CITY OF LONDON
INVESTMENT GROUP PLC

INTERIM REPORT
November 2006

Introduction

City of London Investment Group PLC (AIM: CLIG) is a provider of emerging market and natural resource 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 but also has offices in the US and Singapore. Clients include some of the US's leading blue chip institutions and endowment funds. The Group seeks to provide capital growth for clients through active country allocation and stock selection.

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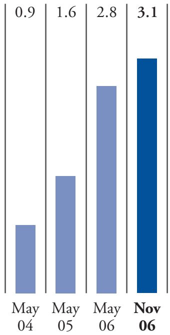
Interim highlights

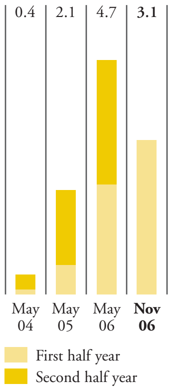
- There was a strong recovery during the period in the performance of emerging markets, and City of London also experienced net inflows which increased funds under management.
- Funds under management were US$3.1 billion at the half year end in November (2005: US$2.2 billion), and increased to US$3.3 billion as at 31st December 2006.
- Turnover increased by 41% to £8.3 million (2005: £5.9 million).
- Profit before tax of £3.1 million (2005: £2.2 million), represented an increase of 44%. Earnings per share were up 29% to 8.5p (2005: 6.6p).
- A maiden interim dividend as a publicly quoted company of 3p per share has been declared, payable on 5th March 2007 to shareholders on the register on 9th February 2007. A final dividend will be recommended at the time of the preliminary results for the current year, in September 2007. Subject to the company's and current market expectations being achieved, a final dividend of around 6p is anticipated.

"City of London aims to produce outperformance against benchmarks for clients and profits – and dividends – for shareholders. I am pleased to report, in our first interim report to shareholders, that we achieved both objectives in the six months to 30th November 2006." **Andrew Davison,** Chairman

Funds under management US$bn



Pre-tax profit £m



Chairman's statement

"The world's emerging markets continue, as ever, to be volatile. The beginning of our current financial year saw many of these markets at relatively low valuations but this was followed by a strong recovery as positive investment fundamentals reasserted themselves."

City of London is used to managing such volatility so as to produce outperformance against benchmarks for clients and profits for shareholders. I am pleased to report, in our first interim report to shareholders, that we achieved both objectives in the six months to 30th November 2006.

Results

During the period, funds under management increased from US$2.8 billion to a half year end figure of US$3.1 billion (2005: US$2.2 billion). This increase reflected both rising markets and net inflows from our client base. As a result, turnover rose by 41% to £8.3 million (2005: £5.9 million) and profit before taxation increased by 44% to £3.1 million (2005: £2.2 million). The tax charge for the period was £1.0 million representing 33% of pre-tax profits (2005: £0.8 million, 36%), producing post tax profits of £2.1 million (2005: £1.4 million). The tax charge rate is higher than the prevailing UK rate of corporation tax because net income attributable to the US operations attracts the US tax, which is higher.

Dividends and tax status

I reported in my Statement in the Annual Report that the Board intends to pay dividends to shareholders – from this financial year – based on a policy of post tax earnings twice covering full year payments. The Board has declared a maiden interim dividend as a publicly quoted company of 3p per ordinary share, payable on 5th March 2007 to shareholders on the register on 9th February 2007. If current market forecasts for the financial year to 31st May 2007 are met, our dividend policy implies a final dividend of some 6p per share. The Board will recommend the actual level of the final dividend at the time of the preliminary results in September 2007. The intention is to maintain a pattern approximating to one third interim dividend and two thirds as a final dividend.

Shareholders may be interested to learn that, having taken expert advice, we understand that an investment in City of London's shares qualifies, under current legislation, as a business asset for the purposes of Inheritance Tax (IHT) and Capital Gains Tax (CGT) relief.

