28,297
D F Allison***	147,116	135,000	2,745	1,100,000	**1,384,861**	568,240	**18,390**	18,750
T W Griffith	154,836	171,084	3,632	–	**329,552**	417,315	**19,355**	19,100
C M Yuste	154,199	171,084	3,632	–	**328,915**	416,687	**19,275**	19,022
V S Tannahill****	39,182	29,600	686	200,000	**269,468**	–	**4,898**	–
	724,720	825,998	14,327	1,300,000	**2,865,045**	2,386,746	**90,591**	85,169
Total	881,810	825,998	14,327	1,300,000	**3,022,135**	2,559,784	**90,591**	85,169

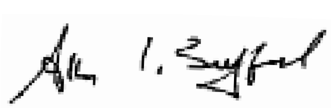
* Resigned 28th February 2013

** Retired 19th January 2012

*** Resigned 15th April 2013

**** Appointed 1st January 2013, resigned 15th April 2013. Remuneration disclosed for this period only.

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



A S Bufferd
Chairman of the Remuneration Committee
4th September 2013

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

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 2013 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 2013 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.

Lorraine Bay
Senior Statutory Auditor
5th September 2013

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 2013

	Note	Total 2013 £	Total 2012 £
Revenue	4	29,363,734	34,142,706
Administrative expenses			
Staff costs	5(b)	11,665,656	12,177,561
Commissions payable		4,194,097	5,194,630
Custody fees payable		1,244,318	1,433,342
Other administrative expenses		3,678,097	3,955,738
Depreciation and amortisation		222,556	347,591
		(21,004,724)	(23,108,862)
Operating profit	7	8,359,010	11,033,844
Interest receivable and similar gains	8	501,107	427,670
Profit before taxation		8,860,117	11,461,514
Income tax expense	9	(2,593,675)	(2,963,660)
Profit for the year		6,266,442	8,497,854
Basic earnings per share	10	24.9p	33.8p
Diluted earnings per share	10	24.6p	32.8p

Consolidated and Company statement of comprehensive income

For the year ended 31st May 2013

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Profit for the year	6,266,442	8,497,854	7,457,808	6,273,086
Fair value gains/(losses) on available-for-sale investments*	534,357	(720,952)	534,357	(720,952)
Release of fair value gains on disposal of available-for-sale investments*	(165,621)	(14,128)	(165,621)	(14,128)
Other comprehensive income	368,736	(735,080)	368,736	(735,080)
Total comprehensive income for the year attributable to equity holders of the company	6,635,178	7,762,774	7,826,544	5,538,006

*Net of deferred tax, detailed in note 14.

Consolidated and Company statement of financial position

31st May 2013

		Group		Company	
	Note	2013 £	2012 £	2013 £	2012 £
Non-current assets					
Property and equipment	11	**490,658**	607,437	**171,063**	217,666
Intangible assets	12	**306,858**	352,319	**–**	–
Other financial assets	13	**37,897**	31,354	**940,802**	886,076
Deferred tax asset	14	**239,980**	929,692	**8,480**	182,880
		1,075,393	1,920,802	**1,120,345**	1,286,622
Current assets					
Trade and other receivables	15	**3,538,726**	5,345,334	**2,206,188**	279,491
Current tax receivable		**–**	–	**493,690**	657,709
Available-for-sale financial assets	16	**3,847,526**	6,924,552	**3,847,526**	6,924,552
Cash and cash equivalents		**10,061,185**	5,399,869	**146,416**	147,933
		17,447,437	17,669,755	**6,693,820**	8,009,685
Current liabilities					
Trade and other payables	17	**(3,130,923)**	(3,891,267)	**(3,892,078)**	(6,489,568)
Current tax payable		**(671,404)**	(410,705)	**–**	–
Creditors, amounts falling due within one year		**(3,802,327)**	(4,301,972)	**(3,892,078)**	(6,489,568)
Net current assets		**13,645,110**	13,367,783	**2,801,742**	1,520,117
Total assets less current liabilities		**14,720,503**	15,288,585	**3,922,087**	2,806,739
Non-current liabilities					
Deferred tax liability	18	**(90,467)**	–	**(90,467)**	–
Net assets		**14,630,036**	15,288,585	**3,831,620**	2,806,739
Capital and reserves					
Share capital	19	**269,377**	268,784	**269,377**	268,784
Share premium account		**2,045,409**	1,980,084	**2,045,409**	1,980,084
Investment in own shares		**(4,910,800)**	(4,560,603)	**(4,910,800)**	(4,560,603)
Fair value reserve		**302,867**	(65,869)	**302,867**	(65,869)
Share option reserve		**716,660**	1,267,553	**666,191**	680,509
Capital redemption reserve		**20,582**	18,562	**20,582**	18,562
Retained earnings		**16,185,941**	16,380,074	**5,437,994**	4,485,272
Total equity		**14,630,036**	15,288,585	**3,831,620**	2,806,739

