

THE CITY OF LONDON INVESTMENT TRUST PLC

**REPORT
for the half year ended 31 December 2012
(unaudited)**

THE CITY OF LONDON INVESTMENT TRUST PLC
HALF YEAR REPORT
Unaudited Results for the Half Year Ended 31 December 2012

Total Returns	Six Months to 31 December 2012	Year to 30 June 2012
Net asset value per ordinary share (“NAV”)*	9.6%	2.3%
Average UK Growth & Income Investment Trust NAV * †	8.5%	1.2%
Relative NAV performance	1.1%	1.1%
Ordinary share price*	9.7%	2.9%
FTSE All-Share Index#	8.7%	(3.1%)
	As at	As at
Dividend Yields	31 December 2012	30 June 2012
City of London*	4.5%	4.8%
Average UK Growth & Income Investment Trust* †	4.2%	4.5%
FTSE All-Share Index#	3.6%	3.7%
FTSE 350 Investment Companies Index#	2.5%	2.4%
	As at	As at
	31 December 2012	30 June 2012
Ordinary share price	317.10p	295.80p
NAV per ordinary share	312.18p	292.87p
Premium	1.6%	1.0%
NAV per ordinary share (with debt at market value)	306.75p	286.42p
Premium (with debt at market value)	3.4%	3.3%
Gearing (at par value)	9.0%	9.5%

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

INTERIM MANAGEMENT REPORT

Chairman’s Statement

Net Asset Value Total Return

This has been a good performance in the context of a mixed global economic environment. Overall, economic growth was satisfactory supported by better than expected expansion in the US and an improvement in China. In contrast, growth was disappointing in Europe and the UK but financial stresses eased with peripheral government bond yields declining and better liquidity for the banks.

City of London produced a net asset value total return of 9.6% which was 1.1 percentage points better than the size weighted average for the UK Growth & Income investment trust sector. City of London’s performance was also 0.9 percentage points better than the FTSE All-Share Index which produced a total return of 8.7%. We benefited from gearing during the six months of between 8% and 10% as well as below average exposure to the oil sector which was a poor performer. Within the portfolio, particularly strong performances were achieved by newspaper distributor Smiths News where profits beat low expectations; IMI experiencing global demand for its industrial engineering products and the life assurers Aviva and Standard Life which benefited from improving equity markets.

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Interim Management Report (continued)

Chairman's Statement (continued)

Earnings and Dividends

City of London's earnings per share increased by 2.2% over the same period last year, with the increase in investment income from ordinary dividends partly offset by a reduction in the amount of special dividends, notably from Vodafone. However, the underlying increase in the dividend rate of companies in City of London's portfolio, excluding special dividends, was 6.6%. So far this financial year, City of London has declared two interim dividends of 3.52p each. The quarterly rate will be reviewed by the Board before the third interim is declared at the end of March 2013.

Expenses

The ongoing charges ratio ("OCR"), 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 OCR for the six months indicates a full year rate of 0.44% of net assets.

Material Events and Transactions During the Period

A total of 8,075,000 new shares were issued in the six months to 31 December 2012 at a premium to net asset value, benefiting the income and capital objectives of the Company. A further 1,775,000 shares have been issued since the period end. Additions were made to the real estate investment trust sector through British Land and Segro given their attractive dividend yields and discounts to net asset values. BP was also added to after the favourable resolution of its problems in Russia. Reed Elsevier was a further notable addition in view of the cash generation expected from its operations. In the banks sector, the holding in Standard Chartered was sold and switched into HSBC. New holdings were purchased in four medium sized companies: Tullett Prebon (inter-dealer broker), Tui Travel (tour operator), Direct Line (insurance) and Gulf Keystone convertible (oil exploration). Finally, some small reductions were made from our large and successful long-term holdings in the international consumer goods companies British American Tobacco and Diageo.

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 and Financial Statements. 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 2013

City of London's portfolio is invested mainly in UK listed companies with operations across the global economy. In the United States, prospects for economic growth appear to be good with the housing market recovering and the Federal Reserve targeting employment rather than inflation. The main negative is that the US fiscal problems are still to be resolved. Growth prospects in emerging markets continue to be promising. In Europe, the fundamental issues with sovereign debt and imbalances remain but the easing of financial conditions as well as inventory rebuild should help growth. In the UK, monetary policy will remain stimulatory and the Funding for Lending scheme should help the housing market. Growth is likely to continue to be below the long-term trend given excessive consumer and government debt.