Outlook

City of London has made good progress during this first interim accounting period as a public company. We have successfully mitigated client rebalancings of their assets by acquiring additional funds to manage from a pipeline of replacement monies. In addition, we are beginning to leverage our track record, expertise and reputation as successful managers of US institutional funds in emerging markets to diversify our business into closed end funds generally as well as discrete sectors such as natural resources. The Group also seeks to broaden its client base and is actively marketing to new institutions in Europe and the Pacific Rim. Clearly, a presence in the Middle East – if the Board determines it is the right move – would help both investment activity and new mandate acquisition.

We are currently confident that we can achieve our own and the Stockmarket's estimates for the full year and I look forward to updating shareholders on further progress.

Andrew Davison
Chairman
24th January 2007

Chief Executive Officer's review

"We wish to diversify our business. Separate from our natural resources business, we are at the early stages of planning to grow our activities in the area of closed end funds that invest in the developed stockmarkets of the world."

In this our first set of interim results as a publicly quoted company, I am going to follow the layout from my Review in our Report and Accounts for the year to 31st May 2006.

The past half year

At the end of November, funds under management ("FUM") were US$3,111 million compared with US$2,751 million at the end of our financial year, on 31st May 2006. Alternatively this could be compared with US$2,186 million at the same point last year. When converted into sterling, the figures are £1,581 million, £1,472 million and £1,263 million respectively.

One of the features of the past six months has been the volatility of the US$/£ exchange rate which has, at the extreme, ranged between 1.82 and 1.96. With most of our fee revenues being received in US$ our income in sterling has reflected this reduction in US$ value. However as can be seen from my remarks below, under cost-income ratio, we have actually increased our net margin.

We have also continued to develop our business during this period notwithstanding some rebalancing from some of our US accounts.

Most of our US clients have target ranges of exposure they are prepared to countenance in each of the asset classes where they invest, but with the emerging markets performing so well when compared to other asset classes, some of our clients have rebalanced to levels closer to these target ranges. However, whilst we have experienced some rebalancing this has been more than made up by the winning of new mandates.

The other side of this equation is that we would hope under reverse circumstances to benefit in the event that the emerging markets were to underperform other asset classes.

Diversification

In my Review in our Report and Accounts I mentioned our wish to diversify our business. Separate from our natural resources business we are at the early stages of planning to grow our business in the area of closed end funds that invest in the developed stockmarkets of the world.

In the same way that emerging market closed end funds demonstrate share price volatility greater than their underlying net asset values, so the same inefficiency is demonstrated by the developed markets closed end funds. It's worth making the point that the developed markets closed end fund universe is many times larger than the emerging markets universe. As referenced in my year end review "we are positioned at the performance end of the marketplace which focuses on relative return products for institutional clients".

A possible new office

We are making progress with our plans for the opening of a new office in the Middle East, probably in Dubai.

Since last writing, whilst oil revenues have continued to grow significantly, the local stock markets of the

Chief Executive Officer's review

Continued

Gulf Cooperation Council region (GCC) have fallen by around 25%.

We continue to consider prospects in the region to be very good for the development of our business and have noted with interest the recent filing of the first Sharia compliant fund that will be closed for the first five years of its life.

Cost-income ratio

In the financial services industry, keeping overheads down when in a bull market can be quite difficult, and there is a very real need for management to understand the conflict between a company's employees and shareholders.

We attempt to coincide the interests of our employees and our shareholders by keeping our core overhead as low as possible and by the operation of a formula based upon our profits in terms of the payment of dividends (to shareholders) and bonuses (to staff).

For the record, for the first six months of this year, our cost-income ratio was 33% vs 38% for the year ended 31st May 2006. The major components of our costs include: personnel (excluding bonuses), marketing, communication, information technology, business development and premises. We work very hard to deliberately keep these items as low as possible whilst continuing to take a very long-term view regarding the development of our business. Including employee bonus the cost-income ratio figure was 54%, vs 56% for the year ending 31st May 2006. We understand that the industry average is around 65%.

