The City of London Investment Trust plc

Annual Report and Financial Statements for the year ended 30 June

2013

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.

Benchmark

Since 1 July 2009 the benchmark has been the AIC UK Growth & Income sector's size weighted average net asset value total return.

Management fee

From 1 July 2013 the Company has simplified its fee arrangements by removing the performance fee and increasing the management fee rate marginally.

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 2013	30 June 2012
Total Returns for the year*		
Net asset value per ordinary share ("NAV")*#	**23.8%**	2.3%
Ordinary share price#	**21.5%**	2.9%
UK Growth & Income Sector‡# (benchmark)	**26.0%**	1.2%
NAV performance versus benchmark	**(2.2%)**	1.1%
FTSE All-Share Index†	**17.9%**	(3.1%)
Dividend Yields		
City of London#	**4.2%**	4.8%
UK Growth & Income Sector‡#	**3.8%**	4.5%
FTSE All-Share Index†	**3.5%**	3.7%
FTSE 350 Equity Investment Instruments Index†	**2.4%**	2.4%
Revenue		
Earnings per ordinary share (EPS)	**15.27p**	14.05p
Dividends per ordinary share (DPS)	**14.30p**	13.74p
Revenue reserve	**£31.0m**	£28.2m
Revenue reserve per ordinary share	**12.03p**	11.79p
Ordinary Share Price	**344.00p**	295.80p
Net Asset Value per Ordinary Share	**343.58p**	292.87p
Premium*	**0.1%**	1.0%
Net asset value per ordinary share (with debt at market value)*	**339.12p**	286.42p
Premium (with debt at market value)	**1.4%**	3.3%
Gearing*	**7.9%**	9.5%
Ongoing charge (as a percentage of equity shareholders' funds)*	**0.44%**	0.45%
Management and other expenses	**0.44%**	0.45%
Performance fee	**–**	–

*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 NAV with debt at fair value
†Datastream

Contents

Chairman's Statement

Philip Remnant

I am pleased to report another year of positive progress. City of London produced a net asset value total return of 23.8% for the year ended 30 June 2013. Whilst this slightly lagged the average for the UK Growth & Income investment trust sector, it was well ahead of the FTSE All-Share Index. Indeed, over the longer term we have significantly outperformed the wider market in each of the last three, five and ten year periods. The dividend was increased for the 47th consecutive year, by 4.1%, and our ongoing charge remains, at 0.44%, the lowest in the sector.

The Markets

Equities proved consistently resilient through the year until a correction in June followed positive returns in each of the preceding 11 months. Overall, the FTSE All-Share Index total return rose 17.9% over the 12 months. In the UK, base rates remained at 0.5% and growth returned to the economy underpinned by a strengthening housing market. Overseas, growth picked up in the US but Europe and emerging markets were mixed. Equity markets have rerated upwards, with share prices outpacing growth in companies' earnings per share and dividends.

Our Investment Approach

Our Portfolio Manager, Job Curtis, has been managing City of London for over 20 years. He manages the portfolio in a conservative way, focusing on companies with cash generative businesses able to grow their dividends with attractive yields. The portfolio is well diversified with some 76% invested in well known blue chip UK listed companies but it remains biased towards international companies invested in economies likely to grow faster than the UK. In times when savers have difficulty in receiving adequate returns on their investments, the portfolio aims to provide shareholders with dividends between 10% and 30% higher than the FTSE All-Share Index.

Performance

Earnings and Dividends

Earnings per share rose by 8.7%, to 15.27p, reflecting the increase in dividends received from companies held in the portfolio. It was an exceptional year for special dividends which were paid by seven different companies and more than doubled to a total of £1.7 million. A fourth interim dividend of 3.63p per share was paid on 30 August 2013 making the total for the year 14.30p, an increase of 4.1% over the previous year and ahead of the rate of inflation.

This means that £2.8 million has been added to the revenue reserve to underpin future dividends. City of London's unsurpassed record of 47 years of unbroken dividend growth has been achieved by retaining income from good years in this revenue reserve and using that reserve to bolster dividends in difficult years.

The quarterly dividend will next be considered by the Board when the third interim is declared in March 2014.

Net Asset Value Total Return

City of London's total return was 23.8% which was 2.2 percentage points behind the size-weighted average total return for the AIC UK Growth & Income sector but 5.9 percentage points ahead of the FTSE All-Share Index. Our underweight positions in the oil and mining sectors, allied with our overweight position in industrial engineering, were the most important sector contributors to outperformance of the Index. In addition, gearing contributed 2.1 percentage points to the outperformance.

Expenses

There is no performance fee payable for the year. The ongoing charge, which is the investment management fee and other non-interest expenses as a percentage of equity shareholders' funds, was 0.44%, which is very competitive compared with the OEIC market, with most other investment trusts and with other actively managed funds.

Changes to Management Fee Arrangements

On 31 December 2012 the Financial Services Authority (now the Financial Conduct Authority) introduced new rules under the Retail Distribution Review (RDR) on adviser charging, with the objective of making advisers' remuneration more transparent by banning commission-based financial advice. The Board believes that these new rules could have a significant impact on the demand for City of London shares as it creates a level playing field between investment trusts and the open-ended products which have been traditionally favoured by financial advisers and authorised intermediaries.

Chairman's Statement

continued

In view of this, the Board has reviewed the Company's management fee arrangements with a view to simplifying these and making the Company more attractive to a wider audience of retail investors. Accordingly, with effect from 1 July 2013 the performance fee element of the management fee arrangements has been removed. The management fee with effect from that date has been 0.365% per annum of net assets, reducing to 0.35% on the balance of net assets above £1 billion. As a result, the Company will continue to have one of the lowest ongoing charges in the UK Growth and Income sector and is extremely competitive against other equity investment alternatives.

Share Issues

During the year under review, City of London's shares have been in strong demand and have continued to trade consistently at a premium. 19.1 million shares were issued, at a premium to net asset value, for proceeds of £62.9 million. In the past three years, City of London has issued 49.4 million new shares, increasing its share capital by 23.7%.

City of London's gross assets now exceed £1 billion and its market capitalisation stands at just under that figure. Whilst size is not important in and of itself, it is only those larger trusts with a ready, liquid market in their shares which stand to benefit materially from the consequences flowing from RDR to which I referred above. Our expenses are also spread over a broader capital base, reducing costs to individual shareholders and making our already competitive offering even more so.

The Board's approach to share issuance and buy-backs is set out on page 16 of this Report.

Alternative Investment Fund Manager (AIFM) Directive

The UK is currently in the process of implementing the AIFM Directive, a piece of EU legislation which is targeted principally at the regulation of hedge funds but which also catches within its scope other investment vehicles such as investment trusts. This will bring no perceptible benefit to City of London and its shareholders but will add a modest layer of regulatory oversight and additional, unwarranted cost. To comply with the new law, we will need to appoint an AIFM and a Depositary by July 2014. The Board is already well advanced in its preparations to meet this deadline.

Annual General Meeting

The Annual General Meeting will be held at the offices of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE on Monday, 28 October 2013 at 3.00pm. All shareholders are most welcome to attend. As usual, Job Curtis, our Portfolio Manager, will be making a presentation.

Outlook

Economic growth appears to be gathering momentum in the UK and most of the major overseas economies but the underlying situation remains fragile given continuing high levels of government and personal debt. The degree to which growth is self-sustaining or dependent on stimulatory monetary policy is not clear. In addition, there is concern about how financial assets will respond when central banks reduce their holdings in government bonds from the current unprecedented levels. In the UK, the Bank of England has introduced an element of forward guidance and it looks as though the base rate will remain at 0.5% for at least the next twelve months.

Within this overall economic environment, equity dividend yields remain attractive relative to both short term interest rates and medium and long-dated bond yields. City of London will continue to offer a dividend yield at a premium to the market and we intend to grow this dividend at least in line with inflation; all the time, invested in good quality companies with strong balance sheets and an attractive combination of yield and dividend growth prospects. My expectation is that this proposition will continue to serve shareholders well.

Philip Remnant
16 September 2013

Historical Performance

Results
to 30 June 2013

Total Returns	**1 year %**	**3 years %**	**5 years %**	**10 years %**
Net asset value per ordinary share*	+23.8	+63.6	+62.0	+170.1
UK Growth & Income Sector Average – net asset value*†	+26.0	+65.3	+61.6	+166.9
FTSE All-Share Index‡	+17.9	+43.5	+38.2	+136.4

†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 2013

Value of £1,000 with net income reinvested	**1 year £**	**3 years £**	**5 years £**	**10 years £**
The City of London Investment Trust plc*	1,215	1,640	1,848	2,750
UK Growth & Income Sector Average*†	1,263	1,672	1,822	2,872
FTSE All-Share Index‡	1,179	1,435	1,382	2,364
FTSE 350 Equity Investment Instruments Index‡	1,176	1,328	1,278	2,534

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 2003	191.2	100.0	8.07	100.0
30 June 2004	218.8†	114.4	8.33	103.2
30 June 2005	256.9†	134.4	8.62	106.8
30 June 2006	294.7	154.1	9.36	116.0
30 June 2007	345.6	180.8	10.30	127.6
30 June 2008	274.4	143.5	11.60	143.7
30 June 2009	205.7	107.6	12.32	152.7
30 June 2010	245.0	128.1	12.66	156.9
30 June 2011	300.0	156.9	13.20	163.6
30 June 2012	292.9	153.2	13.74	170.3
30 June 2013	**343.6**	**179.7**	**14.30**	**177.2**

*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 2003

Top 40 Investments

at 30 June 2013

The 40 largest investments, representing 74.42% 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 ten last year but not this year were AstraZeneca and National Grid.