The Board of Directors approve and authorise for issue these financial statements on 4th September 2013.

Signed on behalf of the Board of Directors of City of London Investment Group PLC, company number 2685257.

B M Olliff
Chief Executive Officer

Consolidated statement of changes in equity

31st May 2013

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Capital redemption reserve £	Retained earnings £	Total attributable to shareholders £
At 1st June 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 1st June 2012	268,784	1,980,084	(4,560,603)	(65,869)	1,267,553	18,562	16,380,074	15,288,585
Profit for the year	–	–	–	–	–	–	6,266,442	6,266,442
Comprehensive income	–	–	–	368,736	–	–	–	368,736
Total comprehensive income	–	–	–	368,736	–	–	6,266,442	6,635,178
Transactions with owners								
Share option exercise	2,613	65,325	168,625	–	(37,159)	–	37,159	236,563
Share cancellation	(2,020)	–	–	–	–	2,020	(516,241)	(516,241)
Purchase of own shares	–	–	(518,822)	–	–	–	–	(518,822)
Share-based payment	–	–	–	–	135,872	–	–	135,872
Deferred tax	–	–	–	–	(649,606)	–	(57,325)	(706,931)
Current tax on share options	–	–	–	–	–	–	122,544	122,544
Dividends paid	–	–	–	–	–	–	(6,046,712)	(6,046,712)
Total transactions with owners	593	65,325	(350,197)	–	(550,893)	2,020	(6,460,575)	(7,293,727)
At 31st May 2013	**269,377**	**2,045,409**	**(4,910,800)**	**302,867**	**716,660**	**20,582**	**16,185,941**	**14,630,036**

Company statement of changes in equity

31st May 2013

	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 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 1st June 2012	268,784	1,980,084	(4,560,603)	(65,869)	680,509	18,562	4,485,272	2,806,739
Profit for the year	–	–	–	–	–	–	7,457,808	7,457,808
Comprehensive income	–	–	–	368,736	–	–	–	368,736
Total comprehensive income	–	–	–	368,736	–	–	7,457,808	7,826,544
Transactions with owners								
Share option exercise	2,613	65,325	168,625	–	(37,159)	–	18,353	217,757
Share cancellation	(2,020)	–	–	–	–	2,020	(516,241)	(516,241)
Purchase of own shares	–	–	(518,822)	–	–	–	–	(518,822)
Share-based payment	–	–	–	–	135,872	–	–	135,872
Deferred tax	–	–	–	–	(113,031)	–	(49,049)	(162,080)
Current tax on share options	–	–	–	–	–	–	88,563	88,563
Dividends paid	–	–	–	–	–	–	(6,046,712)	(6,046,712)
Total transactions with owners	593	65,325	(350,197)	–	(14,318)	2,020	(6,505,086)	(6,801,663)
At 31st May 2013	**269,377**	**2,045,409**	**(4,910,800)**	**302,867**	**666,191**	**20,582**	**5,437,994**	**3,831,620**