After its rise over the last year, the UK equity market is not as cheap as it was but it still remains undervalued relative to long-term averages. In particular, the dividend yield continues to be attractive relative to fixed interest and bank deposit rates and given the dividend growth forecast based on consensus estimates.

Philip Remnant
Chairman
8 February 2013

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
8 February 2013

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Income Statement

for the half year ended 31 December 2012

	(Unaudited) Half year ended 31 December 2012			(Unaudited) Half year ended 31 December 2011			(Audited) Year ended 30 June 2012		
	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000	Revenue Return £'000	Capital Return £'000	Total £'000
Gains/(losses) on investments held at fair value through profit or loss	-	52,137	52,137	-	(32,426)	(32,426)	-	(10,617)	(10,617)
Income from investments held at fair value through profit or loss	14,936	-	14,936	13,775	-	13,775	34,729	-	34,729
Other interest receivable and similar income	274	-	274	212	-	212	759	-	759
Gross revenue and capital gains/(losses)	15,210	52,137	67,347	13,987	(32,426)	(18,439)	35,488	(10,617)	24,871
Management fees	(396)	(923)	(1,319)	(329)	(768)	(1,097)	(693)	(1,617)	(2,310)
Other administrative expenses	(331)	-	(331)	(315)	-	(315)	(589)	-	(589)
Net return/(loss) on ordinary activities before finance charges and taxation	14,483	51,214	65,697	13,343	(33,194)	(19,851)	34,206	(12,234)	21,972
Finance charges	(763)	(1,598)	(2,361)	(756)	(1,579)	(2,335)	(1,519)	(3,178)	(4,697)
Net return/(loss) on ordinary activities before taxation	13,720	49,616	63,336	12,587	(34,773)	(22,186)	32,687	(15,412)	17,275
Taxation on net return on ordinary activities	(78)	-	(78)	(27)	-	(27)	(237)	-	(237)
Net return/(loss) on ordinary activities after taxation	13,642	49,616	63,258	12,560	(34,773)	(22,213)	32,450	(15,412)	17,038
Return/(loss) per ordinary share - basic (note 2)	5.63p	20.47p	26.10p	5.51p	(15.25p)	(9.74p)	14.05p	(6.67p)	7.38p

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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HALF YEAR REPORT
UNAUDITED RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

Reconciliation of Movements in Shareholders' Funds

for the half years ended 31 December 2012 and 2011 and year ended 30 June 2012

Half year ended 31 December 2012 (unaudited)	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 June 2012	59,715	114,340	2,707	494,626	28,158	699,546
Net return on ordinary activities after taxation	-	-	-	49,616	13,642	63,258
Issue of 8,075,000 new ordinary shares	2,019	22,952	-	-	-	24,971
Fourth interim dividend (3.52p per share) for year ended 30 June 2012 paid 31 August 2012	-	-	-	-	(8,441)	(8,441)
First interim dividend (3.52p per share) for year ended 30 June 2013 paid 30 November 2012	-	-	-	-	(8,586)	(8,586)
Unclaimed distribution monies over 12 years old	-	-	-	-	138	138
At 31 December 2012	61,734	137,292	2,707	544,242	24,911	770,886
Half year ended 31 December 2011 (unaudited)	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
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	13,239	-	-	-	14,601
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
Year ended 30 June 2012 (Audited)	Called-up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 30 June 2011	56,215	78,590	2,707	510,038	26,927	674,477
Net (loss)/return on ordinary activities after taxation	-	-	-	(15,412)	32,450	17,038
Issue of 14,000,000 new ordinary shares	3,500	35,750	-	-	-	39,250
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)
Second interim dividend (3.35p per share) for year ended 30 June 2012 paid 28 February 2012	-	-	-	-	(7,730)	(7,730)
Third interim dividend (3.52p per share) for year ended 30 June 2012 paid 31 May 2012	-	-	-	-	(8,266)	(8,266)
At 30 June 2012	59,715	114,340	2,707	494,626	28,158	699,546

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UNAUDITED RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

