The City of London Investment Trust plc

Annual Report and Financial Statements for the year ended 30 June

2011

The City of London Investment Trust plc

The City of London Investment Trust plc has a portfolio predominantly invested in larger companies. It has an independent Board of directors and the portfolio is managed by Henderson Global Investors Limited.

Objective

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

Performance Fee Benchmark

From 1 July 2009 the AIC UK Growth & Income sector's size weighted average net asset value total return

From 1 July 2005 to 30 June 2009 it was the total return of the "FTSE All-Share Index – adjusted for a maximum 4% cap for any single stock" ("FTSE All-Share Index – 4% capped").

Savings

City of London sets out to be an attractive and straightforward long-term savings vehicle for private investors. As well as investing directly, shares can be purchased through various dealing platforms and held in share plans, ISAs or pensions. Links to some of these dealing platforms can be found on our website, www.cityinvestmenttrust.com

Financial Highlights

	30 June 2011	30 June 2010
Total Returns*		
Net asset value per ordinary share ("NAV")*#	**29.2%**	26.5%
Ordinary share price#	**31.1%**	27.6%
UK Growth & Income Sector‡# (benchmark)	**29.7%**	25.8%
NAV performance versus benchmark	**(0.5%)**	0.7%
FTSE All-Share Index†	**25.6%**	21.1%
FTSE All-Share Index – 4% Capped†	**25.9%**	23.3%
Dividend Yields		
The City of London#	**4.4%**	5.3%
UK Growth & Income Sector‡#	**4.2%**	5.1%
FTSE All-Share Index†	**3.0%**	3.3%
FTSE All-Share Index – 4% Capped†	**2.9%**	3.2%
FTSE 350 Equity Investment Instruments Index†	**1.6%**	2.0%
Revenue		
Earnings per ordinary share (EPS)	**13.17p**	11.93p
Dividends per ordinary share (DPS)	**13.20p**	12.66p
Revenue reserve	**£26.9m**	£26.7m
Revenue reserve per ordinary share	**11.98p**	12.79p
Ordinary Share Price	**301.30p**	240.70p
Net Asset Value per Ordinary Share	**299.95p**	244.96p
Premium/(discount)	**0.5%**	(1.7%)
Net asset value per ordinary share (with debt at market value)*	**294.06p**	238.71p
Premium (with debt at market value)	**2.5%**	0.8%
Gearing*	**7.9%**	9.2%
Total Expense Ratio (as a percentage of shareholders' funds)*	**0.44%**	0.48%
Management and other expenses	**0.44%**	0.46%
Performance fee	**–**	0.02%

*For definitions and further information please see the Glossary of Terms on page 51
‡Size weighted average net asset value total return (shareholders' funds)

Sources:
#Morningstar for the AIC; NAV return is the cum income fair value NAV
†Datastream

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Chairman's Statement

Simon de Zoete

The year ended 30 June 2011 was another successful year for City of London. The net asset value total return was 29.2%, exceeding the 26.5% return in 2010 and importantly the dividend was increased for the forty-fifth consecutive year. Our total expense ratio remained amongst the lowest in the sector.

Performance for Year to 30 June 2011

Earnings and Dividends
Earnings per share rose by 10.4%, a figure that benefited mainly from a very satisfactory increase in the dividends received from companies held in the portfolio. Investment income rose by 16.9% and we made some use of our borrowing facility to buy dividend paying equities.

A fourth interim dividend of 3.35p was paid on 31 August 2011 making a total for the year of 13.20p, an increase of 4.3% over the previous year. EPS of 13.17p almost covered the DPS of 13.20p and there were revenue reserves per share of 11.98p at 30 June 2011.

The dividend declarations from companies in our portfolio have been encouraging during our current financial year. The quarterly rate will next be considered when the third interim is declared in March 2012, by which time the Board will be able to assess better the trend in income of the portfolio.

Net Asset Value Total Return
It was a good year with a net asset value total return of 29.2%. The majority of the return was achieved in the first half of the period with the euro sovereign debt crisis and concerns about UK economic growth overshadowing the equity market in the second half. Gearing and stock selection both contributed positively to our performance over the year.

On stock selection, for a second year running the best performers in our portfolio were industrial stocks, such as Weir Group and Croda, which have benefited from global economic growth and have strong market positions in their niche industries. In addition, Land Securities was a notable outperformer, based on the rise in value of its London office and retail property.

City of London marginally underperformed the average of the AIC UK Growth & Income sector by 0.5% over the year.

The share price did better than its net asset value moving from a discount (with debt at par value) of 1.7% at the previous year end to a premium of 0.5% at 30 June 2011.

Performance for Five Years to 30 June 2011

Earnings and Dividends
The Company's annual dividend has grown by 41% over the last five years from 9.36p to 13.20p and revenue reserves have increased from 8.65p to 11.98p.

Net Asset Value Total Return
Shareholders' net asset value total return has been 26.9% over the last five years, which compares with 21.6% for the average of the AIC UK Growth & Income sector.

Expenses
There is no performance fee payable for the year.

The total expense ratio (TER), which is the investment management fee and other non-interest expenses as a percentage of shareholder funds, was 0.44%, which is very competitive compared with the OEIC market, with most other investment trusts and with other actively managed equity funds.

This is important because expenses are a tax on shareholder returns and we have to compete for investment and savings in a market that will be changing as a result of the Retail Distribution Review.

Share Issues and Buy-Backs

The Board's aim is for our share price to reflect closely its underlying net asset value; and also to reduce volatility and have a liquid market in our shares. Our ability to influence this is, of course, limited. We do believe that flexibility is important and that it is not in shareholders' interests to have a specific issuance and buy-back policy. The Board intends, however, subject always to the overall impact on our portfolio, the pricing of other trusts and overall market conditions, to consider issuance and buy-backs within a narrow band relative to net asset value.

City of London's shares have been in strong demand. During the year under review 16.24m new shares were issued for proceeds of £45.57m at a premium to net asset value. This allowed the Portfolio Manager to invest in good dividend yielding shares at attractive valuations.

Outlook

Since our financial year end of 30 June 2011, there have been significant falls across world equity markets. Growth expectations in the developed Western economies have been declining. The process of deleveraging for consumers and national governments is proving to be protracted and painful. In contrast, companies have, in general, relatively strong balance sheets. In addition, many UK listed companies are well-placed to benefit from the structural growth taking place in emerging markets. Equities seem to be attractive, on a price earnings basis, based on the consensus of analysts' expectations for profits. The dividend yield of equities is substantially above gilts and dividends have prospects for growth over the coming year.

Board

After ten years serving as Chairman I am standing down from the Board after the Annual General Meeting on 24 October 2011. I am absolutely delighted that Philip Remnant will be succeeding me.

Annual General Meeting

Shareholders are invited to the Annual General Meeting on Monday 24 October 2011 at 201 Bishopsgate, London EC2M 3AE. The meeting will start at 3pm and will include a presentation from the Portfolio Manager.

Simon de Zoete
14 September 2011

Historical Performance

Results
to 30 June 2011

Total Returns	1 year %	3 years %	5 years %	10 years %
Net asset value per ordinary share*	+29.2	+27.9	+26.9	+69.7
UK Growth & Income Sector Average – net asset value*†	+29.7	+27.1	+21.6	+57.6
FTSE All-Share Index‡	+25.6	+21.0	+24.6	+59.2
FTSE All-Share 4% Capped Index‡	+25.9	+24.1	+28.4	+71.9

†Size weighted average (shareholders' funds)
*Source: Morningstar for the AIC using cum income fair value NAV for one and three years and capital NAV plus income reinvested for five and 10 years
‡Datastream

Share Price Performance Total Return
to 30 June 2011

Value of £1,000 with net income reinvested	1 year £	3 years £	5 years £	10 years £
The City of London Investment Trust plc*	1,311	1,478	1,422	1,886
UK Growth & Income Sector Average*†	1,309	1,436	1,338	1,777
FTSE All-Share Index‡	1,256	1,210	1,246	1,592
FTSE All-Share 4% Capped Index‡	1,259	1,241	1,284	1,719
FTSE 350 Equity Investment Instruments Index‡	1,226	1,179	1,322	1,646

Share price total return excluding transaction costs
†Size weighted average (shareholders' funds)
*Source: Morningstar for the AIC
‡Datastream

Summary Performance Record

Year ended	Net Asset Value per Ordinary Share (p)*	Net Asset Value per Ordinary Share (rebased)‡	Net Dividends per Ordinary Share (p)	Net Dividends per Ordinary Share (rebased)‡
30 June 2001	263.2	100.0	7.50	100.0
30 June 2002	224.6	85.3	7.94	105.9
30 June 2003	191.2	72.6	8.07	107.6
30 June 2004	218.8†	83.1	8.33	111.1
30 June 2005	256.9†	97.6	8.62	114.9
30 June 2006	294.7	112.0	9.36	124.8
30 June 2007	345.6	131.3	10.30	137.3
30 June 2008	274.4	104.3	11.60	154.7
30 June 2009	205.7	78.2	12.32	164.3
30 June 2010	245.0	93.1	12.66	168.8
30 June 2011	**300.0**	**114.0**	**13.20**	**176.0**

*Net asset value per ordinary share is calculated after deducting all prior charges, including the preference and preferred ordinary stocks, at par.
†Restated – due to change in accounting policy for treatment of dividends payable
‡Rebased to 100 at 30 June 2001

	1 year %	3 years %	5 years %	10 years %
Net asset value per ordinary share	+22.4	+9.3	+1.8	+14.0
Net dividend per ordinary share	+4.3	+13.8	+41.0	+76.0

Top 40 Investments

as at 30 June 2011

The 40 largest investments, representing 78.43% of the portfolio (convertibles, all classes of equity and all written call option positions in any one company being treated as one investment), are listed below. The stocks marked * were not in the top ten last year. The stocks that were in the top 10 last year but not this year are Scottish & Southern Energy and Tesco.

Position	Company	Sector	Market Value 2011 £'000	Percentage of Portfolio 2011
1	**Royal Dutch Shell**	Oil & Gas Producers	**46,704**	6.42
2	**British American Tobacco**	Tobacco	**45,471**	6.25
3	**GlaxoSmithKline**	Pharmaceuticals & Biotechnology	**35,351**	4.86
4	**Diageo**	Beverages	**33,735**	4.63
5	**Vodafone**	Mobile Telecommunications	**33,060**	4.54
6	**HSBC**	Banks	**27,828**	3.82
7	**AstraZeneca**	Pharmaceuticals & Biotechnology	**21,756**	2.99
8	**Unilever***	Food Producers	**21,665**	2.98
9	**BHP Billiton***	Mining	**20,635**	2.84
10	**National Grid**	Gas, Water & Multiutilities	**19,906**	2.73
Top 10 = 42.06% of the portfolio				
11	**Scottish & Southern Energy**	Electricity	**19,154**	2.63
12	**BP**	Oil & Gas Producers	**16,053**	2.21
13	**Tesco**	Food & Drug Retailers	**14,874**	2.04
14	**Land Securities**	Real Estate	**13,640**	1.87
15	**Rio Tinto**	Mining	**13,399**	1.84
16	**Croda**	Chemicals	**12,737**	1.75
17	**Pearson**	Media	**12,642**	1.74
18	**Weir**	Industrial Engineering	**11,167**	1.53
19	**Aviva**	Life Insurance	**10,975**	1.51
20	**Centrica**	Gas, Water & Multiutilities	**10,507**	1.44
Top 20 = 60.62% of the portfolio				
21	**IMI**	Industrial Engineering	**10,003**	1.37
22	**Reed Elsevier**	Media	**9,056**	1.24
23	**BAE Systems**	Aerospace & Defence	**8,440**	1.16
24	**Imperial Tobacco**	Tobacco	**8,284**	1.14
25	**Reckitt Benckiser**	Household Goods	**7,912**	1.09
26	**Britvic**	Beverages	**7,890**	1.08
27	**Amlin**	Nonlife Insurance	**7,716**	1.06
28	**France Telecom**	Fixed Line Telecommunications	**5,960**	0.82
29	**Pennon**	Gas, Water & Multiutilities	**5,933**	0.82
30	**Severn Trent**	Gas, Water & Multiutilities	**5,888**	0.81
Top 30 = 71.21% of the portfolio				
31	**Hiscox**	Nonlife Insurance	**5,865**	0.81
32	**Prudential**	Life Insurance	**5,760**	0.79
33	**United Utilities**	Gas, Water & Multiutilities	**5,691**	0.78
34	**Spirax-Sarco Engineering**	Industrial Engineering	**5,503**	0.76
35	**RSA Insurance**	Nonlife Insurance	**5,396**	0.74
36	**Legal & General**	Life Insurance	**5,319**	0.73
37	**Greene King**	Travel & Leisure	**4,874**	0.67
38	**Deutsche Telekom**	Mobile Telecommunications	**4,870**	0.67
39	**Vivendi**	Media	**4,676**	0.64
40	**Novartis**	Pharmaceuticals & Biotechnology	**4,567**	0.63
Top 40 = 78.43% of the portfolio				

Portfolio Manager's Report

Job Curtis

Investment Background

During the 12 month period under review, the UK equity market, as measured by the FTSE All-Share 4% Capped Index, produced a total return of 25.9%. These gains were skewed towards the second half of 2010 where the return was 22.1% as equities responded well to strong global economic growth led by emerging markets, such as China. Growth in developed economies, including the UK, was relatively pedestrian. Commodities reacted to the overall strength of demand with, for example, the Brent Crude oil price rising by 24% over the six months.

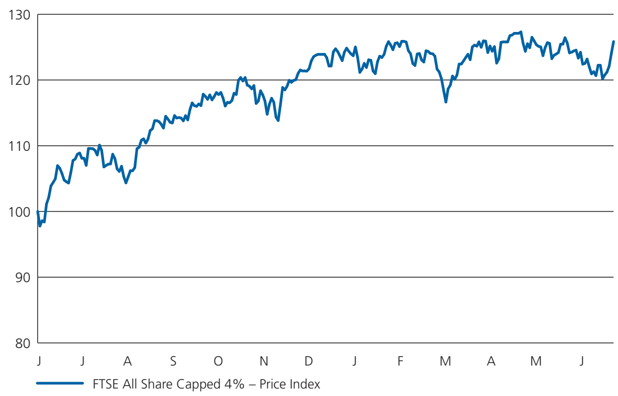
In the first half of 2011, the UK equity market produced a more modest return of 3.0%. The rise in petrol, food and utility prices and the increase in VAT from 17.5% to 20.0%, led to a rise in inflation as well as a further squeeze on the spending power of heavily indebted UK consumers. Given a slowdown in growth for the economy and low level of wage increases, the Bank of England's Monetary Policy Committee decided to ignore the rise in inflation and kept the base rate at the historic low of 0.5%. Overseas, worries about the solvency of some of the countries in the Eurozone grew.

During the 12 months, sterling rose against the US dollar from 1.50 to 1.61. Some 33% of the Company's dividend income from Royal Dutch Shell, HSBC and BHP Billiton, which all declare dividends in US dollars, had been hedged in the previous year at 1.44.

A welcome feature of the year has been the return to dividend growth from companies as profits have recovered. The average increase in the dividend rate of companies in which City of London has shares was 5.0% compared with last year. If BP and special dividends are excluded, the increase would have been 8.4%.

Given the dividend growth being delivered from companies in the portfolio, equities appeared to offer good value relative to the yields available in fixed interest during the 12 month period. As a result, gearing was maintained in a range of between 8% and 12%. The facility with HSBC was drawn

FTSE All-Share Index – 4% Capped from 30 June 2010 to 30 June 2011 (rebased to 100)

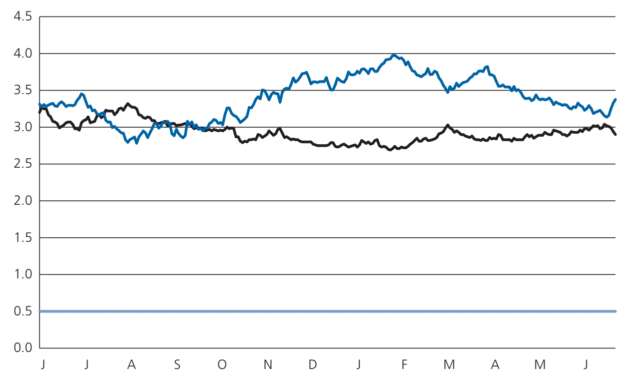


Source: Datastream

US Dollar rate against Sterling – Price Index from 30 June 2010 to 30 June 2011

Source: Datastream

Base Rates, 10 year UK Government & FTSE All-Share Index – 4% Capped Yields from 30 June 2010 to 30 June 2011



Source: Datastream

Portfolio Manager's Report

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down to take advantage of opportunities to a maximum of £27.2m in February and then reduced to £9.0m by the end of June 2011. Gearing contributed positively by 2.72 percentage points to performance relative to the FTSE All-Share 4% Capped Index. In addition, stock selection also contributed positively by 0.83 percentage points.