Operational leverage

As can be seen from the above figures, the operational leverage within our business is significant, and as I see it, it is our responsibility, as management, to ensure, as we go through this cycle, that we maintain this position. We continue to believe that some of our more recently created funds will over the next few years provide us with opportunities to develop our business.

Update regarding FUM

As at the end of December our FUM totalled US$3,285 million and our investment performance has been maintained.

Thanks to City of London employees

I would like to thank my colleagues again for their hard work and commitment in what continues to be a very challenging environment.

Barry Olliff
Chief Executive Officer
24th January 2007

Consolidated profit and loss account

For the six months ended 30th November 2006

	Note	**Six months ended 30th Nov 2006 (unaudited) £**	Six months ended 30th Nov 2005 (unaudited) £	Year ended 31st May 2006 (as restated) (audited) £
Turnover	2	**8,298,109**	5,875,598	14,118,639
Administrative expenses				
Staff costs		**2,780,547**	1,863,671	4,568,763
Other administrative expenses		**2,444,495**	1,869,945	4,350,907
AIM listing costs		**–**	–	482,708
Depreciation		**53,299**	52,109	108,112
		(5,278,341)	(3,785,725)	(9,510,490)
Other operating income		**–**	1,109	9,520
Operating profit		**3,019,768**	2,090,982	4,617,669
Interest receivable and similar income		**81,818**	61,542	109,562
Profit on ordinary activities before taxation		**3,101,586**	2,152,524	4,727,231
Tax charge on profit on ordinary activities		**(1,025,140)**	(778,000)	(1,784,138)
Profit on ordinary activities after taxation		**2,076,446**	1,374,524	2,943,093
Dividends		**–**	(300,049)	(2,282,675)
Retained profit for the period	4	**2,076,446**	1,074,475	660,418
Basic profit per share	3	**8.5p**	6.6p	13.5p
Diluted profit per share	3	**7.5p**	5.1p	11.7p

Consolidated statement of total recognised gains and losses

For the six months ended 30th November 2006

	Note	**Six months ended 30th Nov 2006 (unaudited) £**	Six months ended 30th Nov 2005 (unaudited) £	Year ended 31st May 2006 (as restated) (audited) £
Retained profit for the period		**2,076,446**	1,074,475	660,418
Increase in revaluation reserve		**226,807**	4,213	134,506
Total recognised gains and losses for the period		**2,303,253**	1,078,688	794,924
Prior year adjustment	4	**(106,325)**	–	–
Total gains and losses recognised since the last annual report		**2,196,928**	1,078,688	794,924

Consolidated balance sheet

30th November 2006

	Note	30th Nov 2006 (unaudited) £	30th Nov 2005 (unaudited) £	31st May 2006 (as restated) (audited) £
Fixed assets				
Tangible assets		**190,099**	210,078	225,939
Investments		**46,605**	65,508	61,253
		236,704	275,586	287,192
Current assets				
Debtors		**2,487,130**	1,620,157	2,136,312
Investments		**2,033,316**	1,325,926	1,359,563
Cash at bank and in hand		**4,660,164**	2,792,274	2,708,915
		9,180,610	5,738,357	6,204,790
Creditors, amounts falling due within one year		**(2,982,744)**	(2,260,126)	(2,160,169)
Net current assets		**6,197,866**	3,478,231	4,044,621
Total assets less current liabilities		**6,434,570**	3,753,817	4,331,813
Capital and reserves				
Called up share capital	4	**267,777**	236,252	267,777
Share premium account	4	**1,357,283**	716,008	1,357,283
Investment in own shares	4	**(1,284,436)**	(1,179,518)	(1,027,283)
Revaluation reserve	4	**361,313**	4,213	134,506
Share option reserve	4	**162,982**	69,600	106,325
Profit and loss account	4	**5,569,651**	3,907,262	3,493,205
Shareholders' funds	4	**6,434,570**	3,753,817	4,331,813