Balance Sheet

at 31 December 2012

	(Unaudited) 31 December 2012 £'000	(Unaudited) 31 December 2011 £'000	(Audited) 30 June 2012 £'000
Investments held at fair value through profit or loss			
Listed at market value in the United Kingdom	779,722	667,213	714,141
Listed at market value overseas	60,262	42,604	52,067
Investment in subsidiary undertakings	347	347	347
	-----	-----	-----
	840,331	710,164	766,555
	-----	-----	-----
Current assets			
Debtors	3,161	3,890	6,275
Bank balances and short term deposits	-	1,350	-
	-----	-----	-----
	3,161	5,240	6,275
	-----	-----	-----
Creditors: amounts falling due within one year	(25,207)	(16,363)	(25,885)
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Net current liabilities	(22,046)	(11,123)	(19,610)
	-----	-----	-----
Total assets less current liabilities	818,285	699,041	746,945
	-----	-----	-----
Creditors: amounts falling due after more than one year	(47,399)	(47,399)	(47,399)
	-----	-----	-----
Total net assets	770,886	651,642	699,546
	=====	=====	=====
Capital and reserves			
Called-up share capital (note 3)	61,734	57,577	59,715
Share premium account	137,292	91,829	114,340
Capital redemption reserve	2,707	2,707	2,707
Other capital reserves	544,242	475,265	494,626
Revenue reserve	24,911	24,264	28,158
	-----	-----	-----
Shareholders' funds	770,886	651,642	699,546
	=====	=====	=====
Net asset value per ordinary share (note 4)	312.18p	282.94p	292.87p
	=====	=====	=====

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Unaudited Results for the Half Year Ended 31 December 2012

Cash Flow Statement

for the half year ended 31 December 2012

	(Unaudited) Half year ended 31 December 2012 £'000	(Unaudited) Half year ended 31 December 2011 £'000	(Audited) Year ended 30 June 2012 £'000
Net cash inflow from operating activities	15,564	13,887	31,758
Net cash outflow from servicing of finance	(2,370)	(2,333)	(4,693)
Total tax recovered	106	33	120
Net cash outflow from financial investment	(21,676)	(15,302)	(50,121)
Equity dividends paid	(16,889)	(15,223)	(31,219)
Net cash inflow from financing	25,409	15,780	39,991
	-----	-----	-----
Increase/(decrease) in cash	144	(3,158)	(14,164)
	=====	=====	=====
Reconciliation of operating revenue to net cash inflow from operating activities			
Total return/(loss) before finance costs and taxation	65,697	(19,851)	21,972
(Less)/add: capital (return)/loss before finance costs and taxation	(51,214)	33,194	12,234
	-----	-----	-----
Net revenue return before finance costs and taxation	14,483	13,343	34,206
Decrease/(increase) in accrued income	1,988	1,175	(171)
Increase/(decrease) in other creditors	98	165	(320)
Expenses charged to other capital reserves	(923)	(768)	(1,617)
Overseas withholding tax	(82)	(28)	(340)
	-----	-----	-----
Net cash inflow from operating activities	15,564	13,887	31,758
	=====	=====	=====
Reconciliation of net cash inflow to movement in net debt			
Increase/(decrease) in cash as above	144	(3,158)	(14,164)
Exchange movements	(23)	(57)	(36)
Net debt at beginning of the period	(70,110)	(55,910)	(55,910)
	-----	-----	-----
Net debt at end of the period	(69,989)	(59,125)	(70,110)
	=====	=====	=====
Represented by:			
Cash at bank and short term deposits less bank overdrafts	(22,590)	(11,726)	(22,711)
Debt falling due after more than one year	(47,399)	(47,399)	(47,399)
	-----	-----	-----
	(69,989)	(59,125)	(70,110)
	=====	=====	=====

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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 2012.

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

2. Return/(loss) per ordinary share

	(Unaudited) Half year ended 31 December 2012 £'000	(Unaudited) Half year ended 31 December 2011 £'000	(Audited) Year ended 30 June 2012 £'000
The return per ordinary share is based on the following figures:			
Revenue return	13,642	12,560	32,450
Capital return/(loss)	49,616	(34,773)	(15,412)
	-----	-----	-----
Total	63,258	(22,213)	17,038
	=====	=====	=====
Weighted average number of ordinary shares in issue for each period	242,368,703	228,002,938	230,996,546
Revenue return per ordinary share	5.63p	5.51p	14.05p
Capital return/(loss) per ordinary share	20.47p	(15.25p)	(6.67p)
	-----	-----	-----
Total	26.10p	(9.74p)	7.38p
	=====	=====	=====

The Company does not have any dilutive securities.

3. Called-up share capital

During the half year ended 31 December 2012, 8,075,000 ordinary shares were issued for total proceeds of £24,971,000 (half year ended 31 December 2011: 5,450,000 ordinary shares issued for total proceeds of £14,601,000; year ended 30 June 2012: 14,000,000 ordinary shares issued for total proceeds of £39,250,000). The number of ordinary shares in issue at 31 December 2012 was 246,934,868.

