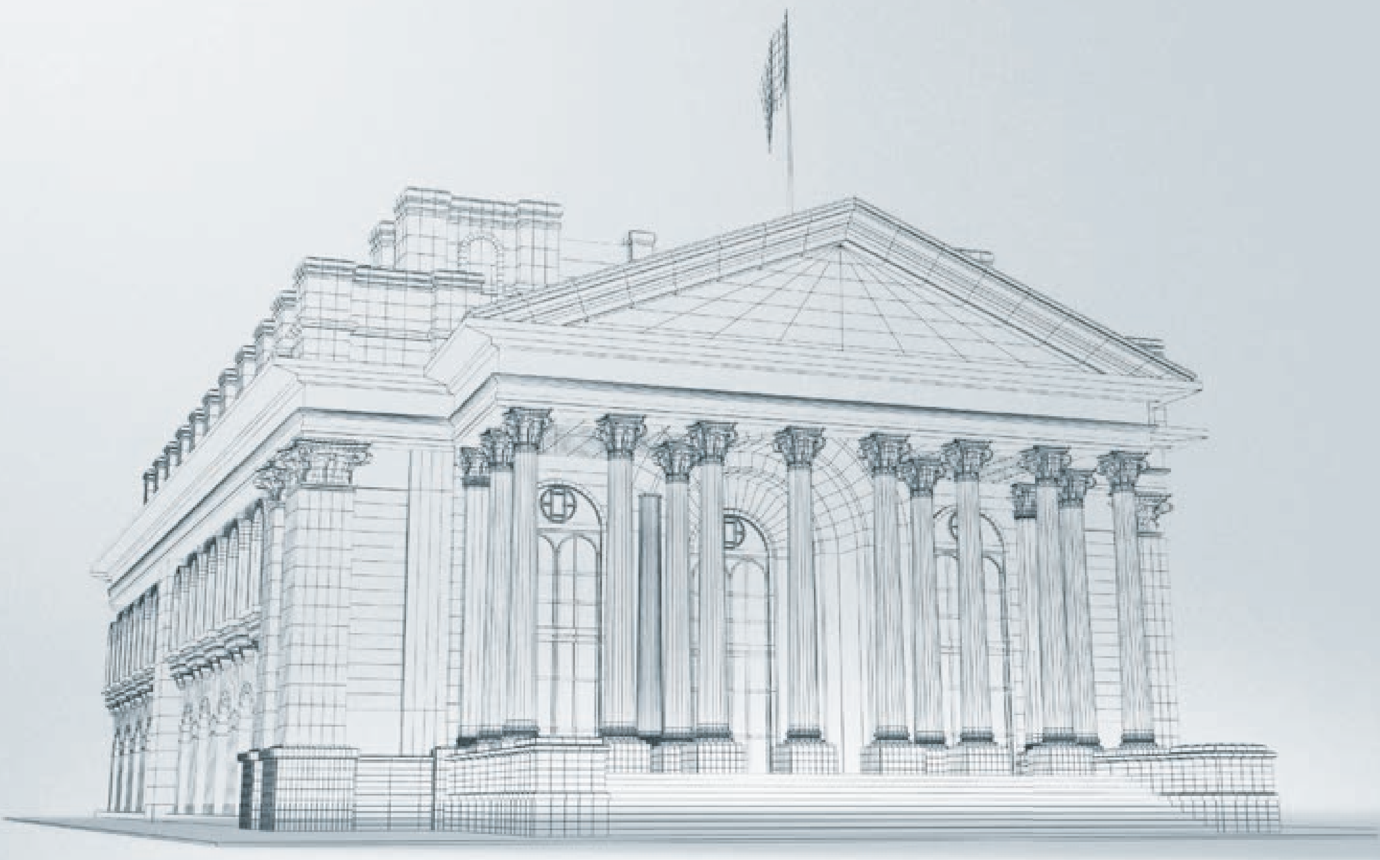
THE CITY OF LONDON INVESTMENT TRUST PLC

Annual Report 2016



50 YEARS CONTINUOUS DIVIDEND GROWTH

MANAGED BY Henderson GLOBAL INVESTORS

Contents

The image on the front cover is based on the Royal Exchange, London

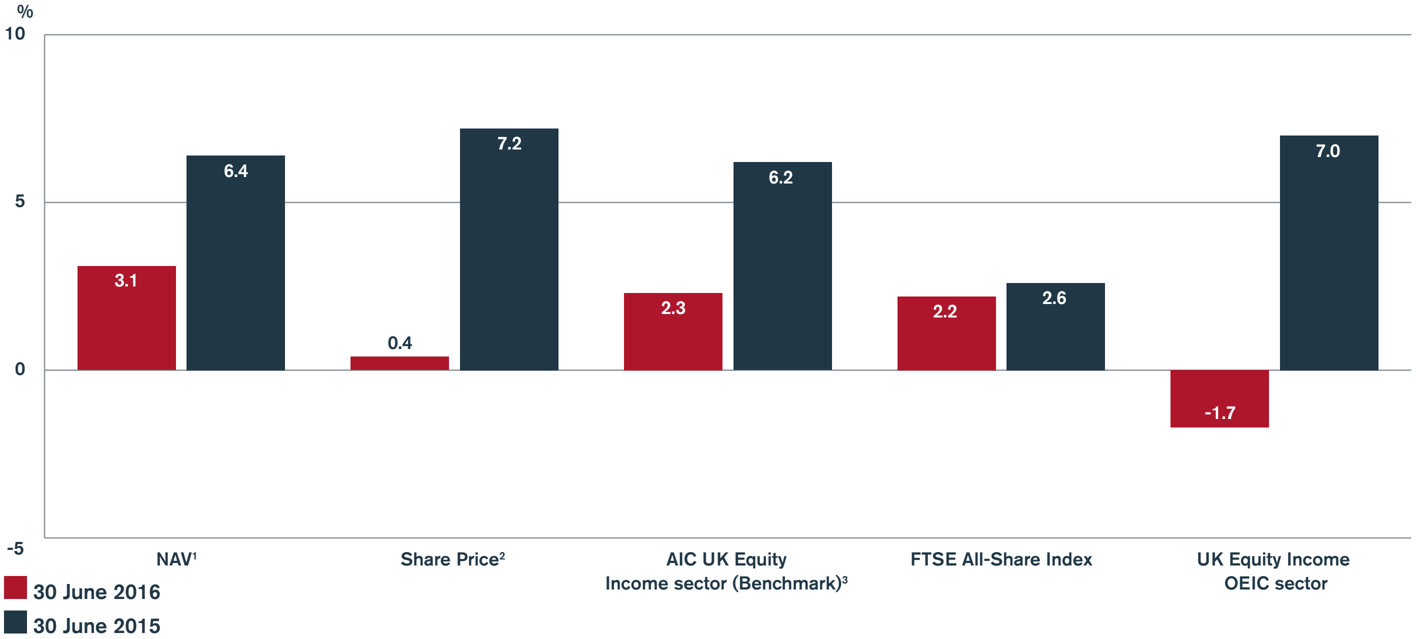
Strategic Report

"In a flat year for equity returns our NAV total return was 3.1%, ahead of our sector and market benchmarks. We passed a major milestone in becoming the first investment trust to increase its dividend for the 50th consecutive year."

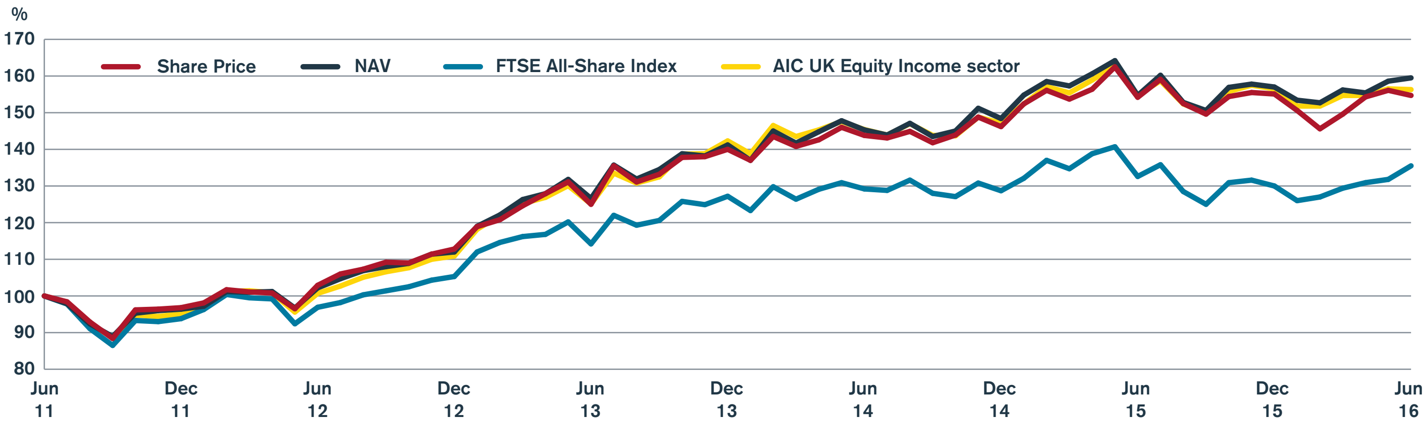
Philip Remnant CBE, Chairman

Strategic Report: Performance Highlights

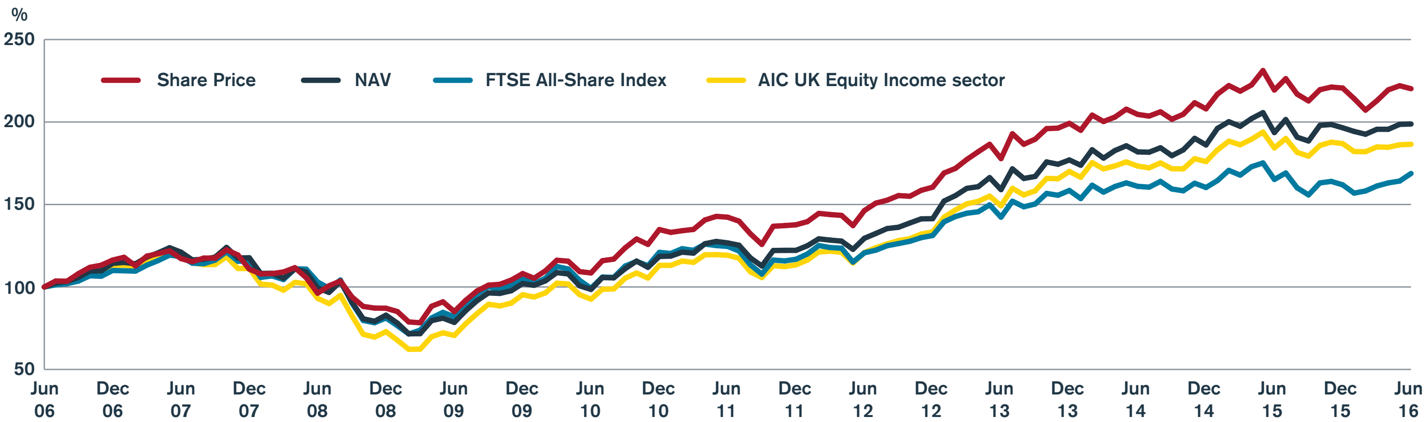
Total Return Performance for year to 30 June



Total Return Performance over the last five years (rebased to 100)



Total Return Performance over the last ten years (rebased to 100)



Strategic Report: Performance Highlights (continued)

NAV per share

2016 382.2p 2015 386.3p

Share Price

2016 378.1p 2015 392.5p

Revenue Earnings per share

2016 17.4p 2015 16.8p

Revenue Reserve per share

2016 13.5p 2015 12.5p

(Discount)/Premium

2016 (1.1%) 2015 1.6%

NAV per share (debt at market value)

2016 378.6p 2015 382.7p

Gearing at year end

2016 8.0% 2015 6.0%

Dividends per share

2016 15.9p 2015 15.3p

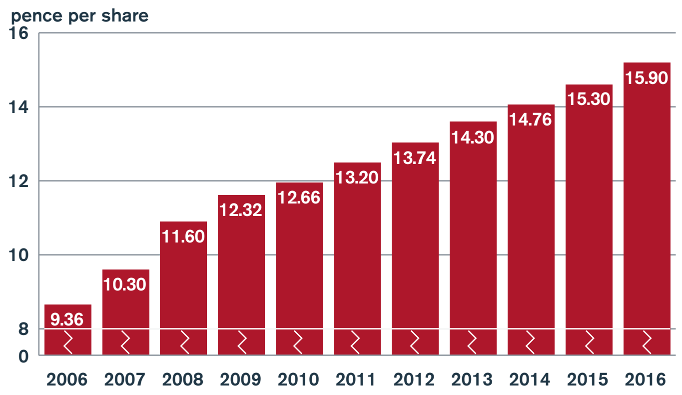
Ongoing Charge for the year

2016 0.42% 2015 0.42%

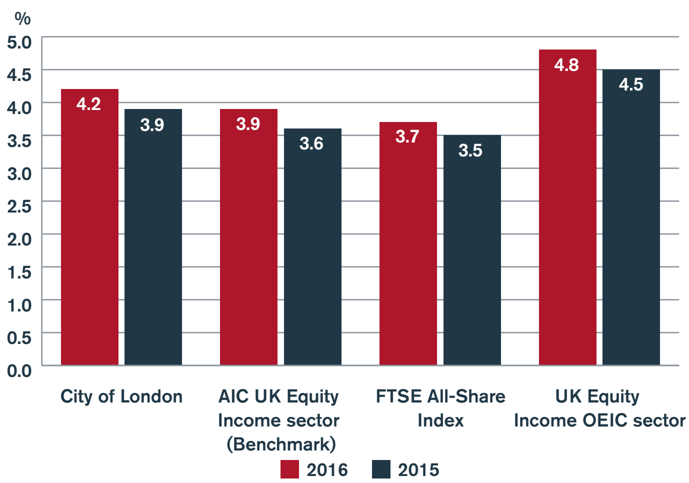
(Discount)/Premium (debt at market value)

2016 (0.1%) 2015 2.6%

Historical Dividend



Dividend Yields



1 Net asset value per share total return (including dividends reinvested)
2 Share price total return using mid-market closing price
3 AIC UK Equity Income sector size weighted average NAV total return (shareholders' funds)

Sources: Morningstar for the AIC, Henderson, Datastream

A glossary of terms is included on pages 21 and 22

Strategic Report: Business Model

Strategy

The strategy of the Company is to pursue its investment objective by operating as an investment trust company. The investment trust company structure allows the shareholders, whether institutions or private investors, to access a diversified portfolio of investments that is professionally managed. The principal activity remained unchanged throughout the year ended 30 June 2016.

Investment 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.

Investment Approach

Our Fund Manager, Job Curtis, has been managing City of London since 1 July 1991. He is an executive of Henderson Global Investors Limited and is a member of the Global Equity Income team. Job is assisted in the management of the portfolio by Alex Crooke, David Smith, Ben Lofthouse, Andrew Jones and Laura Foll. He manages the portfolio in a conservative way, focussing on companies with cash generative businesses able to grow their dividends with attractive yields. The portfolio is well diversified with some 66% 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.

Investment 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 Henderson's investment activity. Henderson 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 2016 contained 116 individual investments (2015: 119) as detailed on pages 8, 9, 14 and 15. At 30 June 2016, the largest single investment was British American Tobacco, which accounted for 5.5% of total investments, while the top 20 holdings totalled 48.4%.

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.

Management

The Company has an independent Board of Directors which has appointed Henderson Investment Funds Limited ("HIFL") to act as its Alternative Investment Fund Manager. HIFL delegates investment management services to Henderson Global Investors Limited in accordance with an agreement which was effective from July 2014 which can be terminated on six months' notice. Prior to July 2014 Henderson Global Investors Limited was appointed as Investment Manager. Both entities are authorised and regulated by the Financial Conduct Authority. References to Henderson within this report refer to the services provided by both entities.

Henderson and its subsidiaries also provide accounting, company secretarial and general administrative services. Some of the administration and accounting services are carried out, on behalf of Henderson, by BNP Paribas Securities Services. Rachel Peat ACIS acts as Company Secretary on behalf of Henderson Secretarial Services Limited.

During the year under review the management fee was 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. Fees are payable quarterly in arrears based on the level of assets at the relevant quarter end.

Liquidity and Discount Management

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. However, the Board intends, subject always to the overall impact on the portfolio, the pricing of other trusts and overall market conditions, to consider issuance and buybacks within a narrow band relative to net asset value. It is believed that flexibility is important and that it is not in shareholders' interests to have a specific issuance and buy-back policy.

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.

Investing

City of London sets out to be an attractive and straightforward long-term investment 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**.

Strategic Report: Chairman's Statement

The Chairman of the Company, Philip Remnant, reports on the year to 30 June 2016

I am pleased to report on another year of very satisfactory progress, certainly in relative terms. In a flat year for equity returns our net asset value total return was 3.1%, ahead of each of the average for the AIC UK Equity Income sector, the UK Equity Income OEIC sector and the FTSE All-Share Index. During the last year, City of London passed a major milestone in becoming the first investment trust to increase its dividend for the 50th consecutive year. The increase in the dividend was 3.9%, well ahead of the rate of inflation.

The Markets

Over the twelve month period, the UK economy grew by 2.2% which was better than US growth of 1.2% and the Eurozone's of 1.6%. However, UK domestically focussed companies underperformed ahead of the EU referendum and in its immediate aftermath when sterling fell sharply. Against the trend of recent years, the FTSE 100 Index of large companies outperformed. It produced a positive total return of 3.8%, while the FTSE 250 Index of medium-sized companies and the FTSE Small Cap Index produced negative returns of 4.6% and 1.5% respectively. The key factor was the greater proportion of profits coming from overseas for FTSE 100 companies and the higher value of overseas profits when translated back into British pounds.

Performance

Earnings and Dividends

Revenue earnings per share rose by 3.5% to 17.42p, reflecting the underlying dividend growth from investments held. Special dividends, which made up 4.7% of total income from investments, declined slightly from £4.2 million to £2.8 million. Expenses remained under tight control with our ongoing charges constant at 0.42%, the lowest in the AIC UK Equity Income sector.

City of London increased its own dividend by 3.9% over the previous year and added £5.5 million to revenue reserves. This is the fourth successive year when we have raised the dividend ahead of the rate of inflation and yet increased revenue reserves to underpin future dividends. Revenue reserves per share now stand at 13.5p, an increase of 8.0% over last year despite continued share issuance by the Company.

The quarterly dividend will next be considered by the Board when the third interim is declared in April 2017.

Net Asset Value Total Return

City of London's net asset value total return was 3.1% which was 0.8% better than the size weighted average over the twelve months for the AIC UK Equity Income sector, 0.9% ahead of the FTSE All-Share Index and 4.8% ahead of the UK Equity Income OEIC sector average. Furthermore, over three, five and ten years, City of London is ahead of each of these three benchmarks.

Relative to the FTSE All-Share Index, City of London benefited from being under-represented in the banks sector which suffered from changing expectations that interest rates would stay lower for longer. Of the stocks held in the portfolio, the biggest contributions to outperformance were from: Verizon Communications, the leading US telecommunications company; Amlin, the non-life insurer, which was taken over; and British American Tobacco. This last share, which we have held for many years and is our largest investment, was acquired for an average price of £4.70 and now stands at over £47.00. Overall, stock selection contributed 1.54% to performance. Gearing, which started the year at 6.0% and peaked at 11.5% at the end of January before falling to end the period at 8.0%, detracted 0.32% from performance due to the equity market moving sideways.

Share Issues

There was again strong appetite during the year for the Company's shares. 17.5 million shares were issued at a premium to net asset value, for proceeds of £66.4 million, enhancing net asset value by 0.11%. In the past six years, City of London has issued 116.5 million new shares, which has increased its share capital by 56%. Since 30 June 2016, we have issued a further 3,175,000 shares.

City of London's share price stood at a discount of 0.1% to net asset value with debt at market value and 1.1% with debt at par value at 30 June 2016. Since the year end, the share price has traded at a premium.

The Board

Richard Hextall retires from the Board at the Annual General Meeting on 27 October 2016. I would like to thank Richard for his wise counsel over the nine years that he has served as a Director; his contribution will be much missed. Samantha Wren has replaced Richard as Chair of the Audit Committee and Simon Barratt will become Senior Independent Director.

Annual General Meeting

The Annual General Meeting will be held at the office of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE on Thursday 27 October 2016. I would encourage as many shareholders as possible to attend for the opportunity to meet the Board and to watch a presentation from Job Curtis, our Fund Manager. If you are unable to attend in person, you can watch the meeting as it happens by visiting **www.henderson.com/trustslive**

Strategic Report: Chairman's Statement (continued)

Outlook

The result of the referendum at the end of June was unexpected and the shape of our future relationship with the European Union is still far from clear. The sharp sell-off in equities which ensued has largely reversed, although medium–sized, domestically focussed stocks continue to be adversely impacted by the expected deterioration in the UK's economic prospects.

Against this uncertain back drop which may well lead to increased volatility in the markets, I believe that City of London is well positioned. We are predominantly invested in FTSE 100 companies which are principally dependent on the global economy which has been relatively unaffected by the Brexit vote; the fall in sterling will help the competitiveness of UK exporters, as well as having a positive effect on overseas profits translated back into British pounds. A further 13% of the portfolio is invested in shares listed on overseas exchanges. The remaining 19% is invested in medium-sized and small UK listed companies, where we remain confident that the dividend paying prospects of our selected stocks in the house building and real estate sectors, which performed so well for us in the previous year, are largely unaffected.

At a time when future investment returns generally are likely to be more muted than in the past, costs represent a proportionally greater drag on performance, and so cost control is a constant focus of the Board's attention. I believe that our ongoing charges ratio of 0.42%, the lowest in our sector, represents excellent shareholder value.

You would expect the Board, as guardian of an unblemished 50 year dividend record, rigorously to monitor the dividend prospects of our investee companies, and indeed we do. Prospects for dividend growth have been improved by the depreciation of sterling: approximately 61% of the turnover from companies in the portfolio derives from overseas and 28% of the dividends City of London receives are declared in US dollars or Euros. At a time when you are likely soon, reportedly, to be paying banks for the privilege of looking after your money, I continue to believe that, for those wanting exposure to the equity markets, our aim – to provide shareholders with dividends which yield significantly more than the market and which grow at or above the rate of inflation – represents a compelling investment proposition.

Philip Remnant CBE
Chairman

Strategic Report: Historical Performance

Total Return Performance to 30 June 2016

	1 year %	3 years %	5 years %	10 years %
Net asset value per ordinary share[1]	3.1	26.1	59.7	99.2
AIC UK Equity Income sector average – net asset value[2]	2.3	25.5	59.3	93.4
FTSE All-Share Index	2.2	18.6	35.5	68.8
UK Equity Income OEIC sector average	-1.7	20.2	44.3	63.9

Share Price Performance Total Return to 30 June 2016

Value of £1,000 with net income reinvested	1 year £	3 years £	5 years £	10 years £
The City of London Investment Trust plc[3]	1,003.5	1,238.4	1,548.5	2,201.6
AIC UK Equity Income sector average[4]	977.0	1,118.1	1,504.3	1,998.9
FTSE All-Share Index	1,022.1	1,186.2	1,355.2	1,688.2
UK Equity Income OEIC sector average	983.0	1,202.3	1,443.4	1,638.5

Ten Year Net Asset Value and Dividend Record

Year ended	Net Asset Value per Ordinary Share (p)[5]	Net Asset Value per Ordinary Share (rebased)[5]	Net Dividends per Ordinary Share (p)	Net Dividends per Ordinary Share (rebased)[6]
30 June 2006	294.7	100.0	9.36	100.0
30 June 2007	345.6	117.3	10.30	110.0
30 June 2008	274.4	93.1	11.60	123.9
30 June 2009	205.7	69.8	12.32	131.6
30 June 2010	245.0	83.1	12.66	135.3
30 June 2011	300.0	101.8	13.20	141.0
30 June 2012	292.9	99.4	13.74	146.8
30 June 2013	343.6	116.6	14.30	152.8
30 June 2014	377.5	128.1	14.76	157.7
30 June 2015	386.3	131.1	15.30	163.5
30 June 2016	**382.2**	**129.7**	**15.90**	**169.9**

1 Net asset value per share with income reinvested for 1, 3 and 5 years and capital NAV plus income reinvested for 10 years
2 AIC UK Equity Income sector size weighted average NAV total return (shareholders' funds)
3 Share price total return using mid-market closing price
4 AIC UK Equity Income sector size weighted average
5 Net asset value per ordinary share is calculated after deducting all prior charges, including the preference and preferred ordinary stocks, at par
6 Rebased to 100 at 30 June 2006

Sources: Morningstar for the AIC, Henderson, Datastream

Strategic Report: Portfolio Information

Forty Largest Investments as at 30 June 2016

Position	Company	Sector	Market Value £'000	Portfolio %
1	British American Tobacco	Tobacco	74,351	5.54
2	Royal Dutch Shell	Oil & Gas Producers	64,281	4.79
3	HSBC	Banks	43,851	3.27
4	Vodafone	Mobile Telecommunications	42,474	3.17
5	Diageo	Beverages	37,744	2.81
6	BP	Oil & Gas Producers	37,370	2.79
7	Unilever	Personal Goods	33,899	2.53
8	National Grid	Gas, Water & Multiutilities	33,668	2.51
9	Imperial Brands	Tobacco	30,167	2.25
10	GlaxoSmithKline	Pharmaceuticals & Biotechnology	29,124	2.17
Top 10 = 31.83% of the portfolio			**426,929**	**31.83**
11	RELX	Media	28,428	2.12
12	Verizon Communications	Fixed Line Telecommunications	25,668	1.91
13	Prudential	Life Insurance	25,645	1.91
14	Scottish & Southern Energy (SSE)	Electricity	24,686	1.84
15	Reckitt Benckiser	Household Goods & Home Construction	21,967	1.64
16	AstraZeneca	Pharmaceuticals & Biotechnology	20,297	1.51
17	BT	Fixed Line Telecommunications	20,103	1.50
18	BAE Systems	Aerospace & Defence	19,559	1.46
19	Land Securities	Real Estate Investment Trusts	18,938	1.41
20	Lloyds Banking Group	Banks	17,223	1.28
Top 20 = 48.41% of the portfolio			**649,443**	**48.41**
21	Legal & General	Life Insurance	16,076	1.20
22	Compass	Travel & Leisure	16,017	1.19
23	Taylor Wimpey	Household Goods & Home Construction	14,903	1.11
24	United Utilities	Gas, Water & Multiutilities	14,697	1.10
25	Berkeley	Household Goods & Home Construction	14,451	1.08
26	Pearson	Media	14,308	1.07
27	Persimmon	Household Goods & Home Construction	14,284	1.07
28	Croda International	Chemicals	14,276	1.06
29	Nestlé	Food Producers	14,172	1.06
30	Greene King	Travel & Leisure	13,578	1.01
Top 30 = 59.36% of the portfolio			**796,205**	**59.36**
31	Rio Tinto	Mining	13,474	1.01
32	Phoenix	Life Insurance	13,283	0.99
33	Sky	Media	13,227	0.99
34	British Land	Real Estate Investment Trusts	13,201	0.98
35	Centrica	Gas, Water & Multiutilities	13,057	0.97
36	Schroder	Financial Services	12,885	0.96
37	Provident Financial	Financial Services	12,364	0.92
38	Novartis	Pharmaceuticals & Biotechnology	12,318	0.92
39	Segro	Real Estate Investment Trusts	12,232	0.91
40	Standard Life	Life Insurance	11,600	0.86
Top 40 = 68.87% of the portfolio			**923,846**	**68.87**

Convertibles and all classes of equity in any one company are treated as one investment.

Strategic Report: Portfolio Information (continued)

Classification of Investments and Portfolio Weighting as at 30 June 2016

		Portfolio %	FTSE All-Share Index %	Relative to the FTSE All-Share
Oil & Gas	Oil & Gas Producers	7.6	11.1	(3.5)
	Oil Equipment, Services & Distribution	–	0.5	(0.5)
		7.6	**11.6**	
Basic Materials	Chemicals	2.0	0.7	1.3
	Forestry & Paper	–	0.2	(0.2)
	Mining	1.4	5.3	(3.9)
		3.4	**6.2**	
Industrials	Aerospace & Defence	2.2	2.0	0.2
	Construction & Materials	0.6	1.0	(0.4)
	Electronic & Electrical Equipment	1.1	0.5	0.6
	General Industrials	1.7	0.7	1.0
	Industrial Engineering	1.3	0.8	0.5
	Industrial Transportation	0.6	0.3	0.3
	Support Services	1.9	5.0	(3.1)
		9.4	**10.3**	
Consumer Goods	Automobiles & Parts	0.6	0.3	0.3
	Beverages	3.4	4.0	(0.6)
	Food Producers	1.8	0.8	1.0
	Household Goods & Home Construction	4.9	3.2	1.7
	Personal Goods	2.5	2.0	0.5
	Tobacco	7.8	4.5	3.3
		21.0	**14.8**	
Health Care	Health Care Equipment & Services	-	0.7	(0.7)
	Pharmaceuticals & Biotechnology	6.3	7.4	(1.1)
		6.3	**8.1**	
Consumer Services	Food & Drug Retailers	0.7	1.5	(0.8)
	General Retailers	2.7	2.8	(0.1)
	Media	5.1	3.7	1.4
	Travel & Leisure	4.9	4.3	0.6
		13.4	**12.3**	
Telecommunications	Fixed Line Telecommunications	4.0	2.0	2.0
	Mobile Telecommunications	3.6	3.1	0.5
		7.6	**5.1**	
Utilities	Electricity	1.8	0.8	1.0
	Gas, Water & Multiutilities	6.0	2.8	3.2
		7.8	**3.6**	
Financials	Banks	6.0	11.3	(5.3)
	Equity Investment Instruments	0.7	3.7	(3.0)
	Financial Services	3.2	2.7	0.5
	Life Insurance	5.0	4.8	0.2
	Nonlife Insurance	1.5	1.0	0.5
	Real Estate Investment & Services	–	0.8	(0.8)
	Real Estate Investment Trusts	5.7	2.1	3.6
		22.1	**26.4**	
Technology	Software & Computer Services	1.0	0.7	0.3
	Technology Hardware & Equipment	0.4	0.9	(0.5)
		1.4	**1.6**	
Total		**100.0**	**100.0**	

Strategic Report: Fund Manager's Report

The Fund Manager of the Company, Job Curtis, reports on the year to 30 June 2016

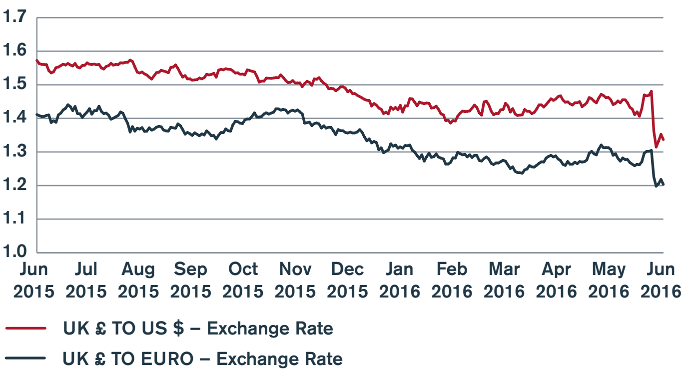
Investment Background

FTSE All-Share Total Return Index (rebased to 100)

Source: Datastream, as at 30 June 2016

Global economic growth was anaemic over the twelve month period. The boost to consumer spending from the lower oil price was offset by reduced demand for products and services for those companies supplying the oil industry. Against a relatively high initial valuation, equities struggled to make much progress and the UK equity market, as measured by the FTSE All-Share Index, returned only 2.2%, as can be seen in the chart above. The Brexit referendum result in the final week of the period led to a fall in sterling but a rise in the UK equity market due to the positive effect from translating back overseas profits into sterling.

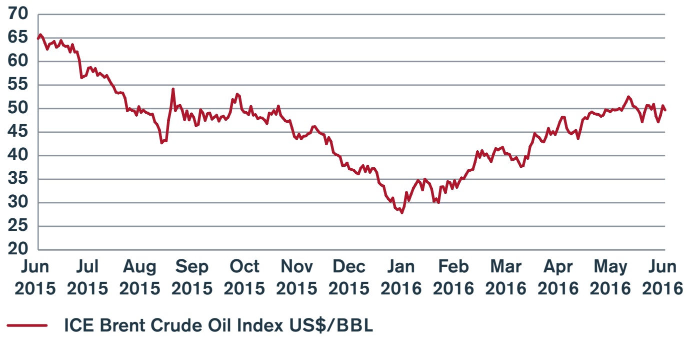
UK £ versus Euro and US $



Source: Bloomberg, as at 30 June 2016

The effect of the referendum result can clearly be seen in the charts showing the British pound's performance against the Euro and the US dollar. In the week after the referendum, Sterling lost 9.5% against the US dollar and 7.7% against the Euro. However, the British pound had also been weak in the months ahead of the referendum partly reflecting the possibility of a leave result but also partly due to the UK's large current account deficit. The more competitive level of sterling should help to stimulate exports and narrow the deficit.

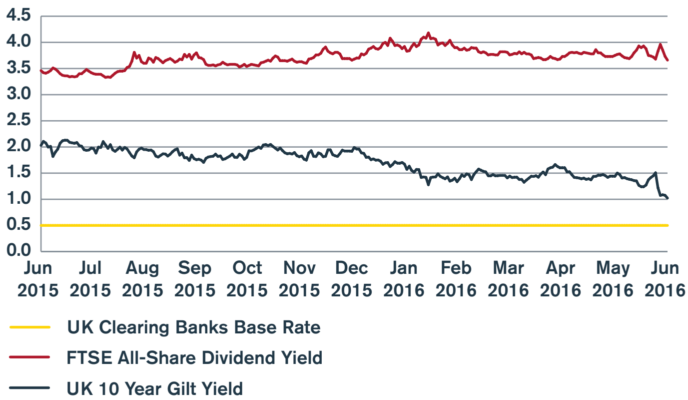
London Brent Crude Oil Index (ICE) US$/BBL



Source: Datastream, as at 30 June 2016

The oil price started the period at $64/bbl and fell to a low of $28/bbl in January 2016 against the background in recent years of the increased supply from US shale producers as well as the recent return of Iranian oil to world markets as sanctions were lifted. The oil price recovered to end the period at $50/bbl helped by strong growth in demand from emerging markets, such as China and India and signs of curtailment of US shale production. An effect of the fall in the oil price in the first part of the period under review was to keep inflation very low in the UK and other developed economies.

UK Base Rate, FTSE All-Share Dividend Yield and UK 10 Year Gilt Yield



Source: Datastream, as at 30 June 2016

Strategic Report: Fund Manager's Report (continued)

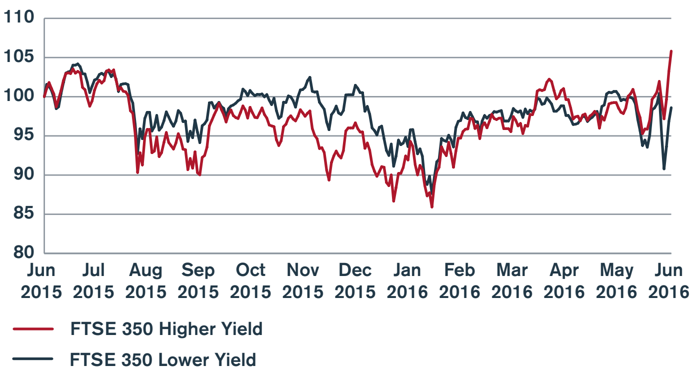
As a result of low inflation, the UK base rate remained at 0.5% through the year. The UK 10 year gilt yield started the period at 2.0% and had fallen to 1.5% by 23 June and then fell to 1.0% in the week after the referendum as investors anticipated slowing UK economic growth. Government bond yields also fell to historically low levels across other developed countries. The UK equity dividend yield ranged between 3.3% and 4.1% over the twelve months which was highly attractive relative to the alternatives in fixed interest. Over the twelve months, companies in City of London's portfolio increased their dividends on average by 4.6% (excluding special dividends). Given the equity market's combination of dividend yield and growth, gearing was increased from 6.0% at the start of the period to a high of 11.5% at the end of January 2016. Gearing was then reduced as companies paid their final dividends and ahead of the referendum to end the period at 8.0%. As shown in the table below, gearing was a modest detractor from performance during a year of flat returns from the UK equity market. Stock selection, which contributed positively by 1.54 percentage points, was the key factor behind the outperformance against the FTSE All-Share Index.

Estimated Performance Attribution Analysis (Relative to FTSE All-Share Index Total Return)

	2016	2015
Stock selection	+1.54	+4.08
Gearing	-0.32	+0.05
Expenses	-0.42	-0.42
Share Issues	+0.11	+0.13
	+0.91	**+3.84**

Source: Henderson

Performance of Higher Yielding Shares Compared with Lower Yielding Shares



Source: Datastream, as at 30 June 2016

The chart above compares the return of the FTSE 350 Higher Yield Index (the higher dividend yielding half of the largest 350 shares listed in the UK) with the FTSE 350 Lower Yield Index (the lower dividend yielding half of the largest 350 shares listed in the UK).

Over the twelve month period, the FTSE 350 Higher Yield Index outperformed, helped by the positive effect of the weakness in sterling on large capitalisation higher yielding overseas earners, such as Royal Dutch Shell, BP and GlaxoSmithKline.

Portfolio Review

The biggest sector contributor to performance was the below average exposure to the banks sector, which disappointed due to the effect on bank profitability of falling bond yields and also concerns about capital positions for some banks. Standard Chartered and Royal Bank of Scotland, which were not held in our portfolio, were particularly disappointing. The banks held in the portfolio contrasted in their dividend payments: Barclays cut; HSBC maintained; Lloyds significantly increased and paid a special dividend.

Defensive sectors performed well over the year and fixed rate telecommunications was the second best sector contributor, helped by our stake in Verizon Communications of the US which produced a share price return of 32.5%. The third biggest sector contributor was gas, water and multiutilities, where an above average position was maintained, with National Grid the largest holding. Among the consumer staples stocks, British American Tobacco, the largest holding in the portfolio, had a particularly good year with a share price total return of 47.5%.

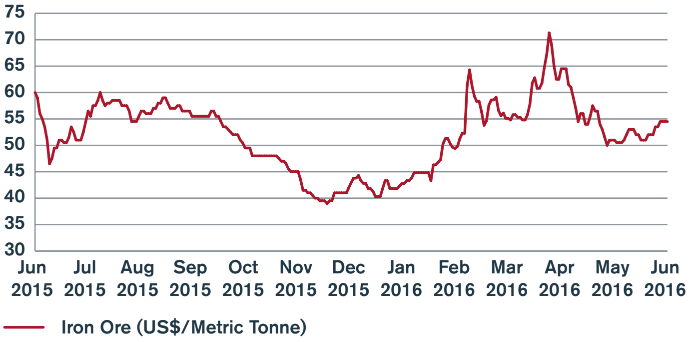
The oil sector was a strong performer over the twelve months helped by the recovery in the oil price and also the weakness in sterling given that the revenues of oil companies are based in US dollars. There was also an element of self-help with both Royal Dutch Shell and BP cutting costs significantly. In addition, Royal Dutch Shell acquired BG which improved the quality of its oil and gas interests. Large holdings were maintained in Royal Dutch Shell and BP and they ended the year second and sixth largest holdings respectively.

Relative to the oil sector weighting in the FTSE All-Share Index, the portfolio was an average 4 percentage points under exposed and this was the biggest sector detractor from performance. The underweight position in oil reflected concerns about the sustainability and timing of the oil price recovery as well as the stock specific risk of having even larger holdings in Royal Dutch Shell and BP. Given the cost cutting taking place throughout the oil industry, it was decided to reduce exposure to companies that are suppliers to the oil industry and so the holdings in Emerson Electric, Rotork and Weir were sold.

In the mining sector, dividends were under pressure as commodity prices continued the decline of recent years. The iron ore price, which has been \$100/metric tonne in July 2014 reached \$39/metric tonne in December 2015 before rallying to \$54/metric tonne by 30 June 2016.

Strategic Report: Fund Manager's Report (continued)

Iron Ore (US$/Metric Tonne)



Source: Datastream, as at 30 June 2016

Anglo American stopped paying its dividend and was sold and BHP Billiton cut its dividend and was reduced. Overall the portfolio had an average weight in the mining sector of 2.1 percentage points less than the FTSE All-Share Index and this contributed positively to performance.

Macroeconomic conditions for the automotive sector were more positive given the low oil price, low interest rates and growth in car sales, cyclically in developed economies and structurally in developing markets as more people owned cars in countries like China. Share price valuations across the sector appeared to offer good value relative to prospects and new holdings were brought in Daimler (maker of Mercedes-Benz cars as well as commercial trucks), GKN (auto and aerospace components), Pendragon (UK motor retailer) and Inchcape (international motor retailer).

The UK housebuilders' share prices suffered after the referendum vote and the sector was the second biggest detractor to performance, in contrast to the previous year when it was the biggest contributor. However, conditions in the sector still appeared very favourable given strong demand for new housing, low interest rates and the high and growing level of employment. Therefore investments were maintained in Berkeley, Persimmon and Taylor Wimpey and they totalled 3.3% of the portfolio at 30 June 2016. All three companies own enough land for over five years of new homes according to their plans and they are committed to attractive dividend distribution policies. A new holding was acquired in Ibstock, the UK's leading brick manufacturer, which should benefit from the growth in new homes being built which is likely to be a UK political imperative given the accepted shortage of housing stock.

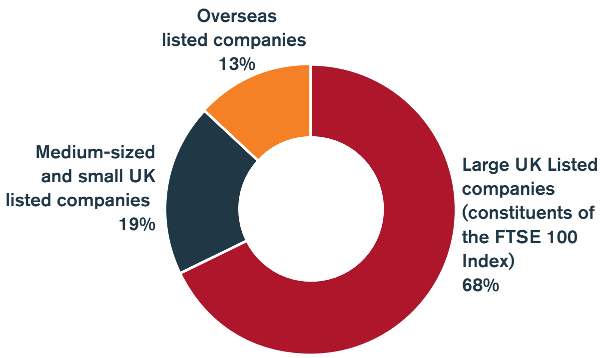
Real Estate Investment Trusts (REITs), which pass through their rents tax free to dividends, constituted 5.7% of the portfolio at 30 June 2016. While capital values may fluctuate with investment demand, the income from leading REITs held in the portfolio, such as Land Securities and British Land, seems very secure given high quality tenants, long leases and cheap financing. New holdings were bought in Hammerson (a leading owner of shopping centres in the UK and France) and Redefine International (an income focussed REIT owning a diverse range of properties in the UK and Germany).

The life and non-life insurance sectors have been favoured in the portfolio in recent years given their attractive combination of yield and growth. While overweight positions in both sectors continued, some disposals were made. Old Mutual was sold after it guided to a lower future dividend being adversely affected by the weakness in the South African rand. Zurich Insurance was sold after it encountered some underwriting problems in the US leading to profit downgrades. Amlin, which produced a share price return of 42.8%, was taken over by Mitsui Sumitomo of Japan.

Two other stocks left the portfolio as a result of takeovers. Rexam, the beverage can manufacturer, was acquired by Ball Corp of the US. Premier Farrell was sold after a takeover bid from Daetwyler of Switzerland at a significant premium. On the other hand, the holding in BBA, the flight support and aftermarket services group, was sold after it made a large acquisition at a price that was, in our view, expensive.

Two new holdings, both US listed, were purchased in the pharmaceutical sector. Johnson & Johnson has a strong growth record in pharmaceuticals, medical devices and consumer products and has grown its dividend for 53 years. Bristol Myers Squibb has built a dominant position in the immuno-oncology market with its main drug Opdivo being used against lung and renal cancers. Reductions were made in the holdings in GlaxoSmithKline and AstraZeneca to finance more diversified growth from the pharmaceutical sector.

Distribution of the Portfolio as at 30 June 2016



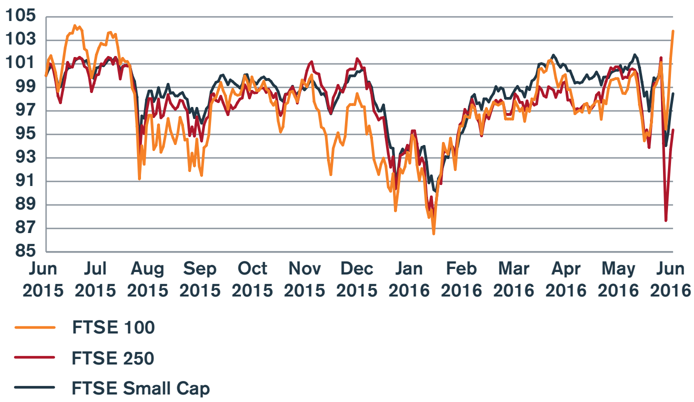
The portion of the portfolio invested in large UK listed companies increased over the year from 66% to 68% as did the position in overseas listed companies from 11% to 13%. These increases were matched by a decrease in the portion invested in medium-sized and small UK listed companies from 23% to 19%. These changes partly reflected the outperformance of the large UK and overseas listed companies as well as some portfolio changes.

Strategic Report: Fund Manager's Report (continued)

The chart following compares the performance of the largest companies (FTSE 100) with medium-sized companies (FTSE 250) and small companies (FTSE Small Cap.) It shows the outperformance over the last year of FTSE 100 companies, which have benefited from the weakness in sterling because they have a greater proportion of overseas profits relative to the more domestically focussed medium-sized and small companies' indices.

FTSE 100, FTSE 250 & FTSE Small Cap Total Return

(rebased to 100)



Source: Datastream, as at 30 June 2016

Outlook

At the heart of City of London's portfolio are consumer staples companies that have performed well over the years. These include four companies among the ten largest holdings: British American Tobacco, Diageo, Unilever and Imperial Brands. The consumer staples companies in which the portfolio is invested are multinationals with relatively stable earnings and structural growth prospects in emerging markets as consumers become more affluent.

International exposure is also evident across the portfolio as in the holdings in Royal Dutch Shell, BP, HSBC, Vodafone and GlaxoSmithKline, all of which are among the largest ten holdings. In fact the only holding in the top ten which has the majority of the profits coming from the UK is National Grid, which is a regulated utility and has around one-third of its business in the USA. In addition to the many UK listed international stocks held in the portfolio, some 13% is also held in overseas listed companies.

While the portfolio is predominantly invested in large capitalisation international stocks, we are also optimistic about the UK domestic end of the portfolio. Although there is considerable uncertainty over the negotiations to exit the European Union and the UK's eventual trading relationship with that block, the fall in sterling against the US dollar and Euro gives a significant boost to the competitiveness of the UK exporters held in the portfolio. In addition, continuing low interest rates should be helpful for domestic cyclicals, such as the housebuilding shares in the portfolio, and the Real Estate Investment Trusts should remain attractive for their income.

Overall the portfolio is well diversified with the aim of delivering dividend growth and capital gains notwithstanding the many external uncertainties.

Job Curtis
Fund Manager

Strategic Report: Portfolio Information (continued)

Sector Breakdown of Investments as at 30 June 2016

	Valuation £'000
OIL & GAS	
Oil & Gas Producers	
Royal Dutch Shell	64,281
BP	37,370
	101,651
Total Oil & Gas	**101,651**
BASIC MATERIALS	
Chemicals	
Croda International	14,276
Syngenta[1]	5,972
Johnson Matthey	3,628
Victrex	2,736
	26,612
Mining	
Rio Tinto	13,474
BHP Billiton	5,800
	19,274
Total Basic Materials	**45,886**
INDUSTRIALS	
Aerospace & Defence	
BAE Systems	19,559
Rolls-Royce	5,330
Meggitt	4,704
	29,593
Construction & Materials	
Ibstock	4,714
Marshalls	2,313
Low & Bonar	1,208
	8,235
Electronic & Electrical Equipment	
Halma	8,852
Renishaw	4,471
XP Power	2,047
	15,370
General Industrials	
Swire Pacific[1]	10,784
Siemens[1]	6,388
Smiths	5,299
	22,471
Industrial Engineering	
Spirax-Sarco Engineering	8,890
IMI	8,231
	17,121
Industrial Transportation	
Royal Mail	8,098
	8,098
Support Services	
Connect	6,917
Berendsen	6,236
Capita	4,810
Paypoint	3,236

	Valuation £'000
INDUSTRIALS (continued)	
De La Rue	2,486
Interserve	1,957
	25,642
Total Industrials	**126,530**
CONSUMER GOODS	
Automobiles & Parts	
GKN	4,383
Daimler[1]	3,331
	7,714
Beverages	
Diageo	37,744
Britvic	8,261
	46,005
Food Producers	
Nestlé[1]	14,172
Tate & Lyle	7,246
Greencore	3,464
	24,882
Household Goods & Home Construction	
Reckitt Benckiser	21,967
Taylor Wimpey	14,903
Berkeley	14,451
Persimmon	14,284
	65,605
Personal goods	
Unilever	33,899
	33,899
Tobacco	
British American Tobacco	74,351
Imperial Brands	30,167
	104,518
Total Consumer Goods	**282,623**
HEALTH CARE	
Pharmaceuticals & Biotechnology	
GlaxoSmithKline	29,124
AstraZeneca	20,297
Novartis[1]	12,318
Merck[1]	9,710
Johnson & Johnson[1]	7,258
Bristol-Myers Squibb[1]	5,502
	84,209
Total Health Care	**84,209**
CONSUMER SERVICES	
Food & Drug Retailers	
Greggs	5,463
J. Sainsbury	4,140
	9,603
General Retailers	
Kingfisher	8,256
Marks & Spencer	7,332

Strategic Report: Portfolio Information (continued)

	Valuation £'000
CONSUMER SERVICES (continued)	
Next	6,470
Halfords	4,816
Pendragon	3,679
N. Brown Group	2,773
Inchcape	2,512
	35,838
Media	
RELX[1]	28,428
Pearson	14,308
Sky	13,227
ITV	6,256
Daily Mail & General Trust	5,625
	67,844
Travel & Leisure	
Compass	16,017
Greene King	13,578
TUI Group	8,449
Whitbread	8,045
Cineworld	6,989
Go-Ahead	4,593
William Hill	4,463
Young	2,959
	65,093
Total Consumer Services	**178,378**
TELECOMMUNICATIONS	
Fixed Line Telecommunications	
Verizon Communications[1]	25,668
BT	20,103
Swisscom[1]	4,951
Manx Telecom	2,400
	53,122
Mobile Telecommunications	
Vodafone	42,474
Deutsche Telekom[1]	5,519
	47,993
Total Telecommunications	**101,115**
UTILITIES	
Electricity	
Scottish & Southern Energy (SSE)	24,686
	24,686
Gas, Water & Multiutilities	
National Grid	33,668
United Utilities	14,697
Centrica	13,057
Severn Trent	9,944
Duke Energy[1]	9,002
	80,368
Total Utilities	**105,054**
FINANCIALS	
Banks	
HSBC	43,851
Lloyds Banking Group	17,223

	Valuation £'000
FINANCIALS (continued)	
Barclays Bank	8,718
Nationwide Building Society 10.25% Var Perp CCDS	7,924
Cembra Money Bank[1]	2,634
	80,350
Equity Investment Instruments	
Greencoat UK Wind	3,884
John Laing Infrastructure Fund	3,840
Foresight Solar Fund	2,261
	9,985
Financial Services	
Schroder	12,885
Provident Financial	12,364
IG	4,973
Brewin Dolphin	4,956
ICAP	4,186
Tullett Prebon	3,738
	43,102
Life Insurance	
Prudential	25,645
Legal & General	16,076
Phoenix	13,283
Standard Life	11,600
	66,604
Non-life Insurance	
Hiscox	11,554
Munich Re[1]	5,685
Direct Line Insurance	3,454
	20,693
Real Estate Investment Trusts	
Land Securities	18,938
British Land	13,201
Segro	12,232
Unibail-Rodamco[1]	6,562
Redefine International	5,628
GCP Student Living	5,553
Tritax Big Box	5,110
Hansteen	4,611
Hammerson	4,304
	76,139
Total Financials	**296,873**
TECHNOLOGY	
Software & Computer Services	
Sage	8,923
Microsoft[1]	4,625
	13,548
Technology Hardware & Equipment	
Laird	5,552
	5,552
Total Technology	**19,100**
TOTAL INVESTMENTS	**1,341,419**

[1]Overseas listed

Strategic Report: Corporate Information

Directors

The Directors appointed to the Board at the date of this Report are:

Philip Remnant CBE
Position: Chairman of the Board and Nominations Committee
Date of Appointment: 1 January 2011 (Chairman on 24 October 2011)
Philip is the Senior Independent Director of Prudential plc and of UK Financial Investments Limited. He is also a non-executive Director of Severn Trent plc, Chairman of M&G Group Limited and a Deputy Chairman of the Takeover Panel. He was a Senior Adviser at Credit Suisse until December 2013, having previously been a Vice Chairman of CSFB Europe and Head of the UK Investment Banking Department. He was the 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.

Simon Barratt
Position: Director
Date of Appointment: 1 October 2010
Simon is Chairman of Costa China Brand Office. He was previously General Counsel and Company Secretary at Whitbread PLC where he has been since 1991. During that time he has also acted as 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
Position: Director
Date of Appointment: 1 January 2009
David is Chairman of Asian Total Return Investment Company plc and also a Trustee of St. Martins Housing Trust. He was previously Chief Investment Officer of BAE Systems Pension Funds Investment Management Limited and an investment adviser to the Rio Tinto, British Coal Staff and J. Sainsbury Pension schemes.

Richard Hextall
Position: Senior Independent Director
Date of Appointment: 1 November 2007 (Chairman of the Audit Committee (until 7 July 2016) and Senior Independent Director on 1 April 2011).
Richard 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.

Martin Morgan
Position: Director
Date of Appointment: 1 March 2012
Martin was Chief Executive of Daily Mail and General Trust plc until May 2016, having joined the Group in 1989. He was previously Chief Executive of dmg information. He was also a non-executive Director of Euromoney Institutional Investor plc.

Samantha Wren
Position: Chair of the Audit Committee
Date of Appointment: 1 September 2015 (Chair of the Audit Committee on 7 July 2016)
Samantha is Chief Commercial Officer of ICAP plc. She was Chief Operating Officer of ICAP plc's Global Broking division. Prior to ICAP, she held senior finance roles at the gaming group, The Rank Group plc, latterly as Director of Corporate Finance where she was also a director of the Rank Pension Plan Trustee Limited. She qualified as a Chartered Management Accountant at Rentokil Initial plc.

Fund Management

Job Curtis has been City of London's Fund Manager since 1 July 1991. After graduating from Oxford University in 1983 with a BA Hons in Philosophy, Politics and Economics, he joined Grieveson, Grant stockbrokers as a trainee. In 1985, he joined Cornhill Insurance as an assistant fund manager and then moved to Touche Remnant in 1987 where he became a fund manager. Touche Remnant was taken over by Henderson in 1992 and Job is currently a member of Henderson's Global Equity Income team.

Job is assisted in the management of the portfolio by Alex Crooke, who joined Henderson in 1994 and is Head of its Global Equity Income team; David Smith who joined Henderson in 2002; Ben Lofthouse who joined Henderson in 2004; Andrew Jones who joined Henderson in 2005 and Laura Foll who joined Henderson in 2009.

All Directors are independent of Henderson
All Directors are members of the Nominations Committee
The Audit Committee consists of Samantha Wren, Simon Barratt, David Brief and Richard Hextall

Strategic Report: Corporate Information (continued)

Registered Office

201 Bishopsgate
London EC2M 3AE

Service Providers

Alternative Investment Fund Manager

Henderson Investment Funds Limited
201 Bishopsgate
London EC2M 3AE

Corporate Secretary

Henderson Secretarial Services Limited
201 Bishopsgate
London EC2M 3AE
Telephone: 020 7818 1818
Email: trusts@henderson.com

Depositary and Custodian

HSBC Bank plc
8 Canada Square
London E14 5HQ

UK

Stockbrokers

Cenkos Securities plc
6-8 Tokenhouse Yard
London EC2R 7AS

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 889 3296

New Zealand

Stockbrokers

Craigs Investment Partners
PO Box 13155
Tauranga 3141
New Zealand

Registrar

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

Independent Auditor

Chartered Accountants and Statutory Auditors

PricewaterhouseCoopers LLP
7 More London Riverside
London SE1 2RT

Information Sources

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 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/rb

Follow Henderson Investment Trusts on Twitter, YouTube and Facebook

Investing

Shares can be purchased in the market via a stockbroker or through share dealing platforms. They can also be held through share plans, ISAs or pensions and links to various providers are included on the website. Individuals holding shares through Halifax Share Dealing Limited can write to them at Lovell Park Road, Leeds LS1 1NS or contact them via telephone 03457 22 55 25, email **Henderson@halifax.co.uk** or visit their website **www.halifax.co.uk/sharedealing**.

Potential investors are reminded that the value of investments and the income from them may go down as well as up and investors may not receive back the full amount invested. Tax benefits may vary as a result of statutory changes and their value will depend on individual circumstances.

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 receive all shareholder communications. A voting instruction form is provided to facilitate voting at general meetings of the Company.

Strategic Report: Corporate Information (continued)

Status

The Company is an investment company as defined in Section 833 of the Companies Act 2006 ("the Act") and operates as an investment trust in accordance with Section 1158 of the Corporation Tax Act 2010 ("Section 1158"). The Company is subject to the UK Listing Authority's Listing Rules and also the Listing Rules of the New Zealand Stock Exchange. It is governed by its Articles of Association, amendments to which must be approved by shareholders by way of a special resolution. The Company is not a close company.

The Company has obtained approval from HM Revenue & Customs ("HMRC") of its status as an investment trust under Section 1158; the Directors are of the opinion that the Company has conducted its affairs in compliance with Section 1158 since approval was granted and intends to continue to do so. The Company is liable to corporation tax on its net revenue profits but is exempt from corporation tax on capital gains if it has complied at all times with Section 1158.

Principal Risks

The Board, with the assistance of Henderson, has carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency and liquidity. In carrying out this assessment, the Board considered the market uncertainty arising from the result of the UK referendum on leaving the European Union.

The Board regularly considers the principal risks facing the Company. 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, and whether the Board considers the impact of such risks has changed over the past year, 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 seven Board meetings held each year and receives regular reports from the Company's brokers. A detailed liquidity report is considered on a regular basis. The Fund Manager closely monitors the portfolio between meetings and mitigates this risk through diversification of investments. The Fund Manager periodically presents the Company's investment strategy in respect of current market conditions. Performance relative to other UK equity income trusts, the FTSE All-Share Index and UK Equity Income OEICs is also monitored.

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 have an annual meeting focussed on strategy, in addition to the scheduled meetings at which investment performance, the level of gearing and the level of premium/discount is reviewed. The Board also reviews a schedule of expenses and revenue forecasts at each meeting.

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. Henderson provides investment, company secretarial, administration and accounting services through qualified professionals. The Board receives internal control reports produced by Henderson on a quarterly basis, which confirm legal and regulatory compliance.

Operational

Disruption to, or failure of, Henderson's or its administrator's (BNP Paribas Securities Services) accounting, dealing or payment systems or the Depositary's 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 Board monitors the services provided by Henderson and its other suppliers and receives reports on the key elements in place to provide effective internal control. During the year the Board reviewed Henderson's approach to cyber risk.

The Board considers the loss of the Fund Manager as a risk but this is mitigated by the experience of the team at Henderson as detailed on page 16.

The Board considers these risks to have remained unchanged throughout the year under review.

Borrowings

The Company has a borrowing facility of £120.0m (2015: £80.0m) with HSBC Bank plc, of which £26.0m was drawn at the year end (2015: £nil). The Company also has two debentures totalling £40.0m (2015: £40.0m) and £34.6m (2015: £34.6m) of secured notes. The level of gearing at 30 June 2016 was 8.0% of net asset value (2015: 6.0%).

Viability Statement

The 2014 UK Corporate Governance Code requires Boards to assess the future prospects for the Company, and report on the assessment within the Annual Report.

The Board considered that certain characteristics of the Company's business model and strategy were relevant to this assessment:

- The Board looks to ensure the Company seeks to deliver long-term performance.
- The Company's investment objective, strategy and policy, which are subject to regular Board monitoring, mean that the Company is invested mainly in readily realisable, UK listed securities and that the level of borrowings is restricted.

Strategic Report: Corporate Information (continued)

- The Company is a closed end investment company and therefore does not suffer from the liquidity issues arising from unexpected redemptions.
- The Company has an ongoing charge ratio of 0.42% which is lower than other comparable investment trusts.

Also relevant were a number of aspects of the Company's operational agreements:

- The Company retains title to all assets held by the Custodian under the terms of formal agreements with the Custodian and Depositary.
- Long term borrowing is in place being the 10¼% debenture stock 2020, 8½% debenture stock 2021 and 4.53% secured notes 2029 which are also subject to formal agreements, including financial covenants with which the Company complied in full during the year. The value of borrowing is relatively small in comparison to the value of net assets being 6.1%.
- Revenue and expenditure forecasts are reviewed by the Directors at each Board Meeting.
- Cash is held with approved banks.

In addition, the Directors carried out a robust assessment of the principal risks and uncertainties which could threaten the Company's business model, including future performance, liquidity and solvency. These risks, their mitigations and processes for monitoring them are set out on page 18.

The principal risks identified as relevant to the viability assessment were those relating to investment portfolio performance and its effect on the net asset value, share price and dividends, and threats to security over the Company's assets. The Board took into account the liquidity of the Company's portfolio, the existence of the long-term fixed rate borrowings, the effects of any significant future falls in investment values and income receipts on the ability to repay and re-negotiate borrowings, grow dividend payments and retain investors and the potential need for share buybacks to maintain a narrow share price discount. These matters were assessed over an initial period to June 2021, and the Directors will continue to assess viability over five year rolling periods, taking account of foreseeable severe but plausible scenarios. The Directors believe that a rolling five year period best balances the Company's long-term objective, its financial flexibility and scope with the difficulty in forecasting economic conditions affecting the Company and its shareholders.

Based on their assessment, and in the context of the Company's business model, strategy and operational arrangements set out above, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to June 2021.

Future Developments

While the future performance of the Company is mainly dependent on the performance of international financial markets which are subject to various external factors, the Board's intention is that the Company will continue to pursue its stated investment objective and strategy explained earlier. The Chairman's Statement and Fund Manager's Report provide commentary on the outlook for the Company.

Key Performance Indicators ("KPIs")

In order to measure the success of the Company in meeting its objective and to evaluate the performance of Henderson, the Directors take into account the following KPIs:

Performance against the Company's peer group

The Company is included in the AIC UK Equity 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 outperformed the peer group by 0.8%.

Performance against the OEIC sector

The Board considers the performance of the portfolio against the UK Equity Income OEIC sector. During the year under review the Company outperformed the sector by 4.8%.

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 0.9% on a total return basis.

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. 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 2016 the Company's shares were trading at a 1.1% discount to NAV (2015: 1.6% premium). The Company publishes NAV per share figures on a daily basis, through the official newswire of the London Stock Exchange and on the New Zealand Stock Exchange where it has an overseas listing.

Ongoing Charge

The Board regularly reviews the ongoing charges and monitors Company expenses. For the year ended 30 June 2016 the Ongoing Charge as a percentage of shareholders' funds was 0.42% (2015: 0.42%).

The charts and data on pages 2 and 3 show how the Company has performed against these KPIs.

Strategic Report: Corporate Information (continued)

Corporate Responsibility

Responsible Investment

Henderson is responsible for reporting on its work on corporate governance and corporate responsibility (or social, environmental and ethical issues) in the companies in which it invests on its clients' behalf, across all funds as part of its management duties. 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 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 considered by Henderson's Risk Team but investments are not necessarily ruled out on social and environmental grounds only.

Voting Policy and the UK Stewardship Code

Henderson's responsible investment policy sets out its approach to corporate governance and corporate responsibility for all the companies in which it invests on behalf of its clients and its policy on proxy voting. The policy also sets out how Henderson implements the Stewardship Code. The Company has reviewed the policy and has delegated responsibility for voting to Henderson. The Board receives regular reports on the voting undertaken by Henderson 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 Fund Manager will give specific instructions on voting non-routine and unusual or controversial resolutions. Decisions not to support resolutions and the rationale 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**.

Employees, Social, Community, Human Rights and Environmental Matters

The Company's core activities are undertaken by Henderson, which has implemented environmental management practices, including systems to limit the use of non-renewable resources and to minimise the impact of operations on the environment, and is focused on reducing greenhouse gas emissions and minimising waste, where possible. The Company has therefore not reported on these, or social, community or human rights issues.

Henderson's corporate responsibility statement is included on the Henderson website. In 2012 it was granted CarbonNeutral® Company status which it has committed to maintain at least until the end of 2018.

The Company's Annual Report is printed on paper produced using 50% recycled post-consumer waste and 50% wood fibre from fully sustainable forests with certification by the Forest Stewardship Council; the printing company used is certified as CarbonNeutral®.

Modern Slavery Act 2015

As an investment vehicle, the Company does not provide goods or services in the normal course of business and does not have customers. Accordingly, the Directors consider that the Company is not required to make any slavery or human trafficking statement under the Modern Slavery Act 2015.

Board Diversity

It is the Company's aim to have an appropriate level of diversity in the Boardroom. The Nominations Committee considers diversity generally when making appointments to the Board, taking into account relevant skills, experience, knowledge and gender. Our prime responsibility, however, is the strength of the Board and our overriding aim in making any new appointments must always be to select the best candidate. Currently the Board comprises of six Directors, five male and one female. The Company has no employees and, therefore, there is nothing further to report in respect of gender representation within the Company.

For and on behalf of the Board

Philip Remnant CBE
Chairman
19 September 2016

Strategic Report: Glossary

Alternative Investment Fund Managers Directive ("AIFMD")

Agreed by the European Parliament and the Council of the European Union and transposed into UK legislation, the AIFMD classifies certain investment vehicles, including investment companies, as Alternative Investment Funds ("AIFs") and requires them to appoint an Alternative Investment Fund Manager ("AIFM") and depositary to manage and oversee the operations of the investment vehicle. The Board of the Company retains responsibility for strategy, operations and compliance and the Directors retain a fiduciary duty to shareholders.

Association of Investment Companies ("AIC")

The Company is a member of the AIC which is the trade body for investment companies and represents the industry in relation to various matters which impact the regulation of such entities.

Benchmark

A measure against which performance is compared. For the Company this is the size weighted average of the AIC UK Equity Income sector.

Custodian

The Custodian is responsible for ensuring the safe custody of the Company's assets and ensuring that all transactions in the underlying holdings are transacted in an accurate and timely manner.

Depositary

From 22 July 2014 all AIFs were required to appoint a Depositary who has responsibility for overseeing the operations of the Company including safekeeping, cash monitoring and verification of ownership and valuation. The Depositary is strictly liable for the loss of any investments or other assets in its custody unless it has notified that it is has discharged its liability in certain markets. The Depositary has confirmed that it has not discharged liability in relation to any of the Company's assets.

Derivative

A contract between two or more parties in relation to an underlying security. The value of a derivative will fluctuate in accordance with the value of the security and is a form of gearing as the fluctuations in value are usually greater than the fluctuations in the underlying security's value. Examples of derivatives are put and call options, swap contracts, futures and contracts for difference. Foreign exchange, interest rates and commodities may also be traded using derivative contracts.

Dividend Dates

When declared or recommended, each dividend will have three key dates applied to it. The payment date is the date on which shareholders will receive their dividend, either by BACS transfer or by receipt of a dividend cheque. The record date applied to the dividend is used as a cut-off for the Company's registrars to know which shareholders should be paid a dividend. Only shareholders on the register of members at the close of business on the record date will receive the dividend. The ex-dividend date is the business day before the record date and is the date upon which the Company's net asset value will be disclosed ex-dividend.

Gearing

Gearing means borrowing money to buy assets with the expectation that the return on investments bought will exceed the interest cost of the borrowings. The gearing percentage reflects the amount of borrowings (e.g. bank loans or overdrafts) the Company has used to invest in the market, and is calculated by taking the difference between total investments and equity shareholders' funds, dividing this by equity shareholders' funds and multiplying by 100. The Company can also use synthetic gearing through derivatives and foreign exchange hedging.

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. Investment trusts are also known as investment companies, although the tax legislation retains the reference to investment trusts.

Liquidity

In the context of the liquidity of shares in the stock market, this refers to the availability of buyers in the market for the share in question. Where the market in a particular share is described as liquid, that share will be in demand and holders wishing to sell their shares should find ready buyers. Conversely, where the market in a share is illiquid the difficulty of finding a buyer will tend to depress the price that might be negotiated for a sale.

Market Capitalisation

The market value of a company, calculated by multiplying the mid-market price per share by the number of shares in issue.

Strategic Report: Glossary (continued)

Net Asset Value ("NAV") per Ordinary Share

The value of the Company's assets (e.g. investments and cash held) less any liabilities (e.g. bank borrowings and debt securities) for which the Company is responsible, divided by the number of shares in issue. The aggregate NAV is also referred to as shareholders' funds on the Statement of Financial Position.

The NAV is published daily.

Ongoing Charge

The Ongoing Charge reflects 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 Company as a collective fund, excluding the costs of acquisition or disposal of investments, financing charges and gains or losses arising on investments. The Ongoing Charge is based on actual costs incurred in the year as being the best estimate of future costs.

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 per share.

Revenue Earnings per share

The revenue return divided by the weighted average number of ordinary shares in issue during the year.

Revenue Reserve per share

The revenue reserve as at the year end divided by the number of shares in issue at the year end date.

Total Return Performance

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).

Yield

The annual dividend expressed as a percentage of the share price.

Warning to shareholders

Many companies are aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. They can be very persistent and extremely persuasive. Shareholders are therefore advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Please note that it is very unlikely that either the Company or the Company's Registrar, Computershare Investor Services PLC, would make unsolicited telephone calls to shareholders and that any such calls would relate only to official documentation already circulated to shareholders and never in respect of investment 'advice'.

If you are in any doubt about the veracity of an unsolicited phone call, please contact the Company Secretary on the telephone number detailed on page 17.

Corporate Report

Report of the Directors

The Directors present the audited financial statements of the Company and their report for the year from 1 July 2015 to 30 June 2016. The City of London Investment Trust plc ("the Company") (registered in England & Wales on 26 September 1891 with company registration number 34871) was active throughout the year under review and was not dormant.

Directors' Remuneration and Shareholdings

The Directors' Remuneration Report on pages 27 and 28 provides information on the remuneration and interests of the Directors.

Fund Manager's Interests

Job Curtis, the Fund Manager, has a beneficial interest in 155,450 and a non-beneficial interest in 24,937 shares.

Directors' Conflicts of Interest

The Company's Articles of Association permit the Board to consider and, if it sees fit, to authorise situations where a Director has an interest that conflicts, or may possibly conflict, with the interests of the Company ("situational conflicts"). The Board has a formal system in place for Directors to declare situational conflicts to be considered for authorisation by those Directors who have no interest in the matter being considered. In deciding whether to authorise a situational conflict, the non-conflicted Directors must act honestly and in good faith with a view to the best interests of the Company and they may impose limits or conditions when giving the authorisation, or subsequently, if they think this is appropriate. Any situational conflicts considered, and any authorisations given, are recorded in the relevant meetings' minutes. The prescribed procedures have been followed in deciding whether, and on what terms, to authorise situational conflicts and the Board believes that the systems it has in place for reporting and considering situational conflicts continue to operate effectively.

Related Party Transactions

The Company's transactions with related parties in the year were with the Directors and Henderson. There have been no material transactions between the Company and its Directors during the year and the only amounts paid to them were in respect of expenses and remuneration for which there were no outstanding amounts payable at the year end. Directors' shareholdings are disclosed on page 27.

In relation to the provision of services by Henderson, other than fees payable by the Company in the ordinary course of business and the provision of sales and marketing services, there have been no material transactions with Henderson affecting the financial position of the Company during the year under review. More details on transactions with Henderson, including amounts outstanding at the year end, are given in note 23 on page 57.

Share Capital

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.

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

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 307,684,868 ordinary shares in issue. During the year, 17,475,000 shares (representing 5.7% of the number of shares in issue at the beginning of the year) were issued to Cenkos Securities plc at a price range of 349.0p – 405.75p for total proceeds (net of commissions) of £66,411,000. At 30 June 2016 the number of ordinary shares in issue (with voting rights) was 325,159,868.

Since 30 June 2016 and up to 16 September 2016, being the last practicable date prior to publication of the Annual Report, a further 3,175,000 ordinary shares have been issued for a total consideration of £12,718,000. The number of shares in issue at the date of this report is 328,334,868.

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 2015 and at 30 June 2016 there was £301,982 of first preference stock in issue.

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 2015 and at 30 June 2016 there was £507,202 of second preference stock in issue.

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 2015 and at 30 June 2016 there was £589,672 of preferred ordinary stock in issue.

Further details on the first and second preference stock and the preferred ordinary stock (together the "Preferred Stock") are contained in note 15 on page 50.

The Directors seek annual authority from the shareholders to allot new ordinary shares, to dis-apply the pre-emption rights of existing shareholders, and to buy back for cancellation or to be held in treasury the Company's ordinary shares. In addition, the Directors seek annual authority to buy back and cancel the Company's preferred and preference stocks. At the Annual General Meeting ("AGM") on 23 October 2015 the Directors were granted authority to repurchase 47,568,496 ordinary shares (with a nominal value of £11,892,124) 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 47,568,496 shares. This authority will expire at the conclusion of the AGM in October 2016, 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 2015 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 during the year.

Report of the Directors (continued)

Holdings in the Company's Shares

There are no declarations of interests in the voting rights of the Company as at 30 June 2016 in accordance with the UK Listing Authority's Disclosure Guidance and Transparency Rules.

No changes have been notified in the period 1 July 2016 to 16 September 2016.

At 30 June 2016, 11.68% of the issued ordinary shares were held on behalf of participants in the Halifax Share Dealing products run by Halifax Share Dealing Limited ("HSDL"). In accordance with arrangements made between HSDL and Henderson the participants in this scheme are given the opportunity to instruct HSDL's nominee company to exercise the voting rights appertaining to their shares in respect of all General Meetings of the Company.

Annual General Meeting ("AGM")

The AGM will be held on Thursday 27 October 2016 at 2.30 pm at the Company's registered office. The Notice of Meeting and details of the resolutions to be put at the AGM are contained in the separate circular being sent to shareholders with this Report.

Corporate Governance

The Corporate Governance Statement set out on pages 29 to 31 forms part of the Report of the Directors.

Other Information

Information on future developments and financial risks are detailed in the Strategic Report.

Directors' Statement as to Disclosure of Information to Auditors

Each of the Directors who is a member of the Board at the date of approval of this Report confirms that to the best of his or her knowledge and belief, there is no information relevant to the preparation of the Annual Report of which the Company's Auditors are unaware and he or she has 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.

Global Greenhouse Gas Emissions

As an externally managed investment company, the Company has no greenhouse gas emissions to report from its operations for the year to 30 June 2016 (2015: same), nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013.

Listing Rule 9.8.4

Listing Rule 9.8.4 requires the Company to include certain information in a single identifiable section of the Annual Report or a cross reference table indicating where the information is set out. The Directors confirm that there are no disclosures to be made in this regard, other than in accordance with LR 9.8.4(7), the information of which is detailed on page 24 under Share Capital.

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
19 September 2016

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 Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and the Republic of Ireland", 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 or loss of the Company for that year. 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; and
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Statement under DTR 4.1.12

Each of the Directors, who are listed on page 16, confirms that, to the best of his or her knowledge:

- the Company's financial statements, which have been prepared in accordance with UK Accounting Standards on a going concern basis, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and financial statements include 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.

For and on behalf of the Board.

Philip Remnant CBE
Chairman
19 September 2016

The financial statements are published on the website **www.cityinvestmenttrust.com**.

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

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 Annual Report since it was initially presented on the website.

Directors' Remuneration Report

Introduction

This report is submitted in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in August 2013 (the "Regulations"). The report also meets the relevant requirements of the Companies Act 2006 (the "Act") and the 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, an ordinary resolution to approve the report will be proposed at the Annual General Meeting ("AGM") on 27 October 2016. The Company's remuneration policy was approved by shareholders at the AGM in 2014 in accordance with section 439A of the Act. No changes to the policy are currently proposed.

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.

All Directors are non-executive and the Company has no chief executive officer or employees; as such some of the reporting requirements contained in the Regulations are not applicable and have not been reported on, including the requirement for a future policy table and an illustrative representation of the level of remuneration that could be received by each individual Director. It is believed that all relevant information is disclosed within this report in an appropriate format.

The Board as a whole considers the Directors' remuneration in line with the Remuneration Policy, no separate Remuneration Committee has been established. The Board has not been provided with advice or services by any person in respect of its consideration of the Directors' remuneration (although the Directors review annually the fees paid to the boards of directors of other comparable investment trust companies).

Remuneration Policy

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 promote the long-term success of the Company. The Chairman of the Board is paid a higher fee in recognition of his additional responsibilities, as is the Chair 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. No Director is eligible to receive bonuses, pension benefits, share options or other benefits and no long-term incentive schemes are in place.

This policy is unchanged and will remain in place until the Annual General Meeting in 2017 unless it is amended by way of ordinary resolution put to shareholders in a General Meeting. The Board may amend the level of remuneration paid to individual Directors within the parameters of the Remuneration Policy.

Annual Statement

As Chairman, Philip Remnant reports that the Directors' fees were increased with effect from 1 January 2016. The increases were made after consideration of the fees paid to other investment trusts in the peer group, other sectors and the Henderson managed investment trusts. These increases were to ensure that the Directors are properly remunerated for their services to the Company and so that the Company can remain competitive when seeking new directors. There have been no other major decisions on Directors' remuneration or any other changes to the remuneration paid to each individual Director in the year under review.

Annual Report on Remuneration

Directors' interests in shares (audited)

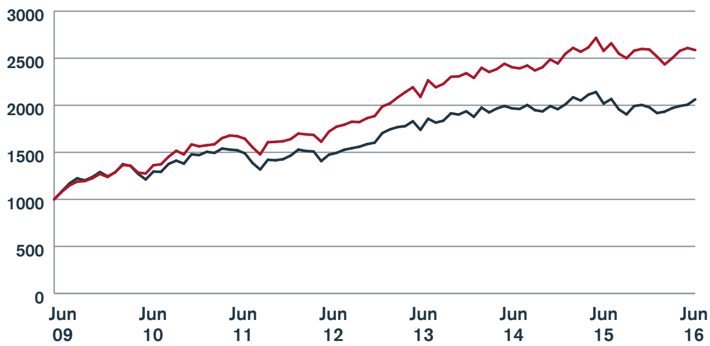
	Ordinary shares of 25p	
Beneficial:	**30 June 2016**	**1 July 2015**
Simon Barratt	9,627	9,627
David Brief	9,985	9,985
Richard Hextall	4,000	4,000
Martin Morgan	23,900	23,900
Philip Remnant	73,210	65,720
Samantha Wren	4,000	–

The interests of the Directors in the ordinary shares of the Company at the beginning and end of the financial year are shown in the preceding table. There have been no changes to any of the Directors' holdings in the period 1 July 2016 to the date of this report.

No Director has any interests in the preference or preferred stock of the Company.

Performance

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 Equity Income sector. In this report the FTSE All-Share Index has been selected as the most appropriate market index for the Company's portfolio.



City of London share price total return, assuming the investment of £1,000 on 30 June 2009 and the reinvestment of all dividends (excluding dealing expenses).

FTSE All-Share Index total return, assuming the notional investment of £1,000 on 30 June 2009 and the reinvestment of all income (excluding dealing expenses).

Sources: Morningstar for the AIC and Datastream

Directors' Remuneration Report (continued)

Directors' Remuneration (audited)

The remuneration paid to the Directors who served during the year ended 30 June 2016 and 30 June 2015 was as follows:

	Year ended 30 June 2016 Total salary and fees £	Year ended 30 June 2015 Total salary and fees £	Year ended 30 June 2016 Total expenses and taxable benefits £	Year ended 30 June 2015 Total expenses and taxable benefits £	Year ended 30 June 2016 Total £	Year ended 30 June 2015 Total £
Simon Barratt	26,785	26,260	–	–	26,785	26,260
David Brief	26,785	26,260	580	625	27,365	26,885
Richard Hextall[2]	30,906	30,300	–	–	30,906	30,300
Martin Morgan	26,785	26,260	–	–	26,785	26,260
Philip Remnant[1]	41,208	40,400	–	–	41,208	40,400
Samantha Wren[3]	22,317	–	–	–	22,317	–
Total	**174,786**	**149,480**	**580**	**625**	**175,366**	**150,105**

Notes:
The table above omits other columns set out in the relevant regulations because no payments of other types such as performance related pay and pension related payments were made.
[1] Chairman and highest paid Director
[2] Chairman of the Audit Committee until 7 July 2016 and Senior Independent Director
[3] Appointed a Director on 1 September 2015. Appointed Chair of the Audit Committee on 7 July 2016

From 1 January 2016 the fees were as follows (previous rates are shown in brackets): Chairman £41,616 (£40,800) per annum, Chair of the Audit Committee £31,212 (£30,600) per annum and other Directors £27,050 (£26,520) per annum.

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.

Relative importance of spend on pay

In order to show the relative importance of spend on pay, the table below sets out the total level of remuneration compared with the distributions to shareholders by way of dividends. There were no share buybacks during the year. There were no other significant distributions, payments or other uses of the Company's net return or cash flow deemed to assist in the understanding of the relative importance of spend on pay.

	2016 £	2015 £	Change £
Total remuneration	175,366	150,105	25,261
Ordinary dividend paid	50,176,276	44,890,015	5,286,261

Statement of Voting at AGM

At the 2015 AGM 3,525,954 votes (98.0%) were received voting for the resolution seeking approval of the Directors' Remuneration Report, 25,832 (0.7%) were against, 47,649 (1.3%) were discretionary and 21,496 were withheld; the percentage of votes excludes votes withheld. In relation to the approval of the remuneration policy, approved at the October 2014 AGM, 3,286,277 votes (97.7%) were received voting for the resolution, 45,246 (1.3%) were against, 32,241 (1.0%) were discretionary and 13,008 were withheld.

For and on behalf of the Board

Philip Remnant CBE
Chairman
19 September 2016

Corporate Governance Statement

The Corporate Governance Statement forms part of the Report of the Directors.

Applicable Corporate Governance Codes

The Board is accountable to shareholders for the governance of the Company's affairs. As an investment trust, the Company's day-to-day responsibilities are delegated to third parties; the Company has no employees and the Directors are all non-executive. Therefore not all the provisions of the UK Corporate Governance Code (the "UK Code") issued by the Financial Reporting Council ("FRC") in September 2014 are directly applicable to the Company. The Board has therefore considered the principles and recommendations of the Code of Corporate Governance published by the Association of Investment Companies in February 2015 ("the AIC Code") by reference to the AIC Corporate Governance Guide for Investment Companies ("the AIC Guide"). The AIC Code, as explained by the AIC Guide, addresses all the applicable principles set out in the UK Code as well as setting out additional principles and recommendations on issues that are of specific relevance to the Company. The FRC has confirmed that, by following the AIC Guide, boards of investment companies should fully meet their obligations in relation to the UK Code and paragraph 9.8.6 of the Listing Rules.

The Board has noted that the FRC and the AIC have issued revised codes which the Company will be required to report against next year.

Copies of the AIC Code, the AIC Guide and the UK Code can be found on the respective organisations' websites: **www.theaic.co.uk** and **www.frc.org.uk**.

Statement of Compliance

The Directors believe that the company has complied with the recommendations of the AIC Code during the year under review and up to the date of this report, and thereby the provisions of the UK Code, except as set out below.

The UK Code includes provisions relating to:

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

For the reasons set out in the AIC Guide, and as explained in the UK Code, the Board considers that these provisions are not relevant to the Company as it is an externally managed investment company. In particular, all of the Company's day-to-day management and administrative functions are outsourced to third parties. As a result, the Company has no executive Directors, employees or internal operations.

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 currently consists of six non-executive Directors. All served throughout the year under review. The biographies of the Directors holding office at the date of this report, which are set out on page 16, demonstrate the breadth of investment, commercial and professional experience relevant to their positions as Directors.

Directors' Appointment and Retirement

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 UK Code and the AIC Code require all directors of FTSE 350 companies to retire annually. All the current Directors will retire and, being eligible, have all stated that they will offer themselves for re-election, with the exception of Richard Hextall who will not stand for re-election having served on the Board for almost nine years.

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 2016, the Directors reviewed their independence and confirmed that all Directors remain wholly independent of Henderson. Richard Hextall is the Company's Senior Independent Director. As he is retiring from the Board at the AGM, Simon Barratt will be the Company's Senior Independent Director from 27 October 2016. 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' Professional Development

When a new Director is appointed he or she receives an induction seminar which is held by Henderson at the request of the Chairman. 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' individual training requirements are considered as part of the annual evaluation process which is led by the Chairman of the Board.

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.

The Board

Responsibilities of the Board and its Committees

The Board's policy is for Directors to serve for no more than nine years, other than in exceptional circumstances. The Chairman is responsible for leading the Board and for ensuring that it continues to deal effectively with all the aspects of its role. He ensures that Henderson provide management, regulatory and financial information in a clear and timely manner. During the year seven 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 include 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.

The Board is responsible for the approval of the annual and half year results and other public documents and for ensuring that such documents provide a fair, balanced and understandable assessment of the Company's position and prospects.

Corporate Governance Statement (continued)

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 Henderson has discretion to act. The Board has responsibility for the approval of any investments in in-house funds managed or advised by Henderson. 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 principal Committees: the Audit Committee and the Nominations Committee. The terms of reference for these Committees are available on the Company's website or via the Corporate Secretary. The Company also has an Insider Committee to deal with the obligations of the Market Abuse Regulations which came into force on 3 July 2016.

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 Henderson. A separate Remuneration Committee has not been established as the Board consists of only non-executive Directors and the Board as a whole considers the Directors' remuneration in line with the Remuneration Policy set out on page 27, which is subject to periodic shareholder approval.

Audit Committee

The Audit Committee is chaired by Samantha Wren who succeeded Richard Hextall as Chair of the Audit Committee on 7 July 2016. The other members of the Committee are David Brief, Simon Barratt and Richard Hextall. The Report of the Audit Committee which forms part of the Corporate Governance Statement, can be found on pages 32 and 33.

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 including gender existing on the Board and will recommend when the recruitment of additional non-executive Directors is required. Given the size of the Board it is not considered appropriate to have set targets in relation to diversity. 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 AIC Code any Director serving for longer than six years would be subject to particularly rigorous assessment of his/her contribution.

Performance Evaluation

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 a 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. As a FTSE 350 Company, the Company is obliged to engage an external facilitator for Board evaluation every three years. This year the external review was facilitated by Lintstock Limited, who also carried out the previous external review in 2013. Lintstock Limited are unconnected to the Company. The evaluation concluded that the Board has a good balance of skills and experience and the Chairman continues to provide effective leadership.

Board attendance

The table below sets out the number of formal Board and Committee meetings held during the year under review and the number of meetings attended by each Director. All Directors attended the AGM in October 2015, with the exception of Samantha Wren who was unable to attend.

	Board	Audit Committee	Nominations Committee
Number of meetings	7	3	1
Simon Barratt	7	3	1
David Brief	6	3	1
Richard Hextall	6	3	1
Martin Morgan	7	–	1
Philip Remnant	7	–	1
Samantha Wren	6	3	–

Internal controls

The Board has established an ongoing process for identifying, evaluating and managing any major risks faced by the Company. The process accords with advice issued by the FRC and is subject to regular review by the Board.

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 2016. 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.

Henderson 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 Henderson's compliance and risk department on a continuing basis. The Board receives a formal report from Henderson each quarter detailing the steps taken to monitor the areas of risk, including those that are not directly the responsibility of Henderson, and which reports the details of any known internal control failures. Each year the Board receives from Henderson a report on its internal controls which includes a report from Henderson'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.

The Company does not have an internal audit function; it delegates to third parties most of its operations and does not employ any staff. Accordingly, in practice the Board must place reliance on Henderson and its other contractors to ensure that they operate effective internal audit functions. The Board will continue to monitor its system

Corporate Governance Statement (continued)

of internal control in order to provide assurance that it operates as intended and the Directors will review at least annually whether a function equivalent to an internal audit is needed.

Accountability and Relationship with Henderson

The Statement of Directors' Responsibilities in respect of the financial statements is set out on page 26, the Independent Auditors' Report on pages 34 to 38 and the viability statement on page 18.

The Board has delegated contractually to external third parties, including Henderson, the management of the investment portfolio, the custodial services (which include the safeguarding of the assets which is delegated through the appointment of the depositary as explained on page 21), 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 Henderson and ad hoc reports and information are supplied to the Board as required. In addition, the Chairman is able to attend meetings of all the chairmen of the investment trust companies managed by Henderson which provide a forum to discuss industry matters which would then be reported to the Board.

Henderson takes decisions as to the purchase and sale of individual investments. Henderson also ensures that all Directors receive, in a timely manner, all relevant management, regulatory and financial information. Representatives of Henderson attend each Board meeting enabling the Directors to probe further on matters of concern. The Directors have access to the advice and services of the Corporate Secretary through its appointed representative who is responsible to the Board for ensuring that Board and Committee procedures are followed and that applicable rules and regulations are complied with. The proceedings at all Board and Committee meetings are fully recorded through a process that allows any Director's concerns to be recorded in the minutes. The Board and Henderson operate in a supportive, co-operative and open environment.

The Corporate Secretary, Henderson Secretarial Services Limited, is a subsidiary of Henderson with its own reporting lines and audited internal controls. There are processes and controls in place to ensure that their is a clear distinction between the two entities, particularly when dealing with any conflicts or issues between the Company and Henderson. Any correspondence from shareholders addressed to the Chairman or the Company received at Henderson's offices is forwarded to the Chairman of the Company in line with the audited procedures in place. Any correspondence is submitted to the next Board meeting.

Henderson and BNP Paribas Securities Services, which acts for Henderson, have arrangements in place by which their staff may, in confidence, raise concerns about possible improprieties in relation to financial reporting or other matters.

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. It has received assurances from the Company's main contractors and suppliers that they will maintain adequate safeguards to protect against any potentially illegal behaviour by their employees and agents.

Continued Appointment of Henderson

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 Henderson are contained on page 4.

The Board reviews investment performance at each Board meeting and a formal review of Henderson is conducted annually. As part of the annual review in July 2016 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 Henderson to the Company, such as accounting, company secretarial and administration services, and Henderson's promotion of investment and savings products linked to the Company's shares. The Board noted Henderson'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 Henderson on the terms agreed is in the interests of the Company's shareholders as a whole.

Share Capital

Please see the Report of the Directors on pages 24 and 25.

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 results and Annual Report which aim to provide shareholders with a clear understanding of the Company's activities and their results. This information is supplemented by the daily calculation and publication of the NAV per share at the London and New Zealand Stock Exchanges and a monthly fact sheet which is available on the website. Henderson also provides information on the Company and Fund Manager videos are on the website, via various social media channels and through its HGI content platform, more details of which are on page 17.

The Board considers that shareholders should be encouraged to attend and participate in the AGM, which will be available to watch live by visiting **www.henderson.com/trustslive**. Shareholders have the opportunity to address questions to the Chairman of the Board, the Chair of the Audit Committee and all other Directors at the meeting and the Fund Manager will make a presentation to shareholders. A summary of the proxy votes received on the resolutions proposed is displayed at the meeting and each substantial issue is dealt with in a separate resolution. It is the intention of the Board that the Annual Report and Notice of AGM be issued to shareholders so as to provide at least 20 working days' notice of the meeting. These documents are also included on the website. Shareholders wishing to lodge questions in advance of the meeting, or raise issues or concerns at any time, are invited to do so by writing to the Chairman at the address given on page 17.

General presentations to both shareholders and analysts follow the publication of the annual results. In addition, the Chairman offered meetings with a number of large investors during the year but all were satisfied with the Company and did not take up the offer to meet. All meetings between Henderson and shareholders are reported to the Board.

New Zealand Listing

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

By order of the Board

Henderson Secretarial Services Limited
Corporate Secretary
19 September 2016

Report of the Audit Committee

The Audit Committee is chaired by Samantha Wren who is a Chartered Management Accountant. The other members of the Committee are David Brief, an experienced pensions investment professional, Simon Barratt, an experienced lawyer, and Richard Hextall, a Chartered Accountant, who was Chairman of the Audit Committee until 7 July 2016.

Meetings

The Committee met three times during the year under review. The Company's Auditors are invited to attend meetings of the Committee on a regular basis. Representatives of Henderson and BNP Paribas Securities Services may also be invited to attend if deemed necessary.

Role and Responsibilities

The role of the Committee is to assist the Board in applying financial reporting and internal control principles and to maintain an appropriate relationship with the Auditors. The Audit Committee formally reports to the Board. The Committee's responsibilities are set out in formal terms of reference which are reviewed at least annually. In the year under review the main duties undertaken were:

- consideration of the appropriateness of the Company's accounting policies;
- a review of the half year results and the annual report, including the disclosures made therein in relation to internal controls and risk management, going concern and related parties and consideration of whether the report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy in order to make recommendations to the Board. In assessing whether the report is fair, balanced and understandable, each Director reviewed the disclosures made, applying their respective knowledge and expertise;
- consideration of the annual confirmation from the Company's Depositary;
- consideration of the quality and effectiveness of the accounting records and management information maintained on behalf of the Company, relying on meetings with and reports from Henderson;
- consideration of the internal controls in place at Henderson, BNP Paribas Securities Services as administrator, HSBC as custodian and Henderson's policies in relation to cyber risk and business continuity, meeting with representatives of Henderson's internal audit and risk departments periodically;
- consideration of the whistle blowing policy that Henderson has put in place for its staff to raise concerns about possible improprieties, including in relation to the Company, in confidence. The policy includes the necessary arrangements for independent investigation and follow up action;
- consideration of the key risks, risk management systems in place and the Company's risk map;
- consideration of the Company's anti-bribery policy;
- consideration of whether there is a need for an internal audit function in order to make a recommendation to the Board;
- consideration of the nature and scope of the external audit and the findings therefrom;
- consideration of the Auditors' independence and objectivity and the effectiveness of the audit process;
- consideration of the appointment of the Auditors, the Auditors' performance and remuneration; and
- consideration of the Audit Quality Review team's review of the 2015 year end audit, from which there were no significant matters noted.

Policy on Non-Audit Services

The 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 the Committee. There were no non-audit services provided during the year.

Audit Tendering

As a Public Interest Entity listed on the London Stock Exchange, the Company will in future be subject to the mandatory auditor rotation requirements of the European Union. Subject to the detailed implementation of the European requirements in the UK, this is likely to mean that the Company will put the external audit out to tender at least every ten years, and change auditors at least every twenty years. This legislation will require the Company to put the audit out to tender for the 2021 year end. The Committee will, however, continue to consider annually the need to go to tender for audit quality or independence reasons.

PricewaterhouseCoopers LLP have been the Company's Auditors since 2009. During the financial year ended 30 June 2014 the Company tendered its audit. The tender was conducted on an integrated basis with Henderson and, upon consideration of the tenders received, the Board decided to reappoint PricewaterhouseCoopers LLP.

External Audit, Review and Auditors Reappointment

The Committee discuss the audit process with the Auditors without representatives of Henderson present and consider the effectiveness of the audit process after each audit. The Audit Committee remains satisfied with the effectiveness of the audit provided by PricewaterhouseCoopers LLP. The Committee is satisfied that the Auditors are independent of the Company. The Auditors are required to rotate partners every five years and this is the third year that the current partner has been in place.

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

Fees paid or payable to the Auditors are detailed in note 6 on page 46.

Report of the Audit Committee (continued)

Audit for the year ended 30 June 2016

In relation to the Annual Report for the year ended 30 June 2016 the following significant issues were considered by the Committee:

Significant issue	How the issue was addressed
Valuation and ownership of the Company's investments	The Directors have appointed Henderson, who outsource some of the administration and accounting services to BNP Paribas Securities Services, to perform the valuation of the assets of the Company in accordance with its responsibilities under the AIFMD rules. As required under the AIFMD rules, Henderson has adopted a written valuation policy, which may be modified from time to time. