

**THE CITY OF LONDON INVESTMENT TRUST PLC**

**REPORT**  
**for the half year ended 31 December 2011**  
**(unaudited)**

**THE CITY OF LONDON INVESTMENT TRUST PLC**  
**Report for the Half Year Ended 31 December 2011**

<b>Total Returns</b>	<b>Six Months to 31 December 2011</b>	
Net asset value per ordinary share (“NAV”)*		-3.6%
Average UK Growth & Income Investment Trust NAV * †		-3.9%
Relative NAV performance		0.3%
Ordinary share price *		-3.2%
FTSE All-Share Index #		-6.2%
		<b>As at</b>
<b>Dividend Yields</b>	<b>31 December 2011</b>	
City of London*		4.7%
Average UK Growth & Income Investment Trust* †		4.6%
FTSE All-Share Index#		3.5%
FTSE 350 Investment Companies Index#		2.1%
	<b>As at</b>	<b>As at</b>
	<b>31 December 2011</b>	<b>30 June 2011</b>
Ordinary share price	284.90p	301.30p
NAV per ordinary share	282.94p	299.95p
Premium	0.7%	0.5%
NAV per ordinary share (with debt at market value)	276.87p	294.06p
Premium (with debt at market value)	2.9%	2.5%
Gearing	7.0%	7.9%

Sources: \* Morningstar for the AIC # Datastream † Size weighted average

## **INTERIM MANAGEMENT REPORT**

### **Chairman’s Statement**

#### **Net Asset Value Total Return**

Forecasts of global economic growth fell sharply in the second half of 2011 after the unexpected drop in US economic activity. Another blow to sentiment was the Eurozone sovereign debt crisis. As a result the UK and other major stock markets fell over the period.

City of London’s performance was relatively resilient with a negative net asset value total return of 3.6% which was 0.3% better than the size weighted average for the UK Growth & Income investment trust sector. The UK equity market, as measured by the FTSE All-Share Index, produced a negative total return of 6.2%, which was 2.6 percentage points worse than City of London’s return. We benefited from our below average exposure to low yielding mining and bank sectors which were poor performers.

Within City of London’s portfolio, consumer products companies, such as British American Tobacco, Diageo and Unilever, were notable outperformers. They all benefited from exposure to growing markets outside Europe. In addition, Royal Dutch Shell had a good six months helped by the oil price staying over \$100 a barrel.

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**Interim Management Report** (continued)

**Chairman's Statement** (continued)

**Earnings and Dividends**

Earnings per share for the period increased by 10.6% over the same period last year. The average increase in the dividend rate of companies in City of London's portfolio, excluding special dividends, was 9.4%. So far this financial year as forecast, City of London has declared two interim dividends of 3.35p each. The quarterly rate will be reviewed by the Board before the third interim dividend is declared at the end of March 2012.

**Expenses**

The Total Expense Ratio ("TER"), which represents the investment management fee and other non-interest expenses as a percentage of shareholders' funds, remains low compared with most other equity savings products. The TER for the six months indicates a full year rate of 0.43% of net assets.

**Gearing**

The Trust's gearing started the period at 7.9%. By early November it had risen to 10.1%, at which point it was decided, given the macro economic risks, to make a reduction of 2% in the gearing. This was done through the sale of a FTSE 100 future. The gearing ended the period at 7.0%. Borrowing from the HSBC facility increased from £9.0 million to £11.7 million.

**Material Events and Transactions During the Period**

A total of 5,450,000 new shares were issued at a premium to net asset value, benefiting the income and capital objectives of the Trust. A further 1,775,000 shares have been issued since the period end. Investment in some high quality cyclical which were considered undervalued on a long-term basis was increased. New holdings were purchased in Balfour Beatty, Daimler and Emerson Electric. Additions were also made to the Life Assurance sector, with exposure increased to Prudential and Legal & General and a new holding purchased in Phoenix. Profits were taken in some defensive stocks which had performed well but the portfolio still has a strongly defensive bias.

**The Board**

Martin Morgan, who is Chief Executive of Daily Mail & General Trust, will join the Board on 1 March 2012.

**Principal Risks and Uncertainties**

The principal risks and uncertainties associated with the Company's business can be divided into the following main areas:

- Investment activity and performance risk
- Financial risk
- Regulatory risk
- Operational risk

Information on these risks and how they are managed is given in the Annual Report. In the view of the Board these principal risks and uncertainties are as applicable to the remaining six months of the financial year as they were to the six months under review.