Position	Company	Sector	Market Value 2013 £'000	Percentage of Portfolio 2013
1	**HSBC**	Banks	**54,560**	5.70
2	**British American Tobacco**	Tobacco	**50,512**	5.28
3	**GlaxoSmithKline**	Pharmaceuticals & Biotechnology	**49,110**	5.13
4	**Royal Dutch Shell**	Oil & Gas Producers	**48,846**	5.11
5	**Vodafone**	Mobile Telecommunications	**46,962**	4.91
6	**Diageo**	Beverages	**40,420**	4.23
7	**BP***	Oil & Gas Producers	**33,645**	3.52
8	**Unilever**	Food Producers	**28,084**	2.94
9	**Scottish & Southern Energy**	Electricity	**21,322**	2.23
10	**Centrica***	Gas, Water & Multiutilities	**21,252**	2.22
Top 10 = 41.27% of the portfolio				
11	**National Grid**	Gas, Water & Multiutilities	**19,396**	2.03
12	**AstraZeneca**	Pharmaceuticals & Biotechnology	**18,690**	1.95
13	**Reed Elsevier**	Media	**15,146**	1.58
14	**BHP Billiton**	Mining	**15,138**	1.58
15	**Croda International**	Chemicals	**14,862**	1.55
16	**Prudential**	Life Insurance	**13,975**	1.46
17	**Land Securities**	Real Estate Investment Trusts	**13,702**	1.43
18	**Pearson**	Media	**12,588**	1.32
19	**IMI**	Industrial Engineering	**11,780**	1.23
20	**Reckitt Benckiser**	Household Goods	**11,453**	1.20
Top 20 = 56.60% of the portfolio				
21	**Rio Tinto**	Mining	**11,269**	1.18
22	**Legal & General**	Life Insurance	**11,141**	1.16
23	**Imperial Tobacco**	Tobacco	**10,602**	1.11
24	**BAE Systems**	Aerospace & Defence	**10,149**	1.06
25	**British Land**	Real Estate Investment Trusts	**9,913**	1.04
26	**Novartis**	Pharmaceuticals & Biotechnology	**9,344**	0.98
27	**BT**	Fixed Line Telecommunications	**8,967**	0.94
28	**United Utilities**	Gas, Water & Multiutilities	**8,550**	0.89
29	**Greene King**	Travel & Leisure	**8,525**	0.89
30	**Standard Life**	Life Insurance	**8,297**	0.87
Top 30 = 66.73% of the portfolio				
31	**Provident Financial**	Financial Services	**8,189**	0.86
32	**Britvic**	Beverages	**7,695**	0.80
33	**Barclays Bank**	Banks	**7,657**	0.80
34	**Severn Trent**	Gas, Water & Multiutilities	**7,488**	0.78
35	**Amlin**	Nonlife Insurance	**7,473**	0.78
36	**Tesco**	Food & Drug Retailers	**7,456**	0.78
37	**Hiscox**	Nonlife Insurance	**7,096**	0.74
38	**Marks & Spencer**	General Retailers	**6,891**	0.72
39	**Whitbread**	Travel & Leisure	**6,876**	0.72
40	**Eni**	Oil & Gas Producers	**6,762**	0.71
Top 40 = 74.42% of the portfolio				

Portfolio Manager's Report

Job Curtis

Investment Background

During the twelve month period under review, the UK equity market, as measured by the FTSE All-Share Index, produced a total return of 17.9%. The market was in an upward trend producing a positive return every month for eleven months until June 2013. The key factor behind the buoyant equity market was the accommodative monetary policy from the Bank of England and other leading central banks. In the UK, the base rate remained at the historically low level of 0.5% and the total amount of gilts that has been purchased by the Bank of England rose to £375 billion or some 30% of the outstanding stock of gilts.

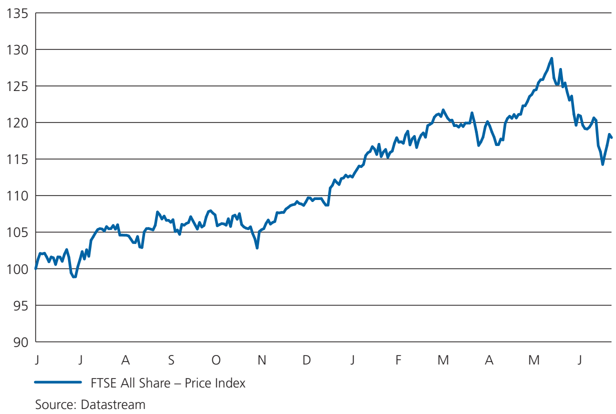
Economic growth in the UK picked up in 2013 with the housing market being helped by the Government's Funding for Lending Scheme. Overseas, growth continued in the US but the situation in Europe was mixed with weakness and high unemployment in many of the peripheral Eurozone countries. In emerging markets, the main feature was the slowdown in the growth of the Chinese economy as a result of government inspired credit tightening.

A key development during the year was the expansion of production in the United States of natural gas and oil extracted from shale rock. As a result, the US was able to reduce significantly its imports of oil and gas. This helped the oil price to trade within a relatively steady range and provide no inflationary shocks.

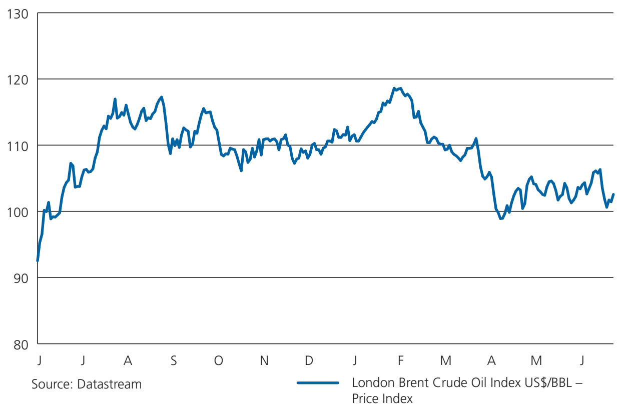
Throughout the twelve months, the UK equity dividend yield remained significantly in excess of both the yield of ten year gilts and base rates. In the second quarter of 2013, the yield of ten year gilts rose from a low of 1.7% to 2.4% in response to improving growth and speculation about a possible end to further quantitative easing.

Companies in City of London's portfolio on average increased their dividends by 6.2% (excluding special dividends). Given the equity market's combination of attractive dividend yield and growth as well as other measures of value, gearing was maintained in a range of between 6.8% and 10.5%. During the year, gearing contributed to performance by 2.1%, as shown in the table overleaf. In addition, stock selection contributed 4.1%.

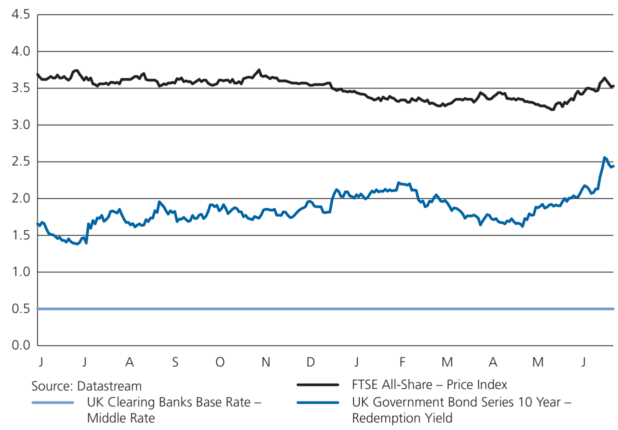
FTSE All-Share Index – Total Return from 30 June 2012 to 30 June 2013 (rebased to 100)



London Brent Crude Oil Index US$/BBL – Price Index from 30 June 2012 to 30 June 2013



Base Rates, 10 Year UK Government Bond & FTSE All-Share Index – Yields from 30 June 2012 to 30 June 2013



Portfolio Manager's Report

continued

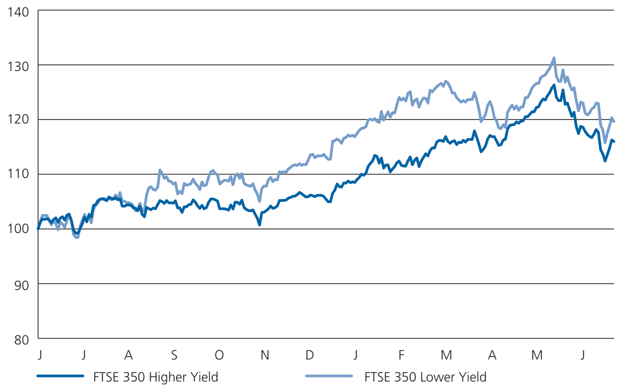
Estimated Performance Attribution Analysis (relative to the FTSE All-Share Index total return)

	2013	2012
Stock selection	**+4.05%**	+6.64%
Gearing	**+2.11%**	-0.99%
Expenses	**-0.44%**	-0.45%
Share issues	**+0.23%**	+0.18%
Total	**+5.95%**	+5.38%

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 Yield Index (the higher dividend yielding half of the largest 350 shares in 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 2012 to 30 June 2013 (rebased to 100).



Source: Datastream

Over the twelve month period, the FTSE 350 Lower Yield Index slightly outperformed the FTSE 350 Higher Yield Index. Key factors were the outperformance of the lower yielding banks sector and the underperformance of the higher yielding oil and gas sector. In addition, the lower yielding mining sector underperformed.

Portfolio Review

City of London remained significantly under represented in the mining sector throughout the twelve months and this was the biggest single sector contributor to outperformance relative to the FTSE All-Share Index. Mining companies were adversely affected by the poor performance of commodities, such as iron ore, which experienced reduced demand from China.

In addition, many of the mining companies had committed to expansionary capital expenditure which had to be written down in value. After share price underperformance, BHP Billiton and Rio Tinto's dividend yields had risen to above the average for the UK market and so additions were made to these two holdings which offered long-term value.

Iron Ore (US$/Metric Tonne)

Source: Datastream

The second biggest contributor to outperformance was being underweight the oil and gas sector which suffered from the sideways direction of the oil price and the difficulty that major companies continue to have in replacing their reserves. The holding in BP was added to on a significant discount to its sum-of-the-parts even after taking into consideration the likely costs of the final Macondo Gulf of Mexico spill claims. BP appeared to have made an astute deal in swapping its stake in TNK/BP for 20% of Rosneft and showed confidence in the future by increasing its dividend by some 20%. In addition, a small holding was purchased in the convertible of Gulf Keystone, which has interests in Kurdistan.