Cash flow statement

For the six months ended 30th November 2006

	Note	Six months ended 30th Nov 2006 (unaudited) £	Six months ended 30th Nov 2005 (unaudited) £	Year ended 31st May 2006 (audited) £
Consolidated cash flow statement				
Net cash inflow from operating activities	5	3,557,840	2,054,490	4,145,424
Returns on investments and servicing of finance		81,818	61,542	109,562
Taxation		(981,499)	(543,053)	(1,643,687)
Capital expenditure and financial investment		(2,811)	(103,523)	(164,267)
Equity dividends paid		–	(300,049)	(2,282,675)
Financing		(257,153)	82,650	907,685
Management of liquid resources		(446,946)	(857,823)	(761,167)
Increase in cash		1,951,249	394,234	310,875

Notes

1 Basis of accounting

The interim financial statements have been prepared on the basis of the accounting policies set out in the statutory accounts of the group for the period ended 31st May 2006. This is with the exception of the adoption of FRS20 "Share-based payments".

Change in accounting policies

In preparing the financial statements for the current period, the group has adopted FRS20. The effect of this change in policy on the financial statements is to increase the administrative costs as detailed below. A corresponding amount is credited to a share option reserve in accordance with FRS20.

	Share-based payment £	Total share option reserve £
End of accounting period		
31st May 2005	42,299	42,299
30th November 2005	27,301	69,600
31st May 2006	36,725	106,325
30th November 2006	56,657	162,982

Share-based payments

The company operates an Employee Share Option Plan. Under FRS20, the fair value of the employee services received in exchange for share options is recognised as an expense. The fair value has been calculated using the Binomial pricing model, and has then been expensed on a straight line basis over the vesting period, based on the company's estimate of the number of shares that will actually vest.

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. The expected life of the options has been assumed to be three 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. A dividend yield of 4.5% has been assumed.

In accordance with the transitional provisions, FRS20 has been applied only to grants of the share options after 7th November 2002 that had not vested as at 1st June 2006.

2 Analysis of turnover, operating profit and net assets

The directors consider that the group only undertakes one class of business, and hence only analysis by geographical location is given.

	Six months ended 30th Nov 2006 (unaudited) £	Six months ended 30th Nov 2005 (unaudited) £	Year ended 31st May 2006 (as restated) (audited) £
Turnover			
Europe	**448,245**	323,967	585,206
North America	**7,667,009**	5,338,458	13,185,903
South America	**–**	213,173	298,173
Other	**182,855**	–	49,357
	8,298,109	5,875,598	14,118,639
Operating profit			
Europe	**268,213**	110,449	855,197
North America	**2,665,396**	1,841,472	3,538,613
South America	**–**	139,061	205,660
Other	**86,159**	–	18,199
	3,019,768	2,090,982	4,617,669
Net assets			
Europe	**4,614,251**	2,680,532	2,367,636
North America	**1,790,010**	1,050,042	1,921,165
South America	**1,108**	(20,045)	2,973
Other	**29,201**	43,288	40,039
	6,434,570	3,753,817	4,331,813

3 Earnings per share

The calculation of earnings per share is based on the profit for the period of £2,076,446 (31st May 2006 restated – £2,943,093; 30th November 2005 – £1,374,524) divided by the weighted average of ordinary shares in issue for the six months ended 30th November 2006 of 24,385,294 (31st May 2006 restated – 21,855,212; 30th November 2005 – 20,903,867).

As set out in note 4 the Employee Benefit Trust held 2,249,000 ordinary shares in the company as at 30th November 2006. The Trustees of the Trust have waived all rights to dividends associated with these shares. In accordance with FRS22 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 period of £2,076,446 (31st May 2006 restated – £2,943,093; 30th November 2005 – £1,374,524) divided by the diluted weighted average of ordinary shares in issue for the six months ended 30th November 2006 of 27,591,992 (31st May 2006 restated – 25,272,459; 30th November 2005 – 27,172,630).