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**Interim Management Report** (continued)

**Chairman's Statement** (continued)

**Outlook for the Six Months to 30 June 2012**

City of London's portfolio is invested mainly in UK listed companies with operations across the global economy. There are signs of improving economic conditions in the United States, with unemployment falling. Some important emerging markets continue to grow strongly. The European sovereign debt problems have not been resolved but the European Central Bank has been helping bank funding with a three year facility. In the UK, growth remains anaemic but inflation is falling.

Based on consensus forecasts for profits and dividends, equities appear to offer good value and dividend yields are particularly attractive relative to gilts or cash. However, the portfolio is expected to retain its defensive bias given the continuing macro economic uncertainties.

Philip Remnant  
Chairman

**Directors' Responsibility Statement**

The Directors confirm that, to the best of their knowledge:

- a) the condensed set of financial statements has been prepared in accordance with the Accounting Standards Board's statement "Half-Yearly Financial Reports";
- b) the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- c) the interim management report includes a fair review of the information required by Disclosure and Transparency Rule 4.2.8R (disclosure of related party transactions and changes therein).

For and on behalf of the Board  
Philip Remnant  
Chairman  
9 February 2012

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**Income Statement**

for the half year ended 31 December 2011

	(Unaudited) Half year ended 31 December 2011			(Unaudited) Half year ended 31 December 2010			(Audited) Year ended 30 June 2011		
	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
(Losses)/gains on investments held at fair value through profit or loss	-	(32,426)	(32,426)	-	95,017	95,017	-	122,350	122,350
Income from investments held at fair value through profit or loss	13,775	-	13,775	11,047	-	11,047	30,179	-	30,179
Other interest receivable and similar income	212	-	212	980	-	980	1,383	-	1,383
<b>Gross revenue and capital (losses)/gains</b>	<b>13,987</b>	<b>(32,426)</b>	<b>(18,439)</b>	<b>12,027</b>	<b>95,017</b>	<b>107,044</b>	<b>31,562</b>	<b>122,350</b>	<b>153,912</b>
Management fees	(329)	(768)	(1,097)	(316)	(737)	(1,053)	(658)	(1,537)	(2,195)
Other administrative expenses	(315)	-	(315)	(312)	-	(312)	(591)	-	(591)
<b>Net return/(loss) on ordinary activities before finance charges and taxation</b>	<b>13,343</b>	<b>(33,194)</b>	<b>(19,851)</b>	<b>11,399</b>	<b>94,280</b>	<b>105,679</b>	<b>30,313</b>	<b>120,813</b>	<b>151,126</b>
Finance charges	(756)	(1,579)	(2,335)	(750)	(1,564)	(2,314)	(1,521)	(3,181)	(4,702)
<b>Net return/(loss) on ordinary activities before taxation</b>	<b>12,587</b>	<b>(34,773)</b>	<b>(22,186)</b>	<b>10,649</b>	<b>92,716</b>	<b>103,365</b>	<b>28,792</b>	<b>117,632</b>	<b>146,424</b>
Taxation on net return on ordinary activities	(27)	-	(27)	(18)	-	(18)	(204)	-	(204)
<b>Net return/(loss) on ordinary activities after taxation</b>	<b>12,560</b>	<b>(34,773)</b>	<b>(22,213)</b>	<b>10,631</b>	<b>92,716</b>	<b>103,347</b>	<b>28,588</b>	<b>117,632</b>	<b>146,220</b>
<b>Return/(loss) per ordinary share - basic (note 2)</b>	<b>5.51p</b>	<b>(15.25p)</b>	<b>(9.74p)</b>	<b>4.98p</b>	<b>43.46p</b>	<b>48.44p</b>	<b>13.17p</b>	<b>54.21p</b>	<b>67.38p</b>

The total columns of this statement represent the Income Statement of the Company. All revenue and capital items derive from continuing operations. No operations were acquired or discontinued during the year. The Company has no recognised gains or losses other than those recognised in the Income Statement and the Reconciliation of Movements in Shareholders' Funds.

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**Reconciliation of Movements in Shareholders' Funds**