Estimated Performance Attribution Analysis

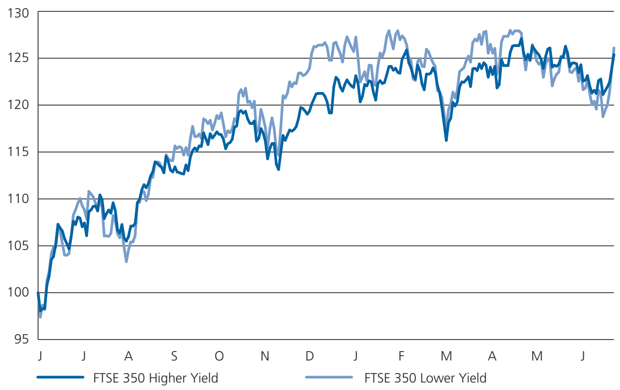
(for the year to 30 June 2011 – total returns relative to the FTSE All-Share 4% Capped Index)

	2011	2010
Stock selection	**+0.83%**	+1.26%
Gearing	**+2.72%**	+2.42%
Expenses	**-0.44%**	-0.48%
Share issues	**+0.28%**	–
Total	**+3.39%**	+3.20%

Source: Henderson Global Investors

Performance of higher yielding shares compared with lower yielding shares

The chart below compares the return of the FTSE 350 Higher Yielding Index (the higher dividend yielding half of the largest 350 shares of the UK) with the FTSE 350 Lower Yield Index (the lower dividend yielding half of the largest 350 shares in the UK) from 30 June 2010 to 30 June 2011 (rebased to 100).



Source: Datastream

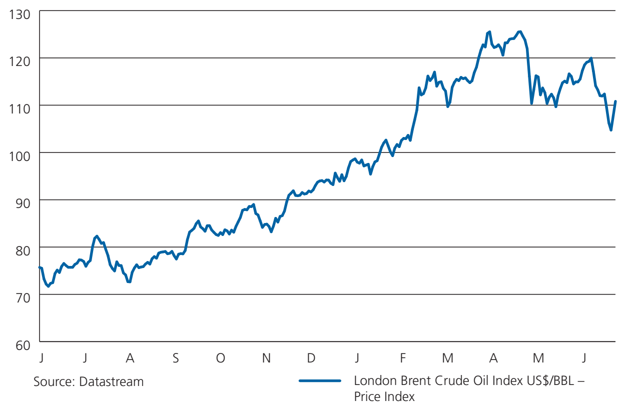
Over the 12 month period, the FTSE 350 Lower Yield Index returned 26.1% which was a slight outperformance of the FTSE 350 Higher Yield Index which returned 25.4%. Although the low yielding mining sector outperformed, this was offset by the underperformance of the banking sector.

Portfolio Review

The overall supply/demand balance for oil remained tight and the oil price strengthened over the year. Oil companies are a natural beneficiary of the rise in the oil price although they face a constant battle to replace and grow their oil reserves. The largest holding in the portfolio, Royal Dutch Shell ("RDS"), had a very good year, producing a share price total return of 44%. RDS's technical expertise was demonstrated by the start of production in the first half of 2011 of a large oil sands project in Canada and two complex gas projects in Qatar. These and other major oil and gas projects under development should underpin RDS's long-term growth in profits and cash flow. Elsewhere in the oil sector, a new holding was purchased in Statoil, which is the dominant player in the Norwegian oil and gas fields. The holding in Diamond Offshore Drilling was sold with the company's profits being adversely affected by reduced drilling activity in the Gulf of Mexico.

For the second year running, industrial companies performed strongly. Spectacular returns were achieved from the portfolio's holdings in Weir (108%), Croda (91%), IMI (58%) and Renishaw (147%). These companies mainly operate in niche areas with strong barriers to entry and relatively strong pricing power. They are international leaders and have benefited from strong growth in global demand for their products. To the extent to which they export from the UK, the sterling exchange rate has been competitive for them. In the general industrials sector, Tomkins was sold after a bid approach from a Canadian private equity firm.

London Brent Crude Oil Index US$/BBL – Price Index from 30 June 2010 to 30 June 2011



Source: Datastream

A significantly below average exposure to the banking sector was maintained throughout the year. Banks underperformed against a background of regulatory uncertainty and a need to rebuild their capital bases. The holding in Lloyds Banking Group, which had higher than expected losses in Ireland, was sold. Some additions were made to HSBC which is

Portfolio Manager's Report

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conservatively managed with deposits in excess of loans and has significant exposure to the Pacific and emerging markets.

In the insurance sector, two new holdings were purchased. Prudential appeared undervalued given the combination of its UK, US and Pacific life assurance businesses and its UK fund management operations. Zurich Financial Services was bought on a very attractive dividend yield of 6.8% and appeared to be good value relative to comparable large European and US insurance companies.

In property, Land Securities had a good year, benefiting from a strong rise in value of its London office and retail portfolio. This reflected both overseas and UK investors favouring London property as an asset class.

An above average exposure to the utility sector was maintained given attractive dividend yields and for some companies a degree of inflation protection in their regulatory controlled pricing. A new holding was purchased in International Power which merged with GDF Suez of France to form the world's largest independent power producer. The company has a strong balance sheet and is expected to produce double-digit percentage profits growth between 2011 and 2014 from new power stations being built. In contrast, RWE, which has a high level of indebtedness and lacklustre outlook for profits growth from its coal and nuclear power plants, was sold.

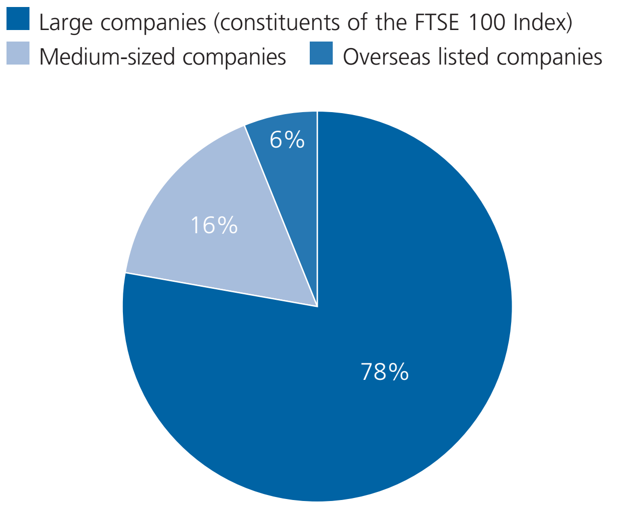
The portfolio's biggest holding in the telecommunications sector, Vodafone, produced a total return of 25% over the 12 months. Vodafone owns 45% of Verizon Wireless, the leading mobile operator in the USA, which is performing well and is to start paying dividends, which will give a significant boost to its cash flow. Elsewhere, new holdings were purchased on attractive dividend yields in SK Telecom of South Korea and the French media/telecoms conglomerate Vivendi.

Certain stocks that were considered to be vulnerable to the weak UK domestic economy were sold. These included: pub group Marston's, transportation company Stobart and leisure group Holidaybreak (which subsequently received a takeover bid). On the other hand, a new holding was purchased in Sainsbury, in view of the relatively defensive nature of its food retailing business and the value of the stores that it owns.

In technology, a new holding was purchased in Microsoft, which has a dominating market position in providing operating systems for personal computers ("PCs") and net cash equivalent to around 20% of its market capitalisation. Although smartphones/tablets are eroding some PC sales, there is significant scope for companies to upgrade their software and this is the most important part of Microsoft's business. The purchase of Microsoft was financed by the sale of Playtech, the betting software company.

Other new purchases included: Compass, the leading international caterer with good growth prospects given the continuing trend for the contracting-out of catering; Paypoint, the national network for collecting payments "over the counter", which was bought on a very attractive valuation; and John Laing Infrastructure Fund, an investment company which owns private finance initiative ("PFI") assets, which offered a secure and growing income stream.

Distribution of the Portfolio at 30 June 2011



The distribution at the previous year end was: large companies 76%, medium-sized companies 20%, and overseas listed companies 4%. During the year under review there has been a reduction in the proportion of the portfolio invested in medium-sized companies and increases in the proportions invested in both FTSE 100 and overseas listed companies.

There is scope to have 20% of the portfolio in overseas listed stocks, but we will only invest overseas when there is, in our view, a significant advantage over UK listed companies.

Outlook

A continuation of existing trends seems likely in the year ahead. Most developed economies, including the UK, are struggling with too much debt both among consumers and governments. As a result, economic growth in these economies will be slow and interest rates are likely to remain

Portfolio Manager's Report

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at low levels. In contrast, emerging economies should enjoy relatively rapid growth with portions of the vast population of countries, such as China and India, in the process of moving out of poverty and into a modest degree of affluence.

The largest nine holdings in the portfolio are all multinationals. British American Tobacco (second largest holding), Diageo (fourth) and Unilever (eighth) are consumer products companies with strong brands and substantial operations in fast growing emerging markets. Vodafone (fifth) and HSBC (sixth) also have global footprints for their operations.

Although 9.8% of the portfolio is invested in the oil sector and 4.7% in mining, this is significantly less than the average exposure for the UK equity market. Many companies in these sectors have low dividend yields and valuations built on the current high level of commodity prices which are volatile. However, Royal Dutch Shell (largest holding) and BHP Billiton (ninth) have excellent prospects and good dividend records.

8.5% of the portfolio is invested in the pharmaceutical sector with GlaxoSmithKline (third largest) and AstraZeneca (seventh). These companies are trading at historically low levels of valuation. They also offer strong cash flows and research and development pipelines of new medicines that are, in our view, now underappreciated.

Turning to UK domestic stocks, the biggest exposure is to utilities which make up 9.5% of the portfolio. Their revenues and profits are relatively secure but can be affected by regulatory decisions. Some domestic cyclicals with strong balance sheets and good market positions are held but overall the portfolio has below average exposure to this area. The process of deleveraging in the UK is likely to be a long one given the high level of consumer debt.

Corporate indebtedness is at a relatively low level and the recent trend in dividend payouts is encouraging. Shares that produce a decent dividend yield and growth are particularly attractive in the current investment climate with very low yields available in bank deposits and fixed interest.

Job Curtis

Investments

	Valuation at 30 June 2011 £'000
OIL & GAS	
Oil & Gas Producers	
Royal Dutch Shell	46,704
BP	16,053
*ENI	4,411
*Statoil	4,283
	71,451
Oil Equipment, Services & Distribution	
*Prosafe	2,824
	2,824
Total Oil & Gas	**74,275**
BASIC MATERIALS	
Chemicals	
Croda	12,737
Johnson Matthey	2,458
Victrex	1,650
	16,845
Mining	
BHP Billiton	20,635
#Rio Tinto	13,399
	34,034
Total Basic Materials	**50,879**
INDUSTRIALS	
Aerospace & Defence	
BAE Systems	8,440
Meggitt	4,196
Rolls-Royce	2,256
	14,892
Construction & Materials	
Marshalls	1,016
	1,016
Electronic & Electrical Equipment	
Halma	3,522
Renishaw	3,506
	7,028
General Industrials	
Smiths Group	3,603
Rexam	2,871
	6,474
Industrial Engineering	
Weir	11,167
IMI	10,003
Spirax-Sarco Engineering	5,503
Rotork	2,529
	29,202

	Valuation at 30 June 2011 £'000
INDUSTRIALS (continued)	
Industrial Transportation	
BBA	3,806
	3,806
Support Services	
Smiths News	4,400
G4S	3,218
Premier Farnell	2,739
Berendsen	2,725
De La Rue	1,644
Paypoint	1,635
Interserve	1,612
	17,973
Total Industrials	**80,391**
CONSUMER GOODS	
Beverages	
Diageo	33,735
Britvic	7,890
	41,625
Food Producers	
Unilever	21,665
Tate & Lyle	3,542
Dairy Crest	1,572
	26,779
Household Goods	
Reckitt Benckiser	7,912
	7,912
Tobacco	
British American Tobacco	45,471
Imperial Tobacco	8,284
	53,755
Total Consumer Goods	**130,071**
HEALTH CARE	
Pharmaceuticals & Biotechnology	
GlaxoSmithKline	35,351
AstraZeneca	21,756
*Novartis	4,567
	61,674
Total Health Care	**61,674**
CONSUMER SERVICES	
Food & Drug Retailers	
Tesco	14,874
Sainsbury (J)	3,788
Morrison (WM) Supermarkets	3,721
	22,383

Investments
continued

	Valuation at 30 June 2011 £'000
CONSUMER SERVICES (continued)	
General Retailers	
Next	3,487
Halfords	2,970
Marks & Spencer	2,439
Kingfisher	2,138
	11,034
Media	
Pearson	12,642
Reed Elsevier	9,056
* Vivendi	4,676
British Sky Broadcasting	3,809
Euromoney Institutional	1,959
	32,142
Travel & Leisure	
Greene King	4,874
Cineworld	3,053
Compass	3,005
William Hill	2,969
Whitbread	2,826
Go-Ahead	1,816
	18,543
Total Consumer Services	**84,102**
TELECOMMUNICATIONS	
Fixed Line Telecommunications	
* France Telecom	5,960
* Swisscom	4,274
Cable & Wireless Communications	1,418
	11,652
Mobile Telecommunications	
Vodafone	33,060
*Deutsche Telekom	4,870
*SK Telecom	2,212
	40,142
Total Telecommunications	**51,794**
UTILITIES	
Electricity	
Scottish & Southern Energy	19,154
	19,154
Gas, Water & Multiutilities	
National Grid	19,906
Centrica	10,507
Pennon	5,933
Severn Trent	5,888
United Utilities	5,691
International Power	2,413
	50,338
Total Utilities	**69,492**

	Valuation at 30 June 2011 £'000
FINANCIALS	
Banks	
HSBC	27,828
Standard Chartered	4,146
Barclays	3,847
	35,821
Equity Investment Instruments	
John Laing Infrastructure Fund	3,732
	3,732
Financial Services	
Provident Financial	3,852
Schroder	3,611
ICAP	2,365
	9,828
Life Insurance	
Aviva	10,975
Prudential	5,760
Legal & General	5,319
Standard Life	3,578
	25,632
Nonlife Insurance	
Amlin	7,716
Hiscox	5,865
RSA Insurance	5,396
* Zurich Financial Services	4,530
Admiral	3,737
	27,244
Real Estate	
Land Securities	13,640
Segro	2,272
* Unibail Rodamco	2,160
	18,072
Total Financials	**120,329**
TECHNOLOGY	
Software & Computer Services	
Sage	2,889
* Microsoft	1,942
	4,831
Total Technology	**4,831**
TOTAL INVESTMENTS	**727,838**
Total investments comprise:	
Listed fixed assets	727,911
Derivative instruments – written call options	(73)
	727,838

