

This document comprises a prospectus relating to City of London Investment Group plc (the “Company”) and has been prepared in accordance with the Prospectus Rules of the Financial Services Authority (the “Prospectus Rules”) made under section 73A of the Financial Services and Markets Act 2000, as amended (“FSMA”). This document has been approved as a prospectus by the Financial Services Authority and made available to the public as required by paragraph 3.2 of the Prospectus Rules.

The Directors, whose names appear on page 18 of this document, and the Company accept responsibility for the information contained in this document. To the best of the knowledge of the Directors and the Company (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

Applications have been made to the Financial Services Authority and to the London Stock Exchange respectively for admission of all the Ordinary Shares to be admitted to (i) the premium listing segment of the Official List; and (ii) to trading on the London Stock Exchange’s main market for listed securities (together “Admission”). No application has been made or is currently intended to be made for the Ordinary Shares to be admitted to listing or dealt with on any other exchange. It is expected that Admission will become effective and that dealings in the Ordinary Shares on the London Stock Exchange will commence at 8.00 a.m. on 29 October 2010. The Ordinary Shares are currently admitted to trading on AIM, a market operated by the London Stock Exchange. The Company intends to terminate the admission of the Ordinary Shares to trading on AIM at the same time as Admission occurs.

Prospective investors should read the entire document and, in particular, the section headed Risk Factors on pages 9 to 15 of this document when considering an investment in the Ordinary Shares.

City of London Investment Group plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered number 2685257)

Introduction to the premium listing segment of the Official List and to trading on the main market of the London Stock Exchange of 26,263,853 ordinary shares of 1 penny each

Singer
Capital Markets

Sponsor and Financial Adviser

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In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company, including the merits and risks involved. The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice. No person is authorised in connection with Admission to give any information or to make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by or on behalf of the Company or Singer.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to section 87G of the FSMA or paragraph 3.4 of the Prospectus Rules, the publication of this document does not, under any circumstances, create any implication that there has been no change in the affairs of the Group since, or that the information contained in this document is correct at any time subsequent to, the date of this document.

The possession or distribution of this document and the transfer of Ordinary Shares in or into jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about and observe any such restrictions. No action has been taken by Singer or any of its representatives that would permit possession or distribution of this document in any jurisdiction which may restrict possession or distribution. Neither Singer, nor any of its representatives is making any representation to any person regarding the legality of an investment in the Ordinary Shares under the laws applicable to such person.

This document does not constitute an offer to sell, or the solicitation of an offer to buy or subscribe for, Ordinary Shares in any jurisdiction in which such offer or solicitation is unlawful. The Ordinary Shares have not been, and will not be, registered under the US Securities Act or qualified for sale under the laws of any state of the United States or under the applicable laws of any of Canada, Australia or Japan and, subject to certain exceptions, may not be offered or sold in the United States or to, or for the account or benefit of, US persons (as such term is defined in Regulation S under the US Securities Act) or to any national, resident or citizen of Canada, Australia or Japan. Neither this document, nor any copy of it, may be sent to or taken into the United States, Canada, Australia or Japan, nor may it be distributed to any US person (within the meaning of Regulation S under the US Securities Act).

The date of this document is 26 October 2010.

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SUMMARY

The following summary information does not purport to be complete and should be read as an introduction to the more detailed information appearing elsewhere in this document and any document incorporated by reference. Any decision by a prospective investor to invest in Ordinary Shares should be based on consideration of this document as a whole and not solely on summarised information. Where a claim relating to the information contained in this document is brought before a court, a claimant investor might, under the national legislation of the relevant EEA state, have to bear the costs of translating this document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this document.

1. Introduction

It has, for some time, been the intention of the Directors to seek a listing on the Official List when the maturity of the Company so warranted it. During its time on AIM, the Company has restructured its shareholder base to improve liquidity and the Directors believe that a move to the premium listing segment of the Official List is the logical response to the Company's growing size, profile and shareholder base. The Directors believe that a move from AIM to the Official List will provide further profile and greater exposure for the Company, and hence broaden the universe of potential new investors and, in time, further increase liquidity in the Company's Ordinary Shares. The Board of the Company sought and obtained authority from Shareholders at a general meeting on 14 July 2010 to delist from AIM in order to pursue a listing on the Official List.

Shareholders are not required to take any action upon receipt of this document. The Company is not issuing any new Ordinary Shares nor is it seeking to raise any new money in connection with Admission.

This document has been published solely to enable the Company to obtain listing of the Ordinary Shares on the Official List and admission to trading on the London Stock Exchange's main market for listed securities. It is expected that cancellation of the listing on AIM and listing on the Official List and admission to trading on the Main Market will occur on or around 29 October 2010.

2. Information on City of London Group

The City of London Group is an asset management group whose principal activity is providing emerging market asset management products and services predominantly to institutional investors via its principal operating company City of London Investment Management Company Limited. The Group is based in the UK and has offices in the US (east coast), Singapore and Dubai. The Group has 70 employees (including 20 investment professionals), comprising 25 in London, 37 in the US, six in Singapore and two in Dubai.

The Group, as at 30 September 2010, had total FuM of approximately \$5.4 billion (c. £3.5 billion). The Group manages several Open Ended Funds as well as a number of segregated accounts. The Group's fund mandates are mainly in emerging markets and natural resources.

The Group seeks to provide capital growth for clients through active country allocation and stock selection. The key objective for the Group's asset management products is to provide above average, long-term outperformance in comparison to the appropriate emerging market benchmark, while maintaining a lower level of volatility than the benchmark index.

Key Strengths

The Directors believe that the City of London Group has the following key strengths:

- **Specialist investment expertise in emerging market closed end funds.** The Group tracks closed end funds via a proprietary trading and research database.

- **Strong investment performance of the funds it manages.** The Group has established a proven risk-averse, systematic investment process and business model, and has achieved strong investment performance over 17 years.
- **Risk averse culture.** The Group's business model is based on prudent management of operating risks at all levels of the firm.
- **International presence.** The Group's four offices in London, the United States, Singapore and Dubai place it close to the markets the Group addresses as well as close to existing and potential client bases.
- **Prudent investment process and culture.** City of London Group's investment process is rigorous. Changes in asset or geographic allocations of funds are made gradually. Investment decisions are based upon discussions by investment professionals who convene across the four offices on a daily basis.
- **Client service.** Clients are able to discuss the investment process and reasons for investment decisions directly with the Group's fund managers. The Directors believe that this transparent service-orientated culture fosters strong client relationships. The Group also provides detailed monthly and quarterly reports on all its funds. These include an economic overview, commentary on major portfolio acquisitions and disposals, a breakdown of the fund by geography and holdings, feature articles and analysis of the closed-end fund industry as a whole.
- **A loyal client base.** The Group's focus on customer service and investment performance has resulted in a low fund redemption rate.
- **Low staff turnover.** The Directors believe that low staff turnover has contributed to consistent investment performance and lower costs. The Directors are committed to training and encouraging staff to develop their skills.

3. Current trading and prospects

The audited accounts for the year to 31 May 2010 show turnover of £30.0 million, operating profit of £10.3 million and profit after tax of £7.0 million.

Since 31 May 2010 the Group has continued to trade in line with Directors' and market expectations and net inflows to the Group's funds have continued at a satisfactory level. The Directors believe that the Group will continue to benefit from the low operational gearing that has characterised its business model to date.

4. Working capital

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

5. Dividend policy

The Board believes in implementing a progressive dividend policy. The Group's dividend policy is based on paying dividends to shareholders that are 1.5 times covered by earnings and to pay approximately one third of the annual total as an interim dividend and two thirds as a final dividend. Recent cover has been lower due to market conditions.

6. Summary Financial information

The selected financial information set out in this paragraph 6 of the Summary below has been extracted without material adjustment from the audited financial information of the Group.

	2010 £'000	2009 £'000	2008 £'000
Revenue	29,970	20,151	24,879
Administrative expenses			
Staff costs	9,378	6,716	7,926
Other administrative expenses	9,954	7,463	6,969
Depreciation	348	289	158
	<u>(19,680)</u>	<u>(14,468)</u>	<u>(15,053)</u>
Operating profit	10,290	5,683	9,826
Interest receivable and similar income	(70)	(60)	869
Impairment of seed investments	159	(239)	–
Profit before taxation	10,379	5,384	10,695
Income tax expense	(3,396)	(1,537)	(3,559)
Profit for the period	6,983	3,847	7,136
Basic earnings per share	28.5p	16.1p	29.3p
Diluted earnings per share	26.9p	15.0p	26.0p

7. Future strategy

The strategy of The City of London Group is to continue to offer competitive investment products and to achieve superior investment performance and service levels for clients. It will also aim to deliver earnings growth and create value for shareholders.

Given the limited universe of emerging markets closed end funds, growth plans are significantly focused on developed markets closed end fund products and on emerging markets equities products.

8. Summary of Risk Factors

The Group's business is subject to certain risks including, but not limited to:

General risks relating to an investment in ordinary shares

- The prices of shares and the income derived from them can go down as well as up. Investors may not get back the full amount initially invested.
- Changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments in general and the Group's prospects in particular.
- The Ordinary Share price may fluctuate as a result of a variety of factors, including the share price performance of other companies in the industries and markets in which the Group operates and general market conditions.
- There can be no assurance that the Company will pay dividends or, if it does pay dividends, regarding the amount of such dividends, and consequently Shareholders may not receive their anticipated income stream.

Risks relating to the business of City of London Group

- **Investment strategy**

There can be no certainty that the Group will be able to implement successfully the strategy set out in this document. Failure to do so could have an adverse effect on the Group's business, financial condition and results of operations.

- **Investment performance**

Returns on securities have historically been volatile and the performance of the Group is, to a degree, linked to future performance of financial markets. The performance of the Group's investment products is central to its ability to attract and retain the FuM from which its fee income is exclusively derived. Any sustained period of investment underperformance could have a material adverse effect on its business, reputation and brand, sales, results of operations, financial condition and growth prospects.

- **Asset classes losing appeal**

A high proportion of the Group's investment products focus on emerging market securities. Weak investment performance in this asset class could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.

- **Competition**

The market in which the Group operates is increasingly competitive and changes by competitors in the terms offered to clients and customers may result in increased pressure on the Group's revenue margins. A failure by the Group to compete effectively in this environment may result in the loss of existing clients and their business and of opportunities to capture new business, each of which could have a material adverse effect on the Group's business, growth prospects, sales, results of operation and/or financial condition.

- **Commercial risk**

The Group's profitability is directly linked to the level of FuM. However, there is no assurance that the Group will be successful in the retention of current FuM, given that client funds are not tied by long term contracts. There is no assurance that the Group will be successful in the development of its products and services and, if developed, that there will be a market for these products. The Group is also vulnerable to adverse market perception since it operates in an industry where integrity and customer trust are paramount.

- **Sensitivity to adverse economic, political and market factors**

The financial markets in which the Group offers its services are directly affected by many national and international factors that are beyond its control. Any one of the following factors may cause a substantial decline in the financial markets in which the Group offers its services and thus have a material adverse effect on the Group's business, results of operations and/or financial condition: legislative and regulatory changes; economic and political conditions in the UK, US, Singapore, Dubai and elsewhere in the world; concerns about terrorism and war; the level and volatility of equity and commodity markets; the level and volatility of interest rates and foreign currency exchange rates; concerns over inflation and changes in institutional and consumer confidence levels.

- **Loss of business continuity**

The Group's ability to maintain financial controls and provide high quality service to customers depends, in part, on the efficient and uninterrupted operation of its management information systems and processes, including its computer systems. There can be no assurance that these systems and processes will function as designed. Any damage to, or failure of, its business operations, information

systems and processes could result in interruptions to the Group's financial controls and customer service. Such interruption could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.

- **Disruption to systems and controls**

Any disruption in the development of the Group's financial and management systems or processes, or issues that emerge in relation to their implementation, may result in additional costs and may negatively impact the Group's ability to execute its strategy and to analyse in a timely and efficient manner its financial and other business information, and may ultimately have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.

- **Failure to keep up with rapid technological change**

There can be no assurance that the Group will be able to anticipate and respond to the demand for new services, products and technologies in a timely and cost-effective manner, to adapt to technological advancements and changing standards or to retain its clients. The Group's failure to do any of these could have a material adverse impact on the Group's business, growth prospects, sales, results of operations and/or financial condition.

- **Regulatory considerations**

Any changes in the laws and regulations governing the investment management industry could limit the services the Group is able to offer or the fees it is able to generate, or increase the costs of compliance. A substantial change in regulatory capital requirements or the regulatory environment for the investment management industry could have a material adverse effect on the Group's business, sales, results of operations, financial condition and growth prospects.

- **Exposure to litigation**

Many aspects of the Group's business involve substantial risks of liability. In recent years, there have been increasing incidents of litigation involving the financial services industry and any litigation brought in the future could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.

RISK FACTORS

Any investment in Ordinary Shares is subject to a number of risks. Before making any investment decision, prospective investors should carefully consider the factors and risks attaching to an investment in Ordinary Shares, together with all other information contained in this document, including, in particular, the risk factors described below. If any of the risks described below were to occur, this could result in the Group's business, reputation and brand, sales, results of operations, financial condition and growth prospects being materially adversely affected, and each risk factor should be read accordingly. If this were to lead to a decline in the trading price of the Ordinary Shares, prospective investors may lose all or part of their investment. The risk factors described below are not set out in any particular order of importance or priority. Additional risks and uncertainties not presently known to the Group, or that the Group currently deems immaterial, may also have an adverse effect on its business. Investors should consider carefully whether an investment in Ordinary Shares is suitable for them in light of the information in this document and their personal circumstances.

1. General risks relating to an investment in Ordinary Shares

- An investment in the Company is only suitable for investors capable of evaluating the risks and merits of such investment and who have sufficient resources to bear any loss which may result from the investment. A prospective investor should consider with care whether an investment in the Company is suitable for him in the light of his personal circumstances and the financial resources available to him.
- Investment in the Company should not be regarded as short-term in nature. There can be no guarantee that any appreciation in the value of the Ordinary Shares will occur or that the commercial objectives of the Company will be achieved. Investors may not get back the full amount initially invested.
- The prices of shares and the income derived from them can go down as well as up. Past performance is not necessarily a guide to the future. In addition, changes in economic conditions including, for example, interest rates, rates of inflation, industry conditions, competition, political and diplomatic events and trends, tax laws and other factors can substantially and adversely affect equity investments in general and the Group's prospects in particular.
- The Ordinary Share price may fluctuate as a result of a variety of factors, including the operating and share price performance of other companies in the industries and markets in which the Group operates; speculation about the Group's business in the press, media or investment community; changes to the Group's sales or profit estimates; the publication of research reports by analysts; and general market conditions.
- There are no guarantees that the Company will pay dividends or the level of any such dividends. City of London Group's results of operations could fluctuate and the Company's ability to pay dividends will depend on, amongst other things, it and certain of its subsidiaries achieving sufficient distributable profits. The Company might not pay dividends if the Directors believe this would cause any Group member to be inadequately capitalised (including taking into account any regulatory restrictions that may be applicable) or if for any other reason the Directors conclude it would not be in the best interests of the Company. Dividends will depend on, amongst other things, City of London Group's profits, financial position and regulatory capital requirements, accounting changes, general economic conditions and other factors that the Directors deem significant from time to time. There can be no assurance that the Company will pay dividends or, if it does pay dividends, regarding the amount of such dividends, and consequently shareholders may not receive their anticipated income stream.

2. Investment strategy

- There can be no certainty that the Group will be able to implement successfully the strategy set out in this document.

- The ability of the Group to implement its strategy in a competitive market requires effective planning and management control systems. The Group's future growth will depend on its ability to expand and improve operational, financial and management information and control systems in line with the Group's growth. Failure to do so could have an adverse effect on the Group's business, financial condition and results of operations.
- There may be a change in government regulation or policies, which materially adversely affects the Company's ability to implement successfully the strategy set out in this document. Please see paragraph 11 on page 14 of this document entitled "Regulatory Considerations" for further details.

3. Investment performance

- Returns on securities have historically been volatile and the performance of the Group is, to a degree, linked to future performance of financial markets. The performance of the Group's investment products is central to its ability to attract and retain the FuM from which its fee income is exclusively derived.
- When buying investment products or selecting a fund manager, one of the most important considerations for clients and intermediaries is the historical investment performance of the product or manager. If the Group's investment performance is unsatisfactory in the short term, existing clients may decide to reduce or liquidate their investments or transfer mandates to other fund managers. As one of City of London Group's key selling points is to generate strong investment performance, any sustained period of investment underperformance could have a material adverse effect on its business, reputation and brand, sales, results of operations, financial condition and growth prospects. Investment underperformance relative to competitors or relevant benchmarks would also make it more difficult for the Company to attract new clients and could damage the Company's reputation and brand, which has in part been built around its investment performance generally. Any such investment underperformance could, therefore, have a material adverse effect on City of London Group's business, reputation and brand, sales, results of operations, financial condition and growth prospects.
- Certain emerging market countries may require governmental approval prior to investment by foreign persons. They may also limit investments in particular companies or sectors as well as controlling the purchase of local currency and imposing additional taxes on foreign persons. For example, many countries, including some of the larger emerging markets such as China, India, Russia, South Korea, and Taiwan impose currency convertibility and/or ownership controls on foreign investors. These include limitations on foreign investors such as minority ownership and/or other non-controlling stakes in strategic sectors such as natural resources. These factors could adversely affect investment performance.

4. Asset classes losing appeal

- A high proportion of the Group's investment products focus on emerging market securities. Net inflows into the Group's investment funds are, in part, determined by the relative attractiveness to investors of the different asset classes that it manages. In the event of a prolonged period of weak investment performance from an asset class as a whole or if a particular asset class (in particular, the emerging market asset class on which a high proportion of the Group's investment products are focused) goes out of favour with investors for any other reason, there may be reduced sales and/or increased redemptions from specific funds represented by that asset class or relevant institutional mandates may be withdrawn, either of which could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.

5. Competition

- Competitors may be able to develop products and services that are more attractive to customers than the Group's products and services. In order to be successful in the future the Group will need to respond to competitors' innovations. An inability to devote sufficient resources to research and

development activities in order to achieve this may lead to a material and adverse effect on the Group's business.

- The Company competes on the basis of investment performance, brand recognition, business reputation, quality of service and the level of fees for services. The market in which the Group operates is increasingly competitive and changes by competitors in the terms offered to clients and customers may result in increased pressure on the Group's revenue margins. A failure by the Group to compete effectively in this environment may result in the loss of existing clients and their business and of opportunities to capture new business, each of which could have a material adverse effect on the Group's business, growth prospects, sales, results of operation and/or financial condition.

6. Commercial risk

- While neither the Company nor any other member of the Group is involved in any legal proceedings at the date of this document which have had or may have a significant effect on the position or profitability of the Group, the Company may in future have to defend itself against legal proceedings which could have an adverse affect on trading performance and, in turn, future profits.
- City of London Group's insurance may not be adequate to protect it against losses it may suffer. City of London Group's business entails the risk of liability related to litigation from clients or third party service providers and actions taken by regulatory agencies, which may not be adequately covered by insurance or at all. Specifically, there is a risk that claims may arise in relation to damage resulting from the Group's employees' or service providers' operational errors or negligence, or misconduct or misrepresentation by its fund managers and other operational personnel. All fund managers have a fiduciary duty to their clients, and can be liable for client losses to the extent that they may derive from operational errors, for example a breach of the investment guidelines which apply to the client's account. The Company has pre-trade and post-trade checks in place within the Charles River trade management system which should guard against mandate breaches, and these plus other controls are overseen by its compliance department. There can be no assurance that a claim or claims will be covered by insurance or, if covered, that any such claim will not exceed the limits of available insurance coverage, or that any insurer will meet its obligations to insure. There can also be no assurance that insurance coverage with sufficient limits will continue to be available at a reasonable cost. Renewals of insurance policies or claims under existing policies may expose the Company to additional costs through higher premiums or the assumption of higher deductibles or co-insurance liability. A significant increase in the costs of maintaining insurance cover or the costs of meeting liabilities not covered by insurance could have a material adverse effect on City of London Group's business, results of operations, financial condition and growth prospects.
- The Group's ability to generate revenues in part depends on the efforts of third parties to market its products, over whom there is little control. New sales of the Group's products may also be subject to potential delays arising from customers' acceptance and approval processes.
- There is no assurance that the Group will be successful in the retention of current FuM, given that client funds are not tied by long term contracts. The Group's profitability is directly linked to the level of FuM. This can be very materially impacted by: (i) the performance of the emerging stock markets; (ii) the performance of the Group's funds relative to the stock markets; and (iii) the winning or losing of fund management mandates – heavily influenced by (i) and (ii) above. Winning new mandates has a long lead time (often 2-3 years), whereas existing mandates can be cancelled with almost no notice. Material withdrawals of FuM would have an immediate impact on management fees and therefore revenues and, depending on the extent of such withdrawals, could have a material adverse effect on City of London Group's business, results of operations, financial condition and growth prospects.
- There is no assurance that the Group will be successful in the development of its products and services and, if developed, that there will be a market for these products.
- The Group's growth in profits depends on increasing its FuM in a cost-effective manner. Although the Group has applied significant resources to marketing and plans to continue to do so, there are no

assurances that these efforts will be cost-effective in attracting new FuM. If the Group does not achieve its new business objectives, its growth may be materially impaired.

- The Group is vulnerable to adverse market perception since it operates in an industry where integrity and customer trust are paramount. In addition, any negative publicity (whether well founded or not) associated with the business or operations of the Group or the occurrence of any of the risks set out in this Prospectus could result in a loss of clients and/or mandates by the Group. Accordingly, any mismanagement, fraud or failure to satisfy fiduciary responsibilities, or the negative publicity resulting from such activities or any allegation of such activities, could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.
- Breaches by the Group of investment mandates could lead to significant losses. City of London Group is generally required to invest in accordance with specific investment mandates established for the particular fund or (in the case of segregated mandates) set by the client. If investments are made or managed in breach of an investment mandate, City of London Group could be required to unwind the relevant transactions and would be likely to be liable for any losses suffered by an affected party in doing so. Such losses could be significant and exceed amounts recoverable under City of London Group's insurance policies, if any. The obligation to compensate for such losses could have a material adverse effect on City of London Group's reputation and brand, results of operations and/or financial condition.
- The value of City of London Group's seed capital investments or other investments held on its balance sheet may fall. When establishing or launching a new fund, City of London Group often uses its own resources to provide seed capital to allow such funds to build a track record. The Company may also provide additional seed money during the marketing phase and/or to provide scale for existing funds. The seed capital investments vary in duration depending on the nature of the investment. It is not always possible to hedge market exposures in a cost-effective manner because of the nature of some of the underlying instruments held by the funds, or the Company may choose not to hedge. Where the Company does not hedge its exposure or such hedges are ineffective, the Company may lose some or all of this seed capital, depending on the performance of the underlying investments. To the extent that the Company does enter into agreements to hedge its risk in relation to seed capital, it may be exposed to the risk of default by the relevant counterparty. Losses incurred by funds in which seed capital has been invested or a default by a hedging counterparty could have a material adverse effect on the Group's business, results of operations and/or financial condition.

7. Sensitivity to adverse economic, political and market factors

- The financial markets in which the Group offers its services are directly affected by many national and international factors that are beyond its control. Any one of the following factors may cause a substantial decline in the financial markets in which the Group offers its services: legislative and regulatory changes; economic and political conditions in the UK, US, Singapore, Dubai and elsewhere in the world; concerns about terrorism and war; the level and volatility of equity and commodity markets; the level and volatility of interest rates and foreign currency exchange rates; concerns over inflation and changes in institutional and consumer confidence levels.
- A high proportion of the Group's investment products focus on emerging market securities. Emerging market countries, securities and issuers are subject to political and economic risk that could have a material adverse effect on the Group's business, results of operations and/or financial condition. These risks include price volatility, liquidity constraints, limited market capitalisation, currency fluctuations and devaluation, restrictions on foreign investment and potential repatriation of capital and remittance of profits and dividends, underdeveloped legislative and regulatory systems, including risk of confiscatory taxation and expropriation or nationalization of assets.
- The strength or weakness of sterling relative to the US dollar and to other currencies has historically, and most likely always will have, a significant effect on City of London Group's results of operations. The majority of the Group's income is currently derived in US dollars and approximately half of its expenses are incurred in pounds sterling. In addition, fluctuations in exchange rates may affect

product demand in different regions and may adversely affect the profitability of products provided by the Group in foreign markets. The Group will review its hedging policy where appropriate, but there can be no assurance that this will protect the Group against inherent exchange rate risks. Variations in exchange rates may have material adverse effect on the Group's business, results of operations and/or financial condition.

8. Loss of business continuity

- The Group's ability to maintain financial controls and provide high quality service to customers depends, in part, on the efficient and uninterrupted operation of its management information systems and processes, including its computer systems. There can be no assurance that these systems and processes will function as designed. The Group's business operations, information systems and processes are vulnerable to damage or interruption from fires, floods, chemical spillage, power loss, telecommunication failures, bomb threats, explosions or other forms of terrorist activity and other natural and man-made disasters. These systems and processes may also be subject to sabotage, vandalism, computer hacking, theft and similar misconduct. The same is true of third-party providers on which the Group depends and that depend on the Group. Any damage to, or failure of, its business operations, information systems and processes could result in interruptions to the Group's financial controls and customer service. Such interruption could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.
- The Group's core businesses have in place disaster recovery plans covering current business requirements, which have been tested and are considered adequate. Suppliers of administration and IT services and other back office functions have disaster recovery plans and business continuity plans. If, however, the disaster recovery plans are found to be inadequate there could be an adverse impact on the Group's business, growth prospects, sales, results of operations and/or financial condition.
- Operational errors or a failure of systems and controls could have a material adverse effect on the Group. The management of client assets involves a number of risks, including:
 - (a) a failure to administer portfolios properly, for example by making incorrect valuations or pricing decisions with regard to the underlying investments;
 - (b) incorrect assets being purchased or erroneous trades being placed or the failure to place trades on a timely basis or at all;
 - (c) the incorrect processing of corporate actions (rights issues, takeovers etc.); and
 - (d) a failure of the systems and controls utilised by the Group or its outsourced service providers to detect and prevent errors.