for the half years ended 31 December 2011 and 2010 and year ended 30 June 2011

<b>Half year ended 31 December 2011 (unaudited)</b>	<b>Called-up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Capital redemption reserve £'000</b>	<b>Other capital reserves £'000</b>	<b>Revenue reserve £'000</b>	<b>Total £'000</b>
At 30 June 2011	56,215	78,590	2,707	510,038	26,927	674,477
Net (loss)/return on ordinary activities after taxation	-	-	-	(34,773)	12,560	(22,213)
Issue of 5,450,000 new ordinary shares	1,362	13,294	-	-	-	14,656
Issue expenses paid	-	(55)	-	-	-	(55)
Fourth interim dividend (3.35p per share) for year ended 30 June 2011 paid 31 August 2011	-	-	-	-	(7,533)	(7,533)
First interim dividend (3.35p per share) for year ended 30 June 2012 paid 30 November 2011	-	-	-	-	(7,690)	(7,690)
At 31 December 2011	57,577	91,829	2,707	475,265	24,264	651,642
<b>Half year ended 31 December 2010 (unaudited)</b>	<b>Called-up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Capital redemption reserve £'000</b>	<b>Other capital reserves £'000</b>	<b>Revenue reserve £'000</b>	<b>Total £'000</b>
At 30 June 2010	52,155	37,079	2,707	392,406	26,679	511,026
Net return on ordinary activities after taxation	-	-	-	92,716	10,631	103,347
Issue of 8,965,000 ordinary shares	2,241	22,080	-	-	-	24,321
Fourth interim dividend (3.25p per share) for year ended 30 June 2010 paid 31 August 2010	-	-	-	-	(6,831)	(6,831)
First interim dividend (3.25p per share) for year ended 30 June 2011 paid 30 November 2010	-	-	-	-	(6,974)	(6,974)
At 31 December 2010	54,396	59,159	2,707	485,122	23,505	624,889
<b>Year ended 30 June 2011 (Audited)</b>	<b>Called-up share capital £'000</b>	<b>Share premium account £'000</b>	<b>Capital redemption reserve £'000</b>	<b>Other capital reserves £'000</b>	<b>Revenue reserve £'000</b>	<b>Total £'000</b>
At 30 June 2010	52,155	37,079	2,707	392,406	26,679	511,026
Net return on ordinary activities after taxation	-	-	-	117,632	28,588	146,220
Issue of 16,240,000 new ordinary shares	4,060	41,511	-	-	-	45,571
Fourth interim dividend (3.25p per share) for year ended 30 June 2010 paid 31 August 2010	-	-	-	-	(6,831)	(6,831)
First interim dividend (3.25p each per share) for year ended 30 June 2011 paid 30 November 2010	-	-	-	-	(6,974)	(6,974)
Second interim dividend (3.25p per share) for year ended 30 June 2011 paid 28 February 2011	-	-	-	-	(7,090)	(7,090)
Third interim dividend (3.35p per share) for year ended 30 June 2011 paid 31 May 2011	-	-	-	-	(7,445)	(7,445)
At 30 June 2011	56,215	78,590	2,707	510,038	26,927	674,477

**THE CITY OF LONDON INVESTMENT TRUST PLC**  
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**Balance Sheet**

at 31 December 2011

	(Unaudited) 31 December 2011 £'000	(Unaudited) 31 December 2010 £'000	(Audited) 30 June 2011 £'000
<b>Investments held at fair value through profit or loss</b>			
Listed at market value in the United Kingdom	667,213	649,993	681,202
Listed at market value overseas	42,604	38,969	46,709
Investment in subsidiary undertakings	347	347	347
	-----	-----	-----
	<b>710,164</b>	<b>689,309</b>	<b>728,258</b>
	-----	-----	-----
<b>Current assets</b>			
Debtors	3,890	3,095	6,276
Bank balances and short term deposits	1,350	843	480
	-----	-----	-----
	<b>5,240</b>	<b>3,938</b>	<b>6,756</b>
	-----	-----	-----
<b>Creditors: amounts falling due within one year</b>	<b>(16,363)</b>	<b>(20,959)</b>	<b>(13,138)</b>
	-----	-----	-----
<b>Net current liabilities</b>	<b>(11,123)</b>	<b>(17,021)</b>	<b>(6,382)</b>
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<b>Total assets less current liabilities</b>	<b>699,041</b>	<b>672,288</b>	<b>721,876</b>
	-----	-----	-----
<b>Creditors: amounts falling due after more than one year</b>	<b>(47,399)</b>	<b>(47,399)</b>	<b>(47,399)</b>
	-----	-----	-----
<b>Total net assets</b>	<b>651,642</b>	<b>624,889</b>	<b>674,477</b>
	=====	=====	=====
<b>Capital and reserves</b>			
Called-up share capital (note 3)	57,577	54,396	56,215
Share premium account	91,829	59,159	78,590
Capital redemption reserve	2,707	2,707	2,707
Other capital reserves	475,265	485,122	510,038
Revenue reserve	24,264	23,505	26,927
	-----	-----	-----
<b>Shareholders' funds</b>	<b>651,642</b>	<b>624,889</b>	<b>674,477</b>
	=====	=====	=====
<b>Net asset value per ordinary share (note 4)</b>	<b>282.94p</b>	<b>287.19p</b>	<b>299.95p</b>
	=====	=====	=====