Consolidated and Company cash flow statement

For the year ended 31st May 2013

	Note	Group 2013 £	Group 2012 £	Company 2013 £	Company 2012 £
Cash flow from operating activities					
Operating profit		8,359,010	11,033,844	159,250	130,051
Adjustments for:					
Depreciation charges		177,095	336,226	73,761	145,257
Amortisation of intangible assets		45,461	11,365	–	–
Share-based payment charge		135,872	195,941	68,739	87,168
Translation adjustments		(8,539)	(108,680)	(10,594)	(222,144)
(Profit)/loss on disposal of fixed assets		–	(72)	–	–
Cash generated from operations before changes in working capital		8,708,899	11,468,624	291,156	140,332
Decrease/(increase) in trade and other receivables		1,806,608	230,677	(1,926,697)	834,841
(Decrease)/increase in trade and other payables		(760,344)	(122,152)	(2,597,490)	1,264,826
Cash generated from operations		9,755,163	11,577,149	(4,233,031)	2,239,999
Interest received		60,898	62,875	38	797
Taxation (paid)/received		(2,248,450)	(3,928,729)	117,414	96,525
Net cash generated from/(used in) operating activities		7,567,611	7,711,295	(4,115,579)	2,337,321
Cash flow from investing activities					
Dividends received from subsidiaries		–	–	6,985,000	5,633,000
Purchase of property and equipment		(60,316)	(400,163)	(27,158)	(84,977)
Proceeds from sale of property and equipment		–	320	–	–
Purchase of non-current financial assets		(3,811)	(6,491)	(3,811)	(3,246)
Proceeds from sale of non-current financial assets		–	483,434	–	483,434
Purchase of current financial assets		(328,991)	(2,132,613)	(328,991)	(2,132,613)
Proceeds from sale of current financial assets		4,332,466	178,438	4,332,466	178,438
Net cash generated from/(used in) investing activities		3,939,348	(1,877,075)	10,957,506	4,074,037
Cash flow from financing activities					
Proceeds from issue of ordinary shares		67,938	5,200	67,938	5,200
Ordinary dividends paid	20	(6,046,712)	(6,052,068)	(6,046,712)	(6,052,068)
Purchase and cancellation of own shares		(516,241)	–	(516,241)	–
Purchase of own shares by employee share option trust		(518,822)	(513,576)	(518,822)	(513,576)
Proceeds from sale of own shares by employee share option trust		168,625	136,632	168,625	136,632
Net cash used in financing activities		(6,845,212)	(6,423,812)	(6,845,212)	(6,423,812)
Net increase/(decrease) in cash and cash equivalents		4,661,747	(589,592)	(3,285)	(12,455)
Cash and cash equivalents at start of period		5,399,869	6,104,673	147,933	161,683
Effect of exchange rate changes		(431)	(115,212)	1,768	(1,295)
Cash and cash equivalents at end of period		10,061,185	5,399,869	146,416	147,933

Notes to the financial statements

For the year ended 31st May 2013

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 2013 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 10 Consolidated Financial Statements – Effective for annual periods beginning on or after 1st January 2013. This replaces the portion of IAS 27 'Consolidated and Separate Financial Statements' that addresses the accounting for consolidated financial statements. The changes introduced by IFRS 10 will require management to exercise a degree of judgement to determine which entities it controls, and are thus required to consolidate, compared with the requirements that were in IAS 27. The standard defines control as being exercised when an investor is exposed, or has rights, to variable returns from his involvement with the investee and has the ability to affect those returns through his power over the investee. The Group has considered the principle of control in relation to its investees, and the adoption of this standard is not expected to have a material impact on the Group's financial statements.

IFRS 12 Disclosure of Interests in Other Entities – Effective for annual periods beginning on or after 1st January 2013. The Standard is intended to complement IFRS 10 and requires disclosures about the judgement used by management in determining which entities it controls as well as the financial effects of, and risks associated with, an entity's investments in subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is not expected to have a material impact on the Group's financial statements.

At 31st May 2013 there are no other Standards and Interpretations in issue but not in force that would be expected to have a material impact on the Group.

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 23.

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.

Notes to the financial statements

Continued

2 Basis of consolidation

These financial statements consolidate the financial statements of the Company and all of its subsidiary undertakings.

The Company's principal subsidiaries as at 31st May 2013 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 13.

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 classified 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 the forward exchange bid rates from Bloomberg

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 25.

(iv) Trade receivables

Trade receivables are measured on 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 substantively enacted, by the end of the reporting period. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly as part of other comprehensive income, in which case the deferred tax is also dealt with as part of other comprehensive income. For share-based payments, where the estimated future tax deduction exceeds the amount of the related cumulative remuneration expense, the excess deferred tax is recognised directly in equity.

(viii) Share-based payments

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

Notes to the financial statements

Continued

3 Significant accounting policies continued

(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 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. Monetary assets held in a currency other than the functional currency are translated each year end at the year end closing rates. Non-monetary assets are translated at the date of the transaction and held at historic costs with any gains or losses 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 2013						
Revenue	25,411,693	699,249	1,551,037	1,701,755	–	29,363,734
Non-current assets:						
Property and equipment	319,595	–	158,353	–	12,710	490,658
Intangible assets	306,858	–	–	–	–	306,858
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

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 were material.