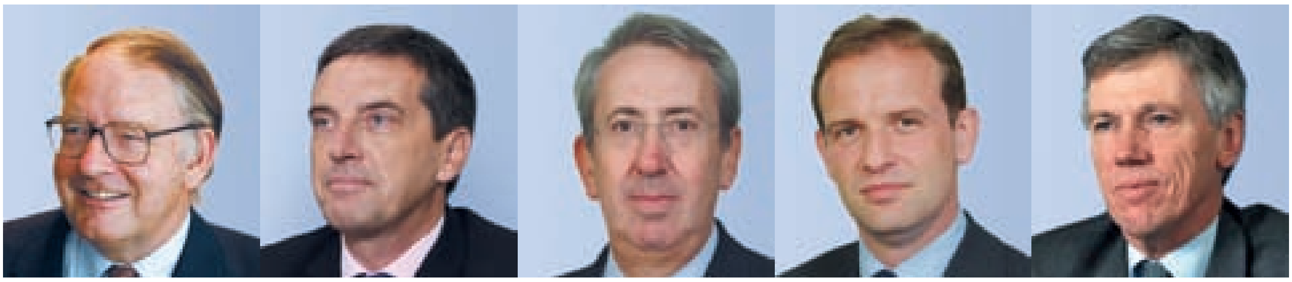
* Overseas listed
\# Net of market value of options sold

Classification of Investments and Portfolio Weighting

as at 30 June 2011

		2011 Portfolio %	2011 FTSE All-Share 4% Capped Index %	Relative to the FTSE All-Share 4% Capped Index
Oil & Gas	Oil & Gas Producers	9.8	12.5	-2.7
	Oil Equipment, Services & Distribution	0.4	0.7	-0.3
		10.2	13.2	
Basic Materials	Chemicals	2.3	0.6	+1.7
	Forestry & Paper	–	0.1	-0.1
	Industrial Metals	–	0.1	-0.1
	Mining	4.7	13.6	-8.9
		7.0	14.4	
Industrials	Aerospace & Defence	2.1	1.9	+0.2
	Construction & Materials	0.1	0.3	-0.2
	Electronic & Electrical Equipment	1.0	0.5	+0.5
	General Industrials	0.9	0.7	+0.2
	Industrial Engineering	4.0	1.0	+3.0
	Industrial Transportation	0.5	0.1	+0.4
	Support Services	2.5	3.8	-1.3
		11.1	8.3	
Consumer Goods	Automobiles & Parts	–	0.2	-0.2
	Beverages	5.7	3.6	+2.1
	Food Producers	3.7	2.1	+1.6
	Household Goods	1.1	2.0	-0.9
	Personal Goods	–	0.4	-0.4
	Tobacco	7.4	4.5	+2.9
		17.9	12.8	
Health Care	Health Care Equipment & Services	–	0.4	-0.4
	Pharmaceuticals & Biotechnology	8.5	7.4	+1.1
		8.5	7.8	
Consumer Services	Food & Drug Retailers	3.1	2.9	+0.2
	General Retailers	1.5	1.6	-0.1
	Media	4.4	3.1	+1.3
	Travel & Leisure	2.5	2.9	-0.4
		11.5	10.5	
Telecommunications	Fixed Line Telecommunications	1.6	1.2	+0.4
	Mobile Telecommunications	5.5	4.2	+1.3
		7.1	5.4	
Utilities	Electricity	2.6	0.9	+1.7
	Gas, Water & Multiutilities	6.9	3.3	+3.6
		9.5	4.2	
Financials	Banks	4.9	9.7	-4.8
	Equity Investment Instruments	0.5	3.3	-2.8
	Financial Services	1.4	2.2	-0.8
	Life Insurance	3.5	3.3	+0.2
	Nonlife Insurance	3.7	1.0	+2.7
	Real Estate	2.5	2.0	+0.5
		16.5	21.5	
Technology	Software & Computer Services	0.7	1.2	-0.5
	Technology Hardware & Equipment	–	0.7	-0.7
		0.7	1.9	
Total		**100.0**	**100.0**	

Directors



Simon de Zoete (Chairman) was Deputy Chairman of Credit Suisse First Boston (Europe) Limited until June 2001. He is an adviser to BAE Systems 2000 Pension Plan. He is an investment banker specialising in the equity market and was Vice Chairman of Barclays de Zoete Wedd prior to its sale to Credit Suisse First Boston in 1998. He joined the Board in 2000. Simon will retire from the Board at the conclusion of the AGM in October 2011.

Simon Barratt joined the Board on 1 October 2010. Simon is General Counsel and Company Secretary at Whitbread PLC where he has been since 1991. He was previously at Rio Tinto and Heron, having qualified as a solicitor with the law firm, Slaughter and May.

David Brief recently retired as Chief Investment Officer of BAE Systems Pension Funds Investment Management Limited. He is also a non-executive director of Henderson TR Pacific Investment Trust plc and is on the investment committee of the British Coal Staff Superannuation Scheme and Rio Tinto Pension Scheme. He joined the Board in January 2009.

Richard Hextall (Chairman of the Audit Committee since 1 April 2011) is a Chartered Accountant and has been the Group Finance Director of Amlin plc since 1999. He was a director of the Lloyd's Market Association from 2007 to 2010 and a member of its finance committee from 2002 to 2009 (Chairman from 2005 to 2007). He was also a member of the Lloyd's Investment Committee from 2003 to 2007. He joined Amlin from Deloitte & Touche, where he was a director specialising in the insurance and financial services sector. He joined the Board in 2007.

Philip Remnant is a Senior Adviser to the investment banking division of Credit Suisse in Europe, having previously been a Vice Chairman of CSFB Europe and Head of the UK Investment Banking Department. He is also Chairman of the Shareholder Executive and a Director of UK Financial Investments. He was Director General of the Takeover Panel from 2001 to 2003 and again in 2010. He joined the Board on 1 January 2011 and will be the Chairman of the Board following Simon de Zoete's retirement.

All directors are independent of the Investment Manager except David Brief who is a director of Henderson TR Pacific Investment Trust plc, which is also managed by Henderson Global Investors. All directors are members of the Nominations Committee, which is chaired by Simon de Zoete. The Audit Committee consists of Richard Hextall, David Brief and Simon Barratt.

Management

From left to right: front row – Deborah Trickett, Job Curtis
back row – Alex Crooke, James Henderson

Job Curtis has been the **Portfolio Manager** since 1 July 1991. He is an executive of Henderson Global Investors Limited. Job is assisted in the management of the portfolio by Alex Crooke and James Henderson.

Deborah Trickett acts as **Company Secretary** on behalf of Henderson Secretarial Services Limited.

Report of the Directors

The directors present the audited financial statements of the Company and their report for the year from 1 July 2010 to 30 June 2011.

Business Review

The following business review is designed to provide information primarily about the Company's business and results for the year ended 30 June 2011. The Business Review should be read in conjunction with the Portfolio Manager's Report on pages 6 to 9, which gives a detailed review of the investment activities for the year and an outlook for the future.

a) Status

The City of London Investment Trust plc (registered in England & Wales, number 34871) (the "Company") traded throughout the year under review and was not dormant. The Company is an investment company as defined in Section 833 of the Companies Act 2006 and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010. It is required to seek approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under the above-mentioned Section every year, and this approval will continue to be sought. HMRC approval of the Company's status as an investment trust has been received in respect of the year ended 30 June 2010, although this approval is subject to there being no subsequent enquiries under Corporation Tax Self Assessment. The directors are of the opinion that the Company has continued to conduct its affairs in a manner that will enable it to continue to gain such approval.

The Company intends to continue to manage its affairs so that its investments fully qualify for a stocks and shares component of an ISA.

b) Investment objective and policy

Objective

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

Policy

- *Asset allocation*

  While the Company will mainly invest in equities, there is the flexibility to invest in debt securities, such as convertibles, corporate bonds or government debt, if it is deemed that these will, at a particular time or for a particular period, enhance the performance of the Company in the pursuit of its objective.

  The Company has a portfolio invested predominantly in larger companies. Typically at least 60% of the portfolio by value will be invested in companies in the FTSE 100 Index. The remainder of the portfolio will be invested in a combination of UK listed medium-sized and small companies and (up to 20%) in overseas listed companies.

  There are no set limits on sector exposures, although the Board regularly monitors the Company's investments and the Manager's investment activity. The Manager primarily employs a bottom-up value-based investment process to identify suitable opportunities and pays particular regard to cash generation and dividends.

  The portfolio yield will usually be between 10% and 30% above the average dividend yield for the UK equity market. There may be some holdings, selected for their above average growth potential, which have a dividend yield lower than the market.

- *Gearing*

  The Company will at times utilise limited gearing, both short and long term, in order to enhance performance. Other than in exceptional market conditions, gearing will not exceed 20% of net asset value at the time of draw down of the relevant borrowings. Up to 10% of the net assets can be held in cash.

  Selling traded options where the underlying share is held in the portfolio can be used for the purposes of efficient portfolio management. Buying and selling FTSE 100 Index Futures can be used to increase or reduce gearing.

- *Diversification*

  The Company achieves an appropriate spread of investment risk principally through a broadly diversified portfolio, which at 30 June 2011 contained 93 individual investments. At 30 June 2011, the largest single investment was Royal Dutch Shell, which accounted for 6.4% of total investments, while the top 20 holdings totalled 60.6%.

  The Company will not invest more than 15% of its portfolio in any single investment on acquisition, nor will it invest more than 15% of the portfolio in any other UK listed investment trusts or investment companies.

c) Financial review

- *Assets*

  Total net assets at 30 June 2011 amounted to £674,477,000 compared with £511,026,000 at 30 June 2010, and the net asset value per ordinary share increased from 244.96p to 299.95p. This figure is calculated by valuing the Company's long-term debt at its nominal value. With long-term debt

Report of the Directors

continued

calculated at its fair, or market, value year-on-year the net asset value increased from 238.71p to 294.06p.

At 30 June 2011 there were 93 (2010: 90) separate investments, as detailed on pages 10 and 11.

	2011	2010	% Change
Net assets as at 30 June	**£674.5m**	£511.0m	+32.0
Revenue return for the year	**£28.6m**	£24.9m	+14.9
Dividends payable per share for the year	**13.20p**	12.66p	+4.3

- *Revenue*
The Company's gross revenue totalled £31,562,000 (2010: £27,642,000). After deducting expenses and tax, the revenue return for the year was £28,588,000 (2010: £24,881,000).

- *Costs*
In the year under review borrowing costs totalled £4,702,000, the management fee totalled £2,195,000 and other expenses totalled £591,000. These figures include VAT where applicable. Transaction costs, which include stamp duty and totalled £512,000, are included within the purchase costs or netted against the sales proceeds of investments.

- *Dividends*
The Board aims to make progressive increases in annual dividend payments. In respect of the financial year under review, two quarterly interim dividends of 3.25p and two quarterly interim dividends of 3.35p have been declared, providing a total dividend of 13.20p per ordinary share, an increase of 4.3% over the previous year.

- *Payment of suppliers*
It is the payment policy of the Company to obtain the best possible terms for all business and, therefore, there is no single policy as to the terms used. In general the Company agrees with its suppliers the terms on which business will take place and it is the Company's policy to abide by such terms. There were no trade creditors at 30 June 2011.

- *Bank facility and gearing*
At 30 June 2011 the Company had a borrowing facility of £50m, of which £9.0m was drawn at year end. The Company also has three debentures totalling £46m. Gearing at 30 June 2011 was 7.9% of net asset value.

- *Future developments*
While the future performance of the Company is dependent, to a large degree, on the performance of international financial markets, which, in turn, are subject to many external factors, the Board's intention is that the Company will continue to pursue its stated investment objective in accordance with the policy outlined above. Further comments on the outlook for the Company for the next 12 months are set out in both the Chairman's Statement on page 3 and the Portfolio Manager's Report on pages 6 to 9.

- *Going concern*
The directors believe that it is appropriate to continue to adopt the going concern basis in preparing the financial statements as the assets of the Company consist mainly of securities which are readily realisable and, accordingly, the Company has adequate financial resources to continue in operational existence for the foreseeable future. In reviewing the position as at the date of this report, the Board has considered the "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009", published by the Financial Reporting Council in October 2009.

d) Performance measurement and key performance indicators

In order to measure the success of the Company in meeting its objectives the directors take into account the following key performance indicators:

- *Performance against the Company's peer group*
The Company is included in the AIC "UK Growth & Income" sector. The Board considers the size weighted average net asset value total return of its AIC peer group at each Board meeting. The Board has determined that this key performance indicator should be used for calculating whether a performance fee is payable to the Investment Manager. Further details are set out in section (f) on page 16. During the year under review the Company underperformed the peer group by 0.5%.

- *Performance against market indices*
The Board reviews and compares, at each meeting, the performance of the portfolio as well as the net asset value and share price for the Company, the FTSE All-Share Index and the FTSE All-Share 4% Capped Index, which was the benchmark used by the Company from 1 July 2005 to 30 June 2009. Both indices are calculated and maintained by FTSE – further details and up-to-date index values for both indices are available at **www.ftse.com**. During the year under review the Company outperformed the indices by 3.6% and 3.3% respectively.

Report of the Directors

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- *Premium/discount to net asset value ("NAV")*
  At each Board meeting, the Board monitors the level of the Company's premium/discount to NAV per share and reviews the average premium/discount for the Company's AIC sector.

  At 30 June 2011 the Company's shares were trading at a 0.5% premium to NAV.

  The Company publishes NAV per share figures on a daily basis, through the official newswire of the London Stock Exchange.

- *Total expense ratio ("TER")*
  The TER is a measure of the total expenses incurred by the Company, including those charged to capital, expressed as a percentage of the average shareholders' funds over the year calculated on a quarterly basis. Before 2010 it was calculated using only the year's opening and closing shareholders' funds. Where applicable, a TER is shown including and excluding performance fees. The Board regularly reviews the TER and monitors all Company expenses. For the year ended 30 June 2011 the TER (excluding performance fee) was 0.44% (2010: 0.46%).

The following table sets out, with comparatives, the results of the key performance indicators for the year:

	At 30 June 2011	At 30 June 2010
NAV total return	**+29.2%**	+26.5%
AIC Sector NAV total return	**+29.7%**	+25.8%
FTSE All-Share 4% Capped Index total return	**+25.9%**	+23.3%
FTSE All-Share Index total return	**+25.6%**	+21.1%
Share price total return	**+31.1%**	+27.6%
AIC Sector share price total return	**+30.9%**	+26.4%
Premium/(discount)	**0.5%**	(1.7%)
Total expense ratio, excluding performance fee	**0.44%**	0.46%
Total expense ratio, including performance fee	**0.44%**	0.48%

e) Related party transactions

The provision of investment management, accounting, company secretarial and administration services has been outsourced to Henderson Global Investors Limited ("Henderson"). This is the only related party arrangement currently in place. Other than fees payable by the Company 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 year under review.

Custody services are provided by HSBC Bank plc.

f) Management arrangements

The investment management agreement with Henderson to provide the services referred to in the previous paragraph is reviewed by the Board annually and has a six months' notice period.

- *Base management fee*
  The base management fee is calculated at the annual rate of 0.35% of net assets. Such fees are payable quarterly in arrears based on the level of assets at the relevant quarter end.

- *Performance fee*
  In addition, a performance fee is payable annually for outperformance against the Company's benchmark over a three year rolling period on the following basis.

  Performance fees are subject to a hurdle rate of 15% so the Manager is not rewarded for average performance. This means that a performance fee will only be paid if City of London's net asset value total return is at least 15% better than the sector. The performance fee payable will be 15% of the cash value of the outperformance above the hurdle rate subject to a cap on total fees paid in any one year of 0.55% of average net assets.

  In the event of a significant movement in the share price, the performance fee is reduced or increased in line with a sliding scale. If the Company's share price decreases over the year in question by between 10.00% and 14.99%, the performance fee element will be reduced by 20%; a fall of between 15.00% and 19.99% in the share price will result in a reduction of 30% of the performance fee; and a decline of 20.00% or more in the share price will create a reduction of 40% in the performance fee. This arrangement is symmetrical and, if the share price increases over the period, the same thresholds and increases to the performance fee will apply. This means that the total fee paid may exceed the 0.55% cap by up to 40% of the performance fee.

The absolute cap of total fees payable in any one year is therefore 0.63% of average net assets.

These fee arrangements maintain the Company's position of having one of the lowest base management fees and one of the lowest total expense ratios in the AIC UK Growth & Income Sector.