The biggest detractor to performance was being underweight the banks sector. It would have been difficult to hold either Lloyds or Royal Bank of Scotland because they did not pay a dividend. The holding in Standard Chartered was switched into HSBC which was on a lower valuation and offered a greater geographical spread of operations. Elsewhere in the financial sector, an overweight position was maintained in the life assurance sector where most of our holdings performed well, especially Standard Life which produced a return of some 60% over the twelve months. The one disappointment in this sector was Aviva, which cut its dividend, and this holding was reduced. In nonlife insurance, a new holding was purchased in Direct Line, the market leader in UK personal motor and home insurance which has scope to improve its return on equity through reduction in losses on insurance policies in some areas and cost savings. A holding was also bought in Munich Re, one of the world's leading reinsurers, at a share price valuation which did not reflect its strong track record. The holding in RSA, the commercial insurer, was sold after its disappointing performance and dividend cut. In the financial services sector, a new holding was purchased in Tullett Prebon, the inter-deal broker, which has a good record of cash generation. In real estate investment trusts, significant

Portfolio Manager's Report

continued

additions were made to the holding in British Land in view of its attractive dividend yield supported by a portfolio of well let prime London and retail property. A new holding was purchased in GCP Student Living which owns student accommodation in London where demand is expected to remain strong and supply constrained.

Sectors sensitive to economic activity performed well as investors became more confident of economic growth in the UK and overseas. The overweight positions in industrial engineering contributed positively with IMI notable for a share price return of 54%. In Travel & Leisure a particularly well timed purchase was made in Tui Travel, the leading travel group of the UK and Northern Europe, where the share price doubled. In addition, William Hill, the betting company with a fast growing on-line operation also had a very strong share price return of 73%. A further cyclical area to outperform were housebuilders where the holding in Persimmon had a share price total return of over 100%.

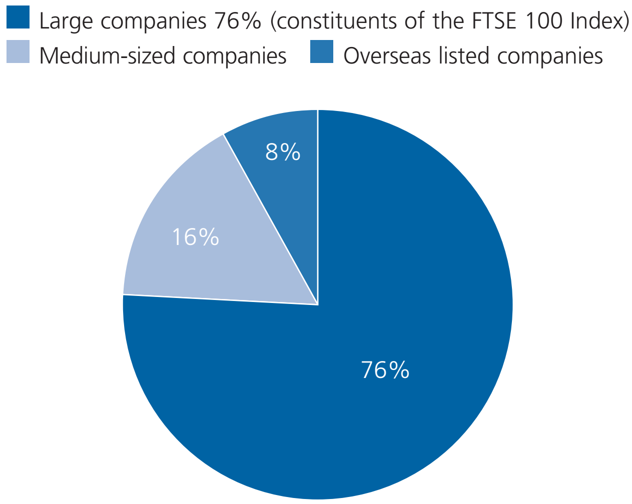
In the media sector, additions were made to the holding in Reed Elsevier which is a significant generator of cash now that some 80% of its revenues are derived from on-line and digital operations. Also in the media sector, Daily Mail & General was a notable outperformer with a share price total return of 88%.

Some defensive sectors underperformed partly due to the switch into cyclicals but also due to the rise in bond yields. Utilities are considered by some as proxies for bonds and react adversely to falling bond prices. However, the inflation-linked nature of UK utilities regulated revenues is attractive to long-term investors. This point was well illustrated by the takeover approach for Severn Trent which is held in the portfolio. A new holding was purchased in Greencoat UK Wind which owns wind farms where revenues are underpinned by government subsidies. Its 6% dividend yield is expected to grow with inflation. Overseas, a new investment was made in Duke Energy, a leading gas and electricity utility in the US.

New holdings were also purchased in Nestlé, the multinational food and beverages manufacturer with some 40% of its revenues in emerging markets; and Laird, a technology company that provides components that protect electronic devices from electromagnetic interference and heat and also enable connections through wireless applications. Disposals were made of the holdings in Daimler and France Telecom.

Over the year there was a four percentage point reduction in the weighting in large companies with medium-sized companies increasing by three percentage points and overseas listed by one percentage point. There is scope to have up to 20% of the portfolio in overseas listed stocks, but we will only invest overseas when there is, in our view, an advantage over UK listed companies.

Distribution of the Portfolio at 30 June 2013



Outlook

City of London's largest holdings partly reflect our belief in the structural nature of the growth in numbers of the middle class in emerging markets and their increasing prosperity. HSBC, British American Tobacco, Diageo and Unilever all have significant exposure to emerging markets and will benefit from growing demand for their goods and services. Elsewhere in the top ten holdings, we believe that after underperformance both Royal Dutch Shell and BP are undervalued and should deliver attractive income and capital returns. In pharmaceuticals, GlaxoSmithKline has scope to rerate as its earnings growth improves from existing products and those currently under research and development. Vodafone's key asset remains its 45% stake in Verizon Wireless, the leading US mobile operator, which is performing well and which it agreed to sell in September 2013 at a good price. The UK utilities, SSE, Centrica and National Grid, offer an attractive combination of dividend yield and growth.

The recovery in the UK economy is gathering momentum and there are bright prospects in many, if not all, overseas economies. From the point of view of stock selection, the aim is to buy into stocks where profits and dividend growth are not already discounted in share price valuation. Despite the rise in the stock market over the last year, we believe there are plenty of stock opportunities to benefit from the improving economy.

Job Curtis

Investments

	Valuation at 30 June 2013 £'000
OIL & GAS	
Oil & Gas Producers	
Royal Dutch Shell	48,846
BP	33,645
*Eni	6,762
*Statoil	3,995
†Gulf Keystone Petroleum	1,126
	94,374
Oil Equipment, Services & Distribution	
*Prosafe	3,443
Cape	1,220
	4,663
Total Oil & Gas	**99,037**
BASIC MATERIALS	
Chemicals	
Croda International	14,862
Johnson Matthey	2,628
Victrex	1,467
	18,957
Mining	
BHP Billiton	15,138
Rio Tinto	11,269
	26,407
Total Basic Materials	**45,364**
INDUSTRIALS	
Aerospace & Defence	
BAE Systems	10,149
Rolls-Royce	3,969
Meggitt	3,623
	17,741
Construction & Materials	
Marshalls	1,256
Balfour Beatty	954
	2,210
Electronic & Electrical Equipment	
Halma	4,280
Renishaw	3,092
*Emerson Electric	2,874
	10,246
General Industrials	
Smiths Group	3,924
Rexam	3,820
	7,744
Industrial Engineering	
IMI	11,780
Spirax-Sarco Engineering	6,469
Weir	4,947
Rotork	3,338
	26,534
Industrial Transportation	
BBA	4,902
	4,902

	Valuation at 30 June 2013 £'000
INDUSTRIALS (continued)	
Support Services	
Smiths News	5,369
Berendsen	3,723
Paypoint	3,299
Premier Farnell	3,030
De La Rue	2,900
Interserve	2,530
	20,851
Total Industrials	**90,228**
CONSUMER GOODS	
Beverages	
Diageo	40,420
Britvic	7,695
Young & Co Brewery	1,848
	49,963
Food Producers	
Unilever	28,084
*Nestlé	6,475
Tate & Lyle	4,741
Greencore	3,685
Dairy Crest	2,271
	45,256
Household Goods & Home Construction	
Reckitt Benckiser	11,453
Persimmon	4,134
	15,587
Tobacco	
British American Tobacco	50,512
Imperial Tobacco	10,602
	61,114
Total Consumer Goods	**171,920**
HEALTH CARE	
Pharmaceuticals & Biotechnology	
GlaxoSmithKline	49,110
AstraZeneca	18,690
*Novartis	9,344
*Merck	6,738
	83,882
Total Health Care	**83,882**
CONSUMER SERVICES	
Food & Drug Retailers	
Tesco	7,456
Sainsbury (J)	6,573
Greggs	2,296
Morrison (W) Supermarkets	1,833
	18,158
General Retailers	
Marks & Spencer	6,891
Next	6,153
Kingfisher	3,430
Halfords	2,697
	19,171

Investments

continued

	Valuation at 30 June 2013 £'000
CONSUMER SERVICES (continued)	
Media	
# Reed Elsevier	15,146
Pearson	12,588
British Sky Broadcasting	5,940
Daily Mail & General Trust	5,002
Euromoney Institutional	2,046
	40,722
Travel & Leisure	
Greene King	8,525
Whitbread	6,876
Cineworld	5,089
Compass	5,040
TUI Travel	3,569
William Hill	3,233
Go-Ahead	2,075
	34,407
Total Consumer Services	**112,458**
TELECOMMUNICATIONS	
Fixed Line Telecommunications	
BT	8,967
* Swisscom	4,322
	13,289
Mobile Telecommunications	
Vodafone	46,962
* Deutsche Telekom	3,263
	50,225
Total Telecommunications	**63,514**
UTILITIES	
Electricity	
Scottish & Southern Energy (SSE)	21,322
	21,322
Gas, Water & Multiutilities	
Centrica	21,252
National Grid	19,396
United Utilities	8,550
Severn Trent	7,488
Pennon	3,545
* Duke Energy	3,337
	63,568
Total Utilities	**84,890**
FINANCIALS	
Banks	
HSBC	54,560
Barclays Bank	7,657
	62,217
Equity Investment Instruments	
John Laing Infrastructure Fund	3,522
Greencoat UK Wind	2,346
	5,868

	Valuation at 30 June 2013 £'000
FINANCIALS (continued)	
Financial Services	
Provident Financial	8,189
Schroder	6,013
IG	3,480
Tullett Prebon	3,350
Brewin Dolphin	2,692
ICAP	1,999
	25,723
Life Insurance	
Prudential	13,975
Legal & General	11,141
Standard Life	8,297
Phoenix	6,079
Aviva	2,717
	42,209
Nonlife Insurance	
Amlin	7,473
Hiscox	7,096
* Munich Re	5,387
Direct Line Insurance	4,676
* Zurich Insurance	3,414
	28,046
Real Estate Investment Trusts	
Land Securities	13,702
British Land	9,913
Segro	5,584
* Unibail-Rodamco	2,299
GCP Student Living	1,568
	33,066
Total Financials	**197,129**
TECHNOLOGY	
Software & Computer Services	
Sage	3,719
* Microsoft	3,074
	6,793
Technology Hardware & Equipment	
Laird	1,243
	1,243
Total Technology	**8,036**
TOTAL INVESTMENTS	**956,458**