5 Employees

(a) Average number of persons employed by the Group in the year:	2013 Number	2012 Number
Investment Management/Research	30	29
Performance and Attribution	5	5
Business Development/Marketing	4	5
Client Services	8	9
Administration, Accounts and Settlements	30	29
	77	77

(b) Staff costs incurred during the year in respect of these employees were:	2013 £	2012 £
Wages and salaries	6,102,895	5,286,569
Profit sharing payments	3,749,606	5,082,083
Social security costs	750,197	738,168
Defined contribution pension costs	600,793	578,817
Share options charge	135,872	195,941
Other staff costs	326,293	295,983
	11,665,656	12,177,561

The Group made contributions of £600,793 (2012: £578,817) in the period to individual defined contribution pension schemes established for Directors and employees. There were no outstanding or prepaid contributions at 31st May 2013.

Notes to the financial statements

Continued

6 Directors

Directors' emoluments comprise:	2013 £	2012 £
Emoluments (excluding pension contributions and awards under share option schemes)	3,022,135	2,559,784
Pension contributions	90,591	85,169
Share option charge	17,936	24,189
Gains on exercise of share options	95,438	53,342

	2013 Number	2012 Number
Number of Directors on whose behalf pension contributions were paid during the year	5	4
Number of Directors who exercised share options during the year	3	1

Highest paid Director's remuneration:	2013 £	2012 £
Emoluments (excluding pension contributions and awards under share option schemes)	552,249	984,504
Pension contributions	28,673	28,297
Share option charge	–	1,338
Gains on exercise of share options	6,200	–

Further details relating to Directors' emoluments can be found in the Remuneration report on pages 24 to 28.

7 Operating profit

The operating profit is arrived at after charging/(crediting):	2013 £	2012 £
Depreciation of owned assets	177,095	336,226
Amortisation of intangible assets	45,461	11,365
Auditors' remuneration:		
– Statutory audit	75,901	65,470
– Taxation services	23,539	18,123
– Other services	8,287	7,211
Operating lease rentals:		
– Land and buildings	344,207	349,858
Foreign exchange (gains)/losses	(47,681)	25,091
(Profit) on disposal of fixed assets	–	(72)

8 Interest receivable and similar gains

	2013 £	2012 £
Interest on bank deposit	60,898	62,875
Gain on sale of investments	440,209	364,795
	501,107	427,670

9 Tax charge on profit on ordinary activities

(a) Analysis of tax charge on ordinary activities:	2013 £	2012 £
Tax at 24% (2012: 26%) based on the profit for the year	2,191,803	3,074,714
Double taxation relief	(1,103,164)	(1,656,439)
Deferred tax	(38,019)	(68,780)
Change in tax rate to 23%	(6,962)	(18,097)
Adjustments in respect of prior years	(20,075)	(270,210)
Domestic tax total	1,023,583	1,061,188
Foreign tax for the current period	1,539,724	2,137,395
Adjustments in respect of prior years	30,368	(234,923)
Foreign tax total	1,570,092	1,902,472
Total tax charge in income statement	2,593,675	2,963,660

(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 – 24% (prior year – 26%). The differences are explained below:

	2013 £	2012 £
Profit on ordinary activities before tax	8,860,117	11,461,514
Tax at 24% (2012: 26%) thereon	(2,126,428)	(2,979,994)
Effects of:		
Unrelieved overseas tax	(436,560)	(480,956)
Expenses not deductible for tax purposes	(42,587)	(45,870)
Capital allowances less than depreciation	(27,299)	(50,886)
Prior period adjustments	(10,293)	505,133
Deferred tax on share based-payments and impairment	38,019	68,780
Change in tax rate to 23%	6,962	18,097
Other	4,511	2,036
Total tax charge in income statement	(2,593,675)	(2,963,660)

The reduction in the main rate of UK corporation tax to 23% with effect from 1st April 2013 is substantively enacted for accounting purposes. The effect of the rate reduction has been reflected in the figures above.

10 Earnings per share

The calculation of earnings per share is based on the profit for the period of £6,266,442 (2012: £8,497,854) divided by the weighted average number of ordinary shares in issue for the year ended 31st May 2013 of 25,152,921 (2012: 25,171,389).