The Company's net asset value total return for the three years from 1 July 2008 to 30 June 2011 was 27.9% compared to the net asset value total return of the benchmark over the

Report of the Directors

continued

same period of 27.1%. Although the Company outperformed its benchmark over the period it did not outperform in excess of the 15% hurdle rate. Therefore no performance fee has been earned during the year (2010: £75,000).

g) Principal risks and uncertainties

The Board has drawn up a matrix of risks facing the Company and has put in place a schedule of investment limits and restrictions, appropriate to the Company's investment objective and policy, in order to mitigate these risks as far as practicable. The principal risks which have been identified and the steps taken by the Board to mitigate these are as follows:

- *Portfolio and market price*
  Although the Company invests almost entirely in securities that are quoted on recognised markets, share prices may move rapidly. The companies in which investments are made may operate unsuccessfully, or fail entirely. A fall in the market value of the Company's portfolio would have an adverse effect on shareholders' funds. The Board reviews the portfolio each month and mitigates this risk through diversification of investments in the portfolio.

- *Investment activity, gearing and performance*
  An inappropriate investment strategy (for example, in terms of asset allocation or the level of gearing) may result in underperformance against the Company's benchmark. The Board monitors investment performance at each Board meeting and regularly reviews the level of its gearing.

- *Tax and regulatory*
  A breach of Section 1158 of the Corporation Tax Act 2010 could lead to a loss of investment trust status, resulting in capital gains realised within the portfolio being subject to corporation tax. A breach of the UKLA Listing Rules could result in suspension of the Company's shares, while a breach of the Companies Act 2006 could lead to criminal proceedings, or financial or reputational damage. The Company must also ensure compliance with the listing rules of the New Zealand Stock Exchange.

  The Manager has contracted to provide investment, company secretarial, administration and accounting services through qualified professionals. The Board receives internal control reports produced by the Manager on a quarterly basis, which confirm regulatory compliance.

- *Operational*
  Disruption to, or failure of, the Manager's accounting, dealing or payment systems or custody records could prevent the accurate reporting and monitoring of the Company's financial position. The Company is also exposed to the operational risk that one or more of its suppliers may not provide the required level of service.

  Details of how the Board monitors the services provided by the Manager and its other suppliers, and the key elements designed to provide effective internal control, are explained further in the internal controls section on page 21.

  Further details of the Company's exposure to market risk (including market price risk, currency risk and interest rate risk), liquidity risk, and credit and counterparty risk and how they are managed are contained in Note 16 on pages 41 to 45.

Corporate Governance Statement

a) Applicable corporate governance codes

The Board is accountable to shareholders for the governance of the Company's affairs. Paragraph 7.2 of the Disclosure and Transparency Rules of the UK Listing Authority requires all listed companies to publish a corporate governance statement, while paragraph 9.8.6 of the Listing Rules requires all listed companies to disclose how they have applied the principles and complied with the provisions of the UK Corporate Governance Code (the "Code"). As an investment trust, most of the Company's day-to-day responsibilities are delegated to third parties, the Company has no employees and the directors are all non-executive. Thus, not all the provisions of the Code are directly applicable to the Company.

The Financial Reporting Council (the "FRC") confirmed on 30 September 2010 that it remained the view of the FRC that by following the Corporate Governance Guide for Investment Companies produced by the Association of Investment Companies (the "AIC Guide"), published in October 2010, boards of investment companies should fully meet their obligations in relation to the Code and paragraph 9.8.6 of the Listing Rules. The AIC Code of Corporate Governance published in October 2010 (the "AIC Code"), as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment trusts.

The Board of The City of London Investment Trust plc believes that reporting against the AIC Code by reference to the AIC

Report of the Directors

continued

Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code. Copies of the AIC Code and the AIC Guide can be found at www.theaic.co.uk

b) Statement of compliance

The AIC Code comprises 21 principles. The directors believe that during the year under review they have complied with the provisions of the AIC Code, insofar as they apply to the Company's business, and with the provisions of the Code except as noted below.

The Code includes provisions relating to:

- The role of chief executive
- Executive directors' remuneration
- The need for an internal audit function

As the Company delegates to an external investment manager its day-to-day operations and has no employees, the Board does not consider these provisions to be relevant to the Company and has not reported further in respect of these provisions.

c) Directors

- *Board composition*

  The Articles of Association provide that the total number of directors shall not be less than three nor more than seven; the Board consists of five non-executive directors. The biographies of the directors holding office at the date of this report, which are set out on page 13, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as directors. Simon de Zoete, Richard Hexall and David Brief served on the Board throughout the year; Simon Barratt joined the Board on 1 October 2010 and Philip Remnant joined on 1 January 2011. Sir Keith Stuart retired from the Board on 31 March 2011.

- *Directors' appointment, retirement and rotation*

  The Board may appoint directors to the Board and any director so appointed must stand for election by the shareholders at the AGM following appointment, in accordance with the Articles of Association.

  All directors are appointed for an initial term of three years. The Articles of Association require one-third (or the number nearest to one-third) of the directors to retire by rotation at each AGM. However, the Code and the AIC Code require all directors of FTSE 350 companies to retire annually. All the current directors will therefore retire and, being eligible, have all stated that they will offer themselves for re-election, with the exception of Simon de Zoete, who will retire from the Board at the conclusion of the AGM in October 2011 and will not seek re-election.

  Under the Articles of Association, shareholders may remove a director before the end of his term by passing an ordinary resolution at a meeting.

- *Board independence*

  All directors have a wide range of other interests and are not dependent on the Company itself. At the Nominations Committee meeting in July 2011, the directors reviewed their independence and confirmed that all directors, with the exception of David Brief, remain wholly independent of Henderson. David Brief is a director of another investment trust managed by the Investment Manager and is not considered to be independent under the Listing Rules. Simon de Zoete has served on the Board for more than nine years. The Board believes that length of service does not diminish the contribution from a director; conversely a director's experience and knowledge of the Company can be a positive benefit to the Board and retaining directors with sufficient experience of both the Company and the markets is of great benefit to shareholders. Moreover, long-serving directors are less likely to take a short-term view. The directors have reviewed the balance of ages and experience of all of the Board members and confirm that Simon de Zoete has continued to provide a valuable and beneficial contribution to the Company and that his experience complements the abilities of the other directors. The Board has therefore concluded that the Chairman has remained independent throughout the year. The majority of the Board is therefore independent.

  There were no contracts subsisting during or at the end of the year in which a director of the Company is or was materially interested and which is or was significant in relation to the Company's business.

- *Directors' remuneration*

  A report on directors' remuneration is on page 26.

- *Directors' interests in shares*

  The interests of the current directors in the ordinary shares of the Company at the beginning (or date of appointment, if later) and end of the financial year are shown in the table below.

Report of the Directors

continued

Ordinary shares of 25p	30 June 2011	1 July 2010*
Beneficial:		
Simon de Zoete	**191,281**	191,190
Simon Barratt[1]	**3,450**	–
Philip Remnant[2]	**58,720**	58,720
David Brief	**9,985**	9,985
Richard Hextall	**4,000**	4,000

*or date of appointment, if later
[1]Joined the Board on 1 October 2010
[2]Joined the Board on 1 January 2011

There have been no further changes since the year end.

- *Directors' conflicts of interest*
  Directors have a duty to avoid situations where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. Since 1 October 2008, the Companies Act 2006 (the "Act") has allowed directors of public companies to authorise such conflicts and potential conflicts, where appropriate, but only if the articles of association contain a provision to this effect. The Act also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. There are two safe harbours – either the situation cannot reasonably be regarded as likely to give rise to a conflict of interest or the matter has been authorised in advance by the directors. The Company's Articles of Association give the directors the relevant authority required to deal with conflicts of interest.

  Each of the directors has provided a statement of all conflicts of interest and potential conflicts of interest, if any, applicable to the Company. A register of conflicts of interest has been compiled and approved by the Board. The directors have also all undertaken to notify the Chairman as soon as they become aware of any new potential conflicts of interest that would need to be approved by the Board and added to the Register, which is reviewed annually by the Board.

  It has also been agreed that directors will advise the Chairman and the Company Secretary in advance of any proposed external appointment and new directors will be asked to submit a list of potential situations falling within the conflicts of interest provisions of the Act in advance of joining the Board. The Chairman will then determine whether the relevant appointment causes a conflict or potential conflict of interest and should therefore be considered by the Board. Only directors who have no interest in the matter being considered will be able to participate in the Board approval process. In deciding whether to approve a conflict of interest, directors will also act in a way they consider, in good faith, will be most likely to promote the Company's success in taking such a decision. The Board can impose limits or conditions when giving authorisation if the directors consider this to be appropriate.

  The Board confirms that its powers of authorisation of conflicts have operated effectively since they were introduced on 1 October 2008. The Board also confirms that its procedures for the approval of conflicts of interest have been followed by all the directors.

- *Directors' professional development*
  When a new director is appointed he or she is offered a training seminar which is held by the Investment Manager. Directors are also provided on a regular basis with key information on the Company's policies, regulatory and statutory requirements and internal controls. Changes affecting directors' responsibilities are advised to the Board as they arise. Directors also regularly participate in relevant training and industry seminars.

- *Directors' indemnity*
  Directors' and officers' liability insurance cover is in place in respect of the directors. Under the Company's Articles of Association and, subject to the provisions of UK legislation, a qualifying third party provision indemnity may be provided to directors in respect of costs which they may incur relating to the defence of any proceedings brought against them arising out of their positions as directors, in which they are acquitted or judgment is given in their favour by the Court. No indemnity was given during the year or up to the date of this report.

d) The Board

- *Responsibilities of the Board and its Committees*
  During the year eight Board meetings were held to deal with the important aspects of the Company's affairs. The Board has a formal schedule of matters specifically reserved for its decision, which are categorised under various headings including strategy, management, structure, capital, financial reporting, internal controls, gearing, asset allocation, share price premium/discount, contracts, investment policy, finance, risk, investment restrictions, performance, corporate governance and Board membership and appointments.

  At each meeting the Board reviews the Company's investment performance and considers financial analyses and other reports of an operational nature. The Board monitors compliance with the Company's objective and is responsible for setting asset allocation, investment and

Report of the Directors

continued

gearing limits within which the Manager has discretion to act. The Board has responsibility for the approval of any investments in in-house funds managed or advised by the Manager. It also has adopted a procedure for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company. In order to enable them to discharge their responsibilities, all directors have full and timely access to relevant information.

The Board has two Committees: the Audit Committee and the Nominations Committee. The terms of reference for these Committees are available on the Company's website. The Board has not formed a Management Engagement Committee as it remains the role of the Board as a whole (with the exception of David Brief who is not independent) to keep under review the terms of the management agreement between the Company and the Investment Manager.

- *Audit Committee*
  During the year under review, the Audit Committee members were Sir Keith Stuart (to 31 March 2011), Richard Hextall, David Brief and Simon Barratt (since 1 October 2010). The Audit Committee comprises two independent members and at least one member who has competence in accounting. The Chairman is Richard Hextall who is a Chartered Accountant.

The Audit Committee meets at least twice a year and is responsible for the review of the annual accounts, the nature and scope of the external audit and the findings therefrom, the terms of appointment of the auditors together with their remuneration, performance, independence and objectivity, as well as any non-audit services provided by the auditors, and the half year report. It meets with representatives of the Investment Manager and receives reports on the quality and effectiveness of the accounting records and management information maintained on behalf of the Company.

With effect from 30 April 2011, in accordance with changes made by the Auditing Practices Board and the Financial Reporting Council to the APB's Ethical Standards for Auditors and the FRC's Guidance on Audit Committees, audit committees are required to formulate a written policy on the provision of non-audit services by the Company's statutory independent auditors.

The Audit Committee has reviewed the guidance and has formulated a policy on the provision of non-audit services by the Company's auditors. The Audit Committee has determined that the Company's appointed auditors will never be considered for the provision of non-audit services, such as accounting and preparation of the financial statements, internal audit, custody, tax advice to directors and tax calculations to support the financial statements. The auditors may, if required, provide non-audit services relating to a review of the Company's half year report and a review of the calculation of a performance fee provision at half year. All other non-audit services will be judged on a case-by-case basis and will be approved by a member of the Audit Committee.

During the year under review, PricewaterhouseCoopers LLP have not provided any non-audit services for the Company.

As disclosed in last year's annual report, PricewaterhouseCoopers LLP have been engaged to provide services in respect of a case for the restitution of VAT paid to the Manager between 1996 and 2000. The case is still ongoing.

The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The appointment of the auditors was put to tender in December 2008. The auditors are required to rotate the audit partner every five years and this is the third year that the current partner has been in place.

PricewaterhouseCoopers LLP have indicated their willingness to continue in office. Accordingly, resolutions to confirm the appointment of PricewaterhouseCoopers LLP as auditors to the Company, and to authorise the directors to determine their remuneration, will be proposed at the AGM.

- *Nominations Committee*
  All directors are members of the Nominations Committee. The Chairman of the Board acts as Chairman of the Committee but would not chair the Committee when the Chairman's successor was being considered. As David Brief is not independent under the Code he is not permitted to vote on the appointment of a new independent director. The Committee is responsible for reviewing Board succession planning, the performance of the Board as a whole and the Board Committees, and the appointment of new directors.

When considering succession planning, the Committee bears in mind the balance of skills, knowledge, experience and diversity existing on the Board and will recommend when the recruitment of additional non-executive directors is required. Once a decision is made to recruit additional directors to the Board, a formal job description is drawn up and each director is invited to submit nominations and these are considered in accordance with the Board's agreed procedures. The Committee may also use external agencies as and when the requirement to recruit an additional Board member becomes necessary. The Committee recommended

Report of the Directors

continued

to the Board the appointment of Simon Barratt, who joined the Board on 1 October 2010 and Philip Remnant, who joined the Board on 1 January 2011.

Philip Remnant will be the new Chairman of the Board following Simon de Zoete's retirement at the conclusion of the AGM in October 2011. Simon de Zoete did not participate in the decision of the Nominations Committee and of the Board to select Philip Remnant as the new Chairman.

The Committee also reviews and recommends to the Board the directors seeking re-election. Recommendation is not automatic and will follow a process of evaluation of each director's performance and consideration of the director's independence. The Committee also takes into account the mix of skills and experience of the current Board members. In accordance with the Code any director serving for longer than six years would be subject to particularly rigorous assessment of his/her contribution.

The Committee met in July 2011 to carry out its annual review of the Board, its composition and size and its Committees. The results of the performance evaluation are contained in (e) below.

- *Board attendance*
  Attendance at Board and Committee meetings held during the financial year are shown below. All directors usually attend the Annual General Meeting.

No of meetings	**Board 8**	**Audit Committee 3**	**Nominations Committee 2**
Simon de Zoete	8	–	2
Simon Barratt[1]	6	2	2
David Brief	7	3	2
Philip Remnant[2]	4	–	2
Richard Hextall	7	3	2
Sir Keith Stuart[3]	6	2	–

[1] Appointed to the Board on 1 October 2010, attended all meetings
[2] Appointed to the Board on 1 January 2011, attended all meetings
[3] Retired from the Board on 31 March 2011, attended all meetings

e) Performance evaluation

- *The Company*
  The performance of the Company is considered in detail at each Board meeting.
- *The Board*
  The work of the Board as a whole and of the Board Committees was reviewed by the Nominations Committee in July 2011 and no areas of concern were identified.
- *Individual directors*
  The Chairman reviews each individual director's contribution on an annual basis. The Nominations Committee meets without the Chairman present in order to review the performance of the Chairman.

  At the 2011 meeting the Nominations Committee agreed that the Chairman continues to promote effective leadership and each of the directors contributes valuable experience and skills to the Board. The Company is required to engage an external facilitator for the Board evaluation every three years. The evaluation in 2011 was undertaken internally.

f) Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process has been in place since 2000 and is subject to regular review by the Board. Up to the date of this report the process accords with the Revised Guidance for Directors on the Combined Code published in October 2005 by the Financial Reporting Council.

The Board has overall responsibility for the Company's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate risks of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has reviewed the effectiveness of the Company's system of internal controls for the year ended 30 June 2011. During the course of its review of internal controls, the Board has not identified or been advised of any failings or weaknesses that have been determined as significant.

The Board, assisted by the Investment Manager, undertook a full review of the Company's business risks and these have been analysed and recorded in a risk map which is reviewed regularly.