*Overseas listed
Shares listed both in London and Amsterdam
†Convertible

Total investments comprise:	
Listed fixed assets	956,501
Derivative instruments – written call options	(43)
	956,458

Classification of Investments and Portfolio Weighting

at 30 June 2013

		2013 Portfolio %	2013 FTSE All-Share Index %	Relative to the FTSE All-Share Index %
Basic Materials	Chemicals	1.98	0.72	1.26
	Forestry & Paper	–	0.16	-0.16
	Industrial Metals & Mining	–	0.04	-0.04
	Mining	2.76	6.54	-3.78
		4.74	7.46	-2.72
Consumer Goods	Automobiles & Parts	–	0.26	-0.26
	Beverages	5.23	4.15	1.08
	Food Producers	4.73	2.36	2.37
	Household Goods & Home Construction	1.63	2.45	-0.82
	Leisure Goods	–	0.02	-0.02
	Personal Goods	–	0.40	-0.40
	Tobacco	6.39	4.58	1.81
		17.98	14.22	3.76
Consumer Services	Food & Drug Retailers	1.90	2.19	-0.29
	General Retailers	2.00	1.86	0.14
	Media	4.26	2.92	1.34
	Travel & Leisure	3.59	3.26	0.33
		11.75	10.23	1.52
Financials	Banks	6.51	11.79	-5.28
	Equity Investment Instruments	0.61	3.23	-2.62
	Financial Services	2.69	1.91	0.78
	Life Insurance	4.41	3.79	0.62
	Nonlife Insurance	2.93	1.01	1.92
	Real Estate Investment & Services	–	0.46	-0.46
	Real Estate Investment Trusts	3.46	1.48	1.98
		20.61	23.67	-3.06
Fixed Income	Fixed Income	0.12	–	0.12
		0.12	–	0.12
Health Care	Health Care Equipment & Services	–	0.41	-0.41
	Pharmaceuticals & Biotechnology	8.77	7.17	1.60
		8.77	7.58	1.19
Industrials	Aerospace & Defence	1.85	2.35	-0.50
	Construction & Materials	0.23	0.75	-0.52
	Electronic & Electrical Equipment	1.07	0.46	0.61
	General Industrials	0.81	0.69	0.12
	Industrial Engineering	2.78	0.97	1.81
	Industrial Transportation	0.51	0.13	0.38
	Support Services	2.18	4.37	-2.19
		9.43	9.72	-0.29
Oil & Gas	Alternative Energy	–	0.01	-0.01
	Oil & Gas Producers	9.75	14.70	-4.95
	Oil Equipment, Services & Distribution	0.49	0.57	-0.08
		10.24	15.28	-5.04
Technology	Software & Computer Services	0.71	0.72	0.01
	Technology Hardware & Equipment	0.13	0.79	-0.66
		0.84	1.51	-0.67
Telecommunications	Fixed Line Telecommunications	1.39	1.47	-0.08
	Mobile Telecommunications	5.25	4.98	0.27
		6.64	6.45	0.19
Utilities	Electricity	2.23	0.89	1.34
	Gas, Water & Multiutilities	6.65	2.99	3.66
		8.88	3.88	5.00
Total		**100.00**	**100.00**	

Directors

Philip Remnant CBE (Chairman) 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 Deputy Chairman of the Takeover Panel and a Director of UK Financial Investments. He was Chairman of The Shareholder Executive between 2007 and 2012 and was Director General of the Takeover Panel from 2001 to 2003 and again in 2010. On 1 January 2013 he was appointed as the Senior Independent Director of the Prudential Group plc. He joined the Board on 1 January 2011 and was appointed Chairman on 24 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. During that time he was Company Secretary for the Whitbread Investment Company plc and a Director of Whitbread Pension Trustees. He was previously at Rio Tinto and Heron, having qualified as a solicitor with the law firm, Slaughter and May.

David Brief was previously Chief Investment Officer of BAE Systems Pension Funds Investment Management Limited. Mr Brief is a non-executive director of Asian Total Return Investment Company plc and the Rio Tinto Pension Scheme. Mr Brief joined the Board on 1 January 2009.

Richard Hextall (Chairman of the Audit Committee since 1 April 2011 and Senior Independent Director) 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.

Martin Morgan joined the Board on 1 March 2012. He has been Chief Executive of Daily Mail and General Trust PLC since October 2008, having joined the Group in 1989. He was previously chief executive of dmg information. He is a non-executive director of Euromoney Institutional Investor plc.

All directors are independent of the Investment Manager. All directors are members of the Nominations Committee, which is chaired by Philip Remnant. The Audit Committee consists of Richard Hextall, David Brief and Simon Barratt.

Management

From left to right: front row – David Rice, Job Curtis
back row – James Henderson, Laura Foll, Ben Lofthouse, Alex Crooke

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, James Henderson, Ben Lofthouse and Laura Foll.

David Rice ACIS 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 2012 to 30 June 2013.

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 2013. The Business Review should be read in conjunction with the Portfolio Manager's Report on pages 7 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") was active 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. The Company was required to seek approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under the above mentioned section every year up to and including the year ended 30 June 2012 and such approval was granted. From 1 July 2012 approval is by way of a one-off application for investment trust status, which has been granted. The directors are of the opinion that the Company will continue to conduct its affairs in a manner that will enable it to continue to hold such approval.

The Company is subject to the UK Listing Authority's Listing Rules and is governed by its articles of association, amendments to which must be approved by shareholders by way of a special resolution.

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 to generate income. 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 2013 contained 108 individual investments (2012: 102) as detailed on pages 10 and 11. At 30 June 2013, the largest single investment was HSBC, which accounted for 5.7% of total investments, while the top 20 holdings totalled 56.60%.

  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.

Report of the Directors

continued

c) Financial review

- *Assets*

  Total net assets at 30 June 2013 amounted to £886,397,000 compared with £699,546,000 at 30 June 2012, and the net asset value per ordinary share increased from 292.87p to 343.58p. This figure is calculated by valuing the Company's long-term debt at its nominal value. With long-term debt calculated at its fair, or market value year-on-year the net asset value increased from 286.42p to 339.12p.

	2013	2012	% Change
Net assets at 30 June	**£886.4m**	£699.5m	+26.7
Revenue return for the year	**£37.7m**	£32.5m	+16.0
Dividends payable per share for the year	**14.30p**	13.74p	+4.1

- *Revenue*

  The Company's gross revenue totalled £41,075,000 (2012: £35,488,000). After deducting expenses and tax, the revenue return for the year was £37,709,000 (2012: £32,450,000).

- *Costs*

  In the year under review borrowing costs totalled £4,796,000 (2012: £4,697,000), the management fee totalled £2,857,000 (2012: £2,310,000) and other expenses totalled £629,000 (2012: £589,000). These figures include VAT where applicable. Transaction costs, which include stamp duty and totalled £691,000 (2012: £529,000), are included within the purchase costs or netted against the sales proceeds of investments. The ongoing charges is set out on page 16.

- *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 3.52p and two quarterly interim dividends of 3.63p have been declared, providing a total dividend of 14.30p per ordinary share, an increase of 4.1% over the previous year.

- *Payment of suppliers*

  The Company's principal supplier is Henderson Global Investors Limited, its Manager, the payment terms for which are set out on page 16. In relation to other 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 payables at 30 June 2013.

- *Bank facility and gearing*

  At 30 June 2013 the Company had a borrowing facility of £80m, of which £24.6m was drawn at year end (2012: £22.7m). The Company also has three debentures totalling £46.0m (2012: £46.0m). Gearing at 30 June 2013 was 7.9% of net asset value (2012: 9.5%).

- *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 pages 3 and 4 and the Portfolio Manager's Report on pages 7 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. During the year under review the Company underperformed the peer group by 2.2 percentage points.

- *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 and the FTSE All-Share Index. During the year under review the Company outperformed the index by 5.9 percentage points.

Report of the Directors

continued

- *Premium/discount to net asset value ("NAV")*
  The Board's aim is for the Company's share price to reflect closely its underlying net asset value; and also to reduce volatility and have a liquid market in the shares. The ability to influence this is, of course, limited. It is believed 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 the 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.

  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 2013 the Company's shares were trading at a 0.1% premium to NAV (2012: 1.0% premium).

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

- *Ongoing charges*
  Ongoing charges are those expenses of a type which are likely to recur in the foreseeable future, whether charged to capital or revenue, and which relate to the operation of the investment company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges or gains or losses arising on investments. The Board regularly reviews the ongoing charges and monitors all Company expenses. For the year ended 30 June 2013 the ongoing charge as a percentage of shareholder funds was 0.44% (2012: 0.45%).

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

	At 30 June 2013	At 30 June 2012
NAV total return	**+23.8%**	+2.3%
AIC Sector NAV total return	**+26.3%**	+1.2%
FTSE All-Share Index total return	**+17.9%**	-3.1%
Share price total return	**+21.5%**	+2.9%
AIC Sector share price total return	**+26.3%**	+1.6%
Premium	**+0.1%**	+1.0%
Ongoing charge, excluding performance fee	**0.44%**	0.45%
Ongoing charge, including performance fee	**0.44%**	0.45%

e) Management arrangements and related party transactions

The provision of investment management, accounting, company secretarial and administration services has been outsourced to subsidiaries of Henderson Global Investors Limited ("Henderson"). Other than the relationship between the Company and its directors, the provision of services by Henderson 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 this related party affecting the financial position or performance of the Company during the year under review. Details of the individuals at Henderson responsible for managing the day-to-day operations of the Company are given on page 13.

f) Management agreement

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 and performance fee*
  To 30 June 2013 the basic annual management fee was 0.35% per annum of net assets. In addition, a performance fee was payable annually for outperformance against the Company's benchmark over a three year rolling period, with an absolute cap on total fees (base plus performance) payable in any one year of 0.63% of average net assets.

  The Company's net asset total return for the three years from 1 July 2010 to 30 June 2013 was 63.6% compared with the net asset value total return of the benchmark over the same period of 65.3%. Therefore no performance fee has been earned during the year (2012: £nil)

  From 1 July 2013 the Company has simplified its fee arrangements by removing the performance fee and increasing the management fee rate. For the period 1 July 2013 to 30 June 2014 the management fee will be charged at a rate of 0.365% per annum for the first £1bn of net assets reducing to 0.35% of net assets above £1bn. Such fees are payable quarterly in arrears based on the level of assets at the relevant quarter end.

g) Custody arrangements

Custody services are provided by HSBC Bank plc.

Report of the Directors

continued

h) 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 listed 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 equity shareholders' funds. The Board reviews the portfolio at the eight Board meetings each year. The Portfolio Manager closely monitors the portfolio between meetings and mitigates this risk through diversification of investments.

- *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 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 ("UK Listing Authority") 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.

- *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.

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, and an annual report which is audited. More details are given on page 21.

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") applies to the Company. (The AIC Code, and the related Corporate Governance Guide for Investment Companies, are accessible at www.theaic.co.uk).

The Board of The City of London Investment Trust plc believes that reporting against the AIC Code by reference to the AIC Guide will provide the most appropriate information to shareholders and has therefore followed the principles and recommendations set out in the AIC Code.

b) Statement of compliance

The AIC Code comprises 21 principles. The directors believe that during the year under review they have complied with

Report of the Directors

continued

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

As the Company delegates to an external investment manager (which has its own internal audit function) 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. Philip Remnant, Simon Barratt, Richard Hextall, David Brief and Martin Morgan served on the Board throughout the year.

- *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.

  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 2013, the directors reviewed their independence and confirmed that all directors remain wholly independent of Henderson. Richard Hextall is appointed as Senior Independent Director.

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.

Ordinary shares of 25p	30 June 2013	1 July 2012
Beneficial:		
Simon Barratt	**9,627**	6,754
David Brief	**9,985**	9,985
Richard Hextall	**4,000**	4,000
Martin Morgan	**23,900**	17,300
Philip Remnant	**65,720**	65,720

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. During the year, 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.

Report of the Directors

continued

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 during the year. 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 an induction 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' insurance and indemnification*
  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 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 (www.cityinvestmenttrust.com). The Board has not formed a Management Engagement Committee as it remains the role of the Board as a whole 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 Richard Hextall, David Brief and Simon Barratt. 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. Simon Barratt is a qualified lawyer and David Brief a pensions investment executive.

  The Audit Committee meets at least three times a year and is responsible for the review of the annual financial statements, 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

Report of the Directors

continued

and effectiveness of the accounting records and management information maintained on behalf of the Company. Audit fees paid to PricewaterhouseCoopers LLP are detailed in note 6 on page 35.

The Audit Committee has formulated a policy on the provision of non-audit services by the Company's appointed auditors and has determined that they will never be considered for the provision of services related to 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 related to a review of the Company's half year report, with all other non-audit services being judged on a case-by-case basis subject to approval by a member of the Audit Committee. In accordance with this approval policy, as disclosed in previous annual reports, Pricewaterhouse Coopers LLP were engaged to provide services in respect of a case for the restitution of VAT paid to the Manager between 1996 and 2000, which case is still ongoing. During the year under review, they have not been engaged to provide any further non-audit services for the Company.

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 fifth 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. 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 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 Board instigated an external evaluation during the financial year. 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 1**
Simon Barratt	8	3	1
David Brief	8	3	1
Richard Hextall	8	3	1
Martin Morgan	7	–	1
Philip Remnant	8	–	1

The Directors and committees of the Board also met during the year to undertake business such as the approval of the Company's results and share allotments.

e) Board, Committee and Directors' Performance Appraisal

The Directors recognise the importance of the AIC Code's recommendation in respect of evaluating the performance of the Board as a whole, the Committees and individual Directors.

During the year, the Directors undertook an extensive review of the Board structure, including an evaluation of the performance of the Board, the Committees and of individual Directors. The appraisal of the Chairman was led by Richard Hextall.

Report of the Directors

continued

Since the year end, an external evaluation by Lintstock Limited was completed. The conclusion was that the performance of the Board as a whole, the Committees of the Board, the Chairman and individual Directors, including Richard Hextall who has served for over six years, was deemed fully satisfactory. Areas of particular strength identified were in relation to the Board's focus on risks and controls, management of performance and strategy, succession planning and Board dynamics. Some suggestions were made in terms of improving the operation of the Board and an action plan has been developed to implement these.

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 Internal Control Guidance for Directors on the Combined Code published in September 1999 ("the Turnbull Guidance").

The Board has overall responsibility for the Company's system of internal controls 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 2013. 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.

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 2010, which came into force on 1 July 2011, and confirmed its zero tolerance to bribery and corruption in its business activities.

Report of the Directors
continued

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 page 16.

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 2013 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 238,859,868 ordinary shares in issue. During the year, 19,125,000 shares (representing 8.00% of the number of shares in issue at the beginning of the year) were issued for total proceeds (net of commissions) of £62,912,000. At 30 June 2013 the number of ordinary shares in issue (with voting rights) was 257,984,868.

Since 30 June 2013 and up to the date of this report a further 5,200,000 ordinary shares have been issued for a total consideration of £18,829,000. The number of shares in issue at the date of this report is 263,184,868.

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 2012 and at 30 June 2013 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 2012 and at 30 June 2013 there was £507,202 of second preference stock in issue.

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 2012 and at 30 June 2013 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 pages 39 and 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 2013, are set out below.

Shareholder	% of voting rights
Legal & General Investment Management	3.12%

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, at 30 June 2013, 12.8% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products and 2.7% 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.

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.

Report of the Directors

continued

On 29 October 2012 the directors were granted authority to repurchase 36,097,399 ordinary shares (with a nominal value of £9,024,350) 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 36,097,399 shares. This authority will expire at the conclusion of the AGM in October 2013, 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 2012 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.

- *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 Update and Annual Report and Financial Statements which aim to provide shareholders with a clear understanding of the Company's activities and its 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

- *Responsible Investment – Social, Environmental and Ethical (SEE) Statement*
  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.

  Henderson's corporate responsibility statement is included on the website **www.henderson.com**. For 2012 it was granted CarbonNeutral Company status which it has committed to maintain at least until the end of 2015. The Company's annual and half year reports are printed on carbon balanced paper, whereby the carbon impact of the production and distribution process has been balanced, or offset, by the World Land Trust, an international conservation charity.

- *Voting policy and the UK Stewardship Code*
  Henderson's Responsible Investment Policy sets out the Manager's approach to corporate governance and

Report of the Directors

continued

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 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 therefore 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.

- *Employee and environmental matters*
  The Company has no employees and outsources its investment management and company secretarial services to subsidiaries of Henderson. Henderson has implemented environmental management practices, which include 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 28 October 2013 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.

At the AGM in October 2012 the directors were granted authority to issue up to 24,080,986 ordinary shares. Since the AGM in October 2012, to date 19,275,000 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 4,805,986 shares. The authorities to issue shares and to disapply pre-emption rights will expire at the conclusion of the AGM in October 2013, when new authorities will be sought.

Following the introduction of new investment trust tax rules it is now possible for investment trust companies to distribute capital profits by way of dividend. Therefore a resolution to amend the Company's articles of association is proposed at the AGM to enable the Company to take advantage of the added flexibility allowed by the new tax rules. The Board has no intention at the current time to distribute capital profits as dividends but believes that it is in shareholders' best interests for the Board to have this power should circumstances warrant its use in the future.

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

David Rice ACIS
For and on behalf of Henderson Secretarial Services Limited
Company Secretary
16 September 2013

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 net return 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 judgements 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;
- prepare the financial statements on the 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, whose names and functions are listed on page 13 confirm 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 contained 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

Philip Remnant
Chairman
16 September 2013

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 Conduct 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, a director may resign by notice in writing to the Board at any time and no compensation is payable for loss of office. 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 2012 the annual fees paid to the directors are £38,500 (Chairman), £29,000 (Chairman of the Audit Committee) and £25,000 (other directors).

(Audited)	**2013 £**	2012 £
Simon Barratt(1)	**25,000**	24,500
David Brief	**25,000**	24,500
Richard Hextall(2)	**29,000**	28,500
Martin Morgan(3)	**25,000**	8,333
Philip Remnant(4)	**38,500**	33,652
Simon de Zoete(5)	**–**	11,663
TOTAL	**142,500**	131,148

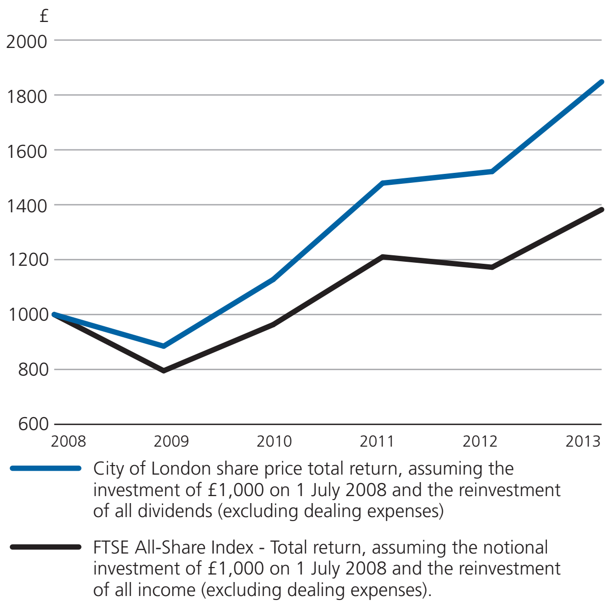
(1) Appointed on 1 October 2010. (2) Chairman of the Audit Committee from 1 April 2011. (3) Appointed on 1 March 2012. (4) Appointed Chairman on 24 October 2011. (5) Retired from the Board on 24 October 2011.

Expenses

During the year ended 30 June 2013 no expenses were paid to the directors (2012: £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 Index has been selected as the most appropriate market index for the Company's portfolio.



Source: Datastream

By order of the Board
David Rice ACIS
For and on behalf of
Henderson Secretarial Services Limited, Secretary
16 September 2013

Income Statement

for the year ended 30 June 2013

Notes		**2013 Revenue Return £'000**	**2013 Capital Return £'000**	**2013 Total £'000**	2012 Revenue Return £'000	2012 Capital Return £'000	2012 Total £'000
2	Gains/(losses) on investments held at fair value through profit or loss	**–**	**126,310**	**126,310**	–	(10,617)	(10,617)
3	Income from investments held at fair value through profit or loss	**40,572**	**–**	**40,572**	34,729	–	34,729
4	Other interest receivable and similar income	**503**	**–**	**503**	759	–	759
	Gross revenue and capital gains/(losses)	**41,075**	**126,310**	**167,385**	35,488	(10,617)	24,871
5	Management and performance fees	**(857)**	**(2,000)**	**(2,857)**	(693)	(1,617)	(2,310)
6	Other administrative expenses	**(629)**	**–**	**(629)**	(589)	–	(589)
	Net return/(loss) on ordinary activities before finance charges and taxation	**39,589**	**124,310**	**163,899**	34,206	(12,234)	21,972
7	Finance charges	**(1,549)**	**(3,247)**	**(4,796)**	(1,519)	(3,178)	(4,697)
	Net return/(loss) on ordinary activities before taxation	**38,040**	**121,063**	**159,103**	32,687	(15,412)	17,275
8	Taxation on net return/(loss) on ordinary activities	**(331)**	**–**	**(331)**	(237)	–	(237)
	Net return/(loss) on ordinary activities after taxation	**37,709**	**121,063**	**158,772**	32,450	(15,412)	17,038
9	**Return/(loss) per ordinary share – basic and diluted**	**15.27p**	**49.02p**	**64.29p**	14.05p	(6.67p)	7.38p

The total columns of this statement represent the Profit and Loss Account 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. The Company has no recognised gains or losses other than those recognised in the Income Statement. There is no material difference between the net return/(loss) on ordinary activities before taxation and the net return/(loss) for the financial year stated above and their historical cost equivalents.

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

Reconciliation of Movements in Equity Shareholders' Funds

for the year ended 30 June 2013

Year ended 30 June 2013	**Called up share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total £'000**
At 1 July 2012	**59,715**	**114,340**	**2,707**	**494,626**	**28,158**	**699,546**
Net return on ordinary activities after taxation	**–**	**–**	**–**	**121,063**	**37,709**	**158,772**
Issue of 19,125,000 new ordinary shares (note 17)	**4,781**	**58,131**	**–**	**–**	**–**	**62,912**
Dividends paid (note 10)	**–**	**–**	**–**	**–**	**(34,833)**	**(34,833)**
At 30 June 2013	**64,496**	**172,471**	**2,707**	**615,689**	**31,034**	**886,397**

Year ended 30 June 2012	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total £'000
At 1 July 2011	56,215	78,590	2,707	510,038	26,927	674,477
Net (loss)/return on ordinary activities after taxation	–	–	–	(15,412)	32,450	17,038
Issue of 14,000,000 new ordinary shares (note 17)	3,500	35,750	–	–	–	39,250
Dividends paid (note 10)	–	–	–	–	(31,219)	(31,219)
At 30 June 2012	59,715	114,340	2,707	494,626	28,158	699,546

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

Balance Sheet

at 30 June 2013

Notes		2013 £'000	2012 £'000
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	**875,502**	714,141
	Listed at market value overseas	**80,999**	52,067
12	Investment in subsidiary undertakings	**347**	347
		956,848	766,555
	Current assets		
13	Debtors	**8,260**	6,275
	Cash at bank	**179**	–
		8,439	6,275
14	**Creditors:** amounts falling due within one year	**(31,491)**	(25,885)
	Net current liabilities	**(23,052)**	(19,610)
	Total assets less current liabilities	**933,796**	746,945
15	**Creditors:** amounts falling due after more than one year	**(47,399)**	(47,399)
	Net assets	**886,397**	699,546
	Capital and reserves		
17	Called up share capital	**64,496**	59,715
18	Share premium account	**172,471**	114,340
19	Capital redemption reserve	**2,707**	2,707
19	Other capital reserves	**615,689**	494,626
20	Revenue reserve	**31,034**	28,158
21	**Equity shareholders' funds**	**886,397**	699,546
21	**Net asset value per ordinary share – basic and diluted**	**343.58p**	292.87p

The financial statements were approved by the Board of directors on 16 September 2013 and signed on it's behalf by:

Philip Remnant
Chairman

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

Cash Flow Statement

for the year ended 30 June 2013

Notes		2013 £'000	2013 £'000	2012 £'000	2012 £'000
23	**Net cash inflow from operating activities**		**36,042**		31,758
	Servicing of finance				
	Debenture interest paid	**(4,265)**		(4,265)	
	Bank and loan interest paid	**(383)**		(271)	
	Dividends paid on preference and preferred ordinary stocks	**(157)**		(157)	
	Net cash outflow from servicing of finance		**(4,805)**		(4,693)
	Taxation				
	Withholding tax recovered	**103**		120	
	Net tax recovered		**103**		120
	Financial investment				
	Purchases of investments	**(128,863)**		(95,697)	
	Sales of investments	**69,154**		45,576	
	Net cash outflow from financial investment		**(59,709)**		(50,121)
	Equity dividends paid		**(34,833)**		(31,219)
	Net cash outflow before financing		**(63,202)**		(54,155)
	Financing				
	Proceeds from issue of ordinary shares	**61,631**		39,991	
	Net cash inflow from financing		**61,631**		39,991
25	**Decrease in net debt**		**(1,571)**		(14,164)

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 in accordance with the Companies Act 2006 on a going concern basis and under the historical cost basis of accounting, as modified to include the revaluation of investments and derivative financial instruments at fair value through profit or loss. 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. The Company’s subsidiaries, (as detailed in note 12) are dormant and consolidated accounts are not produced. 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 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. Bank interest and stock lending revenue 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. Fees earned from stock lending are accounted for on an accruals basis and shown in the revenue return based on amounts to which the Company is entitled. This is after deduction of amounts withheld by the counterparty arranging the stock lending facility.

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 charges (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

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 charges.

(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 Equity 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 Equity 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/(losses) from investments held at fair value through profit or loss

	2013 £'000	2012 £'000
Gains on the sale of investments based on historical cost	**12,972**	8,391
Revaluation gains recognised in previous years	**(7,705)**	(14,292)
Gains/(losses) on investments sold in the year based on the carrying value at the previous balance sheet date	**5,267**	(5,901)
Revaluation of investments held at 30 June	**121,218**	(4,680)
Exchange losses	**(175)**	(36)
Total gains/(losses) from investments held at fair value through profit or loss	**126,310**	(10,617)

Notes to the Financial Statements

continued

3	Income from investments held at fair value through profit or loss	2013 £'000	2012 £'000
	Franked UK dividends:		
	Listed	**33,222**	29,737
	Listed – special dividends	**1,720**	879
		34,942	30,616
	Unfranked – listed investments:		
	Dividend income – overseas investments	**4,681**	3,511
	Dividend income – UK REIT	**949**	602
		5,630	4,113
		40,572	34,729

4	Other interest receivable and similar income	2013 £'000	2012 £'000
	Bank interest	**1**	2
	Underwriting commission (allocated to revenue)*	**64**	11
	Stock lending revenue	**87**	67
	Option premium income†	**351**	679
		503	759

*During the year the Company was not required to take up shares in respect of its underwriting commitments (2012: none).

†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 £405,000 (2012: £660,000) from this activity during the year of which £351,000 was recognised as revenue in the year ended 30 June 2013 (2012: £660,000).

Call options outstanding at 30 June 2013 are recognised at their fair value and at 30 June 2013 the fair value of the written call options was a liability of £43,000 (2012: £nil) representing the notional cost of repurchasing the call options at 30 June 2013 market prices. The premiums recognised in respect of these outstanding options amounted to £83,000 (2012: £nil) meaning that the total change in fair value recognised during the year ended 30 June 2013 in respect of these outstanding options amount to a gain of £40,000 (2012: £nil).

At 30 June 2013 the total value of securities on loan by the Company for stock lending purposes was £5,459,000 (2012: £2,980,000). The maximum aggregate value of securities on loan at any one time during the year ended 30 June 2013 was £72,129,000 (2012: £62,621,000). The Company's agent holds collateral at 30 June 2013, with a value of £5,732,000 in respect of securities on loan (2012: £3,129,000), the value of which is reviewed on a daily basis and comprises CREST Delivery By Value ("DBVs") and Government Bonds with a market value of 105% (2012: 105%) of the market value of any securities on loan.

Notes to the Financial Statements

continued

5	**Management and performance fees**	**2013 Revenue return £'000**	**2013 Capital return £'000**	**2013 Total £'000**	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
	Management fee	**857**	**2,000**	**2,857**	693	1,617	2,310

From 1 July 2013 the Company has simplified its fee arrangements by removing the performance fee and increasing the management fee rate.

No performance fee was payable in respect of the year ended 30 June 2013 (2012: £nil).

A summary of the terms of the Management Agreement is given on page 16 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)**	**2013 £'000**	2012 £'000
	Directors' emoluments (see Directors' Remuneration Report on page 26)	**143**	131
	Auditors' remuneration – for statutory audit services	**28**	27
	Marketing	**162**	117
	Bank charges (loan facility fees)	**15**	16
	Annual and Half Year Reports	**64**	70
	Registrar's fees	**81**	81
	AIC	**27**	32
	Listing fees	**48**	42
	Advisory and consultancy fees	**14**	35
	Other expenses	**47**	38
		629	589

7	**Finance charges**	**2013 Revenue return £'000**	**2013 Capital return £'000**	**2013 Total £'000**	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
	Interest on debentures repayable wholly or partly						
	– between one 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 overdraft interest	**112**	**262**	**374**	82	193	275
	Dividends per share:						
	– 3% Cumulative First Preference Stock	**18**	**–**	**18**	18	–	18
	– 2.1% Non-cumulative Second Preference Stock	**21**	**–**	**21**	21	–	21
	– 10% Non-cumulative Preferred Ordinary Stock	**118**	**–**	**118**	118	–	118
		1,549	**3,247**	**4,796**	1,519	3,178	4,697

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 on net return/(loss) on ordinary activities	2013 Revenue return £'000	2013 Capital return £'000	2013 Total £'000	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
(a) Analysis of tax charge for the year						
Overseas withholding tax	**504**	**–**	**504**	340	–	340
Less: overseas withholding tax recoverable	**(173)**	**–**	**(173)**	(103)	–	(103)
	331	**–**	**331**	237	–	237

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, the Company's profit for the accounting year is taxed at an effective rate of 23.75% (2012: 25.5%)

	2013 Revenue return £'000	2013 Capital return £'000	2013 Total £'000	2012 Revenue return £'000	2012 Capital return £'000	2012 Total £'000
(b) Factors affecting the tax charge for the year						
Return on ordinary activities before taxation	**38,040**	**121,063**	**159,103**	32,687	(15,412)	17,275
Corporation tax at 23.75% (2012: 25.5%)	**9,035**	**28,752**	**37,787**	8,335	(3,930)	4,405
Effects of:						
Non-taxable UK dividends	**(8,299)**	**–**	**(8,299)**	(7,808)	–	(7,808)
Non-taxable stock dividends and other income	**(1,096)**	**–**	**(1,096)**	(895)	–	(895)
Overseas tax suffered	**331**	**–**	**331**	237	–	237
Excess management expenses	**323**	**1,247**	**1,570**	328	1,223	1,551
Preference and preferred ordinary dividends not allowable for tax	**37**	**–**	**37**	40	–	40
Other capital gains/(losses) not subject to tax	**–**	**(29,999)**	**(29,999)**	–	2,707	2,707
	331	**–**	**331**	237	–	237

Investment trusts are exempt from corporation tax on capital gains provided that the Company complies with tests under Section 1158 of the Corporation Tax Act 2010.

(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 £19,972,000 (2012: £19,253,000) 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 and diluted

The return per ordinary share is based on the net return attributable to the ordinary shares of £158,772,000 (2012: £17,038,000) and on 246,953,500 ordinary shares (2012: 230,996,546), 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:

	2013 £'000	2012 £'000
Net revenue return	**37,709**	32,450
Net capital return/(loss)	**121,063**	(15,412)
Net total return	**158,772**	17,038
Weighted average number of ordinary shares in issue during the year	**246,953,500**	230,996,546
Revenue return per ordinary share	**15.27p**	14.05p
Capital return/(loss) per ordinary share	**49.02p**	(6.67p)
Total return per ordinary share	**64.29p**	7.38p

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	**2013 £'000**	2012 £'000
Fourth interim dividend (3.35p) for the year ended 30 June 2011	29 July 2011	31 August 2011	**–**	7,533
First interim dividend (3.35p) for the year ended 30 June 2012	28 October 2011	30 November 2011	**–**	7,690
Second interim dividend (3.35p) for the year ended 30 June 2012	27 January 2012	28 February 2012	**–**	7,730
Third interim dividend (3.52p) for the year ended 30 June 2012	4 May 2012	31 May 2012	**–**	8,266
Fourth interim dividend (3.52p) for the year ended 30 June 2012	10 August 2012	31 August 2012	**8,441**	–
First interim dividend (3.52p) for the year ended 30 June 2013	26 October 2012	30 November 2012	**8,586**	–
Second interim dividend (3.52p) for the year ended 30 June 2013	25 January 2013	28 February 2013	**8,735**	–
Third interim dividend (3.63p) for the year ended 30 June 2013	3 May 2013	31 May 2013	**9,209**	–
Unclaimed dividends over 12 years old			**(138)**	–
			34,833	31,219

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 Equity 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.

	2013 £'000	2012 £'000
Revenue available for distribution by way of dividend for the year	**37,709**	32,450
First interim dividend of 3.52p (2012: 3.35p)	**(8,586)**	(7,690)
Second interim dividend of 3.52p (2012: 3.35p)	**(8,735)**	(7,730)
Third interim dividend of 3.63p (2012: 3.52p)	**(9,209)**	(8,266)
Fourth interim dividend of 3.63p paid on 31 August 2013† (2012: 3.52p)	**(9,423)**	(8,441)
Undistributed revenue for Section 1158 purposes*	**1,756**	323

†Based on 259,584,868 ordinary shares in issue at 31 July 2013 (the ex-dividend date) (2012: 239,809,868).
*The surplus of £1,751,000 (2012: surplus of £323,000) has been taken to the revenue reserve.

11 Investments held at fair value through profit or loss

	Investments in subsidiaries £'000	**Other investments £'000**	**Total £'000**
2013:	**347**	**766,208**	**766,555**
Valuation at 1 July 2012	**347**	**766,208**	**766,555**
Investment holding gains at 1 July 2012	**–**	**(240,685)**	**(240,685)**
Cost at 1 July 2012	**347**	**525,523**	**525,870**
Additions at cost	**–**	**132,333**	**132,333**
Disposals at cost	**–**	**(55,596)**	**(55,596)**
Cost at 30 June 2013	**347**	**602,260**	**602,607**
Investment holding gains at 30 June 2013	**–**	**354,198**	**354,198**
Valuation at 30 June 2013	**347**	**956,458**	**956,805**
2012:			
Valuation at 1 July 2011	347	727,911	728,258
Investment holding gains at 1 July 2011	–	(259,730)	(259,730)
Cost at 1 July 2011	347	468,181	468,528
Additions at cost	–	95,113	95,113
Disposals at cost	–	(37,771)	(37,771)
Cost at 30 June 2012	347	525,523	525,870
Investment holding gains at 30 June 2012	–	240,685	240,685
Valuation at 30 June 2012	347	766,208	766,555

The portfolio valuation at 30 June 2013 of £956,805,000 is shown on the balance sheet as investments held at fair value through profit or loss of £956,848,000 and as a creditor of £43,000 for the derivative financial instrument.

Purchase transaction costs for the year ended 30 June 2013 were £598,000 (2012: £469,000), these comprise mainly stamp duty and commission. Sale transaction costs for the year ended 30 June 2013 were £93,000 (2012: £60,000).

Notes to the Financial Statements

continued

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 2013 was £347,000 (2012: £347,000). This Company has 10,000 issued ordinary shares of £1 each.

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 2013 was £2 (2012: £2). This Company has two issued ordinary shares of £1 each.

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 2013 were £2 (2012: £2). This Company has two issued ordinary shares of £1 each.

13 Debtors

	2013 £'000	2012 £'000
Sales for future settlement	**–**	586
Withholding and income tax recoverable	**299**	229
Prepayments and accrued income	**6,242**	5,022
Share issue proceeds receivable	**1,719**	438
	8,260	6,275

14 Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank overdraft	**24,636**	22,711
Derivative instruments – written options	**43**	–
Purchases for future settlement	**4,116**	646
Amounts owed to subsidiary undertakings	**347**	347
Accruals	**2,270**	2,102
Dividends payable on preference and preferred ordinary stocks	**79**	79
	31,491	25,885

The Company had an uncommitted overdraft facility of £80,000,000 at 30 June 2013 (2012: £80,000,000) provided by its custodian and has provided a floating charge over its assets in return. Interest on the overdraft was payable at a rate of HSBC Base Rate +1.25% at 30 June 2013 (2012: same). 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 overdraft drawn down becoming repayable immediately.

Notes to the Financial Statements

continued

15 Creditors: amounts falling due after more than one year

	2013 £'000	2012 £'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 (2012: £301,982) 3.0% cumulative first preference stock	**302**	302
£507,202 (2012: £507,202) 2.1% non-cumulative second preference stock	**507**	507
£589,672 (2012: £589,672) 10% non-cumulative preferred ordinary stock	**590**	590
	47,399	47,399

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 equity 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 2013 the Company had an open position with a value of (£43,000) (2012: £nil).

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 2013 is a decrease of £100,000 (2012: £80,000) and on the capital return is an increase of £95,411,000 (2012: £76,433,000). The total impact on equity shareholders' funds would be an increase of £95,311,000 (2012: £76,353,000).

The impact of a 10% decrease in the value of the investments on the revenue return as at 30 June 2013 is an increase of £100,000 (2012: £80,000) and on the capital return is a decrease of £95,411,000 (2012: £76,433,000). The total impact on equity shareholders' funds would be a decrease of £95,311,000 (2012: £76,353,000).

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 2013 are £402,000 (2012: £279,000).

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 £709,000 (2012: £572,000) if Sterling strengthens and a profit of £867,000 (2012: £699,000) 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 2013 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 overdraft in note 14.

Interest receivable and finance costs are at the following rates:

– interest received on cash balances is at a margin of 1.25% above the HSBC base rate (2012: same).
– 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 2013 Within 1 year £'000	30 June 2013 Between 1 and 5 years £'000	30 June 2013 More than 5 years £'000	30 June 2012 Within 1 year £'000	30 June 2012 Between 1 and 5 years £'000	30 June 2012 More than 5 years £'000
Debenture stocks*	**4,265**	**20,645**	**48,845**	4,265	21,335	52,030
Preference stock and preferred ordinary stock†	**157**	**628**	**1,399**	157	628	1,399
Derivative instruments	**43**	**–**	**–**	–	–	–
Bank overdrafts and interest	**24,636**	**–**	**–**	22,711	–	–
Other creditors and accruals	**6,812**	**–**	**–**	3,180	–	–
	35,913	**21,273**	**50,244**	30,313	21,963	53,429

*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 is 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 2013, 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.