In addition, while the Group outsources its fund valuation and pricing functions to third party providers, it remains primarily liable to fund investors for any failure to provide these services properly. Any such failures or errors in valuation or pricing by a relevant third party provider may require the Group to reimburse the affected parties in respect of losses suffered (which may be significant). The Group may be unable to recover any such losses fully or at all from the third party or under the Group's insurance policies. If any of the foregoing or any similar risks were to materialise, the Group might also be required to conduct thorough investigations of the circumstances surrounding the breach and regulatory investigations might also follow. The costs involved in such investigations, including management time and professional fees, could be material to the Group. The risks of error and mismanagement cannot be eliminated entirely. The Group's ability to maintain financial controls and provide high quality service to its customers depends, in part, on the efficient and uninterrupted operation of its management information systems, including its computer systems, which are programmed to detect and prevent errors. There can be no assurance that these systems will function as designed. Any damage to, or failure of, its management information systems could result in interruptions to the Group's financial controls and customer service. Such interruptions and any other operational errors or negligence by third party providers or the Group's employees could lead to reputational damage and financial costs, such as the Group being required, by contract or otherwise,

to put clients back into the position in which they would have been had the error or negligence not occurred. The consequences of such operational errors or negligence could have a material adverse effect on the Group's business, reputation and brand, sales, results of operations and/or financial condition.

- The Group is reliant on third parties to which it has outsourced certain functions. The Group relies on third party providers of administration, IT services and other back office functions (including for certain fund and institutional mandate valuations), custodian and sub-custodian services and fund administration functions. Any interruption in the services of these third parties or deterioration in their performance of the outsourced service could impair the timing and quality of the Group's services to its clients. Furthermore, if the contracts with any of these third party providers were terminated, the Group may not find alternative service providers on a timely basis or on as favourable terms or may suffer disruption as a result of the transition of functions to the new service provider. The occurrence of any of these events could have a material adverse effect on the Group's business, reputation and brand, sales, results of operations and/or financial condition.
- The failure of connectivity between the Group's offices and between its servers could have an adverse effect on the Group.
- The Group's disaster recovery and business continuity strategy relies on the use of systems and facilities in its international offices in US, UK, Dubai and Singapore as opposed to using third party vendor's sites in each location, although this arrangement is currently supplemented by a third party site in London. A failure in this strategy or the systems in multiple locations could have an adverse effect on the Group's operations.

9. Disruption to systems and controls

- While the Directors believe that the Group has appropriate financial and management controls in place, these systems and processes are subject to continual development to address the Group's increasing FuM and transactional requirements, market changes and legal and regulatory changes. Any disruption in the further development of these systems or processes, or issues that emerge in relation to their implementation, may result in additional costs and may negatively impact the Group's ability to execute its strategy and to analyse in a timely and efficient manner its financial and other business information, and may ultimately have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.

10. Failure to keep up with rapid technological change

- The Group continues to develop its systems in response to the expected growth and increased sophistication in the investment management market. The markets in which the Group operates are, however, characterised by rapid technological change, changes in use and client requirements and preferences, frequent product and service introductions employing new technologies and the emergence of new industry standards and practices that could render the Group's existing technology and systems obsolete. Failure to keep up with such change could restrict the Group's ability to increase its FuM, or could have an adverse impact upon investment performance, potentially leading to loss of FuM.
- There can be no assurance that the Group will be able to anticipate and respond to the demand for new services, products and technologies in a timely and cost-effective manner, to adapt to technological advancements and changing standards or to retain its clients. The Group's failure to do any of these could have a material adverse impact on the Group's business, growth prospects, sales, results of operations and/or financial condition.

11. Regulatory considerations

- City of London Group is subject to regulation as set out in more detail in the paragraph titled Regulatory Overview of Part III.

- The FSA is City of London Group's primary regulator and City of London Group is also subject to regulation in the various other jurisdictions in which it operates. City of London Group distributes and offers, or intends to offer, products and services in the UK, Europe, the United States, Canada, Singapore and elsewhere. Withdrawal or amendment of regulatory approval in respect of all or part of the businesses carried on by City of London Group or in respect of the fitness of one or more individuals to perform their current role (including any of the Directors) might oblige City of London Group to cease conducting a particular business or modify the way in which it is conducted, or allocate responsibility for that business to different individuals. Agreements made in the course of the carrying on of regulated activities by unauthorised persons are unenforceable.
- The FSA has broad regulatory powers dealing with all aspects of financial services including, among other things, the authority to grant, and in specific circumstances to vary or cancel, permissions and to regulate marketing and sales practices, advertising and the maintenance of adequate financial resources. One of the FSA's principal regulatory objectives is the protection of investors rather than shareholders or creditors.
- The FSA and other regulatory authorities may from time to time make enquiries of companies within their jurisdiction regarding compliance with regulations governing the conduct of the business or the operation of a regulated business (including the degree and sufficiency of supervision of the business) and the handling and treatment of clients. In the context of the current regulatory environment, while the Directors believe City of London Group dedicates sufficient resources to its compliance programme, endeavours to respond to regulatory enquiries in an appropriate way and takes corrective action when warranted, City of London Group faces the risk that the FSA or another governmental or regulatory body could find that it has failed to comply with applicable regulations or has not undertaken corrective action as required. In this case, regulatory proceedings could be commenced which could result in a public reprimand and/or fines or other regulatory sanctions.
- Regulatory proceedings could result in adverse publicity or negative perceptions regarding the Group as well as divert management's attention from the day-to-day management of the business. A significant regulatory action against City of London Group could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition.
- Any changes in the laws and regulations governing its business or adverse outcomes of regulatory reviews of City of London Group could reduce the services City of London Group is able to offer or the fees it is able to charge, or increase the costs of compliance with regulation, any of which would decrease Group's revenues and profitability.
- Changes in regulation could have a material adverse effect on the Group. The heavily regulated environment in which the Group operates is evolving. Recent and proposed regulatory changes, including changes in response to the difficult financial conditions of the last three years, will have an effect on the regulatory environment within which the Group operates. Any changes in the laws and regulations governing the investment management industry could limit the services the Group is able to offer or the fees it is able to generate, or increase the costs of compliance. A substantial change in regulatory capital requirements or the regulatory environment for the investment management industry could have a material adverse effect on the Group's business, sales, results of operations, financial condition and growth prospects.

12. Exposure to litigation

- Because of the extent and complexity of the regulatory environment in which the Group operates and the products and services which the Group offers, many aspects of the Group's business involve substantial risks of liability. In recent years, there have been increasing incidents of litigation involving the financial services industry and any litigation brought in the future could have a material adverse effect on the Group's business, growth prospects, sales, results of operations and/or financial condition. The Group could also potentially face liability for claims of negligence and violation of securities laws.

INTRODUCTION STATISTICS

Number of Ordinary Shares in issue immediately following Admission	26,263,853
Expected market capitalisation of the Company immediately following Admission ⁽¹⁾	£105.1 million

(1) Based on the Company's share price at close on 25 October 2010, being the latest practicable date prior to the publication of this document.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Each of the times and dates set out below and mentioned elsewhere in this document is subject to change and may be adjusted by the Company, in which event details of the new times and dates will be notified to the FSA and to the London Stock Exchange and, where relevant, to Shareholders.

Publication of the Prospectus and posting of the Prospectus	26 October 2010
Cancellation of listing on AIM and listing on the Official List and admission to trading on the Main Market	29 October 2010

Note: References to times are to London times, unless otherwise stated.

NO ACTION TO BE TAKEN BY SHAREHOLDERS

Shareholders are not required to take any action upon receipt of this document. The Company is not issuing any new Ordinary Shares nor is it seeking to raise any new money in connection with Admission.

This document has been published solely to enable the Company to obtain listing of the Ordinary Shares on the Official List and admission to trading on the London Stock Exchange's main market for listed securities.

DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Directors	Andrew John Davison (<i>Non-Executive Chairman</i>) Barry Martin Olliff (<i>Chief Executive Director</i>) Douglas Forbes Allison (<i>Finance Director</i>) Thomas Wayne Griffith (<i>Chief Operations Officer</i>) Carlos Manuel Yuste (<i>Business Development Director</i>) David Michael Cardale (<i>Senior Non-Executive Director</i>) George Alan Robb (<i>Non-Executive Director</i>) Allan Seymour Bufferd (<i>Non-Executive Director</i>)
Company Secretary	Douglas Forbes Allison all of:
Registered Office and telephone number	77 Gracechurch Street London EC3V 0AS Tel: +44(0) 207 711 0771
Sponsor, Adviser and Broker	Singer Capital Markets Limited One Hanover Street London W1S 1YZ
Auditors and Reporting Accountants	Moore Stephens LLP Chartered Accountants 150 Aldersgate Street London EC1A 4AB
Legal Advisers to the Company	K&L Gates LLP 110 Cannon Street London EC4N 6AR
Legal Advisers to the Sponsor and Adviser	Memery Crystal LLP 44 Southampton Buildings London WC2A 1AP
Registrars	Capita Registrars Northern House Woodsome Park Fenay Bridge Huddersfield West Yorkshire HD8 0LA

FORWARD-LOOKING STATEMENTS

Some of the statements under “Summary”, “Risk Factors”, Part I (*Information on the Group*) and Part IV (*Operating and financial review of City of London Group*) and elsewhere in this document include forward-looking statements which reflect City of London Group’s or, as appropriate, the Directors’ current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to City of London Group’s products and services). These statements include forward-looking statements both with respect to City of London Group and the sectors and industries in which City of London Group operates. Statements which include the words “expects”, “intends”, “plans”, “believes”, “projects”, “anticipates”, “will”, “targets”, “aims”, “may”, “would”, “could”, “continue” and similar statements of a future or forward-looking nature identify forward-looking statements.

All forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause City of London Group’s actual results to differ materially from those indicated in these statements. These factors include but are not limited to those described in the section headed “Risk Factors”, which should be read in conjunction with the other cautionary statements that are included in this document. Any forward-looking statements in this document reflect City of London Group’s current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to City of London Group’s business, results of operations, financial conditions and growth strategy. For the avoidance of doubt, nothing in this paragraph qualifies the working capital statement set out in paragraph 17 of Part VI (*Additional information*).

These forward-looking statements speak only as of the date of this document. Subject to any obligations under the Prospectus Rules, the Disclosure and Transparency Rules and the Listing Rules and save as required by the FSA, the London Stock Exchange, the City Code or applicable law and regulations, the Company undertakes no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to City of London Group or individuals acting on behalf of City of London Group are expressly qualified in their entirety by this paragraph. Prospective investors should specifically consider the factors identified in this document which could cause actual results to differ before making an investment decision.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Financial Data

The financial information in this document has been prepared in accordance with IFRS and therefore complies with Article 4 of the EU IAS Regulation (Regulation 1606/2002) and those parts of the 2006 Act applicable to companies reporting under IFRS. The Group's financial statements are also consistent with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Certain figures contained in this document, including financial, statistical and operating information, have been subject to rounding adjustments. Accordingly, in certain circumstances, the sum of the numbers in a column or row in a table contained in this document may not conform exactly to the total figure given for that column or row. Shareholders should read the whole of this document and not rely solely on the summary financial information provided herein.

Defined Terms

Except for certain names of natural persons and legal entities and capitalised terms that need no further explanation, the capitalised terms used in this Prospectus, including capitalised abbreviations, are defined or explained in Part VII (*Definitions*).

Currencies

Unless otherwise indicated, all references in this Prospectus to "EUR", "€" or "Euro" are to the lawful currency of the European Economic and Monetary Union.

Unless otherwise indicated, all references in this Prospectus to "GBP", "£", "pounds sterling", "pounds", "sterling", "pence" or "p" are to the lawful currency of the United Kingdom.

Unless otherwise indicated, all references in the Prospectus to "USD" or "\$" or "Dollar" are to the lawful currency of the United States of America.

PART I

INFORMATION ON THE GROUP

1. Introduction

The City of London Group is an asset management group whose principal activity is providing emerging market asset management products and services predominantly to institutional investors via its principal operating company City of London Investment Management Company Limited. The Group is based in the UK and has offices in the US (east coast), Singapore and Dubai.

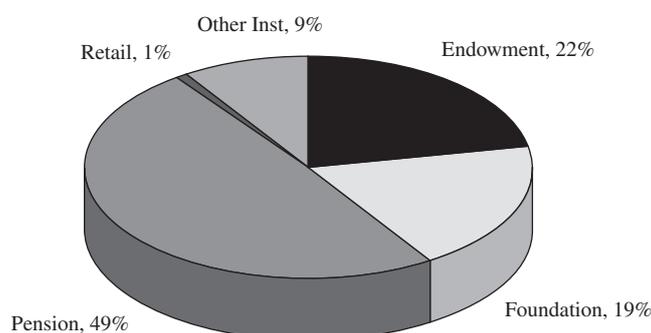
The Group, as at 30 September 2010, had total FuM of approximately \$5.4 billion (c. £3.5 billion). The Group manages several Open Ended Funds as well as a number of segregated accounts. The Group's fund mandates are mainly in emerging markets and natural resources.

The Group seeks to provide capital growth for clients through active country allocation and stock selection. The key objective for the Group's asset management products is to provide above average, long-term outperformance in comparison to the appropriate emerging market benchmark, while maintaining a lower level of volatility than the benchmark index.

2. The business

The Group has established itself as a successful emerging market and natural resources fund management group, focused almost exclusively on an institutional client base. The Group has 70 employees (including 20 investment professionals), comprising 25 in London, 37 in the US (near Philadelphia), 6 in Singapore and 2 in Dubai.

The Group's client base as at 31 August 2010 was as follows:



The large majority of the Group's institutional clients are based in the US, representing 79 per cent. of the total FuM at 31 August 2010, with the balance being based in the UK, in Canada, in Europe, and in the Far East.

Key Strengths

The Directors believe that the City of London Group has the following key strengths:

- **Specialist investment expertise in emerging market closed end funds.** The Group tracks closed end funds via a proprietary trading and research database.
- **Strong investment performance of the funds it manages.** The Group has established a proven risk-averse, systematic investment process and business model, and has achieved strong investment performance over 17 years.
- **Risk averse culture.** The Group's business model is based on prudent management of operating risks at all levels of the firm.
- **International presence.** The Group's four offices in London, the United States, Singapore and Dubai place it close to the markets the Group addresses as well as close to existing and potential client bases.

- **Prudent investment process and culture.** City of London Group's investment process is rigorous. Changes in asset or geographic allocations of funds are made gradually. Investment decisions are based upon discussions by investment professionals who convene across the four offices on a daily basis.
- **Client service.** Clients are able to discuss the investment process and reasons for investment decisions directly with the Group's fund managers. The Directors believe that this transparent service-orientated culture fosters strong client relationships. The Group also provides detailed monthly and quarterly reports on all its funds. These include an economic overview, commentary on major portfolio acquisitions and disposals, a breakdown of the fund by geography and holdings, feature articles and analysis of the closed-end fund industry as a whole.
- **A loyal client base.** The Group's focus on customer service and investment performance has resulted in a low fund redemption rate.
- **Low staff turnover.** The Directors believe that low staff turnover has contributed to consistent investment performance and lower costs. The Directors are committed to training and encouraging staff to develop their skills.

Funds under Management

The table below sets out the unaudited funds under management of the Group at each year end for the three years ended 31 May 2010 and as at 31 August 2010:

	<i>30 May</i> 2008 (\$m)	<i>29 May</i> 2009 (\$m)	<i>31 May</i> 2010 (\$m)	<i>31 August</i> 2010 (\$m)
European accounts:				
Emerging World Fund	438	241	306	323
Segregated accounts	343	214	377	438
Emerging Markets Value & Growth (formerly Asia Value & Growth)	0	0	3	4
Natural Resource Fund	10	1	3	3
Total	<u>791</u>	<u>456</u>	<u>689</u>	<u>768</u>
US accounts:				
Comingled products – EM CEFs	2,547	1,973	1,992	2,492
Segregated accounts – EM CEFs	719	664	1,255	1,137
Emerging Markets Plus	0	49	34	35
Natural Resources Fund	62	22	44	44
Segregated accounts – Natural Resources	39	0	0	0
Segregated accounts – Developed CEF	0	0	105	110
Other US Funds (BVG, China, EMVG, Frontier, GARF)	22	2	7	8
Total	<u>3,389</u>	<u>2,710</u>	<u>3,437</u>	<u>3,826</u>
Canadian accounts:				
GFM Emerging Markets Country Fund	51	39	2	2
Tradex Fund	9	6	7	7
Segregated accounts	337	209	240	255
Total	<u>397</u>	<u>254</u>	<u>249</u>	<u>264</u>
Australasian accounts:				
Segregated accounts	127	80	0	0
Total	127	80	0	0
Other accounts:				
Total	2	0	0	0
Total FuM	<u>4,706</u>	<u>3,500</u>	<u>4,375</u>	<u>4,858</u>

FuM have risen from \$3.8 billion as at 31 May 2007 to \$4.4 billion at 31 May 2010, an effective compound annual increase of 5 per cent. Fee income has risen from £18.3 million for the year ended 31 May 2007 to £30.0 million for the year ended 31 May 2010, an effective compound increase of 18 per cent.

The table below sets out representative funds under management performance composites in US\$ as at 31 August 2010:

	<i>1 Year</i>	<i>3 Years (annualised)</i>	<i>5 Years (annualised)</i>	<i>Since Launch (25 September 1991 – (annualised)</i>
City of London Global Emerging Markets Composite (Net of Fees)	20.29%	-0.91%	13.42%	13.73%
S&P Emerging Frontier Super Composite BMI (Gross Total Return)	19.04%	-2.55%	11.67%	8.95%
Standard Deviation – Composite	20.26%	32.66%	27.37%	22.22%
Standard Deviation – Index	19.08%	33.40%	27.87%	22.59%

Sources:

The Bank of New York Mellon Corporation
Standard & Poor's Financial Services LLC

This composite represents \$1.11 billion out of a total FuM of the Group of \$4.86 billion as at 31 August 2010 (representing approximately 23 per cent. of FuM). The benchmark was changed from the S&P Emerging BMI Plus on 1 January 2009 to reflect better the investment strategy of the funds within the composite. The S&P Emerging BMI Plus was the successor index to the S&P/IFC Global Composite Index, the benchmark prior to 1 September 2008, which has been discontinued. Benchmark changes have not been applied retroactively and therefore historical benchmark performance is a blend of the BMI and IFC indices.

Investment process

The Group approaches the market from a very different perspective compared to the majority of its peers. As a specialist manager, the Directors believe that the Group distinguishes itself through both the rigorous process through which it invests in emerging markets and in the long-term performance it has achieved by investing primarily in closed-end funds and by capitalising on discount changes.

Historically, the Group has consistently been able to add alpha with less risk versus the benchmark than many of our peers. In addition, the Directors believe that City of London Group's small size enables it to provide a personalized client-driven service. Specifically, the Directors believe that the Group adds value through:

- The use of proprietary "real-time" NAV estimates to calculate discounts for buy/sell execution.
- An international trading capability with offices in London, Philadelphia, Singapore and Dubai.
- A proprietary database of closed-end funds in the emerging markets universe.
- Correlation of 90 per cent. or better for fund's NAV performance versus its benchmark.

The Group's strategy aims to capitalise on the discount anomalies existing in the closed-end fund sector as opposed to traditional analysis of equities. With four strategically placed international offices, the Group is well positioned to take advantage of pricing anomalies across various stock exchanges by purchasing funds offering virtually identical country exposure at different discount levels. Buying discounted funds can offer both upside potential, as a return multiplier in rising markets, and downside protection, buffering against losses in down markets. The Group has invested in emerging markets since 1991 and participated in what the Directors consider to be three emerging markets cycles.

The Group's approach is based on a top-down country allocation methodology, combined with bottom-up stock selection process.

The top-down element is a three-stage process:

- stage 1: The Group's macroeconomist derives a view, from the assessment of numerous sources, on the economic environment within the countries in the Group's emerging market universe;
- stage 2: The Group's macroeconomist analyses the collated information in depth and ranks the countries. This results in recommendations of "overweight", "neutral" or "underweight" versus the constituent countries of the relevant benchmark index; and
- stage 3: The Group's portfolio managers and research analysts review and discuss the macroeconomist's recommendations. The investment management team then re-ranks the countries based upon the relative value available within the relevant universe of funds.

The monthly stock selection process at this stage will identify a number of funds, primarily closed-end, to give the desired country exposure, guided by the Group's country allocation model. In effect, the Group seeks to identify suitable performing funds, at the widest discounts to NAV, to give the most potentially profitable country exposure. Some of the funds selected will potentially be subject to a corporate event, such as a liquidation or open-ending, which may lead to an accelerated return of capital at NAV.

Both portfolio managers and research analysts are involved in the research effort relating to the third stage of the investment process, approximately 90 per cent. of which is conducted in-house.

The Group's proprietary database of the closed-end fund universe is a primary feature which the Directors believe differentiates the firm from its competitors. This real-time process allows the portfolio managers to compare funds with similar NAV performance, which are traded in various centres around the world. This involves continuously estimating each fund's NAV, volatility and asset allocation. The data is compared with the fund's current price to compare real-time discount levels.

Portfolio managers and research analysts also conduct extensive qualitative research into the closed-end funds in the Group's investment universe. A comprehensive library is maintained which includes listing documentation, annual, interim and monthly reports, corporate action notices and other company publications.

In terms of the decision making processes, the Group's portfolios are constructed subsequent to the third stage of the investment process and are implemented via communication between the Group's offices in London, the US, Singapore and Dubai where investment opportunities and corporate governance issues are discussed and decisions taken. This is a dynamic process with investment decisions being made as discrepancies in pricing of funds occur.

The Group's stock specific research is developed from the following:

- analytical research on over 650 emerging market funds, listed in financial centres around the world, including the US and UK;
- real-time monitoring of estimated NAVs;
- maintenance of proprietary database including fund performance data since inception; and
- extensive manager due diligence.

3. Market overview and competitors

The Directors believe that the fund management market has become fragmented in the recent past, with investors recognising the merits of specialist fund management houses, which can provide improved performance and service levels, when compared to the large integrated fund management groups and investment banks. This has become especially apparent in the proliferation of hedge fund management businesses and to a lesser extent with emerging market fund management businesses.

In the bear market of 1998, investment banks and large integrated fund management houses, reduced their commitment to emerging markets due to lacklustre fund performance, which also in turn led to many key staff exiting. As a consequence, in the ensuing bull market, portfolio performance suffered and fund

management mandates were lost. In addition, at the end of the 1990's there was a period of consolidation within the US fund management industry as it became increasingly focused on retail market investors.

The Directors believe that there is market recognition that smaller specialist fund management houses have achieved better investment performance and not suffered the same level of staff defections and volatility of investment performance as investment banks and large fund management houses.

The Group's key competitors are other specialist emerging markets fund managers.

The Directors believe that the long term performance record of the Group's funds, combined with their relatively low risk profile (relative to benchmark), places the Group favourably with regard to its competitors and that, subject to the Group's ability to sustain and extend that record, the Group is positioned to continue to win institutional mandates.

The emerging market asset management industry has operated against a background of difficult market conditions. The 1998 Asian debt crisis and the deep bear market that began in 2000, and the financial irregularities that accompanied it, reduced sales of investment products. However, since the emerging market lows of September 2002, there has been a resurgence in the emerging market asset class. The Morgan Stanley Capital International Emerging Market Real Time Index has climbed from a low of 236 on 10 September 1998 to its current level of 1,106, being the closing price on 21 October 2010.

The market for the Group's natural resources product is less clearly defined than that for its emerging markets products, and is perhaps more cyclical in nature. However, the Directors believe that there is growing institutional recognition of the investment opportunities available through direct equity investment in natural resources and are confident that the established track record of the Group's natural resources products will continue to attract institutional interest.

The Directors believe that the investment prospects of the asset management industry are favourable. This belief is based in part on the ageing populations of developed countries and the need for increased retirement savings. In addition the Directors believe that the growing disposable incomes within emerging countries are likely to underpin demand for asset management products and services. Nonetheless, competitive pressures are acute as investment fees, product performance and asset classes are constantly reviewed by plan sponsors and their investment consultants.

4. Future strategy

The strategy of the City of London Group is to continue to offer competitive investment products and to achieve superior investment performance and service levels for clients. It will also aim to deliver earnings growth and create value for shareholders.

Given the limited universe of emerging markets closed end funds, growth plans are significantly focused on developed markets closed end fund products and on emerging markets equities products.

The developed markets closed end fund strategy uses a similar investment process to the emerging markets strategy, but is run by a separate, dedicated investment team. Given the similarities in process, there is the potential for cross-selling opportunities with the current client base.

Another area of growth linked to closed end funds is in the absolute return space, where market-neutral strategies are employed. The Group recently seeded a fund undertaking this type of trading.

The natural resource strategy, focused on companies that extract, process or grow natural resources, including soft commodities such as agricultural products and water, is the flagship of the Group's equity products. The Group also has an emerging markets direct equities strategy and single country Brazilian, Mexico and Chile funds.

As part of this strategy, additional investment team staff will be added in the Group's four offices in order to grow the number of strategies offered by the Group. This may include regional and country-specific products.

Marketing of the various Group strategies will be undertaken by in-house marketers, in conjunction with investment consultants and directly to plan sponsors.

In addition to the strategy for organic growth, the Board where appropriate will look to expand the business via partnerships, joint ventures and acquisitions.

City of London Group recognises that the strength of its business lies in the quality of its people and therefore seeks to retain and attract high calibre staff by providing competitive incentive arrangements, such as profit-sharing and share options. In this way, the Directors seek to align the interests of management and employees with those of shareholders. As the global financial services market continues to consolidate, the Directors anticipate that there will be opportunities to attract talented investment personnel at an affordable cost.