The Investment Manager has established an internal control framework to provide reasonable but not absolute assurance on the effectiveness of the internal controls operated on behalf of its clients. The effectiveness of the internal controls is assessed by the Investment Manager's compliance and risk department on a continuing basis. The Board receives each quarter from the Investment Manager a formal report which details the steps taken to monitor the areas of risk, including those that are not directly the responsibility of the Investment Manager, and which reports the details of any known internal control failures. The Board receives each year from the Investment Manager a report on its internal controls which includes a report from the Investment Manager's auditors on the control policies and procedures in operation. Steps will continue to be taken to embed the system of internal control and risk management into the operation and culture of the Company and its key suppliers.

Report of the Directors

continued

g) Accountability and relationship with the Investment Manager

The Statement of Directors' Responsibilities in respect of the Financial Statements is set out on page 25, the Independent Auditors' Report on page 49 and the Statement of Going Concern on page 15.

The Board has delegated contractually to external third parties, including the Investment Manager, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets), the day to day accounting, company secretarial and administration requirements and registration services. Each of these contracts was entered into after full and proper consideration by the Board of the quality and cost of the services offered, including the control systems in operation in so far as they relate to the affairs of the Company.

The Board receives and considers regular reports from the Investment Manager and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman attends meetings of all the chairmen of the investment trust companies managed by the Investment Manager; these meetings provide a forum to discuss industry matters and the Chairman reports on them to the Board.

The Investment Manager takes decisions as to the purchase and sale of individual investments. The Investment Manager also ensures that all directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of the Investment Manager attend each Board meeting enabling the directors to probe further on matters of concern. A formal schedule of matters specifically reserved for decision by the full Board has been defined and a procedure adopted for directors, in the furtherance of their duties, to take independent professional advice at the expense of the Company within certain parameters. The directors have access to the advice and services of the corporate Company Secretary through its appointed representative who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. The Board and Investment Manager operate in a supportive, co-operative and open environment.

The Board has reviewed the implications of the Bribery Act 2011, which came into force on 1 July 2011 and confirmed its zero tolerance to bribery and corruption in its business activities. It has sought assurances from its main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

h) Continued appointment of the Investment Manager

The Board considers the arrangements for the provision of investment management and other services to the Company on an ongoing basis. The principal contents of the agreement with the Investment Manager are contained on pages 16 and 17.

The Board reviews investment performance at each Board meeting and a formal review of the Investment Manager is conducted annually. As part of the annual review in July 2011 the directors discussed the quality and continuity of the personnel assigned to handle the Company's affairs, with particular reference to performance and results achieved to date. In addition, they reviewed other services provided by the Investment Manager to the Company, such as accounting, company secretarial and administration services, and the Investment Manager's promotion of investment and savings products linked to the Company's shares. The Board noted the Investment Manager's resources and experience in managing and administering investment trust companies.

As a result of their annual review, it is the opinion of the directors that the continued appointment of the current Investment Manager on the terms agreed is in the interests of the Company's shareholders as a whole.

i) Share capital and shareholders

- *Share capital*

  The Company's equity and non-equity share capital comprises:

i) *ordinary shares of 25p nominal value each.* The voting rights of the ordinary shares on a poll are one vote for every 15 shares held. At the beginning of the year, there were 208,619,868 ordinary shares in issue. During the year, 16,240,000 shares (representing 7.78% of the number of shares in issue at the beginning of the year) were issued for total proceeds (net of commissions) of £45,571,000. At 30 June 2011 the number of ordinary shares in issue (with voting rights) was 224,859,868.

   Since 30 June 2011 and up to the date of this report a further 2,950,000 ordinary shares have been issued for a total consideration of £7,868,000. The number of shares in issue at the date of this report is 227,809,868.

ii) *cumulative first preference stock*. The voting rights of the first preference stock on a poll are one vote per £10 of stock held. At 1 July 2010 and at 30 June 2011 there was £301,982 of first preference stock in issue.

iii) *non-cumulative second preference stock.* Second preference stockholders have no rights to attend and vote at general meetings (except on the winding-up of the Company or if dividends are in arrears). At 1 July 2010 and at 30 June 2011 there was £507,202 of second preference stock in issue.

Report of the Directors

continued

iv) *non-cumulative preferred ordinary stock.* The voting rights of the preferred ordinary stock on a poll are one vote per £20 of stock held. At 1 July 2010 and at 30 June 2011 there was £589,672 of preferred ordinary stock in issue.

Further details on the first and second preference stock and the preferred ordinary stock (together the "Preferred Stock") are contained in note 15 on page 40.

There are no restrictions on the transfer of the Company's share capital and there are no shares or stock which carry specific rights with regards to control of the Company.

- *Substantial share interests*
  Declarations of interests in the voting rights of the Company, at 30 June 2011, are set out below.

Shareholder	% of voting rights
Legal & General Investment Management	3.4%

Since year end the Company has not been notified of any declarations of interests in the voting rights of the Company.

The Board is aware that, as at 30 June 2011, 15.90% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products and 3.42% were held on behalf of participants in Henderson products. The participants in these schemes are given the opportunity to instruct the relevant nominee company to exercise the voting rights appertaining to their shares in respect of all general meetings of the Company. The nominee companies have stated that they will exercise the voting rights of any shares held through these schemes that have not been exercised by the individual participants in them. They will do so by voting for or against all resolutions to be put at all general meetings of the Company (or by withholding votes on such resolutions) pro rata to the aggregate voting instructions for each resolution received from those participants who have chosen to exercise their voting rights.

- *Relations with shareholders*
  Shareholder relations are given high priority by the Board. The prime medium by which the Company communicates with its shareholders is through the Half Year Report and Annual Report and Financial Statements which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication at the London and New Zealand Stock Exchanges of the net asset value of the Company's ordinary shares and a monthly fact sheet.

The Board considers that shareholders should be encouraged to attend and participate in the Annual General Meeting, which is chaired by the Chairman of the Board and which all directors normally attend. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chairman of the Audit Committee and all other directors at the meeting. The Portfolio Manager, as the representative of the Investment Manager, makes a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting. It is the intention of the Board that the Annual Report and Financial Statements and Notice of Annual General Meeting be issued to shareholders so as to provide at least twenty working days' notice of the meeting. Shareholders wishing to lodge questions in advance of the meeting are invited to do so by writing to the Company Secretary at the Registered Office address given on the inside back cover.

General presentations to both shareholders and analysts follow the publication of the annual results. All meetings between the Investment Manager and shareholders are reported to the Board.

- *New Zealand listing*
  It should be noted that the UK codes of Corporate Governance may materially differ from the New Zealand Stock Exchange's corporate governance rules and principles of the Corporate Best Practice Code.

j) Corporate Responsibility (SEE statement)

- *Responsible investment*
  Responsible Investment is the term Henderson uses to cover its work on corporate governance and corporate responsibility (or social, environmental and ethical (SEE) issues) in the companies in which it invests on its clients' behalf, across all funds. In May 2005 Henderson became a founding signatory to the United Nations Principles for Responsible Investment. The Principles, developed under the auspices of the UN Secretary-General, are a voluntary and aspirational framework for incorporating environmental, social and corporate governance (ESG) issues into mainstream investment decision-making and ownership practices.

The way companies respond to sustainability and corporate responsibility can affect their business performance, both directly and indirectly. An investee company's policy on social responsibility and the environment is therefore considered as part of the investment risk decision.

- *Voting policy and the UK Stewardship Code*
  Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients, and its policy on proxy voting. The Policy also sets out how Henderson implements the Stewardship

Report of the Directors

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Code. The Company has reviewed Henderson's policy and has delegated responsibility for voting to the Manager. The Board receives a report, at least annually, on the voting undertaken by the Manager on behalf of the Company.

The Board and Henderson believe that voting at general meetings is an important aspect of corporate stewardship and a means of signalling shareholder views on Board policy, practices and performance. Voting recommendations are guided by the best interests of the investee companies' shareholders. Depending on the nature of the resolution the Portfolio Manager and/or members of the Board will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale therefor are fed back to the investee company prior to voting.

The Henderson Responsible Investment Policy and further details of Henderson's responsible investment activities can be found on the Henderson website, www.henderson.com

- *Environmental matters*
  The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible.

Annual General Meeting ("AGM")

The AGM will be held on Monday 24 October 2011 at 3.00pm at the Company's registered office. Separate resolutions will be proposed for each substantive issue. The notice and details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this annual report.

The directors seek annual authority from the shareholders to allot new ordinary shares, to disapply the pre-emption rights of existing shareholders, and to buy back for cancellation or to be held in treasury the Company's ordinary shares. In addition, the directors seek annual authority to buy back and cancel the Company's preferred and preference stocks.

At the AGM in October 2010 the directors were granted authority to issue up to 10,595,992 ordinary shares. The shareholder authorities to allot shares and to disapply pre-emption rights were renewed at a General Meeting of the Company held on 23 June 2011, at which meeting the directors were granted new authorities to issue 11,119,240 shares. Since the AGM in October 2010, 13,215,000 shares have been issued. All the shares were issued at a premium to the net asset value, the net asset value being calculated with debt at fair value. At the date of this report the directors have remaining authority to issue a further 7,569,240 shares. The authorities to issue shares and to disapply pre-emption rights will expire at the conclusion of the AGM in October 2011, when new authorities will be sought.

On 21 October 2010 the directors were granted authority to repurchase 31,766,788 ordinary shares (with a nominal value of £7,941,697) for cancellation or to be held in treasury. The directors have not bought back any shares and therefore at the date of this report the directors have remaining authority to repurchase 31,766,788 shares. This authority will expire at the conclusion of the AGM in October 2011, when a new authority will be sought.

The directors believe that, from time to time and subject to market conditions, it will continue to be in the shareholders' interests to buy back the Company's shares when they are trading at a discount to the underlying net asset value per share. The Company may utilise the authority to purchase shares by either a single purchase or a series of purchases when market conditions allow, with the aim of maximising the benefit to shareholders.

At the AGM in 2010 directors were also granted authority to repurchase the first and second preference stock and the preferred ordinary stock. The directors have not bought back any of the preference or preferred stock.

There are no Company rules regarding amendment of the Articles of Association.

Directors' Statement as to Disclosure of Information to Auditors

The directors who were members of the Board at the time of approving this Report are listed on page 13. Each of those directors confirms that:

- to the best of their knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- they have taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

D J Trickett ACIS
For and on behalf of Henderson Secretarial Services Limited
Secretary
14 September 2011

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, respectively; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement under DTR 4.1.12

Each of the directors, who are listed on page 13, confirms that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Report of the Directors in this Annual Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

Signed for and on behalf of the Board of directors

Simon de Zoete
Chairman
14 September 2011

The financial statements are published on www.cityinvestmenttrust.com which is a website maintained by the Company's Manager, Henderson Global Investors Limited ("Henderson").

The maintenance and integrity of the website is the responsibility of Henderson; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Sections 420-422 to the Companies Act 2006. The report also meets the relevant Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to directors' remuneration. As required by Section 439 of the Act, a resolution to approve the report will be proposed at the AGM. The Company's auditors are required to report on certain information contained within this report. Where information set out below has been audited, it is indicated as such.

Remuneration policy

All directors are non-executive and a Remuneration Committee has not been established. The whole Board considers matters relating to directors' remuneration. No advice or services were provided by any external person in respect of its consideration of the directors' remuneration.

Directors are remunerated in the form of fees, payable quarterly in arrears, to the director personally. The Company's policy is that the fees should reflect the time spent on the Company's affairs and the responsibilities borne by the directors and be sufficient to enable candidates of high calibre to be recruited. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities, as is the Chairman of the Audit Committee. The policy is to review fee rates annually, although such review will not necessarily result in any change to the rates, and account is taken of fees paid to directors of other investment trust companies.

No director has a service contract with the Company. There are no set notice periods and a director may resign by notice in writing to the Board at any time. There are no long-term incentive schemes provided by the Company and no performance fees are paid to directors.

No other remuneration or compensation was paid or payable by the Company during the year to any of the current or former directors or third parties.

Directors' fees

The fees paid to the directors who served during the year and the previous year are listed in the following table. Since 1 January 2010 the annual fees paid to the directors are £37,000 (Chairman), £28,000 (Chairman of the Audit Committee) and £24,000 (other directors).

(Audited)	**2011 £**	2010 £
Simon de Zoete	**37,000**	35,500
Simon Barratt (1)	**18,000**	–
David Brief	**24,000**	23,500
Anita Frew (2)	**–**	17,500
Richard Hextall (3)	**25,000**	23,500
Philip Remnant (4)	**12,000**	–
Sir Keith Stuart (5)	**21,000**	26,500
TOTAL	**137,000**	126,500

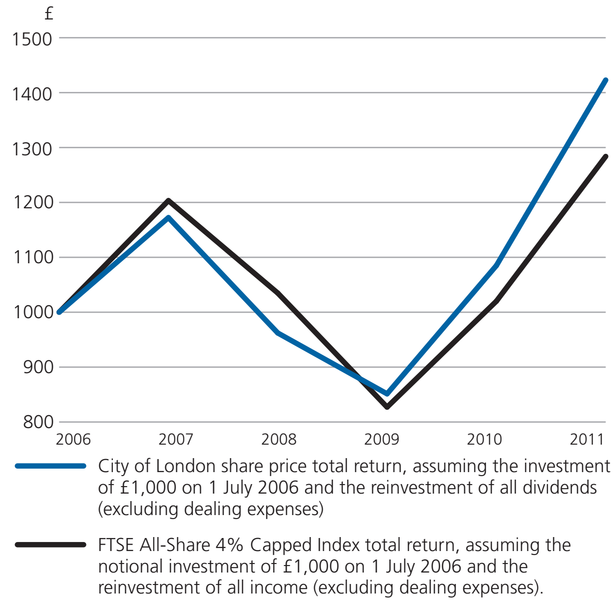
(1) Appointed on 1 October 2010. (2) Retired from the Board on 31 March 2010. (3) Chairman of the Audit Committee from 1 April 2011. (4) Appointed on 1 January 2011. (5) Retired from the Board on 31 March 2011.

Expenses

During the year ended 30 June 2011 no expenses were paid to the directors (2010: £nil).

Performance graph

The Directors' Remuneration Report regulations require the Company to measure its performance against a "broad equity market index" on a total return basis. Therefore, the Company is not permitted to measure performance against its benchmark, the AIC UK Growth & Income sector, in this report; the FTSE All-Share 4% Capped Index has been selected as the most appropriate market index for the Company's portfolio.



Source: Datastream

By order of the Board

D J Trickett ACIS

For and on behalf of

Henderson Secretarial Services Limited, Secretary

14 September 2011

Income Statement

for the year ended 30 June 2011

Notes		**Year ended 30 June 2011** Revenue Return £'000	Capital Return £'000	Total £'000	Year ended 30 June 2010 Revenue Return £'000	Capital Return £'000	Total £'000
2	Gains on investments held at fair value through profit or loss	**–**	**122,350**	**122,350**	–	87,484	87,484
3	Income from investments held at fair value through profit or loss	**30,179**	**–**	**30,179**	25,809	–	25,809
4	Other interest receivable and similar income	**1,383**	**–**	**1,383**	1,833	–	1,833
	Gross revenue and capital gains	**31,562**	**122,350**	**153,912**	27,642	87,484	115,126
5	Management and performance fees	**(658)**	**(1,537)**	**(2,195)**	(561)	(1,385)	(1,946)
6	Other administrative expenses	**(591)**	**–**	**(591)**	(612)	–	(612)
	Net return on ordinary activities before finance charges and taxation	**30,313**	**120,813**	**151,126**	26,469	86,099	112,568
7	Finance charges	**(1,521)**	**(3,181)**	**(4,702)**	(1,440)	(2,993)	(4,433)
	Net return on ordinary activities before taxation	**28,792**	**117,632**	**146,424**	25,029	83,106	108,135
8	Taxation on net return on ordinary activities	**(204)**	**–**	**(204)**	(148)	–	(148)
	Net return on ordinary activities after taxation	**28,588**	**117,632**	**146,220**	24,881	83,106	107,987
9	**Return per ordinary share – basic and diluted**	**13.17p**	**54.21p**	**67.38p**	11.93p	39.83p	51.76p

The total columns of this statement represent the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement 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.