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**Cash Flow Statement**

for the half year ended 31 December 2011

	(Unaudited) Half year ended 31 December 2011 £'000	(Unaudited) Half year ended 31 December 2010 £'000	(Audited) Year ended 30 June 2011 £'000
Net cash inflow from operating activities	13,887	12,145	28,281
Net cash outflow from servicing of finance	(2,333)	(2,314)	(4,684)
Total tax recovered	33	20	138
Net cash outflow from financial investment	(15,302)	(36,155)	(46,624)
Equity dividends paid	(15,223)	(13,805)	(28,340)
Net cash inflow from financing	15,780	24,321	44,392
<b>Decrease in cash</b>	<b>(3,158)</b>	<b>(15,788)</b>	<b>(6,837)</b>
<b>Reconciliation of operating revenue to net cash inflow from operating activities</b>			
Total (loss)/return before finance costs and taxation	(19,851)	105,679	151,126
Add/(Less): capital loss/(return) before finance costs and taxation	33,194	(94,280)	(120,813)
Net revenue return before finance costs and taxation	13,343	11,399	30,313
Decrease/(increase) in accrued income	1,175	1,488	(587)
Increase in other creditors	165	34	415
Expenses charged to other capital reserves	(768)	(737)	(1,537)
Overseas withholding tax	(28)	(39)	(323)
<b>Net cash inflow from operating activities</b>	<b>13,887</b>	<b>12,145</b>	<b>28,281</b>
<b>Reconciliation of net cash inflow to movement in net debt</b>			
Decrease in cash as above	(3,158)	(15,788)	(6,837)
Exchange movements	(57)	17	(25)
Net debt at beginning of the period	(55,910)	(49,048)	(49,048)
<b>Net debt at end of the period</b>	<b>(59,125)</b>	<b>(64,819)</b>	<b>(55,910)</b>
<b>Represented by:</b>			
Cash at bank and short term deposits less bank overdrafts	(11,726)	(17,420)	(8,511)
Debt falling due after more than one year	(47,399)	(47,399)	(47,399)
	<b>(59,125)</b>	<b>(64,819)</b>	<b>(55,910)</b>



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**Notes**

**1. Accounting policy – Basis of preparation**

The condensed set of financial statements has been prepared using the same accounting policies as are set out in the Company's Annual Report and Financial Statements for the year ended 30 June 2011.

The condensed set of financial statements has not been audited or reviewed by the Company's auditors.

**2. (Loss)/return per ordinary share**

	(Unaudited) Half year ended 31 December 2011 £'000	(Unaudited) Half year ended 31 December 2010 £'000	(Audited) Year ended 30 June 2011 £'000
The return per ordinary share is based on the following figures:			
Revenue return	12,560	10,631	28,588
Capital (loss)/return	(34,773)	92,716	117,632
	-----	-----	-----
<b>Total</b>	<b>(22,213)</b>	<b>103,347</b>	<b>146,220</b>
	=====	=====	=====
Weighted average number of ordinary shares in issue for each period	<b>228,002,938</b>	213,359,596	217,008,223
Revenue return per ordinary share	<b>5.51p</b>	4.98p	13.17p
Capital (loss)/return per ordinary share	<b>(15.25p)</b>	43.46p	54.21p
	-----	-----	-----
<b>Total</b>	<b>(9.74p)</b>	<b>48.44p</b>	<b>67.38p</b>
	=====	=====	=====

The Company does not have any dilutive securities.

**3. Called-up share capital**

During the half year ended 31 December 2011, 5,450,000 ordinary shares were issued for total proceeds of £14,656,000 (half year ended 31 December 2010: 8,965,000 ordinary shares issued for total proceeds of £24,321,000; year ended 30 June 2011: 16,240,000 ordinary shares issued for total proceeds of £45,571,000). The number of ordinary shares in issue at 31 December 2011 was 230,309,868.

**4. Net asset value per ordinary share**

The net asset value per ordinary share is based on the net assets attributable to the ordinary shares of £651,642,000 (31 December 2010: £624,889,000; 30 June 2011: £674,477,000) and on 230,309,868 ordinary shares (31 December 2010: 217,584,868; 30 June 2011: 224,859,868) being the number of ordinary shares in issue at the end of the period.

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Notes (continued)

**5. Transaction costs**

Purchase transaction costs for the half year ended 31 December 2011 were £213,000 (half year ended 31 December 2010: £304,000; year ended 30 June 2011: £453,000). These comprise mainly stamp duty and commissions. Sale transaction costs for the half year ended 31 December 2011 were £40,000 (half year ended 31 December 2010: £33,000; year ended 30 June 2011: £59,000).