5. History

City of London Group has its origins in the early 1990's, growing out of the stock-broking business Olliff & Partners. In 1989 Olliff & Partners purchased an existing unit trust management company which was renamed City of London Group Unit Trust Managers Limited and the first City of London Group product was launched in September 1991, named the Emerging Markets Country Trust. In 1995 a second unit trust, the Emerging Asia Country Trust, was launched. In the same year the Group launched its first US based mutual fund for institutional investors.

In 1995, the Group began to develop its fund management business in the US. The City of London Group opened an office in Coatesville, Pennsylvania in 1997.

As a consequence of the rapid development of its fund management activities, the broking activity of Olliff & Partners was closed in the spring of 1997, and the sole focus of the Group became fund management.

In January 2000, the Group opened an office in Singapore, which allows the Group to benefit from closer access to research information and trade execution in the Far East. The Directors believe that the Group's office in Singapore provides improved access to a potential new client base.

In 2004, the Group took its first significant steps towards diversification with the launch of a natural resources equities product.

In 2005, the Group launched a Frontier Emerging Markets Strategy.

In April 2006, the Company was admitted to trading on the AIM market of the London Stock Exchange.

In December 2007, the Group opened an office in Dubai, replicating the strategy of the Singapore office.

In 2009, the Group launched an emerging markets equity strategy to complement its product offering.

In September 2009, the Group was mandated by an existing client to invest in developed closed end funds with two portfolios totalling \$110 million. Although the client has recently decided to redirect this money toward their emerging markets allocation, their investment has given the Group the opportunity to establish a one year track record, which will be carried over to the creation of a new Delaware Statutory Trust in November 2010. This remains a significant diversification opportunity for the Group.

In March 2010, the Group seeded a global absolute return closed end fund strategy.

6. Current trading and prospects

The audited accounts for the year to 31 May 2010 show turnover of £30.0 million, operating profit of £10.3 million and profit after tax of £7.0 million.

Since 31 May 2010, the Group has continued to trade in line with Directors' and market expectations and net inflows to the Group's funds have continued at a satisfactory level. The Directors believe that the Group will continue to benefit from the low operational gearing that has characterised its business model to date.

7. Compliance, risk management and controls

Regulation and compliance

The Group's principal operating subsidiary, City of London Group Investment Management, is authorised and regulated in the UK by the FSA and is registered as a non-resident investment adviser in the US with the Securities and Exchange Commission and in Ireland is approved as an investment manager to the World Markets Umbrella Fund by the Irish Financial Services Regulatory Authority. COLIM is also licensed by the Dubai Financial Services Authority to carry out certain financial services in Dubai. COLS is licensed by the Monetary Authority of Singapore to conduct fund management activity in Singapore. Further information regarding the regulatory environment under which the Group operates is contained in Part III of this Prospectus.

The Group's compliance department has a staff of three full time employees, with officers in the US and in London reporting to the Group Head of Compliance in London. Use is made of third party consultants where appropriate, particularly in the Dubai and in Singapore offices which the Directors believe are too small to warrant in-house designated compliance resource (although this is currently under consideration in Singapore).

The principal responsibilities of the compliance department are:

- To ensure that all staff are aware of the current regulatory framework that applies to the Group and to their activity within it.
- To monitor all aspects of the business to ensure that it is conducted in accordance with FSA and other applicable regulations.
- To monitor breaches and to ensure that they are appropriately resolved and that controls are adjusted where appropriate.
- To provide the primary channel for communication with all external regulators.

The work of the compliance department is overseen by a Compliance Committee comprising directors of the Group, while the Group Head of Compliance reports to the Finance Director and also directly to the board. The Compliance Committee meets as required to review progress of projects assigned to the compliance department and to approve changes to compliance policies and procedures of the Group.

Risk Management

Various investment rules and guidelines have been set up to monitor risk in the Group's portfolios. These guidelines include the maximum percentage of class of equity held, maximum percentage of a fund in one stock, maximum percentage of single country exposure, and maximum exposure to developed markets. A daily liquidity screen is also incorporated in each fund, which serves to mitigate potential redemption risks. Investment breaches can occur, for example where the increase in value of a particular holding carries it beyond a guideline and actions to rectify any such inadvertent breaches are discussed in the daily conference call between the four offices. A procedure to record any such investment breaches is in place and all investment breaches are recorded for inspection by a regulator should such request arise.

Work undertaken by the compliance department in relation to assessment and monitoring of regulatory risk is integral to the risk management framework of the Group. A risk-based monitoring programme ensures that the business is reviewed in a proportionate and effective manner.

An environment exists where senior managers of the Group have been made aware of their regulatory and operational responsibilities and they report on the controls in place to meet these responsibilities on a regular basis.

8. Operations

The Fund Accounting and IT departments report to the Chief Operations Officer.

The primary accounting records for the Group's managed funds are maintained by third party administrators, who are appointed by the relevant trustee, custodian or (in the case of the Dublin funds) board. The function of the Group's Fund Accounting department is to shadow the activities of the third party administrators and to ensure that settlement of all transactions is achieved in a timely manner and that net asset values are correctly calculated at all times.

The IT department is responsible for the installation, integration and maintenance of the Group's purchased and developed software and its communications network. The Group's key operational systems are Charles River (for order origination, trade management and execution, and pre and post-compliance monitoring), and CAMRA (for settlements and fund accounting).

9. Finance

The Group's finance function is based exclusively in the London office and all accounting records are maintained in London. The primary accounting system is Sun Account. The finance function is responsible for financial and management reporting, treasury management, tax returns and reporting, regulatory financial returns, and company secretarial work.

10. Reasons for listing

It has, for some time, been the intention of the Directors to seek a listing on the Official List when the maturity of the Company so warranted it. During its time on AIM, the Company has restructured its shareholder base to improve liquidity and the Directors believe that a move to the premium listing segment of the Official List is the logical response to the Company's growing size, profile and shareholder base. The Directors believe that a move from AIM to the Official List will provide further profile and greater exposure for the Company, and hence broaden the universe of potential new investors and, in time, further increase liquidity in the Company's Ordinary Shares. The Board sought and obtained authority from Shareholders at the Company's general meeting on 14 July 2010 to delist from AIM in order to pursue a listing on the Official List.

11. Share incentive arrangements

The Directors recognise the vital role of the Group's staff in contributing to the overall success of the Group and the importance of the Group's ability to incentivise and motivate its employees. Therefore, the Directors believe that employees should be given the opportunity to participate and take a financial interest in the success of the Group. Accordingly the Company has adopted the Share Option Schemes and currently Directors and employees in the UK, US, Singapore and Dubai hold options to acquire 2,479,212 Ordinary Shares. Options over 1,327,815 Ordinary Shares have been granted in respect of shares held by an employee share trust, meaning that the exercise of these options will not dilute the Company's issued share capital. Options granted under the Share Option Schemes vest three years after grant and are then exercisable at any time up to the expiry date. The Company has agreed not to issue Options requiring the issue of Ordinary Shares in excess of 10 per cent. of the issued share capital from time to time.

Details of the Options granted to the Executive Directors and summaries of the Share Option Schemes are set out at paragraph 8 of Part VI of this document.

12. Dividend policy

The Board believes in implementing a progressive dividend policy. The Group's dividend policy is based on paying dividends to shareholders that are 1.5 times covered by earnings and to pay approximately one third of the annual total as an interim dividend and two thirds as a final dividend. Recent cover has been lower due to market conditions.

Accordingly, the Company expects to pay a final dividend of 15 pence per Ordinary Share in relation to the year ended 31 May 2010 on 19 November 2010 to Shareholders on the register on 29 October 2010. This is in addition to an interim dividend of 7 pence per Ordinary Share paid by the Company in March 2010. The total dividend in respect of the year ended 31 May 2010 of 22 pence per Ordinary Shares represents a 47 per cent. increase over the 15 pence per Ordinary Share paid in respect of the year to 31 May 2009.

The above statements do not constitute a profit forecast nor should they be interpreted to mean that future earnings per Ordinary Share or dividends following Admission will necessarily match or exceed historical earnings per Ordinary Share or dividends.

13. Taxation

Further information on United Kingdom taxation with regard to Ordinary Shares is set out in paragraph 18 entitled “United Kingdom Taxation” of Part VI of this document. All information in relation to taxation in this document is intended only as a general guide to the current United Kingdom tax position. If you are in any doubt as to your own tax position, or are subject to tax in a jurisdiction other than the United Kingdom, you should consult your own independent professional adviser immediately.

14. CREST

CREST is a paperless settlement procedure enabling ownership of securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association permit the holding of Ordinary Shares under the CREST system. The Company’s Ordinary Shares are admitted to CREST.

Accordingly, settlement of transactions in Ordinary Shares following Admission may take place within CREST if any Shareholder so wishes. However, CREST is a voluntary system and holders of Ordinary Shares who wish to receive and retain share certificates will be able to do so.

15. Admission to the Official List and Index Inclusion

Application will be made for the Ordinary Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange’s main market for listed securities. It is anticipated that Admission will be effective on or around 29 October 2010.

Following Admission, the Company expects to be eligible for inclusion in the FTSE Indices. In order to qualify for inclusion in the FTSE All Share Index, the Company will need to meet certain liquidity requirements (measured by volumes of shares traded) and the total market value of its issued share capital must exceed certain levels measured at the quarterly index review dates. On the basis of the current FTSE Ground Rules and the market capitalisation of the Ordinary Shares as at 25 October 2010 (being the latest practicable date for this information prior to publication of this document), provided that trading in the Ordinary Shares meets the liquidity requirement, the Company expects to be eligible for inclusion in the FTSE All Share Index at the December 2010 review date.

16. Risk Factors

Prior to investing in the Ordinary Shares, prospective investors should consider, together with the other information contained in this document, the factors and risks attaching to an investment in the Company including, in particular, the factors set out in the section entitled “Risk Factors” on pages 9 to 15 of this document.

17. Directors and Corporate Governance

Your attention is drawn to Part II of this document which contains information regarding Corporate Governance and the Directors of the Company.

18. Further Information

Your attention is also drawn to the remaining parts of this document which provides further information on the Company.

PART II

DIRECTORS AND CORPORATE GOVERNANCE

Directors

The Board comprises:

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

Brief details of the Directors are as follows:

A. Davison, *Independent Non-executive Chairman*

Appointed as a Director: 22 October 1998

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

B. M. Olliff, *Chief Executive Officer*

Appointed as a Director: 17 March 1992

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 Group was founded in the early 1990s.

D. F. Allison, *Finance Director and company secretary*

Appointed as a Director: 1 June 1998

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

C. M. Yuste, *Business Development Director*

Appointed as a Director: 1 June 2005

Carlos Yuste holds a Bachelor of Social Science in International Relations from the University of Ottawa and an MA in International Political Economy from Carleton University, also in Ottawa. He worked at the International Development Research Centre in Ottawa from 1994 to 1998, leaving to undertake an International MBA at York University, Toronto, which he completed in 2000.

T. W. Griffith, Chief Operating Officer

Appointed as a Director: 1 June 2004

Prior to joining City of London Group, 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, Independent Non-executive Director

Appointed as a Director: 1 May 2008

Allan Bufferd is Treasurer Emeritus of the 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 director of Och-Ziff Capital Management Group LLC, (NYSE). In addition, he serves as a director of several private companies and investment funds covering diverse asset classes. He is also director/trustee of several Non-Profit Organisations, primarily focussed around healthcare.

D. Cardale, Non-executive Senior Independent Director

Appointed as a Director: 1 March 2006

David Cardale has worked extensively in both Corporate Finance and Private Equity. He is the co-founder and Chairman of global3digital (*formerly Global Investor Relations*). He has advised a number of fund management groups including Gartmore, Ivory & Sime and MIM, and ran the European operations of NatWest Equity Partners. He has been a director of two London listed Investment Trusts. David Cardale holds an MBA from INSEAD.

G. A. Robb, Independent Non-executive Director

Appointed as a Director: 2 June 1997; resigned 17 December 2004; re-appointed 1 March 2005

George Robb qualified as a solicitor before becoming fully involved with the asset management sector in 1971. He was a founder director and shareholder of Aberdeen Asset Management and in 1994 established Asset Management Investment Company plc as a specialist vehicle investing in the asset management sector and was appointed managing director on its flotation. He is a non-executive director of Integrated Asset Management plc and a number of companies in which AMIC is invested.

Corporate Governance and Internal Controls

Corporate Governance

The Combined Code will apply to the Company from Admission and will continue to do so until 31 May 2011. The UK Corporate Governance Code will then apply for the Company's accounting period 1 June 2011 to 31 May 2012 and for accounting periods thereafter. The Company considers itself a smaller company for the purposes of compliance with the Combined Code.

The Board is committed to high standards of corporate governance. However, on Admission, the Company will not comply fully with the principles of the Combined Code in the respects set out below. The discussion of the Company's compliance with the Combined Code applies equally to its compliance with the UK Corporate Governance Code as the principles set out below will not change under the UK Corporate Governance Code and there are no material additional principles with which the Company must comply when the UK Corporate Governance Code applies to the Company from 1 June 2011.

Remuneration

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

The Company operates a bonus scheme for the executive directors and certain senior managers that is linked to the Group's profitability, allocating 30 per cent. of pre-bonus, pre-tax, operating profit for this purpose. Bonus awards to other executives and senior managers are made by the Board following recommendations by the Remuneration Committee. Barry Olliff is entitled under his service agreement (see further paragraph 9.1 of Part VI of this document) to a bonus equal to 5 per cent. of the pre-tax profits of the Company, and payment of this entitlement is drawn from the 30 per cent. bonus pool. Such bonuses are not subject to individual performance conditions and are paid in cash. Although this remuneration policy does not comply with the Combined Code, the Board believes that this bonus scheme has worked well in motivating the executive directors and senior managers of 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.

Share options

The ABI Guidelines recommend that dilutive share awards should be limited to 5 per cent. of the Company's issued share capital over a rolling 10 year period. As at the date of this document, dilutive awards are outstanding over 4.4 per cent. of the Company's share capital.

In addition, the ABI Guidelines recommend that no more than 5 per cent. of a company's issued share capital be held in an employee benefit trust (EBT). As at the date of this document, the Company's EBT holds shares comprising 5.1 per cent. of the Company's share capital.

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.

General Corporate Governance compliance

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

Currently, the Board is composed of eight members, consisting of the non-executive Chairman, the Executive Directors (four 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 believes that it has sufficient members to contain a balance of experience and skills but is not so large as to be unwieldy.

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

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

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

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

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

The Combined Code recommends that the Board should appoint one of its independent non-executive directors as senior independent director and David Cardale fills this role. The senior independent director is available to Shareholders if they have concerns which contact through the normal channels of Chairman, Chief Executive or Group Finance Director has failed to resolve or for which such contact is inappropriate. The Board has established Nomination, Remuneration and Audit Committees, with formally delegated duties and responsibilities and written terms of reference. From time to time, separate committees may be set up by the Board to consider specific issues when the need arises. Each committee and each Director has the authority to seek independent professional advice where necessary to discharge their duties, in each case at the Company's expense. In addition, each Director and committee has access to the advice of the Company Secretary, Doug Allison.

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

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. The Directors also 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.

The Company will report to Shareholders on compliance with the Combined Code in accordance with the Listing Rules.

Nomination Committee

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

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

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

The Nomination Committee will meet formally at least twice a year and otherwise as required.

Remuneration Committee

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

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

The Remuneration Committee will meet formally at least twice a year and otherwise as required.

Audit Committee

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

The Company therefore considers that it complies with the Combined Code as regards these requirements. The Audit Committee will meet formally at least three times a year and otherwise as required.

Securities Dealing Code

Upon Admission, the Company will adopt, in place of its existing share dealing code, a new code of securities dealing in relation to its Ordinary Shares which is based on, and is at least as rigorous as, the Model Code as published in the Listing Rules. The new code adopted will apply to the Directors and other relevant employees of the Group.

PART III

REGULATORY OVERVIEW

1. REGULATORY OVERVIEW

The primary regulatory frameworks to which the Group is subject are in the UK, the USA, Singapore and Dubai. COLIM is the member of the Group authorised and regulated in the UK, USA and Dubai by the FSA, SEC and Dubai Financial Services Authority respectively. COLS is the member of the Group authorised and regulated in Singapore by the Monetary Authority of Singapore (the “MAS”).

COLIM has not exercised single market passporting rights to establish a branch or provide financial services on a cross border basis in EEA member states. A number of COLIM’s funds are registered for sale in certain jurisdictions, for instance in Italy and Switzerland.

2. REGULATORY FRAMEWORK IN THE UNITED KINGDOM

The regulatory framework in the UK is likely to be subject to change in the near future as a response to the global banking crisis. The FSA published a paper entitled “A Regulatory Response to the Global Banking Crisis” (the Turner Review) on 18 March 2009. The Turner Review assessed the various factors which contributed to the severe financial problems suffered by banks and other financial institutions at the end of 2008 and considered a wide range of proposals to counter these factors and reform global financial regulation. In addition, the Walker Report was published on 26 November 2009 after having been commissioned by the Government to review corporate governance in UK banks and other financial institutions. The proposals in the Turner Review and the Walker Report are likely to lead to changes in a wide range of regulatory areas including the amount and composition of regulatory capital held by certain firms, risk governance, levels of staff remuneration, the composition of boards and the evaluation of their performance. These developments suggest that there will be a shift in the future from the previous principles-based regulatory regime to a more rules-based regime. The proposals in both the Turner Review and the Walker Report focus particularly on banks, but it is possible that the changes contained in or resulting from these proposals could be extended to other financial institutions, including investment managers. The FSA has, for example, recently proposed the extension of its Remuneration Code to many investment managers albeit in a ‘proportional’ way. This extension is expected to come into force on 1 January 2011.

2.1 *Authorisation by the FSA*

In the UK, the provision of financial services is governed by certain requirements under the FSMA together with secondary legislation and other rules made under it, for example, the FSA Rules. Under section 19 of the FSMA, it is an offence for any person to carry on “regulated activities” by way of business in the United Kingdom unless that person is an authorised person or exempt. The “regulated activities” are set out in the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (as amended).

COLIM currently has permissions from the FSA to carry on a range of regulated activities, including dealing in investments as agent; managing investments; arranging (bringing about) deals in investments and making arrangements with a view to transactions in investments; and advising on investments (except on pension transfers and pension opt outs). COLIM’s FSA permissions are subject to various FSA limitations. It is able to undertake activities within the scope of its permission (other than dealing as agent and managing investments) with all three types of clients under the FSA Rules, namely retail clients, professional clients and eligible counterparties. The full scope of COLIM’s FSA permissions can be found on the FSA website (<http://www.fsa.gov.uk/register/home.do>).

COLIM is not a management company within the meaning of Council Directive 86/611/EEC (as amended from time to time) on Undertakings for Collective Investment in Transferable Securities or a UCITS firm.

To obtain and maintain authorised status under the FSA's supervisory regime, a firm must meet, and continue to meet, certain "threshold conditions" which are set out in the FSMA. These threshold conditions include the requirement that an authorised firm must have adequate financial resources, that it must not have "close links" of a nature that would impede the FSA's supervision of the firm and that it is "fit and proper" and otherwise suitable to be authorised.

2.2 *Approved persons*

The approval of the FSA is required for the performance of certain "controlled functions". Persons performing a "controlled function" in relation to an FSA authorised firm include persons acting in the capacity of chief executive or director of an authorised firm, persons with oversight of money laundering reporting and compliance and certain persons acting as senior managers or carrying out customer facing functions. In accordance with recent changes to the FSA's approved persons regime, employees of an unregulated parent undertaking or holding company of an authorised firm may also be seen as performing a "controlled function" for which registration as an approved person is required if the decisions of those persons are regularly taken into account by the governing body of the authorised firm.

The FSA is taking a tougher stance in relation to the approval and supervision of senior personnel performing significant influence functions within an authorised firm. The FSA has begun to undertake close vetting of appointments to roles of significant influence within an authorised firm and expects to interview candidates applying for such roles. Firms are expected to have in place robust recruitment, referencing and due diligence processes in order to assess whether a candidate is fit and proper to carry out the role within the firm. Under the Financial Services Act 2010 (the "Financial Services Act") (see paragraph 2.8 below), the FSA has the power to impose a financial penalty on an individual who has at any time performed knowingly, or where he could reasonably be expected to have known that such performance was, a senior management or customer-facing function for an authorised firm without prior approval.

2.3 *Restrictions on changes of control*

An FSA authorised firm is subject to restrictions regarding persons who may act as a "controller" of it and there are procedural requirements which apply to the process by which a person acquires or increases control over an authorised firm. The Financial Services and Markets Act 2000 (Controllers) Regulations 2009 give effect to the Acquisitions Directive (2007/44/EEC) in the UK by making various changes to Part XII of the FSMA. A "controller" for the purposes of the FSMA and the FSA Rules is a person who alone, or with those with whom he is acting in concert, holds 10 per cent, or more of the shares or voting rights in, or is able to exercise significant influence in relation to, a regulated firm or its parent undertaking.

A person who decides to acquire or increase control over a UK-authorised firm must give advance written notice to the FSA, which will then decide whether to approve the acquisition, either conditionally or unconditionally, or to object to it. There is also a general duty to give prior notification to the FSA of any proposal to cease to have control over a regulated firm or to reduce an existing level of control from specified thresholds. Therefore, under the FSMA, a person who proposes to become a controller of a UK-authorised firm, such as an investment manager, or an existing controller who proposes to increase their interest to 20 per cent. or more, 30 per cent. or more or 50 per cent. or more (as the case may be) must first notify and obtain the approval of the FSA. The FSA has up to 60 working days from the day on which it acknowledges receipt of a completed notification to approve any such acquisition. The FSA is permitted to serve a notice of objection to the acquisition of or increase in control. If it does serve such a notice, it is required to specify in the notice its reasons for the objections.

A person who ceases to be a 10 per cent. controller or who reduces an existing interest below the 50 per cent., 30 per cent. or 20 per cent. level (as the case may be) is required only to provide written notice to the FSA.

Breach of the notification and approval requirements imposed by the FSMA on controllers is a criminal offence.

2.4 *The FSA Rules*

An FSA authorised firm must comply with the principles and rules set out in the FSA Rules.

The FSA's Principles for Business (the "Principles") are high-level principles which are a general statement of the fundamental obligations of FSA authorised firms. The Principles require an authorised firm to: (1) conduct its business with integrity; (2) conduct its business with due skill, care and diligence; (3) take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems; (4) maintain adequate financial resources; (5) observe proper standards of market conduct; (6) pay due regard to the interests of customers and treat them fairly; (7) pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading; (8) manage conflicts of interest fairly, both between itself and its customers and between a customer and another client; (9) take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgment; (10) arrange adequate protection for clients' assets when it is responsible for them; and (11) deal with its regulators in an open and co-operative way, and disclose to the FSA appropriately anything relating to the firm of which the FSA would reasonably expect notice. The FSA may take disciplinary action against any firm which breaches one or more of the Principles, irrespective of whether it has also breached a specific FSA Rule. The FSA's disciplinary and enforcement powers include public censure; the imposition of fines; the variation, suspension or termination of the firm's authorisation; or the removal of approved status from individuals.

2.5 *Regulatory Capital*

Regulatory capital requirements form an integral part of the FSA's prudential supervision of UK authorised firms. The FSA has detailed rules relating to the maintenance of minimum levels of regulatory capital for authorised firms which amplify the general principle under which a firm must maintain adequate financial resources in order to be able to meet its liabilities as they fall due. The adequacy of a firm's financial resources is assessed in relation to the particular risks to which the firm may be exposed given its business activities. The FSA also expects firms to take a proactive approach to monitoring and managing risks.

Regulatory capital requirements exist on two levels. The first is a solo requirement aimed at individual authorised entities (with the relevant firm being required to submit periodic returns to demonstrate compliance with the relevant requirement). The second is a consolidated (or group) requirement and relates to a part of or the entire group of which an authorised firm or firms form part. Generally, for investment firms, the FSA exercises consolidated supervision up to the level of the highest EEA entity in the group, although it has the discretion to extend this to non-EEA entities in certain circumstances. The draft AIFM Directive (discussed in further detail in paragraph 3.2 below), in its current form, will introduce stricter regulatory capital requirements for EU entities providing investment management services for alternative investment funds.

On 5 October 2009, the FSA published its new liquidity rules which significantly broaden the scope of the existing liquidity regime and are designed to enhance regulated firms' liquidity risk management practices. The new rules can be seen in part as a response to issues highlighted by the financial crisis. Whilst the quantitative aspects of the new liquidity requirements will not apply to COLIM, the qualitative aspects, including new systems and controls requirements, do apply and these came into force on 1 December 2009.

2.6 *Consumer Complaints and Compensation*

The FSA Rules require that firms must have appropriate complaints handling procedures. A compensation scheme, the Financial Services Compensation Scheme, has been set up as an independent body under the FSMA. The scheme provides for limited compensation to be paid to certain categories of customers (broadly private individuals) where the authorised firm is unable or unlikely to be able to meet claims against it.

A Financial Ombudsman Service has also been set up under the FSMA. This operates independently of the FSA and allows certain categories of customer to escalate complaints about a firm (for example, in relation to mis-selling or the provision of a poor service or product by the firm) to the Ombudsman.

2.7 *Money Laundering*

The UK Money Laundering Regulations 2007 require, broadly speaking, any person who carries on financial services business in the UK to observe certain administrative procedures and checks designed to prevent money laundering. Failure to maintain the necessary procedures is a criminal offence. The Proceeds of Crime Act 2002 also contains a number of offences in relation to money laundering.