As set out in the Directors' report on page 17, the Employee Benefit Trust held 1,843,283 ordinary shares in the Company as at 31st May 2013. 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.

10 Earnings per share continued

The calculation of diluted earnings per share is based on the profit for the year of £6,266,442 (2012: £8,497,854) divided by the diluted weighted average of ordinary shares for the year ended 31st May 2013 of 25,432,704 (2012: 25,917,327).

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

	2013 Number of shares	2012 Number of shares
Weighted average number of shares – basic earnings per share	25,152,921	25,171,389
Effect of dilutive potential shares – share options	279,783	745,938
Weighted average number of shares – diluted earnings per share	25,432,704	25,917,327

11 Property and equipment

	2013				2012			
	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	195,840	1,693,862	591,652	2,481,354	178,766	1,567,252	335,504	2,081,522
Additions	1,373	54,341	4,602	60,316	17,074	126,941	256,148	400,163
Disposals	–	(166,341)	–	(166,341)	–	(331)	–	(331)
At 31st May	197,213	1,581,862	596,254	2,375,329	195,840	1,693,862	591,652	2,481,354
Accumulated depreciation								
At 1st June	171,429	1,493,449	209,039	1,873,917	142,330	1,248,763	146,681	1,537,774
Charge for the year	13,033	118,981	45,081	177,095	29,099	244,769	62,358	336,226
Disposals	–	(166,341)	–	(166,341)	–	(83)	–	(83)
At 31st May	184,462	1,446,089	254,120	1,884,671	171,429	1,493,449	209,039	1,873,917
Net book value								
At 31st May	12,751	135,773	342,134	490,658	24,411	200,413	382,613	607,437

	2013 Furniture and equipment £	2013 Computer and telephone equipment £	2013 Short leasehold improvements £	2013 Total £	2012 Furniture and equipment £	2012 Computer and telephone equipment £	2012 Short leasehold improvements £	2012 Total £
Company								
Cost								
At 1st June	120,044	637,062	278,719	1,035,825	112,994	560,572	277,282	950,848
Additions	1,373	25,785	–	27,158	7,050	76,490	1,437	84,977
Disposals	–	(72,120)	–	(72,120)	–	–	–	–
At 31st May	121,417	590,727	278,719	990,863	120,044	637,062	278,719	1,035,825
Accumulated depreciation								
At 1st June	107,282	550,623	160,254	818,159	84,345	470,369	118,188	672,902
Charge for the year	6,872	42,395	24,494	73,761	22,937	80,254	42,066	145,257
Disposals	–	(72,120)	–	(72,120)	–	–	–	–
At 31st May	114,154	520,898	184,748	819,800	107,282	550,623	160,254	818,159
Net book value								
At 31st May	7,263	69,829	93,971	171,063	12,762	86,439	118,465	217,666

12 Intangible assets

Group	2013 Long term software licences £	2012 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	102,286	90,921
Charge for the year	45,461	11,365
At 31st May	147,747	102,286
Net book value		
At 31st May	306,858	352,319

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

13 Other financial assets (non-current)

Group	2013 Unlisted investments £	2012 Unlisted investments £
Cost		
At 1st June	31,354	73,210
Additions	3,811	6,491
Disposals	–	(48,685)
Fair value gains recognised in other comprehensive income	2,732	338
At 31st May	37,897	31,354

Company	2013			2012		
	Unlisted investments £	Investment in subsidiary undertakings £	Total £	Unlisted investments £	Investment in subsidiary undertakings £	Total £
Cost						
At 1st June	20,968	865,108	886,076	66,522	762,255	828,777
Additions	3,811	93,283	97,094	3,246	117,890	121,136
Disposals	–	(44,957)	(44,957)	(48,685)	(15,037)	(63,722)
Fair value gains/(losses) recognised in other comprehensive income	2,589	–	2,589	(115)	–	(115)
At 31st May	27,368	913,434	940,802	20,968	865,108	886,076

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

13 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 the UK 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.