**6. Interim dividends**

A first interim dividend of 3.35p was paid on 30 November 2011. The second interim dividend of 3.35p (declared on 8 December 2011) will be paid on 28 February 2012 to shareholders on the register on 27 January 2012.

**7. Related party transaction**

The only related party arrangement currently in place is with Henderson Global Investors Limited for the provision of investment management, accounting, company secretarial and administration services. Other than fees payable in the ordinary course of business, there have been no material transactions with the related party affecting the financial position or performance of the Company during the six months.

**8. Going concern**

The directors believe that it is appropriate to adopt the going concern basis in preparing the financial statements. The assets of the Company consist mainly of securities that are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future.

**9. Financial information**

The financial information contained in this half year report does not constitute statutory accounts as defined in section 434 of the Companies Act 2006.

The figures and financial information for the year ended 30 June 2011 have been extracted from the latest published audited financial statements of the Company. Those financial statements have been delivered to the Registrar of Companies and included the report of the auditors, which was unqualified and did not contain a statement under section 498(2) or 498(3) of the Companies Act 2006.

**10. General Information**

*a) Company Objective*

The Company's objective is to provide long-term growth in income and capital, principally by investment in UK equities. The Board continues to recognise the importance of income to shareholders.

*b) Benchmark*

The Company's benchmark is the AIC UK Growth & Income sector, size weighted average net asset value total return.

*c) Directors, Investment Manager, Secretary and Registered Office*

The Directors of the Company are Philip Remnant (Chairman), Simon Barratt, David Brief and Richard Hextall. The Investment Manager is Henderson Global Investors Limited, authorised and regulated by the Financial Services Authority and the portfolio is managed by Job Curtis. The Secretary is Henderson Secretarial Services Limited, represented by Deborah Trickett. The registered office is 201 Bishopsgate, London EC2M 3AE.

*d) Website*

Details of the Company's share price and net asset value, together with general information about company, monthly factsheets and data, profiles of the Board, copies of announcements, reports and details of general meetings can be found at [www.cityinvestmenttrust.com](http://www.cityinvestmenttrust.com)

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**Largest Investments**

The 60 largest investments, convertibles and all classes of equity in any one company being treated as one investment, were as follows:

	<b>Market value 31 December 2011 £'000</b>		<b>Market value 31 December 2011 £'000</b>
Royal Dutch Shell	51,534	Amlin	5,964
British American Tobacco	50,110	Britvic	5,791
GlaxoSmithKline	38,995	Greene King	5,359
Vodafone	37,569	Hiscox	5,229
Diageo	36,569	Spirax-Sarco Engineering	5,151
Unilever	23,360	France Telecom	4,559
AstraZeneca	22,610	Sainsbury (J)	4,544
HSBC	22,097	Statoil	4,471
National Grid	17,813	Provident Financial	4,470
BP	17,384	Standard Life	4,435
Scottish & Southern Energy	17,106	Novartis	4,434
Tesco	16,138	Deutsche Telekom	4,431
BHP Billiton	15,800	Zurich Financial Services	4,214
Pearson	13,008	RSA Insurance	4,208
Rio Tinto	12,718	Next	4,106
Croda	12,177	Smiths News	4,100
Centrica	11,572	Morrison (WM) Supermarkets	4,078
Land Securities	9,850	Tate & Lyle	4,051
Imperial Tobacco	9,740	ENI	3,972
Reed Elsevier	8,304	John Laing Infrastructure Fund	3,798
Weir	8,128	Compass	3,666
BAE Systems	7,555	Swisscom	3,665
Aviva	7,520	British Sky Broadcasting	3,663
Reckitt Benckiser	7,314	Standard Chartered	3,567
IMI	7,220	Barclays	3,521
Prudential	7,024	Whitbread	3,519
Legal & General	6,682	Meggitt	3,175
Pennon	6,069	BBA	3,115
United Utilities	6,060	Cineworld	3,079
Severn Trent	5,984	Schroder	2,951

**These investments total £639,296,000 or 90.1% of the portfolio.**

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**Sector Analysis of Portfolio as at 31 December 2011**

	<u>%</u>
Oil & Gas	11.3
Basic Materials	6.2
Industrials	9.7
Consumer Goods	19.7
Health Care	9.3
Consumer Services	11.9
Telecommunications	7.1
Utilities	9.1
Financials	15.0
Technology	0.7
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<b>Total</b>	<b>100.0</b>
	=====