2.8 *The Financial Services Act 2010*

The Financial Services Act 2010 came into force on 8 April 2010. The Financial Services Act is intended to introduce more effective regulation and supervision of firms authorised under the FSMA, to ensure that a greater emphasis is placed on monitoring and managing system-wide risks and to strengthen consumer protection in relation to financial services. For example, the Financial Services Act increases the powers of the FSA to suspend an authorised person's permission to carry on regulated activities and permits the FSA both to impose a financial penalty on authorised firms and withdraw their authorisation for various breaches of their regulatory obligations. The Financial Services Act also grants the Treasury powers to make regulations in relation to the preparation, approval and disclosure of reports disclosing remuneration paid to officers and employees of an authorised firm and to others with a prescribed connection to the authorised person and obliges the FSA to make rules requiring certain authorised persons to have a remuneration policy which is consistent with the effective management of risks and the Implementation Standards for Principles for Sound Compensation Practices, issued by the Financial Stability Board on 25 September 2009.

3 **REGULATORY FRAMEWORK IN THE EUROPEAN UNION**

3.1 *Markets in Financial Instruments Directive*

Under MiFID, regulated firms are subject to extensive rules concerning their organisation, conflicts of interest, the provision of adequate information on investment services and "best execution" obligations. The "best execution" rule requires regulated firms to take all reasonable steps to obtain the best possible result for their clients taking not only price into consideration but also other factors such as cost, speed and likelihood of execution and settlement. Regulated firms will (with some exceptions) also be required to carry out a suitability assessment when providing investment advice or portfolio management, and must determine the appropriateness of non-advised services. The EU Commission is currently carrying out a review of the impact of MiFID on the European financial services market, but it is not yet clear what changes may be made.

3.2 *Alternative Investment Fund Managers Directive*

The draft Alternative Investment Fund Managers Directive (the "AIFMD") is currently being negotiated between the EU Council, the EU Parliament and the EU Commission. It is currently expected that it may be finalised and come into force in the UK in the latter part of 2012. It is expected that it will apply to any person who manages one or more alternative investment funds ("AIFs"), whether the AIF is domiciled inside or outside the EU. An AIF is expected to include any kind of collective investment undertaking, (i) which raises capital from a number of investors with a view to investing it in accordance with a defined investment policy for the benefit of those investors, and (ii) which does not require authorisation pursuant to the recast UCITS Directive. A number of funds that COLIM manages will be likely to fall within the definition of an AIF.

According to AIFMD, investment firms already authorised under MiFID, such as COLIM, will not be required to obtain authorisation in order to provide investment services in respect of AIFs. However, authorised AIF managers will be subject to strict regulatory capital and liquidity requirements and will

have to comply with new conduct of business rules governing, among other things, conflicts, risk, portfolio administration, remuneration and liquidity management.

3.3 *Recast UCITS Directive*

The recast UCITS Directive, published on 17 November 2009, is expected to simplify the regulatory environment applicable to UCITS, by reducing administrative barriers for cross-border marketing of funds, and to provide increased investor protection by ensuring that retail investors obtain more appropriate information about their investments. The recast UCITS Directive is to be implemented by Member States by 1 July 2011. The main changes arising from the recast UCITS Directive will include:

- (a) provision for a management company passport, which will allow management companies authorised in one Member State to manage funds structured as UCITS domiciled and authorised in another Member State;
- (b) simplification of the cross-border registration notification process;
- (c) provision for facilitating fund mergers on a domestic and a cross-border basis and allowing for the use of master-feeder UCITS arrangements; and
- (d) the replacement of the ‘Simplified Prospectus’ with a ‘Key Investor Information’ document designed to improve the quality and usefulness of product disclosures, allowing investors to understand better the nature and risks of investment in a UCITS.

4. REGULATORY FRAMEWORK IN THE UNITED STATES

COLIM is registered as an investment adviser with the U.S. Securities and Exchange Commission pursuant to the U.S. Investment Advisers Act of 1940, as amended (the “IAA”).

4.1 *Investment Adviser Regulation Under the IAA*

The IAA and rules thereunder impose a number of compliance and other obligations on registered investment advisers including limitations on the ability of investment advisers to charge performance-based fees, requirements relating to custody arrangements, disclosure requirements, record-keeping requirements, restrictions on affiliated transactions, requirements as to fees paid to solicitors and brokers, restrictions on political contributions, proxy voting requirements and advertising restrictions. The IAA also contains general anti-fraud prohibitions.

In addition, registered investment advisers are required to adopt compliance policies and procedures to address most of the foregoing matters as well as other areas that involve potential conflicts of interest, such as trade allocation and personal securities trading. Registered investment advisers are required to appoint a chief compliance officer with responsibility and authority to monitor adherence to these policies and procedures and to recommend changes to these policies and procedures where appropriate.

The recent Dodd-Frank Wall Street Reform and Consumer Protection Act is expected to increase significantly the compliance and reporting obligations of registered investment advisers. Most of these obligations will not become effective, however, until the SEC adopts implementing regulations.

Under the IAA, an investment advisory agreement between a registered investment adviser and its client may not be assigned by the investment adviser without the consent of the client. Assignment is broadly defined to include direct assignments as well as assignments that may be deemed to occur as a part of indirect transfers or restructurings.

4.2 *SEC Examination Authority*

Registered investment advisers are subject to periodic SEC examinations. These examinations involve a review of the registered investment adviser’s books and records, including those that do not specifically relate to U.S. investors, and interviews with officers and employees. In the event of a

breach of the IAA, the SEC has the authority to seek a broad range of criminal and civil sanctions against registered investment advisers (and their principals), including financial penalties, disgorgement of profits and fees and revocation of investment adviser registration.

4.3 *Other Applicable Regulations*

In addition to the IAA, registered investment advisers in the US are potentially subject to SEC regulation under the U.S. Securities Act of 1933, the U.S. Securities Exchange Act of 1934 and the U.S. Investment Company Act of 1940. Moreover, unlike the UK, investment advisers in the US are potentially subject to regulation by various other regulators and self-regulatory organizations, such as the U.S. Commodity Futures Trading Commission, the U.S. National Futures Association, and U.S. state regulators.

5. **ADDITIONAL REGULATORY FRAMEWORKS APPLICABLE TO THE GROUP**

5.1 *Singapore*

COLS has been granted a licence by MAS under the Securities and Futures Act to conduct the regulated activity of fund management subject to certain conditions.

5.2 *Dubai*

COLIM has been granted a licence by the Dubai Financial Services Authority under article 48 of the Regulatory Law (DIFC Law No.1) 2004 authorising it to carry out the financial services of (i) arranging credit or deals in investments, (ii) advising on financial products or credit and (iii) managing assets, in respect of shares, debentures, warrants, certificates, units and designated investments.

5.3 *Republic of Ireland*

COLIM acts as investment manager to The World Markets Umbrella Fund plc which is an Undertaking for Collective Investments in Transferable Securities authorised by the Central Bank of Ireland under the EU (UCITS) Regulations 2003, as amended. Shares in the World Markets Umbrella Fund plc can be marketed within the European Union in jurisdictions where authorisation to offer shares has been granted.

PART IV

OPERATING AND FINANCIAL REVIEW OF CITY OF LONDON GROUP

The following discussion of the Group's financial condition and results of operations (for the three year period ended 31 May 2010) should be read in conjunction with the rest of this document, including the historical financial information contained in Part V. Investors should not place reliance on summarised information, such as that set out in this section, in isolation from the broader commentary.

This section contains forward-looking statements which are subject to risks and uncertainties which could cause the Group's future results, operations or cash flows to differ materially from the results, operations or cash flows expressed or implied in such forward-looking statements.

Overview

The City of London Group is an asset management group whose principal activity is providing emerging market asset management products and services predominantly to institutional investors via its principal operating company City of London Investment Management Company Limited. The Group is based in the UK and has offices in the US, in Singapore and in Dubai.

The Group manages several open ended funds as well as a number of segregated accounts, with total funds under management at 30 September 2010 being approximately \$5.4 billion (c.£3.5 billion). The Group's fund mandates are mainly in emerging markets and the core investment strategy focuses on closed end funds, although the Group has in recent years diversified its product portfolio to include developed markets' closed end funds and equities funds focused on both emerging markets and natural resources.

The Group seeks to provide capital growth for clients through active country allocation and stock selection. The key objective for the Group's asset management products is to provide above average, long-term outperformance in comparison to the appropriate benchmark, while maintaining a lower level of volatility than the benchmark index.

Financial Highlights

Consolidated Income Statement

	<i>2010</i>	<i>2009</i>	<i>2008</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Revenue	29,970	20,151	24,879
Administrative expenses			
Staff costs	9,378	6,716	7,926
Other administrative expenses	9,954	7,463	6,969
Depreciation	348	289	158
	<u>(19,680)</u>	<u>(14,468)</u>	<u>(15,053)</u>
Operating profit	10,290	5,683	9,826
Interest receivable and similar income	(70)	(60)	869
Impairment of seed investments	159	(239)	–
Profit before taxation	10,379	5,384	10,695
Income tax expense	(3,396)	(1,537)	(3,559)
Profit for the period	6,983	3,847	7,136
Basic earnings per share	28.5p	16.1p	29.3p
Diluted earnings per share	26.9p	15.0p	26.0p

During the three year period from 1 June 2007 to 31 May 2010, FuM fluctuated in US dollar terms between \$2.1 billion and \$4.9 billion, as markets across the world exhibited extreme volatility, declining sharply through the latter half of calendar year 2008 and then recovering almost as sharply during the first half of 2009. In sterling terms, with the US\$/£ exchange rate varying between 2.10 and 1.43, the volatility of FuM

was significantly lower, the highs and lows being £3.2 billion and £1.4 billion respectively. Fee margins, on a weighted average basis and net of finder's commission where applicable, fell marginally from 95 basis points at the beginning of the period to 85 basis points at the end. This fall was due not to any underlying pressure on margins, but rather to the changing mix as a higher proportion of new mandates were awarded in the form of larger segregated accounts and therefore attracted lower fees.

In revenue terms, the net effect was that fee income was relatively constant through the 12 months to May 2008. It then dipped first gradually and later sharply to a low point in November that year, following which it rose quite steadily from December 2008 through to May 2010.

Under IFRS, fee income is reported gross and the finder's commission is included within "administrative expenses" in the consolidated income statement, as are staff profit-share payments, which equate to approximately 30 per cent. of profit before profit-share. These two elements of the cost base which are variable in line with income and profit (respectively) formed 55 per cent. of total costs in 2008, 40 per cent. in 2009 and 49 per cent. in 2010.

Given that over half of the Group's cost base is dollar denominated, the weakness of sterling, which did so much to insulate the sterling value of fee income against the impact of market volatility on FuM in the last calendar quarter of 2008, gave rise at the same time to markedly higher costs, such that the decline in both revenues and costs in the year to 31 May 2009 was significantly lower than might otherwise have been expected.

Exchange rates aside, there has been an increase in the cost base as headcount has grown, in part to support increased FuM, but also to support the diversification strategy, which has two broad strands: equities products focused on emerging markets and natural resources and closed end fund products focused on developed markets. Hence the number of employees has grown from 50 in June 2007 to 64 in May 2010. Staff costs, including profit-share, have formed a relatively constant proportion of total costs (excluding commissions): 2008: 72 per cent.; 2009: 62 per cent., and 2010: 66 per cent.

Interest receivable was £0.4 million in the year to May 2008 but cash was reduced significantly as a result of the share buy-backs in March 2008. Although cash has since been substantially restored, the decline in the base rate has rendered interest income a nominal figure. The opportunity cost of investing surplus cash in seed investments is commensurately lower and the Group has been active in this respect. While this strategy is not directed towards investment gains, nevertheless there were realised gains of £0.4 million in the year to May 2008. In the following year, the market falls led to the recognition of impairment and a charge of £0.2 million against income, much of which was subsequently written back in the year to May 2010.

The Group pays corporation taxes in the UK, the US and Singapore. Attributable profits are assessed according to the Group's transfer pricing policy, the key component of which is the apportionment of FuM across the group's four offices. Corporation tax rates are significantly higher in the US, such that, to the extent that FuM (averaged over twelve month ends) is skewed towards the US, the Group's effective tax rate will rise, and vice-versa. Effective tax rates have moved within the range 29 per cent. to 33 per cent. in recent years, but are not bound within that range.

In the year to 31 May 2009, the Group's tax charge was reduced by £1.2 million to reflect the recovery of corporation taxes in both the UK and the US in respect of share option exercises during the four years ending in May 2009; the corporation tax filings had not thereto acknowledged the deduction available against taxable profits.

Consolidated Cash Flow Statement

	2010	2009	2008
	£'000	£'000	£'000
Cash flow from operating activities			
Operating profit	10,290	5,683	9,826
Adjustments for:			
Depreciation charges	348	289	159
Share based payment charge	85	88	141
Translation adjustments	(293)	(462)	44
(Gain)/loss on disposal of fixed assets	–	5	–
Cash generated/(used) in operations before changes in working capital	10,430	5,603	10,170
(Increase)/decrease in trade and other receivables	(1,498)	705	(960)
Increase/(decrease) in trade and other payables	1,538	(719)	907
Cash generated from operations	10,470	5,589	10,117
Interest received	67	146	438
Interest paid	–	–	(2)
Taxation (paid)/received	(1,682)	(2,477)	(3,162)
Net cash generated from operating activities	8,855	3,258	7,391
Cash flow from investing activities			
Purchase of property and equipment	(644)	(800)	(262)
Proceeds from sale of property and equipment	1	1	–
Purchase of non-current financial assets	(11)	(1)	–
Proceeds from sale of non-current financial assets	–	1	14
Purchase of current financial assets	(3,146)	–	(1,208)
Proceeds from sale of current financial assets	380	744	1,961
Net cash (used)/generated from investing activities	(3,420)	(55)	505
Cash flow from financing activities			
Proceeds from issue of ordinary shares	126	167	–
Ordinary dividends paid	(4,183)	(4,418)	(3,238)
Purchase and cancellation of own shares	(1,165)	–	(4,544)
Purchase of own shares by employee share option trust	(731)	–	(1,590)
Proceeds from sale of own shares by employee share option trust	294	178	352
Net cash used in financing activities	(5,659)	(4,073)	(9,020)
Net increase/(decrease) in cash and cash equivalents	(224)	(870)	(1,124)
Cash and cash equivalents at start of period	4,719	5,499	6,617
Effect of exchange rate changes	280	90	6
Cash and cash equivalents at end of period	4,775	4,719	5,499

Given the nature of the Group's business and the timing of the underlying cash flows, there is generally relatively little difference between operating profit and cash generated from operations. In the year to 31 May 2009, the reduction in fee income and in profit which resulted from the extreme market conditions resulted in a year on year decrease in both receivables and payables, the latter consisting in the main of accrued finder's commission and profit share.

As noted above, interest income has declined significantly over the past two years, in part reflecting lower cash (offset by higher seed investments) and in part reflecting the reduction in the base rate.

Taxation paid was sharply lower in the year to May 2010 because the recovery of £1.2 million taxation overpaid in previous years, as described above, was accrued in the year to May 2009 but received in the following year.

Regarding investing activities, the Group has significantly upgraded its IT infrastructure during the period under review, with the main focus of investment being the Charles River fund management system, the CAMRA fund accounting system and the communications network. In the year to May 2009, the Group incurred fit-out costs of around \$0.2 million in relation to the move of the London office to Gracechurch Street. Purchases and sales of current financial assets represent changes to the seeding of new products.

The Group operates the Share Option Schemes, with most share options pertaining to existing Ordinary Shares held by the Employee Share Option Trust and a small number representing an issue of dilutive options in May 2004. Accordingly, the issue of new Ordinary Shares in 2009 and 2010 results from the exercise of dilutive options, while the proceeds from sale of Ordinary Shares by the trust relates to the exercise of trust held (non-dilutive) options. In 2008 and again in 2010, the Group took the opportunity to invest surplus cash balances in its own Ordinary Shares, in the main for cancellation and therefore earnings enhancement, but also to reinforce the trust's shareholding in support of future option issues.

Consolidated Statement of Financial Position

	2010 £'000	2009 £'000	2008 £'000
Non-current assets			
Property and equipment	1,097	802	297
Other financial assets	77	57	52
Deferred tax asset	1,503	1,606	3,208
	<u>2,677</u>	<u>2,465</u>	<u>3,557</u>
Current assets			
Trade and other receivables	4,366	2,868	3,573
Current tax receivable	–	609	–
Available-for-sale financial assets	3,596	431	1,862
Cash and cash equivalents	4,774	4,719	5,499
Other	–	–	30
	<u>12,736</u>	<u>8,627</u>	<u>10,964</u>
Current liabilities			
Trade and other payables	(3,888)	(2,349)	(3,069)
Current tax payable	(812)	–	(1,488)
Creditors, amounts falling due within one year	(4,700)	(2,349)	(4,557)
Net current assets	8,036	6,278	6,407
Total assets less current liabilities	<u>10,713</u>	<u>8,743</u>	<u>9,964</u>
Non-current liabilities			
Deferred tax liability	(105)	(1)	(193)
Net assets	<u>10,608</u>	<u>8,742</u>	<u>9,771</u>
Capital and reserves			
Called up share capital	260	260	253
Share premium account	1,641	1,518	1,357
Investment in own shares	(3,071)	(2,634)	(2,812)
Revaluation reserve	270	4	451
Share option reserve	1,721	1,768	3,469
Capital redemption reserve	18	14	14
Retained earnings	9,769	7,812	7,039
Total equity	<u>10,608</u>	<u>8,742</u>	<u>9,771</u>

The Group's balance sheet is relatively liquid, with the bulk of assets being held either in seed investments or in cash. As noted above a very significant portion of net cash flow in the year to 31 May 2010 was directed to investment in new products.

The Group has no borrowings and has not sought to establish any borrowing facilities. The Directors believe that the Group has adequate capital both to service the existing business and to develop it. The Directors believe that the Group's dividend policy of 1.5 per cent. cover, within the context of recent and expected future profitability, is compatible with a level of capital growth which is more than sufficient to support the future development of the business.

The deferred tax asset principally represents the potential future deductibility of the costs of share option exercises against taxable profit. Given that the deductible increases and decreases as the value of the Group's shares rises and falls, there is potential for this deferred tax asset to be quite volatile. The offset in balance sheet terms is the share option reserve.

The revaluation reserve reflects the extent to which the value of the Group's seed investments at the year end exceeds the cost of the investments.

Capital Resources

The Group's business is cash generative and has been so for several years. In the year to 31 May 2010, cash generated from operating activities, excluding translation adjustments, was £9.1 million, to which was added £0.4 million generated by the exercise of share options. The primary applications for cash were dividends of £4.2 million, net new seed investments of £2.8 million, purchases of the Company's own shares totalling £1.9 million, and purchases of tangible and intangible assets costing £0.6 million.

Management fees are generally received on a monthly basis from the Group's comingled funds and on a quarterly basis from segregated accounts. The Group does not charge performance fees. Accordingly, the timing of cash flows is relatively predictable within the short term, and, subject to movements in funds under management, within the medium term.

The Group has no borrowings and no borrowing facilities, preferring to rely purely on equity capital. The business is not capital intensive; there is a need to finance new product strategies in the form of seed funding, but the number of new strategies that are supported at any given time is low and is restricted more by adherence to the Group's core strengths than by the availability of capital. As stated above, the Directors believe that the current dividend policy provides sufficient profit retention to both support the existing business and finance the diversification strategy.

The Group's assets are held in relatively liquid form, with a large proportion being held as cash or cash equivalents. Cash balances are generally held on instant access bank accounts, as in the current interest rate environment the Group has found little or no benefit in fixed term deposits. Cash balances are principally held in pounds sterling, although there are also balances in U.S. dollars, Singapore dollars, and U.A.E. dirhams such as are necessary to provide working capital to the Group's operations outside the U.K.

There are no significant restrictions in the ability of the Group's subsidiaries to transfer funds to the parent company, subject to each company within the Group continuing to maintain sufficient capital to meet any applicable regulatory requirements, and subject to inter-company exposures within the Group being maintained within regulatory "large exposure" limits.

The Group's capital expenditure requirements are for the most part limited to office and IT equipment and software, and have not been significant historically within the context of its cash flow. This is not expected to change. The Group has no material capital commitments as at 30 September 2010.

The Group makes use of forward currency contracts and, from time to time, put options in order to hedge currency exposure (in particular to the U.S. dollar, seed investments, and profit). These activities are described in detail in Note 26 to the financial statements.

Capitalisation and indebtedness

The following table, sourced from the Group's internal accounting records, shows the Group's unaudited indebtedness (distinguishing between guaranteed and unguaranteed, secured and unsecured indebtedness) as at 31 August 2010 and the Group's unaudited capitalisation as at 31 August 2010:

	£000
Unaudited indebtedness as at 31 August 2010	
<i>Total current debt</i>	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	101
	<hr/> 101
<i>Total non-current debt</i>	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	–
	<hr/> –
Unaudited capitalisation as at 31 August 2010	
Share capital	1,900
Investment in own shares	(3,046)
Revaluation reserve	354
Share option reserve	1,721
Capital redemption reserve	19
	<hr/> 948
Total	<hr/> 1,049 <hr/>

The following table shows the Group's unaudited net indebtedness as at 31 August 2010:

	<i>Notes</i>	£000
A. Cash		4,893
B. Cash equivalent		–
C. Trading securities		–
		<hr/> 4,893
D. Liquidity (A + B + C)		4,893
E. Current financial receivables		–
F. Current bank debt		–
G. Current portion of non-current debt		–
H. Other current financial debt	1	101
		<hr/> 101
I. Current financial debt (F + G + H)		101
J. Net current financial indebtedness (I – E – D)		(4,792)
K. Non-current bank loans		–
L. Bonds issued		–
M. Other non-current loans		–
		<hr/> –
N. Non-current financial indebtedness (K + L + M)		–
O. Net financial indebtedness (J + N)		<hr/> (4,792) <hr/>

Notes:

1. Other current financial debt comprise unrealised loss on foreign exchange contracts.
2. The Group at 31 August 2010 had amounts committed under operating leases of £716,000 and provided a guarantee of £24,000.

Trends

While the Group's results are clearly likely to rise and fall in line with markets, there are no discernible trends which would appear to apply to the Group's business at the current time. While there has been some pressure on fees within the industry in recent years, this has been more evident with regard to the developed and hedge fund sectors. Fees for institutional emerging markets products have held up so long as the relative performance of the products is good.

With regard to net new money, the Group anticipates little difficulty in maintaining its emerging markets closed end fund products at or near to capacity and expects to be able to grow the natural resource and emerging markets equities products, the developed closed end fund product, and in due course an absolute return product.

Similarly, in what is in most areas of the developed world a low inflationary environment, the Directors do not anticipate significant pressure on costs in the short or medium term.

PART V

HISTORICAL FINANCIAL INFORMATION RELATING TO CITY OF LONDON GROUP

26 October 2010

The Directors
City of London Investment Group plc
77 Gracechurch Street
London
EC3V 0AS

The Directors
Singer Capital Markets Limited
One Hanover Street
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Dear Sirs

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CITY OF LONDON INVESTMENT GROUP PLC

We report on the financial information set out below. This financial information has been prepared for inclusion in the prospectus dated 26 October 2010 (“the Prospectus”) issued by City of London Investment Group plc (“the Group”). This report is required by item 20.1 of Annex I to the PD Regulation and is given for the purpose of complying with that paragraph and no other purpose.

Responsibilities

The directors of City of London Investment Group plc are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view for the purposes of the Prospectus, and to report our opinion to you.

Basis of Opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the Group’s circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at 31 May 2008, 31 May 2009 and 31 May 2010 and of its profits, cash flows, recognised gains and losses and changes in equity for the periods then ended in accordance with the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards, as described in note 1 to the financial information.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f), we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with item 1.2 of annex I of the PD Regulation.