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 £770,886,000 (31 December 2011: £651,642,000; 30 June 2012: £699,546,000) and on 246,934,868 ordinary shares (31 December 2011: 230,309,868; 30 June 2012: 238,859,868) 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 2012 were £192,000 (half year ended 31 December 2011: £213,000; year ended 30 June 2012: £469,000). These comprise mainly stamp duty and commissions. Sale transaction costs for the half year ended 31 December 2012 were £36,000 (half year ended 31 December 2011: £40,000; year ended 30 June 2012: £60,000).

6. Dividend

A first interim dividend of 3.52p was paid on 30 November 2012. The second interim dividend of 3.52p (declared on 13 December 2012) will be paid on 28 February 2013 to shareholders on the register on 25 January 2013. The Company's shares will go ex-dividend on 23 January 2013.

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 2012 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. Half year report

An Update extracted from the Company's report for the half year ended 31 December 2012 will be posted to shareholders in February 2013. Copies of the half year announcement and the half year Update will be available on our website (www.cityinvestmenttrust.com) by the end of February 2013. Copies can also be requested thereafter from the Secretary at the Registered Office, 201 Bishopsgate, London EC2M 3AE.

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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:

	Market value 31 December 2012 £'000		Market value 31 December 2012 £'000
Royal Dutch Shell	47,797	United Utilities	7,409
British American Tobacco	46,815	Amlin	7,201
Diageo	42,888	Weir	6,952
HSBC	40,981	Sainsbury (J)	6,902
GlaxoSmithKline	39,783	Greene King	6,881
Vodafone	33,207	Provident Financial	6,790
Unilever	24,961	Hiscox	6,362
BP	21,877	Severn Trent	6,296
Centrica	19,682	Marks & Spencer	6,117
AstraZeneca	18,912	Britvic	6,104
Scottish & Southern Energy	17,938	British Sky Broadcasting	5,753
BHP Billiton	17,921	Spirax-Sarco Engineering	5,670
National Grid	17,575	Merck	5,542
Croda International	14,256	Whitbread	5,506
Pearson	12,771	Barclays	5,248
Rio Tinto	12,641	ENI	5,206
Land Securities	12,609	Zurich Insurance	5,039
Reed Elsevier	11,846	RSA Insurance	5,028
IMI	10,422	Next	5,007
Aviva	9,996	Segro	4,932
Reckitt Benckiser	9,558	BT	4,853
Prudential	9,521	Statoil	4,541
Imperial Tobacco	9,492	Tate & Lyle	4,382
Legal & General	9,464	Pennon	4,375
British Land	8,992	Phoenix	4,360
BAE Systems	8,928	Compass	4,350
Tesco	8,400	Renishaw	4,140
Smiths News	8,000	Swisscom	3,970
Standard Life	7,970	Cineworld	3,919
Novartis	7,722	Halma	3,905

These investments total £725,665,000 or 86.4% of the portfolio.

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Net Asset Value Total Return	6 months	3 years	5 years
	%	%	%
The City of London Investment Trust plc⁽¹⁾	9.6	39.9	20.8
Average UK Growth & Income Investment Trust ^{(1) (3)}	8.5	36.4	18.3
FTSE All-Share Index ⁽²⁾	8.7	24.2	13.2
FTSE 350 Investment Companies Index ⁽²⁾	8.6	24.9	10.4

Share Price Performance Total Return	6 months	3 years	5 years
Value of £1,000 with net income reinvested			
The City of London Investment Trust plc⁽¹⁾	1,097	1,486	1,449
Average UK Growth & Income Investment Trust ^{(1) (3)}	1,099	1,478	1,351
FTSE All-Share Index ⁽²⁾	1,087	1,242	1,132
FTSE 350 Investment Companies Index ⁽²⁾	1,086	1,249	1,104

Sources: ⁽¹⁾AIC Statistics at Morningstar, using the fair value cum income net asset value for six months and three years and capital only net asset value with income reinvested for five years; ⁽²⁾Datastream; ⁽³⁾Size weighted average

Sector Analysis of Portfolio as at 31 December 2012

	%
Financials	19.8
Consumer Goods	18.2
Consumer Services	11.9
Industrials	10.3
Oil & Gas	10.1
Utilities	8.9
Health Care	8.6
Basic Materials	5.9
Telecommunications	5.6
Technology	0.7

Total	100.0
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