The notes on pages 31 to 48 form part of these financial statements

Reconciliation of Movements in Shareholders' Funds

for the years ended 30 June 2011 and 30 June 2010

Year ended 30 June 2011	**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 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**
Dividends paid (note 10)	**–**	**–**	**–**	**–**	**(28,340)**	**(28,340)**
At 30 June 2011	**56,215**	**78,590**	**2,707**	**510,038**	**26,927**	**674,477**

Year ended 30 June 2010	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 2009	52,130	36,893	2,707	309,300	27,852	428,882
Net return on ordinary activities after taxation	–	–	–	83,106	24,881	107,987
Issue of 100,000 new ordinary shares	25	186	–	–	–	211
Dividends paid (note 10)	–	–	–	–	(26,054)	(26,054)
At 30 June 2010	52,155	37,079	2,707	392,406	26,679	511,026

The notes on pages 31 to 48 form part of these financial statements

Balance Sheet

at 30 June 2011

Notes		2011 £'000	2010 £'000
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	**681,202**	535,443
	Listed at market value overseas	**46,709**	23,024
12	Investment in subsidiary undertakings	**347**	347
		728,258	558,814
	Current assets		
13	Debtors	**6,276**	4,577
	Cash at bank	**480**	1,475
		6,756	6,052
14	**Creditors:** amounts falling due within one year	**(13,138)**	(6,441)
	Net current liabilities	**(6,382)**	(389)
	Total assets less current liabilities	**721,876**	558,425
15	**Creditors:** amounts falling due after more than one year	**(47,399)**	(47,399)
	Net assets	**674,477**	511,026
	Capital and reserves		
17	Called up share capital	**56,215**	52,155
18	Share premium account	**78,590**	37,079
19	Capital redemption reserve	**2,707**	2,707
19	Other capital reserves	**510,038**	392,406
20	Revenue reserve	**26,927**	26,679
21	**Shareholders' funds**	**674,477**	511,026
21	**Net asset value per ordinary share – basic and diluted**	**299.95p**	244.96p

These financial statements were approved by the directors and authorised for issue on 14 September 2011.

Simon de Zoete
Director

The notes on pages 31 to 48 form part of these financial statements

Cash Flow Statement

for the year ended 30 June 2011

Notes		Year ended 30 June 2011 £'000	Year ended 30 June 2011 £'000	Year ended 30 June 2010 £'000	Year ended 30 June 2010 £'000
23	**Net cash inflow from operating activities**		**28,281**		25,465
	Servicing of finance				
	Debenture interest paid	**(4,265)**		(4,265)	
	Bank and loan interest paid	**(262)**		(11)	
	Dividends paid on preference and preferred ordinary stocks	**(157)**		(157)	
	Net cash outflow from servicing of finance		**(4,684)**		(4,433)
	Taxation				
	Withholding tax recovered	**138**		331	
	Net tax recovered		**138**		331
	Financial investment				
	Purchases of investments	**(95,452)**		(82,535)	
	Sales of investments	**48,828**		86,667	
	Net cash (outflow)/inflow from financial investment		**(46,624)**		4,132
	Equity dividends paid		**(28,340)**		(26,054)
	Net cash outflow before financing		**(51,229)**		(559)
	Financing				
	Proceeds from issue of ordinary shares	**44,392**		211	
	Repayment of loans	**–**		(2,000)	
	Net cash inflow/(outflow) from financing		**44,392**		(1,789)
25	**Decrease in cash**		**(6,837)**		(2,348)

The notes on pages 31 to 48 form part of these financial statements

Notes to the Financial Statements

1 Accounting policies

(a) Basis of accounting

The financial statements have been prepared on a going concern basis and under the historical cost basis of accounting, as modified to include the revaluation of investments at fair value. The financial statements are prepared in accordance with United Kingdom Generally Accepted Accounting Practice and with the Statement of Recommended Practice ("the SORP") for investment trusts issued by the Association of Investment Companies ("the AIC") in January 2009. All of the Company's operations are of a continuing nature. The Company's accounting policies are consistent with the prior year.

(b) Going concern

The assets of the Company consist of securities that are readily realisable and, accordingly, the directors believe that the Company has adequate resources to continue in operational existence for the foreseeable future. Consequently, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

(c) Valuation of investments

Listed investments are valued at fair value deemed to be bid market prices or the last traded price depending on the convention of the exchange on which the investment is quoted.

Unquoted investments (including the Company's investments in subsidiary undertakings) are valued by the directors using primary valuation techniques such as earnings multiples, recent transactions and net assets. Where fair value cannot reliably be measured the investment will be carried at the previous reporting date value unless there is evidence that the investment has since been impaired, in which case the value will be reduced.

Changes in the fair value of investments held at fair value through profit or loss and gains and losses on disposal are recognised in the Income Statement as "Gains or losses on investments held at fair value through profit or loss". Transaction costs incurred on the purchase and disposal of investments are recognised as a capital item in the Income Statement. All purchases and sales are accounted for on a trade date basis.

(d) Foreign currency

The results and financial position of the Company are expressed in pounds sterling, which is the functional currency and presentational currency of the Company. Sterling is the functional currency because it is the currency of the primary economic environment in which the Company operates.

Transactions recorded in overseas currencies during the year are translated into sterling at the appropriate daily exchange rates. Assets and liabilities denominated in overseas currencies at the balance sheet date are translated into sterling at the exchange rates ruling at that date.

Any gains or losses on the translation of foreign currency balances, whether realised or unrealised, are taken to the capital or to the revenue return of the Income Statement, depending on whether the gain or loss is of a capital or revenue nature.

(e) Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of the directors, the dividend is capital in nature in which case it is taken to the capital return. Income from fixed interest debt securities and preference shares is recognised using the effective interest rate method in accordance with the SORP. Bank interest and stock lending income are accounted for on an accruals basis.

The ordinary element of scrip dividends received in lieu of cash dividends is recognised as revenue. Any enhancement above the cash dividend is treated as capital.

Notes to the Financial Statements

continued

1 Accounting policies (continued)

(e) Income (continued)

Where the Company enters into a commitment to underwrite an issue of securities in exchange for the receipt of commission, this creates a derivative financial instrument. Any such derivatives are recognised initially at fair value and are subsequently re-measured at fair value, with the related gains and losses being reflected in the Income Statement. Net losses arising from these derivatives, where the actual or expected loss from taking up the securities underwritten exceeds the commission income, are allocated to the capital return. Net gains are allocated to the revenue return.

The accounting for option premium income is dealt with in note 1(m).

(f) Management and administrative expenses and finance charges

All expenses and finance charges are accounted for on an accruals basis. In accordance with the Board's expectation, over the long term, that investment returns will be attributable 70% to capital gains and 30% to revenue, the Company charges to capital 70% of the finance costs (excluding dividends payable on the preference and preferred ordinary stocks) and management fees. Performance fees incurred are charged to capital.

(g) Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable profit for the year. Taxable profit differs from net profit as reported in the Income Statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the effective tax rate of corporation tax for the accounting period.

In line with the recommendations of the SORP, the allocation method used to calculate tax relief on expenses presented against capital returns in the supplementary information in the Income Statement is the "marginal basis". Under this basis, if taxable income is capable of being offset entirely by expenses presented in the revenue return column of the Income Statement, then no tax relief is transferred to the capital return column.

Deferred taxation is provided on all timing differences that have originated but not reversed by the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of timing differences can be deducted. Any liability to deferred tax is provided at the average rate of tax expected to apply based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

(h) Borrowings

Interest bearing bank loans, overdrafts and debentures are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance charges, including interest payable, premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the Income Statement using the effective interest rate method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(i) Preference stocks

Under FRS 25 preference and preferred ordinary stocks are classified as debt. The dividends associated with the preference and preferred ordinary stocks are charged fully to the Company's revenue return within finance costs.

(j) Dividends payable to shareholders

Dividends payable to shareholders are recognised in the financial statements when they are paid or, in the case of final dividends, when they are approved by shareholders. Dividends are dealt with in the Reconciliation of Movements in Shareholders' Funds.

Notes to the Financial Statements

continued

1 **Accounting policies** (continued)

(k) Issue and repurchase of ordinary shares and associated costs

The proceeds from the issue of new ordinary shares (including those relating to the sale of shares out of treasury) and the aggregate cost of repurchasing ordinary shares (including those to be held in treasury) are taken directly to equity and dealt with in the Reconciliation of Movements in Shareholders' Funds. Issue costs incurred in respect of new ordinary shares are offset against the proceeds received and dealt with in the share premium account. Issue costs incurred in respect of shares sold out of treasury are offset against proceeds received and dealt with in other capital reserves. Share issue and repurchase transactions are accounted for on a trade date basis.

(l) Capital reserves

Capital reserve arising on investments sold

The following are accounted for in this reserve:

– gains and losses on the disposals of investments;
– expenses and finance costs allocated to capital net of tax relief;
– realised foreign exchange differences of a capital nature; and
– costs of repurchasing ordinary share capital.

Capital reserve arising on revaluation of investments held

The following are accounted for in this reserve:

– increases and decreases in the valuation of investments held at the year end; and
– unrealised foreign exchange differences of a capital nature.

(m) Derivative financial instruments

Derivative transactions which the Company may enter into comprise forward exchange contracts (the purpose of which is to hedge foreign currency exposure) and futures contracts on indices appropriate to sections of the portfolio (one purpose for which may be to provide protection against falls in the capital values of the holdings). The Company may also write options on shares represented in the portfolio where such options are priced attractively relative to the Investment Manager's expectations for the relevant share prices and to generate additional return for shareholders. The Company does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Company's policies as approved by the Board.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the Income Statement as they arise. If capital in nature, the associated change in value is presented as a capital item in the Income Statement.

Where options are written for the purpose of generating revenue, applicable premiums are recognised evenly over the life of the option and shown in the revenue return, with the appropriate amount shown as capital return such that the total return reflects the overall change in the fair value of the option.

2 **Gains from investments held at fair value through profit or loss**

	2011 £'000	2010 £'000
Gains on the sale of investments based on historical cost	**2,916**	10,018
Revaluation gains recognised in previous years	**(584)**	(147)
Gains on investments sold in the year based on the carrying value at the previous balance sheet date	**2,332**	9,871
Revaluation of investments held at 30 June	**120,091**	77,616
Exchange losses	**(73)**	(3)
Total gains from investments held at fair value through profit or loss	**122,350**	87,484

Notes to the Financial Statements

continued

3	**Income from investments held at fair value through profit or loss**	**2011 £'000**	2010 £'000
	Franked UK dividends:		
	Listed	**26,408**	23,409
	Listed – special dividends	**226**	95
	Income from subsidiary	**–**	31
		26,634	23,535
	Unfranked – listed investments:		
	Dividend income – overseas investments	**3,035**	1,590
	Dividend income – UK REIT	**486**	527
	Special dividends	**24**	157
		3,545	2,274
		30,179	25,809

4	**Other interest receivable and similar income**	**2011 £'000**	2010 £'000
	Bank interest	**11**	3
	Underwriting commission (allocated to revenue)*	**56**	526
	Option premium income†	**1,316**	1,304
		1,383	1,833

*During the year the Company was not required to take up shares in respect of its underwriting commitments (2010: £17,000).

†Options were mainly written against low or zero dividend yielding holdings, which would not normally form part of the portfolio. These transactions had no material impact on the capital account of the Company.

During the year, the Company sold (or wrote) call options for the purpose of generating revenue income. In accordance with the SORP, the premiums received are recognised in the revenue return shown in the Income Statement evenly over the life of the option with an appropriate amount taken to the capital account such that the total return reflects the change in fair value of the options. The Company received total premiums of £911,000 (2010: £1,728,000) from this activity during the year of which £892,000 (2010: £1,304,000) was recognised as revenue in the year ended 30 June 2011. The balance of £424,000 not due to be recognised as revenue in 2010 was recognised in 2011 giving total income of £1,316,000 (2010: £1,304,000).

Call options outstanding at 30 June 2011 are recognised at their fair value and at 30 June 2011 the fair value of the written call options was a liability of £73,000 (2010: £248,000) representing the notional cost of repurchasing the call options at 30 June 2011 market prices. The premiums recognised in respect of these outstanding options amounted to £112,000 (2010: £713,000) meaning that the total change in fair value recognised during the year ended 30 June 2011 in respect of these outstanding options amount to a gain of £39,000 (2010: £465,000).

Notes to the Financial Statements

continued

5 Management and performance fees	Year ended 30 June 2011 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 June 2010 Revenue return £'000	Capital return £'000	Total £'000
Management fee	**658**	**1,537**	**2,195**	561	1,310	1,871
Performance fee	**–**	**–**	**–**	–	75	75
	658	**1,537**	**2,195**	561	1,385	1,946

No performance fee was payable in respect of the year ended 30 June 2011 (2010: £75,000).

A summary of the terms of the Management Agreement is given on pages 16 and 17 in the Report of the Directors.

Details of apportionment between revenue and capital can be found in note 1(f) on page 32.

6 Other administrative expenses (including irrecoverable VAT)	2011 £'000	2010 £'000
Directors' emoluments (see Directors' Remuneration Report on page 26)	**137**	127
Auditors' remuneration – for statutory audit services*	**27**	25
Auditors' remuneration – for non-audit services†	**–**	68
Marketing	**79**	46
Bank charges (loan facility fees)	**20**	7
Annual and Half Year Reports	**72**	72
Registrar's fees	**82**	81
AIC	**36**	38
Listing fees	**36**	33
Advisory and consultancy fees	**43**	72
Other expenses	**59**	43
	591	612

*Includes VAT of £4,000 (2010: £4,000).

†Relates to a VAT restitution case of £67,000 and other assurance services of £1,000. These include VAT of £9,000.

7 Finance charges	Year ended 30 June 2011 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 June 2010 Revenue return £'000	Capital return £'000	Total £'000
Interest on debentures repayable wholly or partly						
– between two and five years	**207**	**483**	**690**	207	483	690
– after five years	**1,073**	**2,502**	**3,575**	1,073	2,502	3,575
Bank loan and other interest	**84**	**196**	**280**	3	8	11
Dividends on preference and preferred ordinary stocks	**157**	**–**	**157**	157	–	157
	1,521	**3,181**	**4,702**	1,440	2,993	4,433

Details of apportionment between revenue return and capital return can be found in note 1(f) on page 32.

Notes to the Financial Statements

continued

8 **Taxation**	**Year ended 30 June 2011** Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 June 2010 Revenue return £'000	Capital return £'000	Total £'000
(a) Analysis of tax charge for the year						
Overseas withholding tax	**323**	**–**	**323**	259	–	259
Less: overseas withholding tax recoverable	**(119)**	**–**	**(119)**	(111)	–	(111)
	204	**–**	**204**	148	–	148

	Year ended 30 June 2011 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 June 2010 Revenue return £'000	Capital return £'000	Total £'000
(b) Factors affecting the tax charge for the year						
Return on ordinary activities before taxation	**28,792**	**117,632**	**146,424**	25,029	83,106	108,135
Corporation tax at 27.5% (2010: 28%)	**7,918**	**32,349**	**40,267**	7,008	23,270	30,278
Effects of:						
Non-taxable UK dividends	**(7,291)**	**–**	**(7,291)**	(6,590)	–	(6,590)
Non-taxable stock dividends and other income	**(841)**	**–**	**(841)**	(455)	–	(455)
Overseas tax suffered	**204**	**–**	**204**	148	–	148
Excess management expenses	**171**	**1,297**	**1,468**	(7)	1,226	1,219
Preference and preferred ordinary dividends not allowable for tax	**43**	**–**	**43**	44	–	44
Other capital gains not subject to tax	**–**	**(33,646)**	**(33,646)**	–	(24,496)	(24,496)
	204	**–**	**204**	148	–	148

Investment trusts are exempt from corporation tax on capital gains provided that the Company obtains agreement from HMRC in respect of each year that tests under Section 1158 of the Corporation Tax Act 2010 have been met.