Yours faithfully

Moore Stephens LLP
Chartered Accountants
Registered Auditors

CONSOLIDATED INCOME STATEMENT

		<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Revenue	1,2	24,879	20,151	29,970
Administrative expenses				
Staff costs	4.2	7,926	6,716	9,378
Commissions payable		3,558	3,037	4,769
Other administrative expenses		3,410	4,426	5,185
Depreciation and amortisation		159	289	348
		<u>(15,053)</u>	<u>(14,468)</u>	<u>(19,680)</u>
Operating profit	6	9,826	5,683	10,290
Interest receivable and similar income	7	869	(60)	(70)
Impairment of seed investments	8	–	(239)	159
		<u>10,695</u>	<u>5,384</u>	<u>10,379</u>
Profit before taxation				
Income tax expense	9	(3,559)	(1,537)	(3,396)
		<u>7,136</u>	<u>3,847</u>	<u>6,983</u>
Profit for the period				
Basic earnings per share	10	29.3p	16.1p	28.5p
Diluted earnings per share	10	26.0p	15.0p	26.9p

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Fair value gains/(losses) on available-for-sale investments*		202	(446)	267
Release of fair value gains/(losses) on disposal of available-for-sale investments*		(209)	(1)	–
		<u>(7)</u>	<u>(447)</u>	<u>267</u>
Other comprehensive income				
Profit for the period		<u>7,136</u>	<u>3,847</u>	<u>6,983</u>
Total comprehensive income for the period attributable to equity holders of the company		<u>7,129</u>	<u>3,400</u>	<u>7,250</u>

* net of deferred tax, detailed in note 20.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<i>At 31 May</i> 2008 £'000	<i>At 31 May</i> 2009 £'000	<i>At 31 May</i> 2010 £'000
	<i>Note</i>			
Non-current assets				
Property and equipment	11	297	802	688
Intangible assets	12	–	–	409
Other financial assets	13	52	57	77
Deferred tax asset	15	3,208	1,606	1,503
		<u>3,557</u>	<u>2,465</u>	<u>2,677</u>
Current assets				
Trade and other receivables	16	3,573	2,868	4,366
Current tax receivable		–	609	–
Available-for-sale financial assets	17	1,862	431	3,596
Other financial assets	18	30	–	–
Cash and cash equivalents		5,499	4,719	4,774
		<u>10,964</u>	<u>8,627</u>	<u>12,736</u>
Current liabilities				
Trade and other payables	19	(3,069)	(2,349)	(3,888)
Current tax payable		(1,488)	–	(812)
Creditors, amounts falling due within 1 year		<u>(4,557)</u>	<u>(2,349)</u>	<u>(4,700)</u>
Net current assets		<u>6,407</u>	<u>6,278</u>	<u>8,036</u>
Total assets less current liabilities		<u>9,964</u>	<u>8,743</u>	<u>10,713</u>
Non-current liabilities				
Deferred tax liability	20	(193)	(1)	(105)
Net assets		<u>9,771</u>	<u>8,742</u>	<u>10,608</u>
Capital and reserves				
Called up share capital	21	253	260	260
Share premium account		1,357	1,518	1,641
Investment in own shares	22	(2,812)	(2,634)	(3,071)
Revaluation reserve		451	4	270
Share option reserve		3,469	1,768	1,721
Capital redemption reserve		14	14	18
Retained earnings		7,039	7,812	9,769
Total equity		<u>9,771</u>	<u>8,742</u>	<u>10,608</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	<i>Share capital £'000</i>	<i>Share premium account £'000</i>	<i>Investment in own shares £'000</i>	<i>Revaluation reserve £'000</i>	<i>Share option reserve £'000</i>	<i>Capital redemption reserve £'000</i>	<i>Retained earnings £'000</i>	<i>Total attributable to shareholders £'000</i>
At 1 June 2007	268	1,357	(1,573)	457	2,519	–	7,685	10,714
Purchase of own shares	–	–	(1,591)	–	–	–	–	(1,591)
Share option exercise	–	–	352	–	–	–	–	352
Share cancellation	(14)	–	–	–	–	14	(4,544)	(4,544)
Increase in fair value*	–	–	–	202	–	–	–	202
Released on disposal*	–	–	–	(209)	–	–	–	(209)
Share based payment	–	–	–	–	141	–	–	141
Deferred tax	–	–	–	–	808	–	–	808
Profit for the period	–	–	–	–	–	–	7,136	7,136
Dividends paid	–	–	–	–	–	–	(3,238)	(3,238)
At 1 June 2008	254	1,357	(2,812)	451	3,469	14	7,038	9,771
Total comprehensive income	–	–	–	(447)	–	–	3,847	3,400
Share option exercise	6	161	178	–	–	–	–	345
Share based payment	–	–	–	–	7	–	81	88
Deferred tax	–	–	–	–	(1,708)	–	(8)	(1,716)
Current tax on share options	–	–	–	–	–	–	1,272	1,272
Dividends paid	–	–	–	–	–	–	(4,418)	(4,418)
At 1 June 2009	260	1,518	(2,634)	4	1,768	14	7,812	8,742
Total comprehensive income	–	–	–	267	–	–	6,983	7,250
Share option exercise	4	122	294	–	–	–	–	420
Share cancellation	(4)	–	–	–	–	4	(1,166)	(1,166)
Purchase of own shares	–	–	(731)	–	–	–	–	(731)
Share based payment	–	–	–	–	12	–	73	85
Deferred tax	–	–	–	–	(58)	–	(31)	(89)
Current tax on share options	–	–	–	–	–	–	281	281
Dividends paid	–	–	–	–	–	–	(4,183)	(4,183)
At 31 May 2010	260	1,641	(3,071)	270	1,721	18	9,769	10,608

*net of deferred tax

CONSOLIDATED CASH FLOW STATEMENT

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Cash flow from operating activities			
Operating profit	9,826	5,683	10,290
Adjustments for:			
Depreciation charges	159	289	303
Amortisation of intangible assets	–	–	45
Share based payment charge	141	88	85
Translation adjustments	44	(462)	(293)
Loss on disposal of fixed assets	–	5	–
Cash generated/(used) in operations before changes in working capital	10,170	5,603	10,430
(Increase)/decrease in trade and other receivables	(960)	705	(1,498)
Increase/(decrease) in trade and other payables	907	(719)	1,538
Cash generated from operations	10,117	5,589	10,470
Interest received	438	146	67
Interest paid	(2)	–	–
Taxation paid	(3,162)	(2,477)	(1,682)
Net cash generated from operating activities	7,391	3,258	8,855
Cash flow from investing activities			
Purchase of property and equipment	(262)	(800)	(189)
Proceeds from sale of property and equipment	–	1	1
Purchase of intangible assets	–	–	(455)
Purchase of non-current financial assets	–	(1)	(11)
Proceeds from sale of non-current financial assets	14	1	–
Purchase of current financial assets	(1,208)	–	(3,146)
Proceeds from sale of current financial assets	1,961	744	380
Net cash (used)/generated from investing activities	505	(55)	(3,420)
Cash flow from financing activities			
Proceeds from issue of ordinary shares	–	167	126
Ordinary dividends paid	23 (3,238)	(4,418)	(4,183)
Purchase and cancellation of own shares	(4,544)	–	(1,165)
Purchase of own shares by employee share option trust	(1,590)	–	(731)
Proceeds from sale of own shares by employee share option trust	352	178	294
Net cash used in financing activities	(9,020)	(4,073)	(5,659)
Net decrease in cash and cash equivalents	(1,124)	(870)	(224)
Cash and cash equivalents at start of period	6,617	5,499	4,719
Effect of exchange rate changes	6	90	280
Cash and cash equivalents at end of period	5,499	4,719	4,775

NOTES TO THE FINANCIAL INFORMATION

1. BASIS OF ACCOUNTING

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

During financial year 2010 the Group adopted the following IFRS standards and interpretations.

IAS 1 (revised 2007) “Presentation of financial statements”. The amendments make certain changes to the format and titles of the primary financial statement and to the presentation of some items within these statements. Some items that were recognised directly in equity are now recognised in other comprehensive income. IAS 1 affects the presentation of owner changes in equity and introduces a “Statement of comprehensive income”. Comparative information has been included for the years ended 31 May 2008 and 31 May 2009.

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

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

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

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

Comparative segmental information has been restated accordingly.

At the date of authorisation of this financial information, the following standards and interpretations, which are relevant to the Group, were in issue but not yet effective:

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

There are a number of other standards and interpretations, and revisions to existing standards and interpretations, including the 2008 improvements project, in issue but not in force at 31 May 2010. These are not considered relevant to the Group’s financial information.

1.1 *Basis of consolidation and preparation*

This financial information consolidates the financial information of the Group and all of its subsidiary undertakings. The Group's principal subsidiaries are City of London Investment Management Company Limited and City of London US Services Limited, all other subsidiaries were dormant at 31 May 2010.

The Company is domiciled in the UK and its shares are issued in sterling. The functional currency of the business is however US dollars. Management have decided that the presentational currency of the financial information should be sterling rather than the functional currency due to the Company being a UK registered entity.

The consolidated financial statements are prepared on the historical cost basis except for the revaluation of certain financial instruments as outlined in point 1.2.3 below.

The preparation of financial information 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 information that are subject to the use of estimates and assumptions are noted below:

Income taxes

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

Share-based payments

In order to calculate the charge for share-based compensation as required by IFRS 2, the Group makes estimates principally relating to the assumptions used in its option pricing model. Details of these assumptions are outlined in note 25.

Intangible assets

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

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

1.2 *Significant accounting policies*

1.2.1. *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

1.2.2 *Intangible assets*

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

Long term software licences – ten years

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

1.2.3 *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
- A financial asset or liability at fair value through profit or loss

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

The Group's investments in the funds that it manages are designated as available-for-sale financial assets. Such investments are initially recognised at fair value, being the consideration given together with any acquisition costs associated with the investment. They are subsequently carried at fair value, with any gains or losses arising from changes in fair value included as part of other comprehensive income. Fair value is determined using the price based on the net asset value of the fund. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred all risks and rewards of ownership. When derecognition occurs a realised profit or loss is recognised in the income statement, calculated as the difference between the net sales proceeds and the original cost of the financial asset. Any fair value gains or losses previously recognised as part of other comprehensive income are recycled into the income statement as part of this calculation of the profit or loss arising on derecognition.

The Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired. In the case of an investment classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered as an indicator that the investment is impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement.

The Group's investments in derivatives are designated as financial assets or liabilities at fair value through profit or loss. Such investments are initially recognised at fair value, and are subsequently remeasured at fair value, with any movement recognised in the income statement. The fair value of the derivatives held by the Group is determined as follows:

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

The only exception is where the Group holds an investment in options on unquoted equity instruments. Such investments are designated as available-for-sale financial assets and are measured at cost less impairment on the grounds that the fair value cannot be reliably measured and the cost of the investment of \$75,000 is not considered to be material.

The Group's investments have been classified here for recognition and measurement purposes under IAS 39 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 27.

1.2.4 *Trade receivables*

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

1.2.5 *Cash and cash equivalents*

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

1.2.6 *Trade payables*

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

1.2.7 *Deferred taxation*

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

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

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

1.2.8 *Share-based payments*

The Group 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 Group's estimate of the number of shares that will actually vest.

In accordance with the transitional provisions of IFRS 2 the above treatment has been applied only to grants of share options after 7th November 2002 that had not vested at 1 June 2006, although, as required by IFRS 2, the disclosures in note 25.2 include grants of share options prior to 7 November 2002.

1.2.9 *Revenue*

Revenue comprises investment management fees earned. Fees are based on percentage of funds under management and are recognised in revenue as the investment management services are provided, in accordance with the underlying agreements.

1.2.10 *Foreign currency translation*

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

The functional currency of the Group's main trading subsidiaries, City of London Investment Management Company Limited and City of London US Services Limited, is US dollars. The functional currency of City of London Investment Group Plc 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.

1.2.11 *Leases*

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

1.2.12 *Pensions*

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

2. REVENUE

Revenue represents management fees earned by subsidiary companies charged as a percentage of funds under management.

3. SEGMENTAL ANALYSIS

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

	<i>USA</i>	<i>Canada</i>	<i>Continental Europe</i>	<i>UK</i>	<i>Other</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Year to 31 May 2010						
Revenue	24,185	1,702	1,909	2,026	146	29,970
Non-current assets:						
Property and equipment	328	–	–	240	120	688
Intangible assets	409	–	–	–	–	409
Year to 31 May 2009						
Revenue	16,009	1,338	1,464	900	440	20,151
Non-current assets:						
Property and equipment	325	–	–	302	174	802
Intangible assets	–	–	–	–	–	–
Year to 31 May 2008						
Revenue	19,758	1,780	1,938	874	529	24,879
Non-current assets:						
Property and equipment	88	–	–	83	126	297
Intangible assets	–	–	–	–	–	–

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

4. EMPLOYEES

4.1. Average number of persons employed by the Group in the year:

	<i>Year ended 31 May 2008 Number</i>	<i>Year ended 31 May 2009 Number</i>	<i>Year ended 31 May 2010 Number</i>
Investment Management/Research	16	18	23
Performance and Attribution	5	4	4
Business Development/Marketing	–	3	3
Client Services	6	8	8
Administration, Accounts and Settlements	23	22	24
	<u>50</u>	<u>55</u>	<u>62</u>

4.2. Staff costs incurred during the year in respect of these employees:

	<i>Year ended 31 May 2008 £'000</i>	<i>Year ended 31 May 2009 £'000</i>	<i>Year ended 31 May 2010 £'000</i>
Wages and salaries	2,600	3,221	3,876
Profit sharing payments	4,288	2,527	4,525
Social security costs	606	508	449
Defined contribution pension costs	291	372	443
Share based payment charge	141	88	85
	<u>7,926</u>	<u>6,716</u>	<u>9,378</u>

The Group made contributions of £443,171 (2009: £371,514 and 2008: £290,949) in the period to individual defined contribution pension schemes established for directors and employees. There were no outstanding or prepaid contributions at 31 May 2010.

5. DIRECTORS

5.1. Directors' emoluments comprise:

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Emoluments (excluding pension contributions and awards under share option schemes)	2,446	1,720	2,553
Pension contributions	64	75	80
Share option charge	24	13	14
Gains on exercise of share options	468	797	767
	<i>Number</i>	<i>Number</i>	<i>Number</i>
Number of directors on whose behalf pension contributions were paid during the year	4	4	4
Number of directors who exercised share options during the year	2	4	1

5.2. Highest paid director's remuneration:

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Emoluments (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	1,112	740	1,125
Pension contributions	22	27	27
Share option charge	9	4	3
Gains on exercise of share options	177	487	–

6. OPERATING PROFIT

The operating profit is arrived at after charging/crediting:

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Depreciation of owned assets	159	289	303
Amortisation of intangible assets	–	–	45
Auditor's remuneration:			
Statutory audit	45	45	44
Taxation services	18	24	19
Other services	15	24	14
Operating lease rentals:			
Land and buildings	231	364	374
Other	9	17	12
Operating sublease rentals:			
Land and buildings	9	6	–
Foreign exchange (gains)/losses	(95)	94	(178)
Loss on disposal of fixed assets	–	5	–

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Interest on bank deposit	437	146	67
Profit/(loss) on sale of investments	426	(215)	(137)
Fair value of investments	6	9	–
	<u>869</u>	<u>(60)</u>	<u>(70)</u>

8. IMPAIRMENT OF SEED INVESTMENTS

Due to improved market conditions, the Group has written back £159,418 in the year ended 31 May 2010 of the £238,790 impairment charge recognised in the year ended 31 May 2009 against the fair value of its seed investments in new funds in-line with IAS 39.

9. TAX CHARGE ON PROFIT ON ORDINARY ACTIVITIES

9.1. *Analysis of tax charge on ordinary activities:*

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Tax at 28% (2009: 28% and 2008: 30%) based on the profit for the year	3,256	1,635	2,938
Double taxation relief	(638)	(422)	(952)
Deferred tax	(42)	(113)	13
Adjustments in respect of prior years	(10)	(39)	13
	<u>2,566</u>	<u>1,061</u>	<u>2,012</u>
Foreign tax for the current period	950	610	1,423
Adjustments in respect of prior years	43	(134)	(39)
	<u>993</u>	<u>477</u>	<u>1,384</u>
	<u>3,559</u>	<u>1,537</u>	<u>3,396</u>

9.2. *Factors affecting tax charge for the current period:*

The tax assessed for the period is different to that resulting from applying the standard rate of corporation tax in the UK 28% (2009: 28% and 2008: 30%). The differences are explained below:

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Profit on ordinary activities before tax	10,695	5,384	10,379
Tax at 28% (2009: 28% and 2008: 30%) thereon	(3,208)	(1,508)	(2,906)
Effects of:			
Expenses not deductible for tax purposes	(20)	(35)	(31)
Capital allowances less than depreciation	(10)	(16)	(64)
Unrelieved overseas tax	(313)	(188)	(471)
Impairment in seed investments not tax deductible	–	(67)	45
Deferred tax on share based-payments and impairment	42	113	(13)
Prior period adjustments	(33)	172	26
Other	(17)	(8)	18
	<u>(17)</u>	<u>(8)</u>	<u>18</u>

(3,559) (1,537) (3,396)

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of £6,982,782 (2009: £3,846,783 and 2008: £7,135,716) divided by the weighted average number of ordinary shares in issue for the year ended 31 May 2010 of 24,491,592 (2009: 23,844,801 and 2008: 24,338,540).

As set out in Note 22 the Employee Benefit Trust held 1,589,158 ordinary shares in the Company as at 31 May 2010. The Trustees of the Trust have waived all rights to dividends associated with these shares. In accordance with IAS 33 the ordinary shares held by the Employee Benefit Trust have been excluded from the calculation of the weighted average of ordinary shares in issue.

The calculation of diluted earnings per share is based on the profit for the year of £6,982,782 (2009: £3,846,783 and 2008: £7,135,716) divided by the diluted weighted average of ordinary shares for the year ended 31 May 2010 of 25,953,758 (2009: 25,587,419 and 2008: 27,404,870).

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

	<i>Year ended 31 May 2008 Number of shares</i>	<i>Year ended 31 May 2009 Number of shares</i>	<i>Year ended 31 May 2010 Number of shares</i>
Weighted average number of shares – basic earnings per share	24,338,540	23,844,801	24,491,592
Effect of dilutive potential shares – share options	<u>3,066,330</u>	<u>1,742,618</u>	<u>1,462,166</u>
Weighted average number of shares – diluted earnings per share	<u>27,404,870</u>	<u>25,587,419</u>	<u>25,953,758</u>

11. PROPERTY AND EQUIPMENT

2008

	<i>Furniture and equipment £'000</i>	<i>Computer and telephone equipment £'000</i>	<i>Short leasehold improvements £'000</i>	<i>Total £'000</i>
Cost				
At 1 June	91	668	159	919
Additions	20	176	65	262
Disposals	–	(14)	–	(14)
At 31 May	<u>112</u>	<u>830</u>	<u>224</u>	<u>1,167</u>
Accumulated depreciation				
At 1 June	78	493	154	725
Charge for the year	12	141	6	158
Disposals	–	(14)	–	(14)
At 31 May	<u>90</u>	<u>620</u>	<u>160</u>	<u>870</u>
Net book value at 31 May	<u>22</u>	<u>210</u>	<u>64</u>	<u>297</u>

2009

	<i>Furniture and equipment £'000</i>	<i>Computer and telephone equipment £'000</i>	<i>Short leasehold improvements £'000</i>	<i>Total £'000</i>
Cost				
At 1 June	112	830	224	1,167
Additions	66	540	194	800
Disposals	(32)	(76)	(125)	(234)
At 31 May	<u>145</u>	<u>1,294</u>	<u>293</u>	<u>1,733</u>
Accumulated depreciation				
At 1 June	90	620	160	870
Charge for the year	25	229	35	289
Disposals	(26)	(76)	(125)	(227)
At 31 May	<u>89</u>	<u>773</u>	<u>70</u>	<u>931</u>
Net book value at 31 May	<u>57</u>	<u>522</u>	<u>223</u>	<u>802</u>

2010

	<i>Furniture and equipment £'000</i>	<i>Computer and telephone equipment £'000</i>	<i>Short leasehold improvements £'000</i>	<i>Total £'000</i>
Cost				
At 1 June	145	1,294	293	1,733
Additions	21	168	–	189
Disposals	–	(22)	–	(22)
At 31 May	<u>166</u>	<u>1,441</u>	<u>293</u>	<u>1,900</u>
Accumulated depreciation				
At 1 June	89	773	70	931
Charge for the year	26	241	35	303
Disposals	–	(21)	–	(22)
At 31 May	<u>115</u>	<u>992</u>	<u>105</u>	<u>1,212</u>
Net book value at 31 May	<u>51</u>	<u>448</u>	<u>188</u>	<u>688</u>

12. INTANGIBLE ASSETS

	<i>2008</i> <i>Long term</i> <i>software</i> <i>license</i> <i>£'000</i>	<i>2009</i> <i>Long term</i> <i>software</i> <i>license</i> <i>£'000</i>	<i>2010</i> <i>Long term</i> <i>software</i> <i>license</i> <i>£'000</i>
Cost			
At 1 June	–	–	–
Additions	–	–	454
At 31 May	<u>–</u>	<u>–</u>	<u>454</u>
Amortisation charge			
At 1 June	–	–	–
Charge for the year	–	–	(45)
At 31 May	<u>–</u>	<u>–</u>	<u>(45)</u>
Net book value	<u>–</u>	<u>–</u>	<u>409</u>

The Group did not hold any intangible assets during the preceding years.

13. OTHER FINANCIAL ASSETS (NON-CURRENT)

	<i>2008</i> <i>Unlisted</i> <i>investments</i> <i>£'000</i>	<i>2009</i> <i>Unlisted</i> <i>investments</i> <i>£'000</i>	<i>2010</i> <i>Unlisted</i> <i>investments</i> <i>£'000</i>
Cost			
At 1 June	47	52	58
Additions	3	1	10
Disposals	(4)	(1)	–
Fair value gains recognised in other comprehensive income	6	6	9
At 31 May	<u>52</u>	<u>57</u>	<u>77</u>

14. SUBSIDIARY UNDERTAKINGS

		<i>Holding of</i> <i>Activity ordinary shares</i>
City of London Investment Management Company Limited	Management of funds	100%
City of London Unit Trust Managers Limited	Dormant company	100%
City of London US Investments Limited	Holding company for US companies	100%

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

City of London Latin America Limited	Dormant company
City of London Investment Management Singapore PTE Ltd	Dormant company

City of London US Investments Limited holds 100% of the ordinary shares in the following:

City of London US Services Limited	Service company
City of London Quantitative Management Limited	Dormant company

All the companies above are incorporated in Great Britain and registered in England and Wales except for City of London Investment Management Singapore PTE Limited which is incorporated and registered in Singapore.

All of the above mentioned companies are included in the consolidated financial information of the Group. In the opinion of the directors, the value of the subsidiaries is at least equal to their cost, except for City of London Unit Trust Managers Limited which is carried at cost less impairment.

15. DEFERRED TAX ASSET

	<i>Share-based payments</i> £'000	<i>Impairment</i> £'000	<i>Total</i> £'000
At 1 June 2007	2,358	–	2,358
Credit/(charge) to income	42	–	42
Credit/(charge) to equity	808	–	808
At 1 June 2008	3,208	–	3,208
Credit/(charge) to income	46	67	113
Credit/(charge) to equity	(1,716)	–	(1,716)
At 1 June 2009	1,539	67	1,606
Credit/(charge) to income	32	(45)	(13)
Credit/(charge) to equity	(89)	–	(89)
At 31 May 2010	1,481	22	1,503

16. TRADE AND OTHER RECEIVABLES

	<i>At 31 May 2008</i> £'000	<i>At 31 May 2009</i> £'000	<i>At 31 May 2010</i> £'000
Trade receivables	3,259	2,508	3,872
Other debtors	72	69	109
Prepayments	242	291	385
	3,573	2,868	4,366

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<i>At 31 May 2008</i> £'000	<i>At 31 May 2009</i> £'000	<i>At 31 May 2010</i> £'000
Unlisted investments at market value	1,862	431	3,596
Unlisted investments at cost	1,226	670	3,308

18. OTHER FINANCIAL ASSETS

	<i>At 31 May 2008</i> £'000	<i>At 31 May 2009</i> £'000	<i>At 31 May 2010</i> £'000
Listed investments at market value	30	–	–
Listed investments at cost	39	–	–

19. TRADE AND OTHER PAYABLES

	<i>At 31 May</i> 2008 £'000	<i>At 31 May</i> 2009 £'000	<i>At 31 May</i> 2010 £'000
Trade creditors	491	394	646
Sundry creditors	43	210	467
Other taxation and social security	58	118	40
Accruals and deferred income	2,477	1,627	2,735
	<u>3,069</u>	<u>2,349</u>	<u>3,888</u>

20. DEFERRED TAX LIABILITY

	<i>Total</i>
At 1 June 2007	196
Increased due to gain in fair value of available-for sale investments	87
Released on disposal of available-for-sale investments	(90)
At 1 June 2008	193
Released due to decrease in value of available-for-sale investments	(192)
Released on disposal of available-for-sale investments	–
At 1 June 2009	1
Increased due to gain in fair value of available-for sale investments	104
At 31 May 2010	<u>105</u>

21. SHARE CAPITAL

	<i>At 31 May</i> 2008 £'000	<i>At 31 May</i> 2009 £'000	<i>At 31 May</i> 2010 £'000
Allotted, called up and fully paid			
At start of year 25,981,603 (2009: 25,360,500 and 2008: 26,777,800) ordinary shares of 1p each	268	254	260
Dilutive share options exercised: 426,200 (2009: 621,103 and 2008: nil)	–	6	4
Shares repurchased and cancelled: 439,000 (2009: nil and 2008: 1,417,300)	(15)	–	(4)
At end of year 25,968,803 (2009: 25,981,603 and 2008: 25,360,500) ordinary shares of 1p each	<u>253</u>	<u>260</u>	<u>260</u>

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

22. INVESTMENT IN OWN SHARES

Investment in own shares relates to City of London Investment Group Plc shares held by an Employee Benefit Trust on behalf of City of London Investment Group Plc.

At 31 May 2010 the Trust held 1,589,158 ordinary 1p shares (2009: 1,617,650 and 2008: 2,013,085), of which 1,427,533 ordinary 1p shares (2009: 1,262,375 and 2008: 1,458,310) were subject to options in issue.