14 Deferred tax asset

	Share-based payments		Fair value		Total	
	Group £	Company £	Group £	Company £	Group £	Company £
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 1st June 2012	908,892	162,080	20,800	20,800	929,692	182,880
Credit/(charge) to income	38,019	8,480	–	–	38,019	8,480
Credit/(charge) to equity	(706,931)	(162,080)	(20,800)	(20,800)	(727,731)	(182,880)
At 31st May 2013	**239,980**	**8,480**	**–**	**–**	**239,980**	**8,480**

15 Trade and other receivables

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Trade receivables	**56,364**	1,252,592	**–**	–
Accrued income	**2,828,045**	3,534,337	**–**	–
Amounts owed by Group undertakings	**–**	–	**1,855,900**	–
Other debtors	**121,105**	62,349	**82,404**	39,092
Prepayments	**533,212**	496,056	**267,884**	240,399
	3,538,726	5,345,334	**2,206,188**	279,491

16 Available-for-sale financial assets

Group and Company	2013 £	2012 £
Unlisted investments at market value	3,847,526	6,924,552
Unlisted investments at cost	3,464,770	7,019,383

17 Trade and other payables

	Group		Company	
	2013 £	2012 £	2013 £	2012 £
Trade creditors	28,312	252,491	–	–
Sundry creditors	306,937	265,625	366	766
Amounts owed to Group undertakings	–	–	2,576,410	5,307,430
Other taxation and social security	73,983	169,823	73,662	169,823
Accruals and deferred income	2,721,691	3,203,328	1,241,640	1,011,549
	3,130,923	3,891,267	3,892,078	6,489,568

18 Deferred tax liability

Group and Company	£
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 1st June 2012	–
Increase due to gain in fair value of available-for-sale investments	90,467
At 31st May 2013	90,467

19 Share capital

Group and Company	2013 Number of shares	2012 Number of shares
Authorised		
Ordinary shares of 1p each (2012 – 1p each)	90,000,000	90,000,000
	£	£
Ordinary shares of 1p each (2012 – 1p each)	90,000	90,000

19 Share capital continued

Group and Company	2013 £	2012 £
Allotted, called up and fully paid		
At start of year 26,878,450 (2012: 26,858,450) Ordinary shares of 1p each	268,784	268,584
Dilutive share options exercised; 59,257 (2012: 20,000)	593	200
At end of year 26,937,707 (2012: 26,878,450) Ordinary shares of 1p each	269,377	268,784

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

20 Dividend

	2013 £	2012 £
Dividends paid:		
Interim dividend of 8p per share (2012: 8p)	1,996,394	2,010,607
Final dividend in respect of year ended:		
31st May 2012 of 16p per share (2011: 16p)	4,050,318	4,041,461
	6,046,712	6,052,068

A final dividend of 16p per share has been proposed, payable on 25th October 2013, subject to shareholder approval, to shareholders who are on the register of members on 11th October 2013.

21 Profit of the Parent Company

As permitted by section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial period, amounted to £7,457,808 (2012: £6,273,086).

22 Operating lease commitments

At 31st May 2013 the Group had the following commitments for future minimum lease payments under non-cancellable operating leases:

	Group		Company	
	Land and buildings 2013 £	Land and buildings 2012 £	Land and buildings 2013 £	Land and buildings 2012 £
Within one year	372,451	356,131	211,199	174,384
In the second to fifth years inclusive	1,045,280	196,286	858,182	14,532
After five years	17,879	–	17,879	–
	1,435,610	552,417	1,087,260	188,916

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.

23 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
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 principal 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:

	2013		2012	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at the beginning of the year	2,191,042	2.47	1,978,092	2.25
Granted during the year	–	–	349,000	3.59
Forfeited during the year	85,250	3.62	45,750	3.41
Exercised during the year	331,927	0.71	90,300	1.57
Outstanding at the end of the year	1,773,865	2.74	2,191,042	2.47
Exercisable at the end of the year	1,165,115	2.25	1,087,042	1.59
The weighted average share price at the date of exercise for share options exercised during the year was		3.01		3.61

The total share-based payment charge for the year is £135,872 (2012: £195,941).

24 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 28 and in note 6.

(ii) Summary of transactions and balances

During the period the Company received from its subsidiaries £7,903,968 (2012: £7,086,248) in respect of management service charges and dividends of £6,985,000 (2012: £5,633,000).

Amounts outstanding between the Company and its subsidiaries as at 31st May 2013 are given in notes 15 and 17.

D Allison, who was a Director of the Company up to 15th April 2013, was 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 period 1st June 2012 to 15th April 2013 from this fund totalled £1,573,485 (2012: £1,757,168 full year), with nil (2012: £156,142 full year) outstanding at 15th April 2013.