(c) Deferred taxation

No provision for deferred taxation has been made in the current or prior accounting period. The Company has not provided for deferred tax on capital gains or losses arising on the revaluation and disposal of investments as it is exempt from tax on these items because of its investment trust status.

(d) Factors that may affect future tax charges

The Company has not recognised a deferred tax asset of £19,277,000 (2010: £19,264,000) arising as a result of having unutilised management expenses and loan relationship deficits. These expenses will only be utilised, to any material extent, if changes are made either to the tax treatment of the capital gains made by investment trusts or to the Company's investment profile which require them to be used.

Notes to the Financial Statements

continued

9 Return per ordinary share – basic

The return per ordinary share is based on the net return attributable to the ordinary shares of £146,220,000 (2010: £107,987,000) and on 217,008,223 ordinary shares (2010: 208,613,841), being the weighted average number of ordinary shares in issue during the year.

The return per ordinary share is analysed between revenue and capital below.

	2011 £'000	2010 £'000
Net revenue return	**28,588**	24,881
Net capital return	**117,632**	83,106
Net total return	**146,220**	107,987
Weighted average number of ordinary shares in issue during the year	**217,008,223**	208,613,841
Revenue return per ordinary share	**13.17p**	11.93p
Capital return per ordinary share	**54.21p**	39.83p
Total return per ordinary share	**67.38p**	51.76p

The Company does not have any dilutive securities. Therefore, the basic and diluted returns per share are the same.

10 Dividends paid on the ordinary shares

	Record date	Payment date	**2011 £'000**	2010 £'000
Fourth interim dividend (3.08p) for the year ended 30 June 2009	24 July 2009	28 August 2009	**–**	6,422
First interim dividend (3.08p) for the year ended 30 June 2010	23 October 2009	30 November 2009	**–**	6,426
Second interim dividend (3.08p) for the year ended 30 June 2010	22 January 2010	26 February 2010	**–**	6,426
Third interim dividend (3.25p) for the year ended 30 June 2010	30 April 2010	28 May 2010	**–**	6,780
Fourth interim dividend (3.25p) for the year ended 30 June 2010	30 July 2010	31 August 2010	**6,831**	–
First interim dividend (3.25p) for the year ended 30 June 2011	22 October 2010	30 November 2010	**6,974**	–
Second interim dividend (3.25p) for the year ended 30 June 2011	21 January 2011	28 February 2011	**7,090**	–
Third interim dividend (3.35p) for the year ended 30 June 2011	6 May 2011	31 May 2011	**7,445**	–
			28,340	26,054

In accordance with FRS 21, dividends are not accrued in the financial statements unless they have been approved by shareholders before the balance sheet date. Interim dividends payable to equity shareholders are recognised in the Reconciliation of Movements in Shareholders' Funds when they have been paid to shareholders.

Notes to the Financial Statements

continued

10 Dividends paid on the ordinary shares (continued)

The total dividends payable in respect of the financial year which form the basis of the test under Section 1158 of the Corporation Tax Act 2010 are set out below.

	2011 £'000	2010 £'000
Revenue available for distribution by way of dividend for the year	**28,588**	24,881
First interim dividend of 3.25p (2010: 3.08p)	**(6,974)**	(6,426)
Second interim dividend of 3.25p (2010: 3.08p)	**(7,090)**	(6,426)
Third interim dividend of 3.35p (2010: 3.25p)	**(7,445)**	(6,780)
Fourth interim dividend of 3.35p paid on 31 August 2011† (2010: 3.25p)	**(7,533)**	(6,831)
Undistributed revenue for Section 1158 purposes*	**(454)**	(1,582)

†Based on 224,859,868 ordinary shares in issue at 27 July 2011 (the ex-dividend date) (2010: 210,169,868).

*All current year revenue after tax has been distributed. The shortfall of £454,000 (2010: shortfall of £1,582,000) has been funded from the revenue reserve.

11 Investments held at fair value through profit or loss

	Investments in subsidiaries £'000	**Other investments £'000**	**Total £'000**
Valuation at 1 July 2010	347	558,467	558,814
Investment holding gains at 1 July 2010	–	(140,398)	(140,398)
Cost at 1 July 2010	347	418,069	418,416
Additions at cost	–	96,024	96,024
Disposals at cost	–	(45,912)	(45,912)
Cost at 30 June 2011	347	468,181	468,528
Investment holding gains at 30 June 2011	–	259,730	259,730
Valuation at 30 June 2011	**347**	**727,911**	**728,258**

Purchase transaction costs for the year ended 30 June 2011 were £453,000 (2010: £421,000), these comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 June 2011 were £59,000 (2010: £118,000).

12 Subsidiary undertakings

The Company has three wholly-owned subsidiary undertakings, all of which are registered in England and Wales: The City of London European Trust Limited, City of London Investments Limited and The City of London Finance Company Limited.

The financial statements of the three companies have not been consolidated on the basis of immateriality. Consequently the financial statements present information about the Company as an individual entity and not about the Group. The directors consider that the values of the subsidiary undertakings are not less than the amounts at which they are included in the financial statements. The companies are maintained in order to protect the company names.

The City of London European Trust Limited was incorporated in 1899 as Patrick & McGregor, Limited and is dormant, not having traded since 1968. The aggregate amount of the capital and reserves of The City of London European Trust Limited at 30 June 2011 was £347,000 (2010: £347,000).

City of London Investments Limited is a dormant company and has not traded since its incorporation in 1982. The aggregate amount of the capital and reserves of City of London Investments Limited at 30 June 2011 was £2 (2010: £2).

Notes to the Financial Statements

continued

12 Subsidiary undertakings (continued)

The City of London Finance Company Limited is a share dealing company and was dormant throughout the year. Its aggregate capital and reserves at 30 June 2011 were £2 (2010: £2).

13 Debtors	2011 £'000	2010 £'000
Withholding and income tax recoverable	**246**	265
Prepayments and accrued income	**4,851**	4,264
Share issue proceeds receivable	**1,179**	–
Unrealised gain on forward exchange contracts	**–**	48
	6,276	4,577

14 Creditors: amounts falling due within one year	2011 £'000	2010 £'000
Derivative instruments – written options	**73**	248
Purchases for future settlement	**1,230**	658
Bank overdraft	**8,991**	3,124
Amounts owed to subsidiary undertakings	**347**	347
Dividends payable on preference and preferred ordinary stocks	**79**	79
Accruals	**2,418**	1,985
	13,138	6,441

The Company had an uncommitted overdraft of £50,000,000 at 30 June 2011 provided by its custodian and has provided a floating charge over its assets in return (2010: same). Interest on the overdraft was payable at a rate of HSBC Base Rate +1.25% at 30 June 2011 (2010: same). Standard commercial covenants relating inter alia to a maximum level of borrowings apply to the Company's borrowing facility. A breach of these covenants may result in any loan drawn down becoming repayable immediately.

15 Creditors: amounts falling due after more than one year	2011 £'000	2010 £'000
11½% debenture stock 2014	**6,000**	6,000
10¼% debenture stock 2020	**10,000**	10,000
8½% debenture stock 2021	**30,000**	30,000
£301,982 (2010: £301,982) cumulative first preference stock	**302**	302
£507,202 (2010: £507,202) non-cumulative second preference stock	**507**	507
£589,672 (2010: £589,672) non-cumulative preferred ordinary stock	**590**	590
	47,399	47,399

All of the Company's redeemable financial liabilities at 30 June 2011 mature in more than three years.

Notes to the Financial Statements
continued

15 Creditors: amounts falling due after more than one year (continued)

The repayment terms of the debenture stocks are as follows:

£6,000,000 11½% debenture stock 2014 redeemable at par on 31 December 2014.

£10,000,000 10¼% debenture stock 2020 redeemable at par on 30 April 2020.

£30,000,000 8½% debenture stock 2021 redeemable at par on 31 January 2021.

The debentures are secured by a first floating charge on the whole of the undertaking of the Company; the security charge applies pari passu to all three issues.

A summary of the rights that attach to each of the Preference and Preferred Ordinary Stocks, all of which are non-redeemable, is given below.

	First Preference Stock	Second Preference Stock	Preferred Ordinary Stock
a) Rights to dividends	A fixed cumulative dividend of 6% per annum (plus tax credit), of which 5.5% is payable in preference to the dividend on the second preference stock and 0.5% is payable after it.	A fixed non-cumulative dividend of 4.2% per annum (plus tax credit), which is payable after the first 5.5% per annum entitlement on the first preference stock.	A fixed non-cumulative dividend of 20% per annum (plus tax credit), which is payable after the entitlements on the first and second preference stocks.
b) Priority and amounts receivable on a winding-up	Repayment of capital in priority to payment to the other members of the Company. Any arrears of dividend are payable after the repayment of the capital on the second preference stock.	Repayment of capital after the repayment of the capital on the first preference stock.	Payment of £3.50 in respect of each £1 of capital, after the repayment of the entitlements on the first and second preference stocks.
c) Voting rights at general meetings	Right to attend and vote at general meetings. On a poll, voting rights are one vote per £10 of stock held.	No rights to attend or vote at general meetings (except on a winding-up of the Company or if dividends are in arrears).	Right to attend and vote at general meetings. On a poll, voting rights are one vote per £20 of stock held.

Notes:

(i) The dividend entitlements of the First Preference Stock and the Preferred Ordinary Stock reverted on 6 April 1999 to the rates which applied before 6 April 1973.

(ii) In the event of a winding-up, the Preferred Ordinary Stock would be repaid at £3.50 per £1 of stock. However, its share of shareholders' funds is included in the financial statements at par because no winding-up is envisaged.

Notes to the Financial Statements

continued

16 Risk management policies and procedures

As an investment trust the Company invests in equities and other investments for the long term so as to secure its investment objective and policy as stated on page 14. In pursuing its investment objective and policy, the Company is exposed to a variety of risks that could result in either a reduction in the Company's net assets or a reduction in the profits available for distribution by way of dividends.

These risks – market risk (comprising market price risk, currency risk and interest rate risk), liquidity risk and credit and counterparty risk – and the directors' approach to the management of them, are set out below. The Board and the Portfolio Manager co-ordinate the Company's risk management.

The objectives, policies and processes for managing the risks are set out below and have not changed from the previous accounting period.

16.1 Market risk

The fair value of a financial instrument held by the Company may fluctuate due to changes in market prices. This market risk comprises market price risk (see note 16.1.1), currency risk (see note 16.1.2) and interest rate risk (see note 16.1.3). The Portfolio Manager assesses the exposure to market risk when making each investment decision, and monitors the overall level of market risk on the whole of the investment portfolio on an ongoing basis.

16.1.1 Market price risk

Market price risk (changes in market prices other than those arising from interest rate risk or currency risk) may affect the value of investments. The Company's investments are susceptible to market price risk arising from uncertainties about the future prices of the investments.

Management of the risk

The Board manages the risks inherent in the investment portfolio by ensuring full and timely access to relevant information from the Investment Manager. The Board meets regularly and at each meeting reviews investment performance. The Board monitors the Manager's compliance with the Company's objectives, including investment strategy and asset allocation.

When appropriate, the Company may buy/sell put or call options or futures on indices and on equity investments in its portfolio to manage its exposure to price risk or to generate income. At 30 June 2011 the Company had open positions with a negative value of £73,000 (2010: open positions with a negative value of £248,000).

Concentration of exposure to market price risk

An analysis of the Company's investment portfolio is shown on pages 10 and 11. This shows that the majority of the Company's investments are in UK listed companies. Accordingly, there is a concentration of exposure to the UK, though it is recognised that an investment's country of domicile or of listing does not necessarily equate to its exposure to the economic conditions in that country.

Market price risk sensitivity

The sensitivity of (a) the return after taxation for the year and (b) the Company's net assets to an increase or decrease of 10% in the fair values of the Company's investments at each balance sheet date is shown on the next page. This level of change is considered to be reasonably possible, based on observation of current market conditions.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

The impact of a 10% increase in the value of the investments on the revenue return as at 30 June 2011 is a decrease of £77,000 (2010: £59,000) and on the capital return is an increase of £72,606,000 (2010: £55,686,000).

The impact of a 10% decrease in the value of the investments on the revenue return as at 30 June 2011 is an increase of £77,000 (2010: £59,000) and on the capital return is a decrease of £72,606,000 (2010: £55,686,000).

16.1.2 Currency risk

The Company is not itself materially exposed to currency risk, although some of the investments will be in companies that have operations that involve currency risk and pay dividends in foreign currencies.

Management of the risk

Investment income denominated in foreign currencies is converted into sterling on receipt. The Company does not use financial instruments to mitigate the currency exposure in the period between the time that income is included in the financial statements and its receipt. However, the Company does sometimes hedge foreign currency exposure ahead of the declaration of dividends from companies in which it invests.

Foreign currency exposure

The fair values of the Company's monetary items that have foreign currency exposure at 30 June 2011 are £246,000 (2010: £173,000).

Foreign currency sensitivity

The Company's sensitivity to movements in exchange rates affecting its investment income, assuming a 10% movement in the Sterling/US Dollar rate will be a loss of £533,000 (2010: £607,000) if Sterling strengthens and a profit of £652,000 (2010: £742,000) if Sterling weakens. The 10% movement has been based on average market volatility in exchange rates in the previous 12 months.

16.1.3 Interest rate risk

Interest rate movements may affect:

- the level of income receivable from cash at bank and on deposit
- the interest payable on the Company's variable rate bank borrowings.

Management of the risk

The Company, generally, does not hold significant cash balances. The Company finances part of its activities through borrowings at levels approved and monitored by the Board. Derivative contracts have not been used during the year to hedge against the exposure to interest rate risk.

Interest rate exposure

The Company's exposure at 30 June 2011 of financial assets and financial liabilities to fixed interest rate risk can be found in note 15. The exposure to floating interest rates can be found on the balance sheet under cash at bank and under bank loans and overdrafts in note 14.

Interest receivable and finance costs are at the following rates:

- interest received on cash balances is at a margin linked to HSBC's Base Rate (2010: HSBC's base rate)
- interest paid on borrowings under the overdraft facility provided by the custodian is at a margin over HSBC's Base Rate.

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

The table below analyses the Company's contractual liabilities

	30 June 2011 Within 1 year £'000	**30 June 2011 Between 1 and 5 years £'000**	**30 June 2011 More than 5 years £'000**	30 June 2010 Within 1 year £'000	30 June 2010 Between 1 and 5 years £'000	30 June 2010 More than 5 years £'000
Debenture stocks*	**4,265**	**22,025**	**55,605**	4,265	22,715	59,180
Preference stock and preferred ordinary stock†	**157**	**628**	**1,399**	157	628	1,399
Derivative instruments	**73**	**–**	**–**	248	–	–
Bank overdrafts/loans and interest	**8,991**	**–**	**–**	3,124	–	–
Other creditors and accruals	**4,074**	**–**	**–**	3,069	–	–
	17,560	**22,653**	**57,004**	10,863	23,343	60,579

*The above figures show interest payable over the remaining terms of the three debenture stocks. The figures in the "between 1 and 5 years" and "more than 5 years" columns also include the capital to be repaid. Details of repayment are set out on page 40 and dividend/interest payment dates on page 50.

†The figures in the "more than 5 years" columns do not include the ongoing annual finance cost of £157,000.

Interest rate risk sensitivity

The Company is not materially exposed to changes in interest rates.

16.2 Liquidity risk

This is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities.

Management of the risk

Liquidity risk is not significant as the majority of the Company's assets are in investments in quoted equities that are readily realisable. For details of the Company's bank borrowing facility, see note 14.

The Board gives guidance to the Manager as to the maximum amount of the Company's resources that should be invested in any one company. The policy is that the Company should remain fully invested in normal market conditions and that short term borrowings should be used to fund short term cash requirements.

Liquidity risk exposure

The remaining contractual maturities of the financial liabilities at 30 June 2011, based on the earliest date on which payment can be required, is given in the table above.

16.3 Credit and counterparty risk

The failure of the counterparty to a transaction to discharge its obligations under that transaction could result in the Company suffering a loss.

Management of the risk

The risk is not significant and is managed as follows:

- investment transactions are carried out with a large number of brokers, whose credit standard is reviewed periodically by the Portfolio Manager, and limits are set on the amount that may be due from any one broker
- cash at bank is held only with reputable banks with high quality external credit ratings.