23. DIVIDEND

	<i>Year ended</i> <i>31 May</i> <i>2008</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2009</i> <i>£'000</i>	<i>Year ended</i> <i>31 May</i> <i>2010</i> <i>£'000</i>
Dividends paid:			
Interim dividend of 7p per share (2009: 5p and 2008: 6p)	1,510	1,197	1,728
Final dividend in respect of year ended:			
31 May 2009 of 10p per share (2008: 13.5p)	1,728	3,221	2,455
	<u>3,238</u>	<u>4,418</u>	<u>4,183</u>

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

24. OPERATING LEASE COMMITMENTS

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

	<i>2008</i>		<i>2009</i>		<i>2010</i>	
	<i>Land and</i> <i>buildings</i> <i>£'000</i>	<i>Motor</i> <i>vehicle</i> <i>£'000</i>	<i>Land and</i> <i>buildings</i> <i>£'000</i>	<i>Motor</i> <i>vehicle</i> <i>£'000</i>	<i>Land and</i> <i>buildings</i> <i>£'000</i>	<i>Motor</i> <i>vehicle</i> <i>£'000</i>
Within one year	146	7	317	8	298	–
In the second to fifth years inclusive	49	7	652	–	506	–
	<u>195</u>	<u>14</u>	<u>969</u>	<u>8</u>	<u>804</u>	<u>–</u>

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

25. SHARE BASED PAYMENTS

25.1. The estimated fair values of options which fall under IFRS 2, and the inputs used in the Binomial pricing model to calculate those fair values, are as follows:

<i>Date of grant</i>	<i>Expiry date</i>	<i>Expected life years</i>	<i>Risk free rate</i>	<i>Share price at grant</i> <i>£</i>	<i>Exercise price</i> <i>£</i>	<i>Volatility</i>	<i>Dividend yield</i>	<i>Estimated fair value</i> <i>£</i>	<i>Number originally granted</i>
14/05/04	14/05/14	3.0	5.0411%	0.26	0.26	33.559%	4.50%	0.0668	2,000,000
17/12/04	17/12/14	3.0	4.5420%	0.45	0.45	30.946%	4.50%	0.1061	536,250
31/03/06	31/03/16	3.0	4.5300%	1.40	1.40	25.480%	4.50%	0.2450	818,750
10/10/06	10/10/16	3.0	4.9865%	1.80	1.80	29.359%	4.50%	0.3196	50,000
30/01/07	30/01/17	3.0	5.4828%	2.61	2.61	29.822%	4.50%	0.4834	140,500
30/03/07	31/03/17	3.0	5.4338%	2.73	2.73	29.356%	4.50%	0.4948	143,500
01/10/08	01/10/18	3.0	4.0720%	2.30	2.75	32.924%	7.00%	0.2401	312,000
13/01/09	13/01/19	3.0	1.9645%	1.63	2.75	41.919%	11.82%	0.1324	20,000
05/06/09	05/06/19	6.5	3.2805%	2.30	2.30	32.781%	8.04%	0.5134	242,000
18/01/10	18/01/20	6.5	3.4428%	3.14	3.14	30.966%	4.67%	0.8356	259,000

Historically, the expected life of the options has been assumed to be three years, however this assumption has been revised for the latest grants to six and a half years based upon the empirical evidence available. The risk-free rate has been assumed to be represented by the yield to maturity at the date of grant of a UK gilt strip with term to maturity equal to the expected life of the option. Historically, the volatility of the Company's share price at each date of grant has been calculated as the average of the standard deviations of daily continuously compounded returns on the stock of a group of comparable companies. Now that there is sufficient share price data for the Company it has been possible to calculate its expected volatility and this has been used to calculate the fair value of awards granted on and after 5 June 2009.

25.2. The number and weighted average exercise price of share options for each of the following is as follows:

	2008		2009		2010	
	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>	<i>Number</i>	<i>Weighted average exercise price</i>
Outstanding at the beginning of the year	4,797,675	0.68	3,958,310	0.71	3,135,022	1.02
Granted during the year	–	–	332,000	2.75	501,000	2.73
Forfeited during the year	56,500	1.93	138,750	1.30	64,000	2.63
Exercised during the year	782,865	0.45	1,016,538	0.34	698,042	0.60
Expired during the year	–	–	–	–	–	–
Outstanding at the end of the year	3,958,310	0.71	3,135,022	1.02	2,873,980	1.38
Exercisable at the end of the year	2,862,060	0.32	2,548,022	0.63	2,149,980	0.87
The weighted average share price at the date of exercise for share options exercised during the year was		3.12		2.15		2.85

26. RELATED PARTY TRANSACTIONS

26.1 *Remuneration of key management personnel*

The remuneration of the directors who are the key management personnel of the Group is provided in note 5.

In addition, the City of London Employee Share Option Trust purchased ordinary shares from the following directors during financial year ended 31 May 2010:

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

27. 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.

27.1. *Financial instruments by category*

	<i>Loans and receivables</i>	<i>Assets at fair value through profit or loss</i>	<i>Available-for-sale</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
31 May 2010				
Other financial assets	–	–	77	77
Trade and other receivables	4,366	–	–	4,366
Available-for-sale financial assets	–	–	3,596	3,596
Cash and cash equivalents	4,774	–	–	4,774
Total	9,140	–	3,673	12,813
		<i>Liabilities at fair value through profit or loss</i>	<i>Financial liabilities at amortised cost</i>	<i>Total</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Trade and other payables		402	3,486	3,888
Total		402	3,486	3,888

	<i>Loans and receivables £'000</i>	<i>Assets at fair value through profit or loss £'000</i>	<i>Available- for-sale £'000</i>	<i>Total £'000</i>
31 May 2009				
Other financial assets	–	–	57	57
Trade and other receivables	2,868	–	–	2,868
Available-for-sale financial assets	–	–	431	431
Cash and cash equivalents	4,719	–	–	4,719
Total	7,587	–	488	8,075

	<i>Liabilities at fair value through profit or loss £'000</i>	<i>Financial liabilities at amortised cost £'000</i>	<i>Total £'000</i>
Trade and other payables	194	2,155	2,349
Total	194	2,155	2,349

	<i>Loans and receivables £'000</i>	<i>Assets at fair value through profit or loss £'000</i>	<i>Available- for-sale £'000</i>	<i>Total £'000</i>
31 May 2008				
Other financial assets	–	30	52	82
Trade and other receivables	3,563	10	–	3,573
Available-for-sale financial assets	–	–	1,862	1,862
Cash and cash equivalents	5,499	–	–	5,499
Total	9,062	40	1,914	11,016

	<i>Liabilities at fair value through profit or loss £'000</i>	<i>Financial liabilities at amortised cost £'000</i>	<i>Total £'000</i>
Trade and other payables	–	3,069	3,069
Total	–	3,069	3,069

27.2. *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 net asset value (NAV) of the fund. Where the NAV is a quoted price the fair value is shown under level 1, where the NAV is not a quoted price the fair value is shown under level 2.

Forward currency trades are valued using the prevailing quoted exchange rates and are shown under level 2.

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

	<i>Level 1</i> £'000	<i>Level 2</i> £'000	<i>Level 3</i> £'000	<i>Total</i> £'000
Available-for-sale financial assets				
Investment in own funds	1,817	1,804	–	3,621
Total	<u>1,817</u>	<u>1,804</u>	<u>–</u>	<u>3,621</u>
Financial liabilities at fair value through profit or loss				
Forward currency trades	–	402	–	402
Total	<u>–</u>	<u>402</u>	<u>–</u>	<u>402</u>

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

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

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

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

27.3. *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 31 May 2010, the Group had net asset balances of US\$6,854,423 (2009: US\$4,422,628 and 2008: US\$6,625,564), offset by forward sales totalling US\$6,500,000 (2009: US\$ 3,600,000 and 2008: US\$6,200,000), and net asset balances of Canadian \$411,851 (2009: Canadian \$371,190 and 2008: Canadian \$532,661)

27.4. *Market risk*

Changes in market prices, such as foreign exchange rates and equity prices will affect the Group's income and the value of its investments.

The Group is, from time to time, exposed to market risk directly via its investment holdings and indirectly via its assets under management, from which its fee income is derived. To hedge against any potential loss in fee income due to a fall in the markets, the Group will look to invest in out of the money put options on the emerging markets index. The purchase and sale of these options are subject to limits established by the Board and are monitored on a regular basis. The investment management and settlement functions are totally segregated.

The cost of hedging recognised in the Group income statement for the period is £32,027 (2009: income £21,194 and 2008: cost £26,886).

27.5. *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.

27.6. *Liquidity risk*

The Group's liquidity risk is minimal due to the liquidity profile of its debtors and creditors being evenly matched and its strategy to maximise its cash position. In addition, the Group's current available-for-sale assets represent investments in funds that it manages and can be liquidated immediately if required.

27.7. *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 31 May 2010 the Group held £4,774,473 (2009: £4,718,766 and 2008: £5,498,910) in cash balances, of which £4,168,469 (2009: £4,693,287 and 2008: £5,492,455) was held in bank accounts which attract variable interest rates. The effect of a 100 basis points increase/decrease in interest rates on the Group's net assets would not be material.

27.8. *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.

The Group's principal operating subsidiary company, City of London Investment Management Company Ltd is subject to the requirements of the Financial Services Authority ("FSA") in the UK. This subsidiary held surplus capital over its requirements throughout the year.

PART VI

ADDITIONAL INFORMATION

1. The Company

- 1.1 The Company was incorporated and registered in England and Wales on 7 February 1992 as a public limited company with the name Scaleoption public limited company and with registered number 2685257. The name of the Company was changed to Olliff & Company plc on 30 April 1992 and to Olliff & Partners plc on 29 June 1992.
- 1.2 The Company's registered office and principal place of business is located at 77 Gracechurch Street, London EC3V 0AS. The Company's telephone number is +44 (0) 20 7711 0771. The Ordinary Shares were admitted to trading on AIM on 12 April 2006 and the Company's ISIN is GB00B104RS51.
- 1.3 The Company's legal and commercial name at the date of this document is City of London Investment Group plc. The Company is domiciled in the United Kingdom, is a public company limited by shares and the principal legislation under which the Company operates is the Acts and the regulations made under the Acts.
- 1.4 The principal legislation under which the Ordinary Shares were created is the 1985 Act and the regulations made under the 1985 Act. The Ordinary Shares are denominated in pounds sterling.
- 1.5 The liability of the members of the Company is limited.

2. Responsibility

The Company and its Directors, whose names appear on page 17 of this document, accept responsibility for the information contained in this document. To the best of the knowledge of the Company and its Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

3. Share capital of the Company

- 3.1 The issued share capital of the Company as at the date of this document and Admission is as set out below. All the issued share capital of the Company has been fully paid up.

<i>Class</i>	<i>Issued and fully paid</i>	
	<i>£</i>	<i>Number</i>
<i>Ordinary shares of 1 penny each</i>	<i>£262,638.53</i>	<i>26,263,853</i>

- 3.2 Since 1 June 2007, being the start of the period for which the financial information on the Group is presented in this Prospectus, there have been the following changes in the Company's issued share capital up to the date of this document:
 - (a) on 13 March 2008, the Company purchased 1,417,300 Ordinary Shares at a price of £3.20 per share and cancelled such shares;
 - (b) on 9 June 2008, the Company issued 30,000 Ordinary Shares at a price of £0.26 per share;
 - (c) on 28 October 2008, the Company issued 125,000 Ordinary Shares at a price of £0.26 per share;
 - (d) on 28 January 2009, the Company issued 20,000 Ordinary Shares at a price of £0.26 per share;
 - (e) on 4 February 2009, the Company issued 32,000 Ordinary Shares at a price of £0.26 per share;
 - (f) on 1 April 2009, the Company issued 93,000 Ordinary Shares at a price of £0.26 per share;

- (g) on 21 April 2009, the Company issued 196,103 Ordinary Shares at a price of £0.29 per share;
- (h) on 27 April 2009, the Company issued 125,000 Ordinary Shares at a price of £0.26 per share;
- (i) on 11 June 2009, the Company issued 50,000 Ordinary Shares at a price of £0.46 per share;
- (j) on 23 November 2009, the Company issued 50,000 Ordinary Shares at a price of £0.26 per share;
- (k) on 28 January 2010, the Company issued 218,700 Ordinary Shares at a price of £0.26 per share;
- (l) on 3 February 2010, the Company issued 75,000 Ordinary Shares at a price of £0.26 per share;
- (m) on 10 February 2010, the Company issued 17,500 Ordinary Shares at a price of £0.45 per share;
- (n) on 24 March 2010, the Company issued 15,000 Ordinary Shares at a price of £0.45 per share;
- (o) on 23 April 2010, the Company purchased 439,000 Ordinary Shares at a price of £2.65 per share;
- (p) on 23 April 2010, the Company cancelled 439,000 Ordinary Shares;
- (q) pursuant to a special resolution passed on 14 July 2010, the Company adopted the Articles of Association of the Company in substitution for, and to the exclusion of, the old articles of association. The 2006 Act abolishes the requirement for a company to have an authorised share capital and the Articles of Association reflect this. Directors will still be limited as to the number of shares they can at any time allot because allotment authority continues to be required under the 2006 Act, save in respect of employee share schemes;
- (r) on 30 September 2010, the Company issued 231,300 Ordinary Shares at a price of £0.26 per share and 18,750 Ordinary Shares at a price of £1.40 per share;
- (s) on 5 October 2010, the Company issued 20,000 Ordinary Shares at a price of £0.45 per share; and
- (t) on 19 October 2010, the Company issued 25,000 Ordinary Shares at a price of £0.45 per share.

3.3 As at 1 June 2009 (being the beginning of the financial year ended 31 May 2010), and as at 31 May 2010 (being the date of the most recent balance sheet included in the financial information), the issued fully paid share capital of the Company was:

	<i>As at 1 June 2009</i>	<i>As at 31 May 2010</i>
Issued Ordinary Shares	25,981,603	25,968,803

3.4 Pursuant to resolutions of the Company passed on 6 April 2006, the Directors are generally and unconditionally authorised for the purposes of section 80 of the 1985 Act to exercise all of the powers of the Company to allot relevant securities up to an aggregate nominal amount of £123,000, and are authorised, pursuant to section 95 of the 1985 Act, to allot equity securities for cash pursuant to the above authority as if section 89(1) of the 1985 Act did not apply to such allotment. These authorities are to expire (unless previously revoked, varied or renewed) on 5 April 2011.

3.5 The Company will be subject to the continuing obligations of the Listing Rules published by the FSA with regard to the issue of securities for cash and the provisions of section 561 of the 2006 Act (to the extent not disapplied pursuant to section 571 of the 2006 Act) (which confer on shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 560 of the 2006 Act) which are, or are to be, paid up in cash) apply to the unissued share capital of the Company.

3.6 The Ordinary Shares are in registered form and, subject to the provisions of the Regulations, the Directors may permit the holding of any class of shares in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the Regulations). The Registrar is in charge of maintaining the Company's register of members. Where shares are held in certificated form, share certificates will be sent to the registered members by first class post.

- 3.7 Save as disclosed in this paragraph 3.7, no Ordinary Shares are currently held in treasury by the Company or held by any other person on its behalf and no Ordinary Shares are currently held by any subsidiary of the Company. As at 25 October 2010 (being the latest practicable date prior to publication of this document), AIB Worthytrust Limited as trustee of the City of London Employee Benefit Trust holds 1,330,940 Ordinary Shares on behalf of the Company of which 1,327,815 were subject to options in issue.
- 3.8 The Company does not have in issue any shares which do not represent capital.
- 3.9 The Company has not issued any convertible securities, exchangeable securities or securities with warrants which remain outstanding.

4. Memorandum and Articles of Association

The Articles of Association, which were adopted by special resolution of the Company on 14 July 2010, include provisions to the following effect:

4.1 Objects/Purposes

The Articles of Association do not provide for any objects of the Company and accordingly the Company's objects are unrestricted.

The Articles of Association do not provide for any purposes for which the Company was established.

4.2 Limited Liability

The liability of the Company's members is limited to any unpaid amount on the shares in the Company held by them.

4.3 Change of Name

The Articles of Association allow the Company to change its name by resolution of the Directors. This is in addition to the Company's statutory ability to change its name by special resolution under the Companies Act.

4.4 Voting Rights

Subject to any special rights or restrictions as to voting attached to or by virtue of the Articles of Association to any shares or any class of shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a representative duly authorised under section 323 of the 2006 Act shall have one vote, provided that the proxy shall have one vote for the resolution in question and one vote against it if (a) the proxy has been duly appointed by more than one member entitled to vote on the resolution and (b) the proxy has been instructed by one or more of those members to vote for the resolution and by one or more other of those members to vote against it and on a poll every member who is present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at any general meeting in respect of any share held by him if any call or sum then payable by him in respect of that share remains unpaid.

4.5 Transfer of Shares

Subject to the provisions of the 2006 Act and the CREST Regulations, the Directors may determine that any class of shares may be held in uncertificated form and that title to such shares may be transferred by means of a "relevant system". Transfers of shares in certificated form may be effected by transfers in writing in any usual or common form or in any other form acceptable to the Directors and may be under hand only. The instrument of transfer shall be signed by or on behalf of the transferor and (in the case of a partly paid share) the transferee.

The transferor of a share is deemed to remain the holder until the transferee's name is entered in the register.

The Directors may in their absolute discretion and without giving any reason, decline to register any transfer of shares which:

- (a) are not fully paid provided that where any such shares are admitted to trading on the Official List or AIM, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis; or
- (b) are in favour of more than four persons jointly.

The Directors may decline to recognise any instrument of transfer relating to shares in certificated form unless the instrument of transfer:

- (a) is deposited at the office where the register of members is situated for the time being;
- (b) it is in respect of one class of shares duly stamped; and
- (c) it is accompanied by (i) the relevant share certificate(s) (except where no certificate has been issued), (ii) such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer and (iii) if the instrument of transfer is executed by some other person on his behalf, evidence of the authority of that person to do so.

Registration of a transfer of an uncertificated share may be refused in the circumstances set out in the CREST Regulations.

If the Directors refuse to register a transfer they shall, within two months after the date on which the transfer was lodged by the Company (in the case of shares held in certificated form) or the operator instruction was received by the Company (in the case of shares held in uncertificated form), send to the transferee notice of the refusal together with (in the case of shares held in certificated form) the instrument of transfer.

4.6 *Dividends and Other Distributions*

The Company may by ordinary resolution declare dividends and fix the time for payment thereof, but no dividend shall be payable except out of the profits for the Company available for distribution in accordance with the 2006 Act or in excess of the amount, or at any earlier date than, recommended by the Directors.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends shall be apportioned and paid pro rata according to the amounts paid up on the shares during any part or parts of the period in respect of which the dividend is paid. No dividend or other monies payable on or in respect of a share shall bear interest as against the Company unless otherwise determined by the Directors. Any dividend unclaimed after a period of 12 years from the date of declaration of such dividend or the date on which such dividend became due for payment shall be forfeited and shall revert to the Company.

4.7 *Failure to disclose interests in shares*

If a member, or any other person appearing to be interested in shares held by that member, has been issued with a notice pursuant to section 793 of the 2006 Act and has failed in relation to any shares (the "**default shares**") to give the Company the information thereby required within the prescribed period as set out in the Articles of Association from the date of service of the notice, the following sanctions shall apply, (unless the Directors otherwise determine):

- (a) the member is not entitled in respect of the default shares and any other share held by the member to be present or to vote (in person or by proxy) at any shareholders' meeting; and

- (b) where the default shares represent at least 0.25 per cent. of the nominal value of the issued shares of their class a dividend or any other amount payable in respect of the default shares shall be withheld by the Company, which shall have no obligation to pay interest on it, and the member shall not be entitled to elect to receive shares instead of that dividend. No transfer, other than an approved transfer, as specified in the Articles of Association, of any of the default shares held by the member shall be registered.

4.8 *Winding Up*

On a winding up of the Company, a liquidator may, with the sanction of a special resolution of the Company and any other sanction or authority required by the 2006 Act, divide among shareholders in specie the whole or any part of the assets of the Company, and for such purposes may value any assets and determine how such division shall be carried out as between members. With the same authority, the liquidator may vest the whole or any part of the assets in trustees upon such trusts for the benefit of the members as he thinks fit. No member shall be compelled by the liquidator to accept any assets in respect of which there is attached a liability or potential liability.

4.9 *Redemption*

Subject to any rights attached to any existing shares, any share may be issued which is to be redeemed or, at the option of the Company or the holder, is liable to be redeemed. The Board may determine the terms, conditions and manner of redemption of any redeemable shares so issued.

4.10 *Variation of class rights*

Subject to the provisions of the 2006 Act, none of the special rights attached to any shares in the capital of the Company for the time being in issue shall (whether or not the Company is being wound up) be modified, varied or abrogated in any manner except either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of such shares. The provisions of the Articles of Association relating to general meetings shall apply *mutatis mutandis* to every such separate meeting but so that (i) the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class, (ii) that every holder of the shares of the class shall be entitled on a poll to one vote for every such share held by him and (iii) that any holder of shares of the class present in person or by proxy may demand a poll.

4.11 *General Meetings*

Pursuant to the 2006 Act, an annual general meeting is required to be held every year at such time and place as may be determined by the Board. The Board may convene other general meetings whenever it thinks fit. General meetings may also be convened on the requisition of members pursuant to the 2006 Act.

Pursuant to the 2006 Act, 21 clear days' notice of every annual general meeting and 14 clear days' notice of every general meeting is required to be given. The accidental omission to give notice to, or the non-receipt of such notice by, any person entitled to receive notice of the meeting will not invalidate the proceedings at any such meeting.

No business may be transacted at any general meeting unless the requisite quorum is present when the meeting proceeds to business. Three persons entitled to attend and vote on the business to be transacted, each being a member present in person or a proxy for a member or a duly authorised representative of a corporation which is a member constitutes a quorum.

With the consent of any meeting at which a quorum is present the chairman may adjourn the meeting. No business may be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

For the purposes of determining which persons are entitled to attend or vote at a general meeting and how many votes such person may cast, the Company may specify a time in the notice of the general meeting, not more than 48 hours (excluding non-working days) before the time fixed for the general meeting, by which a person must be entered in the Company register of members in order to have the right to attend or vote at the meeting.

4.12 *Capitalisation of profits*

The Company may upon the recommendation of the Directors, subject to the provisions of the 2006 Act and by ordinary resolution, capitalise an amount standing to the credit of reserves and authorise the Directors to appropriate the sum resolved to be capitalised to the members in proportion to the nominal amount of shares held by them respectively and apply that sum on their behalf in paying up amounts unpaid on shares held by them or paying up in full unissued shares or debentures of a nominal amount equal to that sum and the Directors may make any arrangements they think fit to resolve a difficulty arising in the distribution of a capitalised reserve.

4.13 *Borrowing powers*

Subject to the Articles of Association and the provisions of the 2006 Act, the Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge all or part of its undertaking, property and uncalled capital and to issue debentures and other securities, whether outright or as collateral security for a debt, liability or obligation of the Company or of a third party. The Directors shall restrict the borrowings of the Company and shall exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries so as to procure (as regards subsidiaries in so far as they can) that the aggregate principal amount outstanding in respect of monies borrowed by them shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to three times the adjusted total of the capital and reserves of the Company.

4.14 *Directors*

(a) *Number of Directors*

Unless and until otherwise determined by an ordinary resolution of the Company, the number of Directors shall not be less than two nor more than 12.

(b) *Directors' shareholding qualification*

A Director shall not be required to hold any shares in the Company.

(c) *Directors' appointment and retirement*

(i) Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation.

(ii) At each annual general meeting of the Company, any Directors appointed by the Board since the last annual general meeting shall retire. In addition, one-third of the remaining Directors or, if their number is not three or a multiple of three, the number nearest to but not exceeding one-third, shall retire from office by rotation. If there are fewer than three such Directors, one Director shall retire from office.

(iii) At each annual general meeting, any Director who was last elected or last re-elected at or before the annual general meeting held in the third calendar year before the current year shall retire by rotation. If the number of Directors so retiring is less than the minimum number of Directors who are required to retire by rotation, additional Directors up to that number shall retire (namely, those Directors who are subject to rotation but who wish to retire and not offer themselves for re-election and those

Directors who have been Directors longest since their appointment or last reappointment (and, as between those who have been in office an equal length of time, those to retire shall, unless they otherwise agree, be determined by lot)).

(d) *Directors' interests*

The Board may authorise any matter proposed to it in accordance with the Articles of Association which would otherwise involve a breach by a Director of his duty to avoid conflicts of interest under the 2006 Act, being a matter which relates to a situation in which a Director has or can have an interest which conflicts, or possibly may conflict, with the interests of the Company or the exploitation of any property, information or opportunity, whether or not the Company could take advantage of it (excluding any situation which cannot reasonably be regarded as likely to give rise to a conflict of interest). This does not apply to a conflict of interest arising in relation to a transaction or arrangement with the Company. Any authorisation will only be effective if any quorum requirement at any meeting in which the matter was considered is met without counting the Director in question or any other interested Director and the matter was agreed to without their voting or would have been agreed to if their votes had not been counted. The Board may impose limits or conditions on any such authorisation or may vary or terminate it at any time.

Subject to having, where required, obtained authorisation of the conflict from the Board, a Director shall be under no duty to the Company with respect to any information which he obtains or has obtained otherwise than as a Director of the Company and in respect of which he has a duty of confidentiality to another person and will not be in breach of the general duties he owes to the Company under the 2006 Act because he fails to disclose any such information to the Board or to use or apply any such information in performing his duties as a Director, or because he absents himself from meetings of the Board at which any matter relating to a conflict of interest, or possible conflict, of interest is discussed and/or makes arrangements not to receive documents or information relating to any matter which gives rise to a conflict of interest or possible conflict of interest and/or makes arrangements for such documents and information to be received and read by a professional adviser.

Provided that his interest is disclosed at a meeting of the Board, or in the case of a transaction or arrangement with the Company, in the manner set out in the 2006 Act, a Director, notwithstanding his office:

- (i) may be a party to or otherwise be interested in any transaction arrangement or proposal with the Company or in which the Company is otherwise interested;
- (ii) may hold any other office or place of profit at the Company (except that of auditor of the Company or any of its subsidiaries) and may act by himself or through his firm in a professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the Board may arrange;
- (iii) may be a Director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested or as regards which the Company has powers of appointment; and
- (iv) shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any office or employment or from any transaction, arrangement or proposal or from any interest in any body corporate. No such transaction, arrangement or proposal shall be liable to be avoided on the grounds of any such interest or benefit nor shall the receipt of any such profit, remuneration or any other benefit constitute a breach of his duty not to accept benefits from third parties.

(e) *Restrictions on Directors' voting*

A Director shall not vote on, or be counted in the quorum in relation to any resolution of the Board or of a committee of the Board concerning any arrangement, transaction or proposal which might give rise to a conflict of interest and, if he purports to do so, his vote will not be counted, but this prohibition shall not apply in respect of any resolution concerning any one or more of the following matters:

- (i) any transaction or arrangement in which he is interested by means of an interest in shares, debentures or other securities or otherwise in or through the Company;
- (ii) the giving of any guarantee, security or indemnity in respect of money lent to, or obligations incurred by him or any other person at the request of or for the benefit of, the Company or any of its subsidiary undertakings;
- (iii) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (iv) the giving of any other indemnity where all other Directors are also being offered indemnities on substantially the same terms;
- (v) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (vi) any proposal concerning any other body corporate in which he does not to his knowledge have an interest (as the term is used in Part 22 of the 2006 Act) in one per cent. or more of the issued equity share capital of any class of such body corporate nor to his knowledge hold one per cent. or more of the voting rights which he holds as shareholder or through his direct or indirect holding of financial instruments (within the meaning of the Disclosure and Transparency Rules) in such body corporate;
- (vii) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;
- (viii) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors;
- (ix) any proposal concerning the funding of expenditure by one or more Directors on defending proceedings against him or them, or doing anything to enable such Director or Directors to avoid incurring such expenditure; or
- (x) any transaction or arrangement in respect of which his interest, or the interest of Directors generally has been authorised by ordinary resolution.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning his own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

(f) *Directors' Fees*

Any Director who is appointed to any executive office or who serves on any committee or who otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a Director may be paid such extra remuneration by way of salary, commission, bonus or otherwise as the Directors may determine.