Notes
Continued

4 Combined statement of movement in reserves and reconciliation of shareholders' funds

	Share capital £	Share premium account £	Investment in own shares £	Revaluation reserve £	Share option reserve £	Profit and loss account £	Total £
At 1st June 2006 as previously stated	267,777	1,357,283	(1,027,283)	134,506	–	3,599,530	4,331,813
Prior year adjustment FRS20	–	–	–	–	106,325	(106,325)	–
At 1st June 2006 as restated	267,777	1,357,283	(1,027,283)	134,506	106,325	3,493,205	4,331,813
Purchase of own shares	–	–	(349,966)	–	–	–	(349,966)
Share option exercise	–	–	92,813	–	–	–	92,813
Revaluation reserve	–	–	–	226,807	–	–	226,807
Share option reserve	–	–	–	–	56,657	–	56,657
Profit retained for the period	–	–	–	–	–	2,076,446	2,076,446
At 30th November 2006	267,777	1,357,283	(1,284,436)	361,313	162,982	5,569,651	6,434,570

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 30th November 2006 the Trust held 2,249,000 ordinary 1p shares (31st May 2006 – 2,262,750; 30th November 2005 – 104,042 ordinary 25p shares), of which 2,084,550 ordinary 1p shares (31st May 2006 – 2,247,050; 30th November 2005 – 104,042 ordinary 25p shares) were subject to options in issue.

In total, the company has granted options over 4,584,550 ordinary shares at exercise prices from £0.26 to £1.80. These options have a range of exercise dates from September 2000 to October 2016.

5 Reconciliation of operating profit to net cash inflow from operating activities

	Six months ended 30th Nov 2006 (unaudited) £	Six months ended 30th Nov 2005 (unaudited) £	Year ended 31st May 2006 (as restated) (audited) £
Operating profit	**3,019,768**	2,090,982	4,617,669
Profit on sale of fixed assets	**–**	(1,109)	(9,519)
Depreciation charges	**53,299**	52,109	108,112
Decrease in debtors	**(350,818)**	(527,628)	(1,043,783)
Increase in creditors	**778,934**	413,877	408,417
Translation adjustments on investments	**–**	(1,042)	502
Share-based payment charge (note 1)	**56,657**	27,301	64,026
Net cash inflow from operating activities	**3,557,840**	2,054,490	4,145,424

6 Dividends

The interim dividend of 3p per share will be paid on 5th March 2007 to members registered at the close of business on 9th February 2007.

7 General

The interim financial statements for the six months to 30th November 2006 were approved by the Board on 24th January 2007. These financial statements are unaudited, but they have been reviewed by the auditors, having regard to the bulletin “Review of Interim Financial Information” issued by the Auditing Practices Board. The comparative figures for the twelve month period ended 31st May 2006 have been extracted from the group’s statutory accounts which have been delivered to the Registrar of Companies, and have been restated where appropriate to comply with FRS20. The auditors’ report on those statements was unqualified and did not include a statement under Section 237 (2) or (3) of the Companies Act 1985.

Copies of this statement are available on our website.

Independent review report to City of London Investment Group plc

Introduction
We have been instructed by the company to review the financial information for the six months ended 30th November 2006 which comprise the profit and loss account, the statement of recognised gains and losses, the balance sheet, the cash flow statement and related notes 1 to 7. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities
The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the AIM Rules of the London Stock Exchange which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed
We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion
On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30th November 2006.

Moore Stephens LLP
Registered Auditors and Chartered Accountants
St Paul's House, Warwick Lane, London EC4M 7BP
24th January 2007

Notes: A review does not provide assurance on the maintenance and integrity of the company's website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

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London office
10 Eastcheap
London
EC3M 1LX
United Kingdom

Telephone: + 44 (0) 207 711 0771
Facsimile: + 44 (0) 207 711 0772

US office
The Barn
1125 Airport Road
Coatesville
PA 19320
United States

Telephone: + 1 610 380 2110
Facsimile: + 1 610 380 2116

Singapore office
20 Collyer Quay
10-04 Tung Centre
Singapore 049319

Telephone: + 65 6236 9136
Facsimile: + 65 6532 3997

www.citlon.co.uk