In summary, the exposure to credit and counterparty risk at 30 June 2011 was to cash at bank of £480,000 (2010: £1,475,000) and to other receivables of £6,244,000 (2010: £4,540,000).

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

16.4 Fair values of financial assets and financial liabilities

The financial assets and financial liabilities are either carried in the balance sheet at their fair value or the balance sheet amount is a reasonable approximation of fair value (due from brokers, dividends and interest receivable, due to brokers, accruals, cash at bank and bank overdrafts). At 30 June 2011 the aggregate fair value of the debenture stocks was £58,234,000 (2010: £58,110,000) and the aggregate fair value of the preferred and preference stock was £2,428,000 (2010: £2,311,000). These valuations are obtained from brokers based on market prices. The debenture stock, preference stock and preferred ordinary stock are carried in the balance sheet at par.

16.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 29 fair value hierarchy.

Financial assets at fair value through profit or loss at 30 June 2011	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	727,911	–	347	**728,258**
Derivative instruments	(73)	–	–	**(73)**
Total	727,838	–	347	**728,185**

Financial assets at fair value through profit or loss at 30 June 2010	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	558,467	–	347	558,814
Derivative instruments	(248)	–	–	(248)
Total	558,219	–	347	558,566

Categorisation within the hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset as follows:

Level 1 – valued using quoted prices in active markets for identical assets

Level 2 – valued by reference to valuation techniques using observable inputs other than quoted prices included in Level 1

Level 3 – valued by reference to valuation techniques using inputs that are not based on observable market data

The valuation techniques used by the Company are explained in the accounting policies note on page 31.

There have not been any transfers during the year between any of the levels. A reconciliation of fair value movements within Level 3 is set out below.

Reconciliation of Level 3 fair value measurement of financial assets	**£'000**
Opening and closing fair value	347

Notes to the Financial Statements

continued

16 Risk management policies and procedures (continued)

16.6 Capital management policies and procedures

The Company's capital management objectives are to ensure that it will be able to continue as a going concern, and to provide long-term growth in income and capital, principally by investment in UK equities.

The Company's capital is its equity share capital and reserves that are shown in the balance sheet, bank loans (see note 14), preference shares and debentures (see note 15) at a total of £730,867,000 (2010: £561,549,000).

The Company is subject to several externally imposed capital requirements:

– borrowings under the overdraft facility are not to exceed 15% of the portfolio

– as a public company, the Company has a minimum share capital of £50,000

– in order to be able to pay dividends out of profits available for distribution by way of dividends, the Company has to be able to meet one of the two capital restriction tests imposed on investment companies by company law.

– the terms of the debenture trust deeds have various covenants that prescribe that moneys borrowed should not exceed the adjusted total capital and reserves as defined in the debenture trust deeds. These are measured in accordance with the policies used in the annual financial statements.

The Company has complied with these requirements.

17 Called up share capital

	Shares in issue	Nominal value of total shares in issue £'000
Allotted, issued and fully paid ordinary shares of 25p each		
At 30 June 2010	208,619,868	52,155
Issue of new ordinary shares	16,240,000	4,060
At 30 June 2011	**224,859,868**	**56,215**

During the year, the Company issued 16,240,000 (2010: 100,000) ordinary shares with total proceeds of £45,571,000 (2010: £211,000). The average price of the shares that were issued was 281p (2010: 211p).

18 Share premium account

	2011 £'000	2010 £'000
At beginning of year	**37,079**	36,893
Issue of shares	**41,511**	186
At end of year	**78,590**	37,079

Notes to the Financial Statements
continued

19	Other capital reserves	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Total £'000
	At 1 July 2010	**2,707**	140,198	252,208	**392,406**
	Transfer on disposal of investments	–	(584)	584	**–**
	Net gains on investments	–	120,091	2,332	**122,423**
	Exchange losses	–	(48)	(25)	**(73)**
	Management and performance fees charged to capital	–	–	(1,537)	**(1,537)**
	Finance costs charged to capital	–	–	(3,181)	**(3,181)**
	At 30 June 2011	**2,707**	**259,657**	**250,381**	**510,038**

20	Revenue reserve	£'000
	At 1 July 2010	**26,679**
	Net revenue for the year	**28,588**
	Dividends paid (note 10)	**(28,340)**
	At 30 June 2011	**26,927**

21 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 £674,477,000 (2010: £511,026,000) and on 224,859,868 (2010: 208,619,868) shares in issue on 30 June 2011.

An alternative net asset value per ordinary share can be calculated by deducting from the total assets less current liabilities of the Company the preference and preferred ordinary stocks and the debenture stocks at their market (or fair) values rather than at their par (or book) values. The net asset value per ordinary share at 30 June 2011 calculated on this basis was 294.06p (2010: 238.71p).

The movements during the year of the assets attributable to the ordinary shares were as follows:

	£'000
Total net assets attributable to the ordinary shares at 1 July 2010	**511,026**
Total net return on ordinary activities after taxation	**146,220**
Dividends paid on ordinary shares in the year	**(28,340)**
Issue of shares	**45,571**
Total net assets attributable to the ordinary shares at 30 June 2011	**674,477**

22 Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting participations as at 30 June 2011 (2010: £675,000).

Notes to the Financial Statements

continued

23 Reconciliation of operating revenue to net cash inflow from operating activities

	2011 £'000	2010 £'000
Total return before finance charges and taxation	**151,126**	112,568
Less: capital return before finance charges and taxation	**(120,813)**	(86,099)
Net revenue return before finance charges and taxation	**30,313**	26,469
Increase in prepayments and accrued income	**(587)**	(86)
Decrease in other debtors	**–**	714
Increase in other creditors and accruals	**415**	104
Management and performance fees taken to capital	**(1,537)**	(1,385)
Tax deducted at source	**(323)**	(351)
	28,281	25,465

24 Analysis of changes in net debt

	1 July 2010 £'000	Cash flow £'000	Exchange movements £'000	30 June 2011 £'000
Cash at bank	1,475	(970)	(25)	**480**
Bank overdraft	(3,124)	(5,867)	–	**(8,991)**
	(1,649)	(6,837)	(25)	**(8,511)**
Debts falling due after more than one year	(47,399)	–	–	**(47,399)**
Net debt	(49,048)	(6,837)	(25)	**(55,910)**

25 Reconciliation of net cash flow to movement in net debt

	2011 £'000	2010 £'000
Decrease in cash as shown on cash flow statement	**(6,837)**	(2,348)
Net decrease in loans	**–**	2,000
Change in net debt resulting from cash flows	**(6,837)**	(348)
Exchange losses	**(25)**	(51)
Movement in net debt in the year	**(6,862)**	(399)
Net debt at the beginning of the year	**(49,048)**	(48,649)
Net debt at 30 June	**(55,910)**	(49,048)

Notes to the Financial Statements

continued

26 Related party transactions

Under the terms of an agreement dated 28 March 2010 (which replaced the previous agreement dated 20 March 1995) the Company has appointed subsidiaries of Henderson Global Investors Limited ("Henderson") to provide investment management, accounting, secretarial and administration services. Henderson has contracted BNP Paribas Securities Services to provide accounting and administration services. The fee arrangements for these services are given in the Report of the Directors on pages 16 and 17. The total of management and performance fees paid or payable to Henderson under this agreement in respect of the year ended 30 June 2011 was £2,195,000 (2010: £1,946,000). The amount outstanding at 30 June 2011 was £585,000 (2010: £517,000).

With effect from 1 July 2007 VAT is no longer charged on management fees or performance fees.

In addition to the above services, Henderson has provided the Company with marketing services during the year. The total fees paid or payable for these services for the year ended 30 June 2011 amounted to £79,000, including VAT (2010: £46,000), of which £20,000 was outstanding at 30 June 2011 (2010: £19,000).

Details of fees paid to directors are included in the Directors' Remuneration Report on page 26 and in note 6 on page 35.

Independent Auditors' Report

to the Members of The City of London Investment Trust plc

We have audited the financial statements of The City of London Investment Trust plc for the year ended 30 June 2011 which comprise the Income Statement, the Reconciliation of Movements in Shareholders' Funds, the Balance Sheet, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 25, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2011 and of its net return and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 15, in relation to going concern;
- the parts of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the Directors' Remuneration Report.

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
14 September 2011

A Brief History

The Company was formed as City of London Brewery Company Limited in 1860 to acquire Calverts, a family brewing business at Upper Thames Street in the City of London. The brewery had extensive interests in the licensed premises trade.

In 1932 the name was changed to The City of London Brewery and Investment Trust Limited, parts of the business having been sold and the proceeds invested in securities according to investment trust principles. In 1968 the remaining part of the brewery business was sold and the Company concentrated exclusively on investments in securities.

In 1970 the Company appointed Touche, Remnant & Co. as Investment Manager and in 1982 the name was changed to TR City of London Trust PLC. In 1992 Touche, Remnant & Co. was acquired by Henderson Administration Group plc (now Henderson Global Investors (Holdings) plc). Henderson Global Investors (Holdings) plc was acquired by AMP in the spring of 1998. In December 2003 Henderson Group plc, the holding company of Henderson Global Investors (Holdings) plc, was demerged from AMP and is quoted on the London and Australian Stock Exchanges. Henderson Group plc is a constituent of the FTSE 250 Index. Since 31 October 2009 Henderson Group plc has been incorporated in Jersey and tax-resident in the Republic of Ireland.

The name of the Company was changed to The City of London Investment Trust plc in October 1997.

Had the Company not re-registered in 1891, the Annual General Meeting for 2011 would be the 151st rather than the 119th.

Dates of Dividend and Interest Payments

Dividends

Ordinary shares:

- first interim payable on 30 November
- second interim payable on 28 February
- third interim payable on 31 May
- fourth interim payable on 31 August

Preference and preferred ordinary stocks:

- payable on 28 February and 31 August.

Debenture interest

$11\frac{1}{2}$% debenture stock 2014:

- payable on 30 June and 31 December

$10\frac{1}{4}$% debenture stock 2020:

- payable on 30 April and 31 October

$8\frac{1}{2}$% debenture stock 2021:

- payable on 31 January and 31 July.

Glossary of Terms

AIC
The Association of Investment Companies.

Benchmark
From 1 July 2009 the size weighted average net asset value total return of the AIC UK Growth & Income sector. From 1 July 2005 to 30 June 2009 it was the Total Return of the FTSE All-Share Index – adjusted for a maximum 4% cap for any single stock. Previously it was the FTSE All-Share Index Total Return.

Gearing
The gearing percentage reflects the amount of borrowings (ie bank loans and debentures) the Company has used to invest in the market. This figure indicates the extra amount by which shareholders' funds would move if the Company's investments were to rise or fall.

There are several methods of calculating gearing and the following has been selected:

The difference between quoted investments including written call options and equity shareholders' funds divided by equity shareholders' funds and multiplied by 100.

Investment Trusts
Investment trusts are public limited companies, quoted on the London Stock Exchange, which provide shareholders with a professionally managed portfolio of investments. Investment trusts are exempt from tax on the capital gains arising on their investments subject to meeting certain criteria. Income, net of expenses and tax, is substantially distributed to shareholders.

Net Asset Value (NAV) Per Ordinary Share
The value of the Company's assets (ie investments and cash held) less any liabilities (ie bank loans and debentures) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Balance Sheet. The NAV is published daily.

NAV per Ordinary Share (with debt at market value)
This is where the NAV is calculated by attributing market (also called "fair") values to the preference/preferred ordinary stocks and the debenture stocks rather than their par (or "book") values. The market values of these, and in particular the debentures, are higher than the par values due to the high coupon or interest rates they pay relative to the current interest rates in the market. Using a higher value for these liabilities reduces the NAV per share.

Performance Attribution Analysis
A performance attribution analyses how the Company achieved its recorded performance relative to its benchmark. This is broken down to show the effect of stock selection, gearing, expenses and changes in share capital made during the year. In a falling market, the gearing effect will have a negative contribution to performance, whereas in a rising market it will have a positive contribution.

Premium/Discount
The amount by which the market price per share of an investment trust is either higher (premium) or lower (discount) than the NAV per share, expressed as a percentage of the NAV.

Total Expense Ratio
This is the total expenses (excluding VAT write-back) incurred by the Company, including those charged to capital, expressed as a percentage of the average shareholders' funds over the year calculated on a quarterly basis. Before 2010 it was calculated using only the year's opening and closing shareholders' funds. We have shown separately the percentage of management/other expenses and the performance fee (when applicable).

Total Returns
This is the return on the share price or NAV taking into account both the rise and fall of share prices and the dividends paid to shareholders. Any dividends received by a shareholder are assumed to have been reinvested in either additional shares (for share price total return) or the Company's assets (for NAV total return). This is the same calculation shown as the value of £1,000 with net income reinvested on page 4.

Website
Further information on the Company can be found at **www.cityinvestmenttrust.com**

General Shareholder Information

Release of Results
Half year results are announced in February. Full year results are announced in September.

Annual General Meeting
The AGM is held in London in October.

BACS
Dividends and interest can be paid to shareholders and stockholders by means of BACS (Bankers' Automated Clearing Services); mandate forms for this purpose are available from the Registrar. Alternatively, shareholders can write to the Registrar (the address is given on the inside back cover) to give their instructions; these must include the bank account number, the bank account title and the sort code of the bank to which payments are to be made.

Disability Act
Copies of this report and other documents issued by the Company are available from the Company Secretary. If needed, copies can be made available in a variety of formats, including Braille, audio tape or larger type as appropriate.

You can contact the Registrar, Computershare Investor Services PLC, which has installed textphones to allow speech and hearing impaired people who have their own textphone to contact them directly, without the need for an intermediate operator by dialling 0870 702 0005. Specially trained operators are available during normal business hours to answer queries via this service.

Alternatively, if you prefer to go through a 'typetalk' operator (provided by the Royal National Institute for Deaf People) dial 18001 followed by the number you wish to dial.

Share Price Listings
The market price of the Company's ordinary shares is published daily in The Financial Times and other leading newspapers. The Financial Times also shows figures for the estimated NAV and the discount.

The market prices of the Company's preference, preferred ordinary and debenture stocks can be found in the London Stock Exchange Daily Official List.

Performance Details/Share Price Information
Details of the Company's share price and NAV can be found on the website. The address is **www.cityinvestmenttrust.com** The Company's NAV is published daily.

Shareholder Details
Shareholders who hold their shares in certificated form can check their shareholding with the Registrar, Computershare Investor Services PLC, via **www.computershare.com** Please note that to gain access to your details on the Computershare site you will need the holder reference number shown on your share certificate.

ISIN/SEDOL number
The ISIN code/SEDOL (Stock Exchange Daily Official List) number of the Company's shares is GB0001990497. The mnemonic code is CTY.

Nominee Share Code
Where notification has been provided in advance, the Company will arrange for copies of shareholder communications to be provided to the operators of nominee accounts. Nominee investors may attend general meetings and speak at them when invited to do so by the Chairman.

Investors in Halifax Share Dealing and Henderson ISAs receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Warning to Shareholders

Shareholders should be wary of unsolicited telephone calls or correspondence concerning the Company and offering investment advice, offers to buy shares at a discount or free company reports.

It is extremely unlikely that The City of London Investment Trust plc, its Manager (Henderson Global Investors) or its Registrar (Computershare Investor Services) would make unsolicited telephone calls to shareholders. In the event that the Company or its advisers did make unsolicited calls, shareholders would never be asked to confirm their personal details and such calls would relate only to official documentation already circulated to shareholders and never be in respect of offering investment advice, or unpublished investment or financial information regarding the Company.

If you are in any doubt about the veracity of an unsolicited phone call, please call the Company Secretary at the telephone number provided on the inside back cover.

Directors and Other Information

Directors
Simon de Zoete (Chairman)
Simon Barratt
David Brief
Richard Hextall
Philip Remnant

Investment Manager
Henderson Global Investors Limited, authorised and regulated by the Financial Services Authority

Portfolio Manager: Job Curtis

Secretary
Henderson Secretarial Services Limited,
represented by Deborah Trickett, ACIS

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