The Directors may be paid all reasonable travelling, hotel and other incidental expenses properly incurred by them in connection with the discharge of their duties as a Director of the Company.

4.15 *Gratuities and Pensions*

The Directors may pay or agree to pay donations, gratuities, pensions, allowances and emoluments to any past or present employee or Director of the Company or any subsidiary undertaking or any holding company of any of the Company's predecessors in business and to any spouse, widow, family or dependants of any such person (as well before as after he ceases to hold such office or employment).

4.16 *Untraced Shareholders*

The Company shall be entitled to sell the shares of a member or person entitled on death or bankruptcy of a member if all warrants and cheques in respect of at least three dividends sent to such a member or person have remained unclaimed and uncashed for a period of 12 years and the Company has, at the expiration of such period, given notice in a daily national newspaper and an appropriate local newspaper (having first given the London Stock Exchange notice of its intention to do so) and for a period of three months following the said advertisement no indication is received as to the whereabouts or existence of such member or person. The Company shall be obliged to account to the member or such other person for the net proceeds of sale without interest.

4.17 *CREST*

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association are consistent with the provisions regulating CREST, and amongst other things, allow for the holding and transfer of shares in uncertificated form.

5. **Directors' and Other Interests**

5.1 As at 25 October 2010 (being the last practicable date prior to the publication of this document), the interests (all of which are or will be beneficial unless otherwise stated) of the Directors, their immediate families and persons connected with the Directors (within the meaning section 252 of the 2006 Act) in the share capital of the Company were as follows:

<i>Director</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued share capital</i>
Barry Olliff	4,293,683	16.3 per cent.
Doug Allison	414,375	1.6 per cent.
Andrew Davison	104,500	0.4 per cent.
Carlos Yuste	314,925	1.2 per cent.
Tom Griffith	49,925	0.2 per cent.
George Robb	45,000	0.2 per cent.
David Cardale	106,250	0.4 per cent.
Allan Bufferd	20,000	0.1 per cent.

In addition the Directors between them hold options to subscribe for a total of 850,547 further Ordinary Shares as more particularly described in paragraph 8.1 of this Part VI.

5.2 Save as disclosed in this paragraph 5, none of the Directors, nor any member of their respective immediate families, nor any person connected with them within section 252 of the 2006 Act, is or, immediately following Admission, will be interested in any share capital of the Company.

5.3 There are no outstanding loans granted or guarantees provided by the Company to or for the benefit of any of the Directors.

6. Substantial Shareholders

- 6.1 So far as the Company is aware, as at 25 October 2010 (being the latest practicable date for this information prior to publication of this document), the following persons (other than the Directors) held directly or indirectly three per cent. or more of the Company's voting rights:

<i>Shareholder</i>	<i>Number of Ordinary Shares</i>	<i>Percentage of issued ordinary share capital</i>
F&C Asset Management plc	2,699,983	10.3 per cent.
BlackRock, Inc.	2,556,172	9.7 per cent.
Hargreave Hale Limited	1,769,500	6.7 per cent.
Artemis Investment Management	1,742,000	6.6 per cent.
AIB Worthytrust Limited ⁽¹⁾	1,330,940	5.1 per cent.
Slater Investment	933,500	3.6 per cent.

(1) Trustee of the City of London Employee Benefit Trust.

- 6.2 Save as set out in this Part VI, the Company is not aware of any person who holds, or who will immediately following Admission hold, as shareholder (within the meaning of the Disclosure and Transparency Rules), directly or indirectly, three per cent. or more of the voting rights of the Company.
- 6.3 No major Shareholder has any different voting rights to the other holders of Ordinary Shares.
- 6.4 As at 25 October 2010 (being the latest practicable date for this information prior to the publication of this document), the Company was not aware of any person who directly or indirectly, jointly or severally, owns or could exercise control over the Company.

7. Market in the Ordinary Shares

The Ordinary Shares are currently admitted to trading on AIM under the Stock ID "CLIG" and are quoted in pounds sterling.

8. Options

- 8.1 At the date of this document the following Directors hold options to subscribe for Ordinary Shares as follows:

<i>Optionholder</i>	<i>Exercise price per share (£)</i>	<i>Date of Grant</i>	<i>Date first exercisable</i>	<i>Date of expiry</i>	<i>Number of shares under option</i>
Doug Allison	2.61	30/01/2007	30/01/2010	30/01/2017	5,000
	2.73	30/03/2007	30/03/2010	30/03/2017	5,000
	2.75	01/10/2008	01/10/2011	01/10/2018	12,000
	2.30	05/06/2009	05/06/2012	05/06/2019	8,000
	3.14	18/01/2010	18/01/2013	18/01/2020	12,500
	3.625	13/10/2010	13/10/2013	13/10/2020	7,500
Tom Griffith	0.45	10/01/2001	10/01/2004	10/01/2011	50,000
	0.45	13/09/2001	13/09/2004	13/09/2011	16,650
	0.26	14/05/2004	14/05/2007	14/05/2014	250,000*
	1.40	31/03/2006	31/03/2009	31/03/2016	12,500
	2.61	30/01/2007	30/01/2010	30/01/2017	5,000
	2.73	30/03/2007	30/03/2010	30/03/2017	5,000
	2.75	01/10/2008	01/10/2011	01/10/2018	12,000
	2.30	05/06/2009	05/06/2012	05/06/2019	8,000
	3.14	18/01/2010	18/01/2013	18/01/2020	12,500
3.625	13/10/2010	13/10/2013	13/10/2020	7,500	

<i>Optionholder</i>	<i>Exercise price per share (£)</i>	<i>Date of Grant</i>	<i>Date first exercisable</i>	<i>Date of expiry</i>	<i>Number of shares under option</i>
Barry Olliff	0.26	14/05/2004	14/05/2007	14/05/2014	303,897*
	1.40	31/03/2006	31/03/2009	31/03/2016	25,000*
	2.61	30/01/2007	30/01/2010	30/01/2017	5,000
	2.73	30/03/2007	30/03/2010	30/03/2017	5,000
	2.75	01/10/2008	01/10/2011	01/10/2018	12,000
	2.30	05/06/2009	05/06/2012	05/06/2019	8,000
Carlos Yuste	1.40	31/03/2006	31/03/2009	31/03/2016	12,500
	2.61	30/01/2007	30/01/2010	30/01/2017	5,000
	2.73	30/03/2007	30/03/2010	30/03/2017	5,000
	2.75	01/10/2008	01/10/2011	01/10/2018	12,000
	2.30	05/06/2009	05/06/2012	05/06/2019	8,000
	3.14	18/01/2010	18/01/2013	18/01/2020	12,500
	3.625	13/10/2010	13/10/2013	13/10/2020	7,500

* These options are dilutive as they are not granted over Ordinary Shares held by the City of London Employee Benefit Trust.

8.2 As at the date of this document, options exercisable over 3,000 Ordinary Shares at a price of £2.61 per share and 3,000 Ordinary Shares at a price of £2.73 are held by former employees of the Group. These options may be exercised in whole or in part at any time until September 2011. To the extent not exercised by that date they will lapse and cease to be capable of exercise thereafter.

8.3 The terms of the City of London Investment Group plc Approved Company Share Option Scheme (the “Approved Scheme”) are as follows:

(a) *Adoption*

The Company adopted the Approved Scheme on 6 April 2004 and it was approved by the Inland Revenue on 15 April 2004. The Approved Scheme is effective as of 15 April 2004, and is administered by the Remuneration Committee. Options granted under the Approved Scheme can be exercised free of income tax and national insurance contributions charges provided certain qualifying conditions are met.

(b) *Participation*

Any person who is (a) an employee (but not a director) of the Company or any group company or (b) a director of the Company or any group company who is required to work not less than 25 hours per week is eligible to receive options under the Approved Scheme, provided they do not have a “material interest” in the Company (broadly, the ability to control more than 25 per cent. of the ordinary share capital).

(c) *Plan Limits*

The Remuneration Committee intends to amend the Approved Scheme to incorporate a maximum dilution limit for option grants. Following the amendment, the number of new ordinary shares which may be issued pursuant to options granted under the Approved Scheme and any other employee share scheme of the Company in the previous 10 years must not exceed 10 per cent. of the Company’s ordinary issued share capital. Options which have lapsed or been forfeited or released, been met or will be met by the transfer of shares that are already in issue or been granted by way of a replacement for an option to acquire shares in a company acquired by the Company are not counted towards this limit.

(d) *Grant of Options*

Option grants to any participant in any financial year must not exceed 100 per cent. of basic annual salary (measured by reference to the market value of the underlying Ordinary Shares at

the date of grant), unless the Remuneration Committee decides that there are exceptional circumstances (in which case the market value of the underlying shares should not exceed 300 per cent. of basic annual salary). Additionally, participants may not be granted options under the Approved Scheme if the market value of the underlying shares, when aggregated with all other options granted under an approved share option scheme, would exceed £30,000. Options are not assignable or otherwise transferable, except in the case of the death of a participant, in which case the personal representatives of the participant may exercise the option within 12 months of the date of death. The Remuneration Committee can in its absolute discretion specify any performance targets which must be met before the option can be exercised. Such performance targets can be waived or amended if the Remuneration Committee reasonably considers that a different performance target would be a fairer measure of performance and the new performance target is not more difficult to achieve than the old performance target.

(e) *Exercise and lapse of Options*

Options can be exercised in whole or in part (but only in multiples of 100 shares, subject to the discretion of the Remuneration Committee) at any time between the third anniversary of the date of grant and the tenth anniversary (subject to any performance targets being met). The Remuneration Committee can specify at the time of grant that any option is exercisable for a period of less than ten years. However, if a participant ceases to be an employee or director by reason of injury, disability, retirement after 55, redundancy or a sale of a subsidiary company, the participant may exercise the option within a 6 month period following cessation of employment, even if that is earlier than 3 years after the date that the option was granted. If the option has not been exercised, it lapses on the earliest of (i) the tenth anniversary of the date of grant (or an earlier date if determined by the Remuneration Committee), or (ii) the expiry of the exercise period set out above following cessation of employment for the “good leaver” reasons stated above or death or (iii) when the participant ceases to be an employee or director for any other reason, or (iv) on the expiry of any period set for a performance target if the performance target has not been met, or (v) on bankruptcy of the participant or the winding-up of the Company.

(f) *Takeovers, reconstructions, and liquidation, variation of share capital*

If there is a takeover offer, options are exercisable for 6 months after the change in control of the Company. If there is a scheme of arrangement under section 899 of the 2006 Act, options are exercisable for 6 months after the court sanctions the scheme. If the Company passes a resolution for voluntary winding-up, options are exercisable for 6 months after the passing of the resolution. If any person becomes bound or entitled to acquire the Ordinary Shares under sections 974 to 991 of the 2006 Act, options are exercisable during any period when that person remains so bound or entitled. In each case, option exercise is subject to the achievement of any relevant performance target. If another company obtains control of the Company, optionholders may agree with the acquiring company within 6 months of the change in control that the options will be exchanged for equivalent options over the shares of the acquiring company, provided that the market value of the old options and new options are equivalent and the terms of the old options and the new option are otherwise the same. If there is any variation in the share capital of the Company, the number of Ordinary Shares subject to the options and/or the exercise price of the options shall be adjusted in such manner as the auditors of the Company confirm to be fair and reasonable. The option exercise price may not be reduced below the nominal value of an Ordinary Share and any adjustment must be approved by HM Revenue & Customs.

(g) *Alterations*

The Remuneration Committee may alter the Approved Scheme as it considers appropriate, save that no alteration to the material advantage of optionholders can be made without shareholder approval except for a minor alteration to benefit the administration of the Approved Scheme,

to take account of legislative changes or to obtain or maintain more favourable tax, exchange control or regulatory treatment. Any amendment to a “key feature” of the Approved Scheme must be approved by HM Revenue & Customs before it can take effect.

8.4 The terms of the City of London Investment Group plc Unapproved Executive Share Option Scheme (the “Unapproved Scheme”) are in substantially the same form as the Approved Scheme save as follows:

- (a) any employee or director of any company in the Group is eligible to receive options under the Unapproved Scheme;
- (b) the individual limit on option grants of £30,000 does not apply to the Unapproved Scheme;
- (c) approval of HM Revenue & Customs to the adjustment of options or amendment of the rules is not required.

8.5 The terms of the City of London Investment Group plc Executive Share Option Scheme (the “1994 Scheme”) are as follows:

(a) *Adoption*

The Company adopted the 1994 Scheme on 9 May 1994 and Part A was approved by the Inland Revenue on 12 May 1994. The Scheme was amended on 2 June 1997 and Part A (as amended) was approved on 31 July 1997. The Plan is administered by the Board or a duly authorised committee of the Board. Part A of the 1994 Scheme is approved whereas Part B is unapproved.

(b) *Grant of Options*

The 1994 Scheme terminated on 9 May 2004 and options may no longer be granted under the 1994 Scheme.

(c) *Exercise and lapse of Options*

All options granted under the 1994 Scheme are now exercisable subject to any conditions placed on exercise. Options lapse (a) 10 years after grant (7 years after grant in respect of options granted under Part B), (b) one year following the date of cessation of employment as a result of injury, disability, death, redundancy, retirement or any other reason at the discretion of the Board, (c) immediately on cessation of employment for any other reason, (d) on the winding-up of the Company, or (e) on bankruptcy of the optionholder. Options will also lapse 6 months after another company obtains control of the Company (or if later on the expiry of any period during which a person is bound or entitled to acquire the Ordinary Shares under s.974 to 991 of the 2006 Act), or 6 months after the court sanctions a compromise or arrangement for a scheme of reconstruction under s.899 of the 2006 Act.

(d) *Change of Control and Variation of Share Capital*

If another company obtains control of the Company, optionholders may agree with the acquiring company within 6 months of the change in control that the options will be exchanged for equivalent options over the shares of the acquiring company, provided that the terms of the old options and the new option are otherwise the same. If there is any variation in the share capital of the Company, the number of Ordinary Shares subject to the options and/or the exercise price of the options shall be adjusted in such manner as the auditors of the Company confirm to be fair and reasonable. Any adjustment must be approved by HM Revenue & Customs.

8.6 The terms of the City of London Investment Group plc US Share Option Plan (the “US Plan”) are as follows:

(a) *Adoption*

The Company adopted the US Plan on 6 April 2004. The Plan is effective as of 15 April 2004, and is administered by the Remuneration Committee. Options granted pursuant to the US Plan can be incentive stock options or non-statutory stock options.

(b) *Participation*

Any person who is an employee, officer, director, consultant or independent contractor of the Company or any affiliate based in the US is eligible to receive options under the US Plan, provided they have or will contribute to the achievement of the economic objectives of the Company or its US affiliates.

(c) *Grant of Options*

The maximum number of shares in the Company that may be issued under the Plan is 12,500,000 shares. No participant may be granted an option if the market value of the underlying shares, when aggregated with all other outstanding options granted to him in that financial year under any option plans or schemes, would exceed 100 per cent. of his basic annual salary for that year unless the Remuneration Committee decides that there are exceptional circumstances (in which case the aggregate market value shall not exceed 300 per cent. of his basic annual salary for that year). The Remuneration Committee intends to amend the US Scheme to incorporate a maximum dilution limit for option grants that is set out in paragraph 8.3(c) of this Part VI above.

Options are not assignable or otherwise transferable, except in the case of the death of a participant, in which case the personal representatives of the participant may exercise the option within 12 months of the date of death.

The Remuneration Committee can in its absolute discretion specify any performance targets which must be met before the option can be exercised. Such performance targets can be waived or amended if the Remuneration Committee reasonably considers that a different performance target would be a fairer measure of performance and the new performance target is not more difficult to achieve than the old performance target, or in the event of the option holder leaving employment for a “good leaver” reason or in the event of death.

(d) *Exercise and lapse of Options*

Options can be exercised in whole or in part (but only in multiples of 100 shares, subject to the discretion of the Remuneration Committee) at such times and in such instalments as may be determined by the Remuneration Committee at the time of grant (subject to any performance targets being met). However, no option may be exercisable prior to six months from its date of grant and no incentive stock option may be exercisable after 10 years from its date of grant (five years if at the date of grant the participant owns, directly or indirectly, more than 10 per cent. of the total combined voting power of all classes of stock of the Company or any affiliate). If the Remuneration Committee does not specify any other first exercise date, the option will be exercisable after 3 years from the date of grant.

However, if a participant ceases to be an employee or director by reason of injury, disability, retirement after 55, redundancy, a sale of a subsidiary company, or otherwise at the discretion of the Remuneration Committee, the participant may exercise the option within a 6 month period following cessation of employment, provided that is no later than the expiration date of the option.

If the option has not been exercised, it lapses on the earliest of (i) the tenth anniversary of the date of grant (or fifth anniversary of the date of grant of an incentive stock option if at the date

of grant the participant owned directly or indirectly more than 10 per cent. of the total combined voting power of all classes of stock of the Company or any affiliate), or (ii) the expiry of the exercise periods set out above following cessation of employment for the “good leaver” reasons stated above or death or (iii) when the participant ceases to be an employee or director for any other reason or (iv) on the expiry of any period set for a performance target if the performance target has not been met, or (v) on bankruptcy of the participant or the winding-up of the Company.

(e) *Takeovers, reconstructions, and liquidation, variation of share capital*

If there is a takeover offer, options are exercisable for 6 months after the change in control of the Company. If there is a scheme of arrangement under s.899 of the 2006 Act, options are exercisable for 6 months after the court sanctions the scheme. If the Company passes a resolution for voluntary winding-up, options are exercisable for 6 months after the passing of the resolution. If any person becomes bound or entitled to acquire the Ordinary Shares under s.974-991 of the 2006 Act, options are exercisable during any period when that person remains so bound or entitled. In each case, option exercise is subject to the achievement of any relevant Performance Target. If another company obtains control of the Company, optionholders may agree with the acquiring company within 6 months of the change in control that the options will be exchanged for equivalent options over the shares of the acquiring company, provided that the market value of the old options and new options are equivalent and the terms of the old options and the new option are otherwise the same.

If there is any variation in the share capital of the Company, the number of Ordinary Shares subject to the options and/or the exercise price of the options can be adjusted in such manner as the Remuneration Committee deems appropriate. The option exercise price may not be reduced below the nominal value of an Ordinary Share.

(f) *Alterations*

The Board may amend the US Plan as it deems advisable or in the best interests of the Company, provided that no amendments to the US Plan can be effective without shareholder approval if that approval is required by US tax legislation or by the rules of any stock exchange on which the Ordinary Shares are listed. No amendment may adversely affect any outstanding options without the consent of the optionholders.

9. Directors’ Service Agreements/Letters of Appointment

9.1 Barry Olliff is engaged pursuant to a service agreement with the Company dated 28 January 2009. The agreement provides for a salary of \$237,500 per annum (which has since been increased to \$350,000), a directors’ fee of \$10,000 and an annual bonus at a rate of 5 per cent. of the pre-tax profits of the Company and its subsidiaries, provided those profits exceed £500,000. The agreement is terminable on twelve months’ written notice by either party and the Company may elect to make a payment in lieu of notice in which case Barry Olliff is entitled to 135 per cent. of his salary and director’s fee for the duration of the notice period. Barry Olliff is entitled to private medical insurance, employer’s pension contributions at a rate of 12.5 per cent. of salary, 30 days’ holiday per annum in addition to USA public holidays, and full salary and contractual benefits during any period of sickness absence of up to 75 days’ in aggregate in any 12 consecutive month period. Barry Olliff is subject to certain post termination restrictions for a period of 12 months from the termination date. Barry Olliff is entitled to receive a payment of 135 per cent. of salary and director’s fees for the duration of the restrictions (such sums to be set off against any payment in lieu of notice referred to above).

9.2 Doug Allison is engaged pursuant to a service agreement with the Company dated 6 April 2006. The agreement provides for a salary of £125,000 per annum (which has since been increased to £146,500). Doug Allison is also entitled to participate in the profit share scheme operated by the Company. Any payments under such scheme are entirely at the discretion of the Company. The agreement is terminable on 12 months’ notice by either party or summarily by the Company if Doug Allison is,

among other things, guilty of gross misconduct under the agreement. Doug Allison is entitled to private medical insurance, employer's pension contributions at a rate of 12.5 per cent. of salary, 30 days holiday per annum in addition to public holidays in the United Kingdom and up to 30 days' sick pay in any 12 month period at full rate. Doug Allison is subject to certain restrictive covenants for a period of three months following termination of his employment. The agreement is subject to the laws of England.

- 9.3 Carlos Yuste is engaged pursuant to a service agreement with the Company dated 6 April 2006. The agreement provides for a salary of US\$155,000 per annum (which has since been increased to \$231,000). Carlos Yuste is also entitled to participate in the profit share scheme operated by the Company. The agreement is terminable immediately by the Company on payment of an amount equal to twelve months' salary or summarily by the Company if Carlos Yuste is, among other things, guilty of gross misconduct under the agreement. The agreement is terminable on 12 months' notice by Carlos Yuste. Carlos Yuste is entitled to 25 days holiday per annum in addition to public holidays in the United States of America. Carlos Yuste is subject to certain restrictive covenants for a period of three months following termination of his employment. The agreement is subject to the laws of the state of Pennsylvania, USA.
- 9.4 Tom Griffith is engaged pursuant to a service agreement with the Company dated 6 April 2006. The agreement provides for a salary of US\$155,000 per annum (which has since been increased to \$232,000). Tom Griffith is also entitled to participate in the profit share scheme operated by the Company. The agreement is terminable immediately by the Company on payment of an amount equal to twelve months' salary or summarily by the Company if Tom Griffith is, among other things, guilty of gross misconduct under the agreement. The agreement is terminable on 12 months' notice by Tom Griffith. Tom Griffith is entitled to 25 days holiday per annum in addition to public holidays in the United States of America. Tom Griffith is subject to certain restrictive covenants for a period of three months following termination of his employment. The agreement is subject to the laws of the state of Pennsylvania, USA.
- 9.5 Andrew Davison is engaged pursuant to a letter of appointment dated 6 April 2006. The letter of appointment provides for a fee of £30,000 annually (which has since been increased to £45,000). His appointment is for an initial period of 12 months and thereafter it is terminable at any time by either party on 6 months' notice.
- 9.6 George Robb is engaged pursuant to a letter of appointment dated 6 April 2006. The letter of appointment provides for a fee of £20,000 annually (which has since been increased to £30,000). His appointment is for an initial period of 12 months and thereafter it is terminable at any time by either party on 6 months' notice.
- 9.7 David Cardale is engaged pursuant to a letter of appointment dated 6 April 2006. The letter of appointment provides for a fee of £20,000 annually (which has since been increased to £37,000). His appointment is for an initial period of 12 months and thereafter it is terminable at any time by either party on 6 months' notice.
- 9.8 Allan Bufferd is engaged pursuant to a letter of appointment dated 24 June 2010. The letter of appointment provides for his appointment to commence on 1 May 2008 and for him to be paid a fee of £21,000 annually (which has since been increased to £30,000). His appointment is for an initial period of 12 months and thereafter it is terminable at any time by either party on 6 months' notice.
- 9.9 Save as disclosed in paragraphs 9.1 to 9.8 of this Part VI above, there are no existing or proposed service agreements between any of the Directors and the Company. Save as disclosed above, none of the service agreements relating to the Executive Directors referred to above, contains a right to benefits (other than those due during the notice period under the contract) upon termination.
- 9.10 There are no arrangements under which any Director has agreed to waive or vary future emoluments nor have there been any waivers or variations of such emoluments during the financial year immediately preceding the date of this document.

9.11 In the last full financial year of the Company, the year ended 31 May 2010, the Directors were granted the following remuneration (including contingent or deferred compensation) and benefits in kind by the Company and its Subsidiaries for services in all capacities to the Company and its Subsidiaries:

<i>Director</i>	<i>Salary</i>	<i>Bonus</i>	<i>Benefit</i>	<i>Total</i>	<i>Pension</i>
	<i>£</i>	<i>£</i>	<i>in kind</i>	<i>(excl. pension)</i>	<i>£</i>
	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>	<i>£</i>
Barry Olliff	219,346	905,587	–	1,124,933	27,418
Douglas Allison	141,000	397,000	2,255	540,255	17,625
Andrew Davison	32,000	–	–	33,000	–
Carlos Yuste	139,442	244,415	–	383,857	17,430
Tom Griffith	139,912	244,415	–	384,327	17,489
George Robb	22,000	–	–	20,000	–
David Cardale	22,000	–	–	20,000	–
Allan Bufferd	22,000	–	–	21,000	–

9.12 As at 31 May 2010, there were no sums which had been set aside or accrued by the Company or its Subsidiaries to provide pension, retirement or similar benefits to Directors.

10. Additional Information on the Board

10.1 The table below states the names of all companies and partnerships of which the Directors are or have been directors or partners in the period of five years immediately preceding the date of this document (aside from directorships held within the Group):

<i>Name of Director</i>	<i>Current directorships and partnerships</i>	<i>Past directorships and partnerships</i>
Barry Olliff	The World Emerging Markets Umbrella Fund Plc Ventura Investments Limited (liquidation)	Scaleoption plc Olliff & Partners Incorporated Grange Nominees Limited
Douglas Allison	The World Emerging Markets Umbrella Fund Plc	Complete Construction Partners Limited
Andrew Davison	A.M.B. Investments Limited Downing Distribution VCT 2 plc Frank Bruce & Company Limited Ludgate Twenty Three Limited ProVen VCT PLC ProVen Growth and Income VCT plc Pennine AIM VCT 5 PLC Pennine Downing AIM VCT 2 PLC	Logical Water Limited Pucklechurch Development Company Limited The Ethical AIM VCT plc
Carlos Yuste	None	City of London Investment Management Cayman SPC
Tom Griffith	None	City of London Investment Management Cayman SPC

<i>Name of Director</i>	<i>Current directorships and partnerships</i>	<i>Past directorships and partnerships</i>
George Robb	Asset Management Investment Company plc Edgeborough Educational Trust Limited European Financial Planning Limited European Investment Management Limited European Wealth Management Group plc EW Management Limited IFDC Limited IFDC S.A. Group Lombardia Capital Partners LLC Integrated Asset Management plc Mayberry Group International Inc Plaistow Village Trust Limited	Aberdeen Development Capital PLC ADC Zeros 2005 PLC ADC Zeros 2010 PLC ADC Zeros 2012 PLC Britannic Global Income Trust plc Britannic Global Income Securities plc Goshawk Insurance Holdings plc International Foreign Exchange Concepts, Inc Hillview Capital Advisors LLC Financial Management Advisors LLC
David Cardale	Saphos Hotels LLP Global3Digital Ltd	None
Allan Bufferd	Adveq Management AG Bessemer Trust Company World Equities Fund LLC Beth Israel Deaconess Medical Center Boston Advisors Childrens Hospital of Boston City of London Investment Management Group LLC Controlled Risk Insurance Company Risk Management Foundation Domestic Bank Harvard/MIT Cooperative Society Family Endowment Partners LLC Federal One Holdings LLC M Funds Makena Capital Management LLC Morgan Stanley Prime Properties Fund Och-Ziff Capital Management LLC Robert Wood Johnson Foundation The Berkshire Group Whitney Associates The Whitney Berkshire Group R&H Partnership	International Data Group Massbank Corporation Ram Re Holdings Jasper and Marion Whiting Foundation

10.2 Save as disclosed above, none of the Directors has been a director or member of any administrative, management or supervisory body of any companies or partner in any partnerships at any time in the period of five years immediately preceding the date of this document.

- 10.3 None of the Directors has had any convictions in relation to fraudulent offences in the five years preceding the date of this document.
- 10.4 Save as disclosed below, none of the Directors has been associated with any bankruptcies, receiverships or liquidations through acting in the capacity of a member of the administrative, management or supervisory bodies or as a partner, founder or senior manager of any partnership or company in the five years preceding the date of this document.
- George Robb was director of Britannic Global Income Securities plc, a wholly owned subsidiary of Britannic Global Income Trust plc, when it was placed in members voluntary solvent winding up on 30 November 2005.
- 10.5 None of the Directors has been subject to any official public incrimination and/or sanctions by any statutory or regulatory authority (including designated professional bodies) or has ever been disqualified by a court from acting as a director of a company or from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company in the five years preceding the date of this document.
- 10.6 There are no potential or actual conflicts of interest between any duties to the Company of the Directors and their private interests or their other duties.
- 10.7 None of the Directors has any business interests nor performs any activities outside the Group which are significant with respect to the Group.

11. Details of Subsidiaries

The Company has the following significant subsidiary undertakings wholly owned, either directly or indirectly, by the Company and consolidated into the annual financial statements of the Company for the financial year ended 31 May 2010:

<i>Name</i>	<i>Country of incorporation/residence and registered office</i>	<i>Nature of business</i>	<i>Proportion of shares and voting rights held</i>
City of London Investment Management Company Limited	England and Wales 77 Gracechurch Street London EC3V 0AS	Security broking and fund management	100 per cent.
City of London US Investments Limited	England and Wales 77 Gracechurch Street London EC3V 0AS	Holding companies including head offices	100 per cent.
City of London US Services Limited	England and Wales 77 Gracechurch Street London EC3V 0AS	Labour recruitment	100 per cent.
City of London Investment Management (Singapore) PTE Ltd	Singapore 20 Collyer Quay #10-04 Tung Centre Singapore 049319	Security broking and fund management in Singapore	100 per cent.

12. Pensions

In the UK, the Group operates a defined contribution (money purchase) pension scheme, run by Scottish Equitable. Employer contributions to the scheme are at the rate of 12.5 per cent. of basic salary for all employees. Scheme members are not required to make contributions to the scheme. In the US, the Group has adopted a 401(k) plan that is also a defined contribution (money purchase) pension scheme and is offered in the same terms as the UK pension scheme. In Singapore, the pensions are run by the government under the Central Provident Fund scheme. In Dubai, the Group contributes to individual schemes set up by employees.

13. Property, Plant and Equipment

13.1 The following is a summary of the material properties owned or leased by the Group:

Leasehold

<i>Location</i>	<i>Activity</i>	<i>Lease expiry</i>	<i>Annual rent</i>	<i>Area sq ft</i>
77 Gracechurch Street, London EC3M 1LX, UK	Office	20 July 2018	£221,943.75	4,230
1125-1201 Airport Road, Coatesville, Pennsylvania, USA	Office	31 July 2015	US\$101,220	4,888
Unit#10-04, Tung Centre, 20 Collyer Quay, Singapore 049319	Office	15 May 2012	S\$118,773.60	818
Unit 2, Level 2, The Gate Village 01, Dubai International Free Zone, PO Box 506695, Dubai, UAE	Office	30 September 2012	AED318,960	886

13.2 Aside from the properties listed above, the Group does not own or lease any other existing or planned material tangible fixed assets.

13.3 There are no material environmental issues affecting the Company's utilisation of the properties referred to above.

14. Related party transactions

Save as set out in note 26 to the financial information in Part V of this document, the Group has not been a party to any related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) No 1606/2002) for the three years ended 31 May 2010 and for the period from 1 June 2010 to 25 October 2010 (being the latest practicable date for this information prior to publication of this document).

15. Material contracts

The following section contains summaries of the principal terms of material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group within the two years immediately preceding the date of this document and any other contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Group which contains any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date of this document:

15.1 *Enhanced Investment Products Option*

Pursuant to an agreement dated 24 August 2005 made between Tobias Bland, Russell Davidson (the "Grantors") and the Company, the Grantors agreed to grant the Company: (i) options over 437,500 shares in the capital of Enhanced Investment Products Limited ("EIP") and 2,500 shares in Enhanced Investment Products (Cayman) Limited ("EIP(C)"), (the "first option"); and (ii) options over 420,000 shares in the capital of EIP and 2,400 shares in the capital of EIP(C), (the "second option"), in consideration for the payment by the Company to the Grantors of \$75,000. The first and second options are exercisable in whole but not in part from 24 August 2007 to 24 August 2012 provided that the second option must be exercised subsequent to the first option. The price payable in respect of the first option is \$1 in cash and in respect of the second option is an amount equal to 24 per cent. of the aggregate net asset value of EIP and EIP(C), as determined by an independent accountancy firm, to be satisfied by the issue of shares in the Company. Exercise of both options would represent 49 per cent. of the issued share capital of EIP and 49 per cent. of the issued share capital of EIP(C). EIP's registered office and principal place of business is in Hong Kong.

15.2 *Introduction and Sponsorship Agreement*

On 25 October 2010, Singer and the Company entered into the Introduction and Sponsorship Agreement under the terms of which the Company has appointed Singer to act as sponsor as required by the Listing Rules in connection with, inter alia, the issue of the Prospectus and Admission.

The Introduction and Sponsorship Agreement contains certain warranties and indemnities from the Company, together with provisions which enable Singer to terminate the Introduction and Sponsorship Agreement in certain circumstances prior to Admission, including circumstances where any warranties are found to be untrue or inaccurate in any material respect. The liability of the Company under the Introduction and Sponsorship Agreement is unlimited.

Under the Introduction and Sponsorship Agreement, on Admission the Company has agreed to pay Singer a success fee of £150,000 (plus VAT).

The obligations of Singer under the Introduction and Agreement are conditional upon, inter alia, Admission taking place on or before 8.00 a.m. on 29 October 2010 (or such later time and/or date as the Company and Singer may agree, being not later than 30 November 2010).

16. **Material litigation**

Neither the Company nor any other member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened which the Company is aware) during the 12 months preceding the date of this document which have, or have had a significant effect on the financial position or profitability of the Group.

17. **Working capital**

The Company is of the opinion that the Group has sufficient working capital for its present requirements, that is for at least the next 12 months from the date of this document.

18. **Taxation**

The following paragraphs are intended as a general guide only for shareholders who are resident and ordinarily resident in the United Kingdom for tax purposes, holding Ordinary Shares as investments and not as securities to be realised in the course of a trade, and are based on current legislation and UK HM Revenue & Customs practice. Any person who is in any doubt about his tax position or who is subject to taxation in a jurisdiction other than the UK, should consult his own professional adviser immediately.

(a) ***Taxation of Chargeable Gains***

For the purpose of UK tax on chargeable gains, the issue of Ordinary Shares will be regarded as an acquisition of a new holding in the share capital of the Company. To the extent that a shareholder acquires Ordinary shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as acquired on the date of allotment. The amount paid for the Ordinary Shares will constitute the base cost of a shareholder's holding. If a Shareholder disposes of all or some of his Ordinary Shares, a liability to tax on chargeable gains may, depending on his circumstances, arise.

(b) ***Loss Relief***

There will be no loss relief available to investors on disposal of the Ordinary Shares against income of the same or prior year. The Company is not a qualifying company under the relevant statutory requirements as it will be a quoted company.

(c) ***Inheritance Tax***

Business Property Relief

Quoted Ordinary shares in trading companies such as the Company potentially qualify for 50 per cent. business property relief which gives up to 50 per cent. exemption from Inheritance Tax. For this relief

to apply the investor must control the company and it is therefore unlikely this relief would apply to any investor.

(d) ***Stamp duty and Stamp Duty Reserve Tax***

No stamp duty reserve tax (“SDRT”) will generally be payable on the issue of the Ordinary Shares.

(e) ***Dividends and other Distributions***

Dividends paid by the Company will carry an associated tax credit of one-ninth of the cash dividend or 10 per cent. of the aggregate of the cash dividend and associated tax credit. Individual shareholders resident in the UK receiving such dividends will be liable to income tax on the aggregate of the dividend and associated tax credit at the basic dividends tax rate (10 per cent.), the higher dividend tax rate (32.5 per cent.) or the additional dividend tax rate (42.5 per cent.). The effect will be that taxpayers who are otherwise liable to pay tax at only the basic rate of income tax will have no further liability to income tax in respect of such a dividend. Higher rate and additional rate taxpayers will have an additional tax liability (after taking into account the tax credit) of 22.5 per cent. and 32.5 per cent. respectively of the aggregate of the dividend and associated tax credit. Individual shareholders whose income tax liability is less than the tax credit will not be entitled to claim a repayment of all or part of the tax credit associated with such dividends.

A UK resident corporate shareholder should not be liable to corporation tax or income tax in respect of dividends received from the Company unless that company is carrying on a trade of dealing in shares.

Trustees of discretionary trusts are liable to account for income tax at the dividend trust rate on the trust’s dividend income, currently 42.5 per cent. on trust income over £1,000. (32.5 per cent. after taking account of the 10 per cent. tax credit referred to above).

Persons who are not resident in UK should consult their own tax advisers on the possible application of such provisions and on what relief or credit may be claimed for any such tax credit in the jurisdiction in which they are resident. These comments are intended only as a general guide to the current tax position in the UK as at the date of this document. The comments assume that Ordinary Shares are held as an investment and not as an asset of financial trade.

The Company takes no responsibility for the withholding of tax at source.

If you are in any doubt as to your tax position, or are subject to tax in a jurisdiction other than the UK, you should consult your professional adviser.

19. Consents

- 19.1 Moore Stephens LLP, whose registered address is at 150 Aldersgate Street, London EC1A 4AB, has given and not withdrawn its consent to the issue of this document with inclusion of its accountants’ report and its letter set out in Part V of this document in the form and context in which they are included and have authorised the contents of that part of this document for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.
- 19.2 Singer Capital Markets Limited of One Hanover Street, London W1S 1YZ has given and not withdrawn its consent to the issue of this document with inclusion herein of references to its opinion and name in the form and context in which they are included.

20. No significant change

Save for the level of total FuM which has increased from \$4.4 billion on 31 May 2010 to \$5.4 billion as at 30 September 2010, there has been no significant change in the trading or financial position of the Group since 31 May 2010, (being the date to which the last audited accounts of the Group were prepared).

21. Principal Investments

The principal investments made by the Group during the period covered by the financial information in Part V of this document are summarised at pages 68 to 70 of Part V of this document.

22. Other information

- 22.1 There are no specific dates on which entitlement to dividends or interest thereon on Ordinary Shares arises and there are no arrangements in force for the waiver of future dividends.
- 22.2 The total costs and expenses payable by the Company in connection with or incidental to the Placing and Admission are estimated to be £400,000 (exclusive of VAT).
- 22.3 The accounting reference date of the Company is currently 31 May.
- 22.4 The financial information concerning the Group contained in this document does not constitute statutory accounts within the meaning of section 434(3) of the 2006 Act. Full individual accounts of the Company and each of its subsidiary undertakings (incorporated in England and Wales) for each financial year to which the financial information relates and on which the auditors gave unqualified reports have been delivered to the Registrar of Companies in relation to the two financial years ended 31 May 2009 and will be delivered to the Registrar of Companies in relation to the financial year ended 31 May 2010 after a copy has been laid before the annual general meeting of the Company proposed to be held on 25 October 2010. The consolidated financial statements of the Company in respect of the three years ended 31 May 2010 were reported on by Moore Stevens LLP, a member of the Institute of Chartered Accountants for England and Wales, the auditors of the Company within the meaning of section 495 of the 2006 Act.
- 22.5 Details of the Company's dividend policy are set out in paragraph 12 of Part I of this document. The Company has paid or will pay the following dividends in respect of the following financial years:

<i>Financial year ended</i>	<i>Interim</i>	<i>Final</i>	<i>Total</i>
	<i>£</i>	<i>£</i>	<i>£</i>
31 May 2010	0.07	0.15*	0.22
31 May 2009	0.05	0.10	0.15
31 May 2008	0.06	0.135	0.195

* The final dividend for the financial year ended 31 May 2010 is due to be paid on 19 November 2010 to Shareholders on the register on 29 October 2010.

- 22.6 As far as the Directors are aware:
- (a) there are no known trends, uncertainties, demands or events that are reasonably likely to have a material effect on the Group's prospects for at least the current financial year;
 - (b) there are no exceptional factors that have influenced the Group's activities; and
 - (c) there are no arrangements in place, the operation of which may at a subsequent date result in a change of control of the Company.
- 22.7 Save as disclosed in this document, the Company does not hold a proportion of the capital of any undertaking likely to have a significant effect on the assessment of the Company's assets and liabilities, financial position or profits and losses.
- 22.8 Save as disclosed in paragraph 21 of this document, the Company has no principal investments for the period covered by the historic financial information contained in this document and has no principal investments in progress and no principal future investments in relation to which it has made a firm financial commitment.
- 22.9 There is no provision in the Articles, statutes, charter or bylaws of the Company that would have an effect of delaying, deferring or preventing a change of control of the Company.

- 22.10 There are no conditions imposed by the Memorandum of Association or Articles regarding changes in the Company's capital which are more stringent than required by the laws of England and Wales.
- 22.11 There are no mandatory takeover bids in existence.
- 22.12 There have been no public takeover bids by third parties in respect of the Company's equity which have occurred during the last financial year or the current financial year.
- 22.13 There are no patents, international property rights, licences or industrial, commercial or financial contracts or new manufacturing processes which are or maybe material to the business or profitability of the Company.
- 22.14 Within this document, where information has been sourced from a third party, the Company confirms that the information has been accurately reproduced and, insofar as the Company is aware and is able to ascertain from information published by that party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

23. Restrictions on transferability of Ordinary Shares

There are no restrictions on the transferability of the existing Ordinary Shares.

24. Disclosure of interests in Ordinary Shares

Under the provisions of the Disclosure and Transparency Rules every person must notify the Company of the percentage of its voting rights he holds as a Shareholder or as a holder of qualifying financial instruments or other financial instruments having a similar economic effect if the percentage of those voting rights, reaches, exceeds or falls below three per cent. and each one per cent. threshold thereafter up to 100 per cent. as a result of an acquisition or disposal of shares, qualifying financial instruments or other financial instruments having a similar economic effect.

25. Mandatory bid, squeeze out and sell-out rules relating to the Ordinary Shares

Other than as provided for by the Takeover Code and Chapter 28 of the 2006 Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules relating to the Company.

25.1 Mandatory bid

The Takeover Code applies to the Company. Under the Takeover Code, if a person acquires an interest in shares which, taken together with shares in which persons acting in concert with him are interested and which carry 30 per cent. or more of the voting rights in the Company, the acquiror and, depending on the circumstances, its concert parties, would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in the Ordinary Shares by the acquiror or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights of the Company.

25.2 Squeeze-out

Under the 2006 Act, if an offeror were to make an offer to acquire all of the shares in the Company not already owned by it and were to acquire or unconditionally contract to acquire 90 per cent. of the shares to which the offer relates and 90 per cent. of the voting rights attached to those shares, then within three months of the last day on which its offer can be accepted, it could compulsorily acquire the remaining 10 per cent. It would do so by sending a notice to outstanding Shareholders telling them that it will compulsorily acquire their shares and then, six weeks later, it would execute a transfer of the outstanding shares in its favour and pay the consideration to the Company, which would hold the consideration on trust for outstanding shareholders. The consideration offered to the shareholders whose shares are compulsorily acquired under the 2006 Act must, in general, be the same as the

consideration that was available under the takeover offer unless the shareholder can show that the offer value is unfair.

25.3 *Sell-out*

The 2006 Act also gives minority shareholders in the Company a right to be bought out in certain circumstances by an offeror who had made a takeover offer. If the takeover offer related to all the shares in the Company not already owned by the offeror and, at any time before the end of the period within which a takeover offer could be accepted, the offeror holds or had unconditionally contracted to acquire (i) not less than 90 per cent. of the shares in the Company to which the offer relates and (ii) shares to which the offer relates which, with or without any other shares in the Company which the offeror has acquired or contracted to acquire, carry not less than 90 per cent. of the voting rights in the Company, then any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any shareholder notice of his right to be bought out within one month of that right arising. Sell-out rights cannot be exercised after the end of the period of three months from the last date on which the offer can be accepted or, if later, three months from the date on which the notice is served on the shareholders notifying them of their sell-out rights. If a shareholder exercises his/her rights, the offeror is bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

26. Documents on display

Copies of the following documents will be available for inspection on the website of the Company at <http://www.citlon.co.uk/> and during normal business hours on any weekday (Saturday, Sundays and public holidays excepted) at the offices of K&L Gates LLP, 110 Cannon Street, London EC4N 6AR from the date of this document until 14 days from the date of publication of this document:

- (a) the Articles of Association;
- (b) the accountant's report of Moore Stephens LLP reproduced in Part III of this document;
- (c) the audited consolidated accounts of the Group for the three financial years ended 31 May 2010; and
- (d) this document.

PART VII

DEFINITIONS

In this document, the following expressions have the following meanings, unless the context requires otherwise:

“Acts”	the 1985 Act and the 2006 Act (as amended)
“Admission”	admission of the Ordinary Shares to listing on the Official List and to trading of the Ordinary Shares on the London Stock Exchange’s main market for listed securities, and a reference to Admission becoming “effective” is to be construed in accordance with the Listing Rules or the Standards (as applicable)
“Adopted IFRS”	the International Financial Reporting Standards as adopted by the EU, International Financial Reporting Committee interpretations
“AIM”	the AIM market operated by the London Stock Exchange
“AIM Rules”	the rules published by the London Stock Exchange governing admission to, trading on and the regulation and operation of AIM
“Articles of Association” or “Articles”	the articles of association of the Company
“Audit Committee”	the audit committee of the Board
“Auditors”	Moore Stephens LLP
“Australia”	Australia, its territories and possessions
“Board”	the board of directors of the Company
“Canada”	Canada, its territories, provinces and possessions and all areas subject to its jurisdiction or any political sub-division thereof
“certificated” or “in certificated form”	in relation to a share or other security, a share or other security title to which is recorded in the relevant register of the share or other security as being held in certificated form (that is, not in CREST)
“City of London Group” or “Group”	the Company and its subsidiaries, from time to time, or where applicable the relevant regulated entity
“City of London Investment Management” or “COLIM”	City of London Investment Management Company Limited, the principal operating subsidiary of the Group
“City of London Investment Management Singapore” or “COLS”	City of London Investment Management (Singapore) PTE Ltd
“Combined Code”	the Combined Code on Corporate Governance appended to but not forming part of the Listing Rules
“Company”	City of London Investment Group plc
“Company Secretary”	the company secretary of the Company from time to time, currently Doug Allison
“CREST”	the relevant system (as defined in the CREST Regulations) for paperless settlement of share transfers and the holding of shares in

	uncertificated form which is operated by Euroclear UK & Ireland Limited
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended
“DFSA”	the Dubai Financial Services Authority
“Directors”	the Executive Directors and the Non-Executive Directors
“Disclosure and Transparency Rules” or “DTRs”	the disclosure and transparency rules made under Part VI of the FSMA, as amended
“EEA”	the European Economic Area
“Euroclear”	Euroclear UK & Ireland Limited
“Executive Directors”	the executive directors of the Company from time to time, being currently Barry Olliff, Doug Allison, Carlos Yuste and Thomas Griffith, who are the only persons discharging managerial responsibilities within the Company
“FSA”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of the FSMA
“FSA Rules”	the FSA Handbook of Rules and Guidance made by the FSA under the FSMA
“FSMA”	Financial Services and Markets Act 2000, as amended
“FTSE”	FTSE International Limited, a company incorporated and registered in England and Wales with registered number 03108236
“FTSE All Share Index”	a capitalisation-weighted index representing 98-99 per cent. of the UK market capitalisation, comprising approximately 800 of more than 2,000 companies traded on the London Stock Exchange
“FTSE Ground Rules”	the rules for the management of the FTSE UK Index series (which includes the FTSE 100 Index, FTSE 250 Index and FTSE All Share Index), as adopted by the FTSE Policy Group
“FTSE Indices”	the various indices published by FTSE
“FTSE Policy Group”	a committee responsible for determining major policy issues and monitoring the activities of the FTSE regional committees
“FTSE 100 Index”	a market capitalisation-weighted index of 100 UK companies on the London Stock Exchange that are selected quarterly as being the 100 largest companies whose primary listing is on the exchange
“FTSE 250 Index”	a capitalisation-weighted index of 250 UK companies on the London Stock Exchange that are selected quarterly as being the 101st to 250th largest companies whose primary listing is on the exchange
“FuM”	funds under management
“HMRC”	HM Revenue & Customs
“IAS”	international accounting standards

“IFRS”	the International Financial Reporting Standards as issued by the Board of International Standards Committee
“Introduction and Sponsorship Agreement”	the conditional introduction and sponsorship agreement dated 25 October 2010 entered into between Singer and the Company in connection with Admission, further details of which are set out in paragraph 15 of Part VI of this document.
“Japan”	Japan, its cities, prefectures, territories and possessions
“Listing Rules”	the rules and regulations made by the FSA under Part VI of the FSMA
“London Stock Exchange”	London Stock Exchange plc
“MAS”	the Monetary Authority of Singapore
“MiFID”	the Markets in Financial Instruments Directive (2004/39 EC)
“NAV”	the net asset value of a fund
“Nomination Committee”	the nomination committee of the Board
“Non-Executive Directors”	the non-executive directors of the Company from time to time, being currently, Andrew Davison, David Cardale, George Robb and Allan Bufferd
“Official List”	the Official List of the FSA
“Open Ended Fund”	a fund that continues to sell shares to investors and will buy back shares when investors wish to sell
“Ordinary Shares”	ordinary shares of 1 penny each in the share capital of the Company
“Prospectus Rules”	rules published by the FSA under section 73A of the FSMA
“Remuneration Committee”	the remuneration committee of the Board
“SEC”	the US Securities and Exchange Commission
“Share Option Schemes”	The City of London Investment Group plc Approved Company Share Option Scheme, The City of London Investment Group plc Unapproved Company Share Option Scheme, The City of London Investment Group plc Executive Share Option Scheme and The City of London Investment Group plc US Share Option Plan, details of which are set out in paragraph 8 of Part VI of this document
“Shareholder” or “Ordinary Shareholder”	a holder of Ordinary Shares
“Singapore”	the Republic of Singapore
“Singer”	Singer Capital Markets Limited
“Standards”	the “Admission and Disclosure Standards” of the London Stock Exchange
“Statutes”	the Acts, the Companies Act 1989, the Prospectus Rules, Listing Rules, the Disclosure and Transparency Rules, and all other statutes, regulations, orders or other subordinate legislation in force concerning companies so far as they apply to the Company

“Subsidiary”	has the meaning given to it in section 736 the 1985 Act (as amended)
“Takeover Code”	the City Code on Takeovers and Mergers in the UK
“Takeover Panel”	the Panel on Takeovers and Mergers in the UK
“UK” or “United Kingdom”	the United Kingdom of Great Britain and Northern Ireland
“UK GAAP”	United Kingdom generally accepted accounting principles
“Uncertificated” or “in uncertificated form”	a share or other security title to which it is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which may be transferred by means of CREST
“US Securities Act”	the United States Securities Act of 1933 (as amended)
“US” or “United States”	United States of America, its territories and possessions, any state of the United States and the District of Columbia
“1985 Act”	the Companies Act 1985 (as amended)
“2006 Act”	the Companies Act 2006 (as amended)

In this document, words denoting any gender include all genders (unless the context otherwise requires).