Notes to the Financial Statements
continued

16 Risk management policies and procedures (continued)

Stock lending transactions are carried out with a number of approved counterparties, whose credit rating is reviewed regularly by the Manager and limits are set on the amount that may be lent to any one counterparty. Stock lending is the temporary transfer of securities by a lender to a borrower, with an agreement by the borrower to return equivalent securities to the lender at an agreed future date. Stock lending revenue is received for making the investments available to the borrower, which increases the returns on the portfolio. In all cases securities lent continue to be recognised on the balance sheet. Details of the value of securities on loan at the year end, and the collateral held, can be found in note 4.

In summary, the exposure to credit and counterparty risk at 30 June 2013 was to cash at bank of £179,000 (2012: £nil) and to other debtors of £8,236,000 (2012: £6,238,000).

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 2013 the aggregate fair value of the debenture stocks was £56,318,000 (2012: £60,555,000) and the aggregate fair value of the preferred and preference stock was £2,605,000 (2012: £2,257,000). 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 2013	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**	**Total £'000**
Equity investments	956,501	–	347	**956,848**
Derivatives	(43)	–	–	**(43)**
Total	956,458	–	347	**956,805**

Financial assets at fair value through profit or loss at 30 June 2012	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	766,208	–	347	766,555
Total	766,208	–	347	766,555

The total carrying value of loans and receivables, as stated in note 13, is a reasonable approximation of their fair value as at the year end date.

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 overdraft (see note 14), preference shares and debentures (see note 15) at a total of £958,432,000 (2012: £769,656,000).

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 1 July 2012	238,859,868	59,715
Issue of new ordinary shares	19,125,000	4,781
At 30 June 2013	**257,984,868**	**64,496**
Allotted, issued and fully paid ordinary shares of 25p each		
At 1 July 2011	224,859,868	56,215
Issue of new ordinary shares	14,000,000	3,500
At 30 June 2012	**238,859,868**	**59,715**

During the year, the Company issued 19,125,000 (2012: 14,000,000) ordinary shares with total proceeds of £62,912,000 (2012: £39,250,000) after deduction of issue costs of £62,000 (2012: £55,000). The average price of the shares that were issued was 329p (2012: 280p).

18 Share premium account

	2013 £'000	2012 £'000
At beginning of year	**114,340**	78,590
Issue of shares	**58,193**	35,805
Less: issue costs	**(62)**	(55)
At end of year	**172,471**	114,340

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 2012	2,707	240,685	253,941	**494,626**
	Transfer on disposal of investments	–	(7,705)	7,705	**–**
	Net gains on investments	–	121,218	5,267	**126,485**
	Exchange losses	–	–	(175)	**(175)**
	Management fees charged to capital	–	–	(2,000)	**(2,000)**
	Finance costs charged to capital	–	–	(3,247)	**(3,247)**
	At 30 June 2013	**2,707**	**354,198**	**261,491**	**615,689**
	At 1 July 2011	2,707	259,657	250,381	**510,038**
	Transfer on disposal of investments	–	(14,292)	14,292	**–**
	Net losses on investments	–	(4,680)	(5,901)	**(10,581)**
	Exchange losses	–	–	(36)	**(36)**
	Management fees charged to capital	–	–	(1,617)	**(1,617)**
	Finance costs charged to capital	–	–	(3,178)	**(3,178)**
	At 30 June 2012	**2,707**	**240,685**	**253,941**	**494,626**

20	Revenue reserve	£'000
	At 1 July 2012	**28,158**
	Net revenue for the year	**37,709**
	Dividends paid (note 10)	**(34,833)**
	At 30 June 2013	**31,034**
	At 1 July 2011	**26,927**
	Net revenue for the year	**32,450**
	Dividends paid (note 10)	**(31,219)**
	At 30 June 2012	**28,158**

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 £886,397,000 (2012: £699,546,000) and on 257,984,868 (2012: 238,859,868) shares in issue on 30 June 2013.

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 2013 calculated on this basis was 339.12p (2012: 286.42p).

Notes to the Financial Statements

continued

21 Net asset value per ordinary share (continued)

	£'000
The movements during the year of the assets attributable to the ordinary shares were as follows:	
Total net assets attributable to the ordinary shares at 1 July 2012	**699,546**
Total net return on ordinary activities after taxation	**158,772**
Dividends paid on ordinary shares in the year	**(34,833)**
Issue of shares	**62,912**
Total net assets attributable to the ordinary shares at 30 June 2013	**886,397**

The Company does not have any dilutive securities.

22 Capital commitment and contingent liabilities

Capital commitments

There were no capital commitments as at 30 June 2013 (2012: £nil).

Contingent liabilities

There were no contingent liabilities in respect of sub-underwriting participations as at 30 June 2013 (2012: none).

23 Reconciliation of net return on ordinary activities before finance charges and taxation to net cash inflow from operating activities

	2013 £'000	2012 £'000
Net return on ordinary activities before finance charges and taxation	**163,899**	21,972
(Less)/add: capital (return)/loss before finance charges and taxation	**(124,310)**	12,234
Net revenue return before finance charges and taxation	**39,589**	34,206
Increase in prepayments and accrued income	**(1,220)**	(171)
Increase/(decrease) in other creditors and accruals	**177**	(320)
Management fees taken to capital	**(2,000)**	(1,617)
Tax deducted at source	**(504)**	(340)
Net cash inflow from operating activities	**36,042**	31,758

24 Analysis of changes in net debt

	1 July 2012 £'000	Cash flow £'000	Exchange movements £'000	30 June 2013 £'000
Cash at bank	–	179	–	**179**
Bank overdraft	(22,711)	(1,750)	(175)	**(24,636)**
Total	(22,711)	(1,571)	(175)	**(24,457)**
Debts falling due after more than one year	(47,399)	–	–	**(47,399)**
Net debt	(70,110)	(1,571)	(175)	**(71,856)**

Notes to the Financial Statements

continued

24 **Analysis of changes in net debt** (continued)	1 July 2012 £'000	Cash flow £'000	Exchange movements £'000	30 June 2013 £'000
Cash at bank	480	(444)	(36)	**–**
Bank overdraft	(8,991)	(13,720)	–	**(22,711)**
Total	(8,511)	(14,164)	(36)	**(22,711)**
Debts falling due after more than one year	(47,399)	–	–	**(47,399)**
Net debt	(55,910)	(14,164)	(36)	**(70,110)**

25 **Reconciliation of net cash flow to movement in net debt**	**2013 £'000**	2012 £'000
Decrease in cash as shown on cash flow statement	**(1,571)**	(14,164)
Exchange losses	**(175)**	(36)
Movement in net debt in the year	**(1,746)**	(14,200)
Net debt at 1 July	**(70,110)**	(55,910)
Net debt at 30 June	**(71,856)**	(70,110)

26 Transactions with the Manager

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 page 16. The total of management and performance fees paid or payable to Henderson under this agreement in respect of the year ended 30 June 2013 was £2,857,000 (2012: £2,310,000). The amount outstanding at 30 June 2013 was £768,000 (2012: £606,000).

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 2013 amounted to £162,000 including VAT (2012: £117,000) of which £41,000 was outstanding at 30 June 2013 (2012: £39,000).

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 2013 which comprise the Income Statement, the Reconciliation of Movements in Equity 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 and Financial Statements 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 2013 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 report to shareholders by the Board on directors' remuneration.

Marcus Hine (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
16 September 2013

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.

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

11½% debenture stock 2014:

- payable on 30 June and 31 December

10¼% debenture stock 2020:

- payable on 30 April and 31 October

8½% 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 equity 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, listed 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 equity 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.

Ongoing Charge (previously 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 equity shareholders' funds over the year calculated on a daily basis. In accordance with AIC guidelines, prior year values have been adjusted accordingly. 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 5.

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
Philip Remnant (Chairman)
Simon Barratt
David Brief
Richard Hextall
Martin Morgan

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

Portfolio Manager: Job Curtis

Company Secretary
Henderson Secretarial Services Limited,
represented by David Rice, ACIS

Registered Number
Registered as an investment company in England and Wales
No. 34871

Registered Office
201 Bishopsgate
London EC2M 3AE

Telephone 020 7818 1818
Email help@henderson.com
www.cityinvestmenttrust.com

Registrar
Computershare Investor Services PLC
PO Box 82
The Pavilions
Bristol BS99 7NH
Telephone 0870 889 3296

Custodian
HSBC Securities Services
Level 29
8 Canada Square
Canary Wharf
London E14 5HQ

Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
7 More London Riverside
London SE1 2RT

Stockbrokers
Cenkos Securities plc
6, 7, 8 Tokenhouse Yard
London EC2R 7AS

New Zealand Registrar
Computershare Investor Services Limited
PO Box 92119
Auckland 1142
New Zealand
Telephone (New Zealand) (64) 09 488 8777

New Zealand Stockbrokers
ABN AMRO Craigs
Farming House
102-104 Spring Street
PO Box 13155
Tauranga
New Zealand

Keeping up to date with The City of London Investment Trust plc

Website
For more information about The City of London Investment Trust plc, visit the website at www.cityinvestmenttrust.com

HGi
HGi is a content platform provided by Henderson that offers a new level of online personalisation where you can "follow" investment experts, topics and the trusts that are of interest to you. By creating your HGi profile you will be updated regularly on the topics that interest you most, bringing you closer to Henderson's investment expertise.

Scan the QR code or use this short URL to register for HGi.http://HGi.co/g20

Follow us on Twitter
To get the latest updates follow us on Twitter @HGiTrusts

aic
The Association of Investment Companies

PREMIUM MAIN MARKET
LONDON STOCK EXCHANGE

The City of London Investment Trust plc is managed by

Henderson
GLOBAL INVESTORS

This report is printed on Revive, a paper containing 50% recycled fibre from both pre- and post-consumer waste and 50% FSC certified virgin fibre. Pulps used are elemental chlorine free manufactured at a mill accredited with the ISO 14001 environmental management system.

The FSC logo identifies products which contain wood from well managed forests certified in accordance with the rules of the Forest Stewardship Council.

FSC
www.fsc.org
MIX
Paper from responsible sources
FSC® C021652

WORLD LAND TRUST™
www.carbonbalancedpaper.com
Henderson Global Investors

Printed by Leycol, London

HGI9224/2013