V Tannahill was also a Director of the World Markets Umbrella Fund plc for the period 1st June 2012 to 15th April 2013 but was only Director of the Company from 1st January to 15th April 2013.

25 Financial instruments

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

(i) Financial instruments by category

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

Group

31st May 2013 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	–	–	37,897	37,897
Trade and other receivables	3,538,726	–	–	3,538,726
Available-for-sale financial assets	–	–	3,847,526	3,847,526
Cash and cash equivalents	10,061,185	–	–	10,061,185
Total	13,599,911	–	3,885,423	17,485,334

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	306,571	2,824,352	3,130,923
Total	306,571	2,824,352	3,130,923

25 Financial instruments continued

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

Company

31st May 2013 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	913,434	–	–	27,368	940,802
Trade and other receivables	–	2,206,188	–	–	2,206,188
Available-for-sale financial assets	–	–	–	3,847,526	3,847,526
Cash and cash equivalents	–	146,416	–	–	146,416
Total	913,434	2,352,604	–	3,874,894	7,140,932

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	–	3,892,078	3,892,078
Total	–	3,892,078	3,892,078

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

Notes to the financial statements
Continued

25 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	–	6,489,568	6,489,568
Total	–	6,489,568	6,489,568

(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 forward exchange bid 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 2013	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	666,248	3,219,175	–	3,885,423
Total	666,248	3,219,175	–	3,885,423
Financial liabilities at fair value through profit or loss				
Forward currency trades	–	306,571	–	306,571
Total	–	306,571	–	306,571

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 assets at fair value through profit or loss				
Forward currency trades	–	264,859	–	264,859
Total	–	264,859	–	264,859

25 Financial instruments continued

Company

31st May 2013	Level 1 £	Level 2 £	Level 3 £	Total £
Available-for-sale financial assets				
Investment in own funds	666,248	3,208,646	–	3,874,894
Total	666,248	3,208,646	–	3,874,894

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

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 or the preceding year.

The fair value gain on the forward currency trades is offset in the income statement by the foreign exchange losses on other currency assets and liabilities held during the year and at year end. The net gain reported for the year is £47,681 (2012: net loss £25,091).

(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 2013, the Group had net asset balances of US$11,441,867 (2012: US$12,792,210), offset by forward sales totalling US$10,900,000 (2012: US$11,750,000), and net asset balances of SGD543,000 (2012: SGD227,728), C$164,198 (2012: C$157,387), EUR56,056 (2012: EUR67,218) and AED153,159 (2012: AED95,217).

Had the US dollar strengthened or weakened against sterling as at 31st May 2013 by 10%, with all other variables held constant, there would have been approximately 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 14.

Notes to the financial statements

Continued

25 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 14.

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 Group did not conduct any hedging activity during the period (2012: the cost of hedging recognised in the income statement was £71,575).

(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 2013 the Group held £10,061,185 (2012: £5,399,869) in cash balances, of which £9,245,610 (2012: £4,534,050) 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 Conduct Authority ("FCA") 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 7th October 2013 at 11.30am for the following purposes:

Ordinary business

1. To receive and adopt the financial statements for the year ended 31st May 2013 together with the reports of the Directors and auditors thereon.

2. To approve the Directors' remuneration report for the year ended 31st May 2013.

3. To declare a final dividend of 16p per ordinary share for the year ended 31st May 2013 payable on 25th October 2013.

4. Having been appointed by the Board since the last Annual General Meeting, to re-appoint Barry Alan Aling 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 2010 Annual General Meeting, to re-elect Carlos Manuel Yuste as a Director of the Company in accordance with article 132(a) of the Company's articles of association.

6. Having last been re-elected at the 2010 Annual General Meeting, to re-elect David Michael Cardale as a Director of the Company in accordance with article 132(a) of the Company's articles of association.

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 sections 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 £89,909 (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 2014 (whichever is 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 capital 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 such allotment, provided that this power shall be limited to the allotment of equity securities up to a maximum nominal amount of £13,486 (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 2014 (whichever is 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 2,697,270 (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 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 2014 (whichever is 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

P A Keith
Company Secretary
4th September 2013

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 3rd October 2013. 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 11:30 am on 3rd October 2013.

   The rights of members to attend and vote at the meeting will be determined by reference to entries on the register of members at 11:30 am on 3rd October 2013. 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 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 2013, 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. The 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 2013 which will be paid on 25th October 2013 to shareholders on the register at the close of business on 11th October 2013.

The Company's shares will trade ex-dividend from 9th October 2013 until the payment date.

Re-appointment of Directors (Resolution 4)
Article 137 of the Company's articles of association requires that any Director who has been appointed by the Directors since the last annual general meeting of the Company will stand for re-appointment at the next general meeting.

Re-election of Directors (Resolutions 5 - 6)
Article 132 of the Company's articles of association requires that at each annual general meeting, any Director who has been in office for more than three years shall retire by rotation and 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 31st August 2013 (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 page 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 2014.

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 £89,909 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 2014 (whichever is the earlier), unless renewed, varied or revoked by the Company prior to or on that date.

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 £13,486 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 2014 (whichever is 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 the 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 £26,972 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 2014 (whichever is 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 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.

Professional advisers

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Canaccord Genuity Limited
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Moore Stephens LLP
Chartered Accountants
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London
EC1A 4AB

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

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www.citlon.co.uk

CITY OF LONDON
INVESTMENT GROUP PLC

FORM OF PROXY

(City of London Investment Group PLC is incorporated and registered in England and Wales with No. 2685257)

I/We

(Insert full name in BLOCK CAPITALS)

of

(Insert address in BLOCK CAPITALS)

being [a] holder[s] of ordinary shares of City of London Investment Group PLC appoint the Chairman of the Meeting (see note 8) or the following person:

Name	Number of shares

as my/our proxy to attend, speak and vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 77 Gracechurch Street, London EC3V 0AS on Monday 7th October 2013 at 11.30am and at any adjournment of that meeting. I/We request my/our proxy to vote on the following resolutions as indicated below:

	ORDINARY RESOLUTIONS	FOR	AGAINST	VOTE WITHHELD
1	To receive and adopt the accounts.			
2	To approve the Directors' remuneration report.			
3	To approve the final dividend.			
4	To re-appoint B A Aling as a Director.			
5	To re-elect C M Yuste as a Director.			
6	To re-elect D M Cardale as a Director.			
7	To approve the re-appointment of Moore Stephens LLP as auditors.			
8	To authorise the Directors to determine the auditors' remuneration.			
9	To authorise the Directors to allot shares.			
10	To approve the City of London Employee Benefit Trust to hold up to a maximum of 10% of the Company's issued ordinary share capital.			
	SPECIAL RESOLUTIONS			
11	To empower the Directors to disapply pre-emption rights.			
12	To authorise the Company to make market purchases of Ordinary Shares up to a maximum number of 2,697,270.			

☐ Please tick here if the proxy appointment is one of multiple appointments being made and state in the box above the number of shares to which this proxy relates. Also, see note 10 below.

Signature Dated 2013

Notes:

1 If the shareholder is a corporation, this Form of Proxy should be executed under its Common Seal, or signed on its behalf by an officer, attorney or other person duly authorised in writing by the corporation.

2 Please indicate with an 'X' in the appropriate boxes above how you wish your votes to be cast. Unless otherwise instructed the proxy may vote or abstain from voting as they see fit. The 'vote withheld' option is provided so that you may abstain on any particular resolution: this is not a vote in law and will not be counted in the calculation of the proportion of votes 'for' and 'against' a resolution.

3 In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority is determined by the order in which the names stand in the Register of Members in respect of the joint holding.

4 The return of this Form of Proxy will not prevent a holder of Ordinary Shares attending the meeting and voting in person if he so wishes.

5 To be valid, this Form of Proxy (together with any power of attorney or other written authority under which it was signed, or a notarially certified copy of such power of attorney or other authority) must be deposited at the address overleaf no later than 11.30am on 3rd October 2013.

6 Any alterations made to this Form of Proxy should be initialled by the person who signs it.

7 A proxy need not be a member of the Company.

8 If it is desired to appoint as proxy any person other than the Chairman of the Meeting, his/her name should be inserted in the box provided and reference to the Chairman of the Meeting deleted and the alteration initialled.

9 If the proxy is being appointed in relation to only some of your shares, please write the number of shares in respect of which they are authorised to act in the box next to their name. If this box is left blank, your proxy will be deemed to be authorised to act in respect of all of your shares.

10 To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

Business Reply
Licence Number
RSBH-UXKS-LRBC

PXS
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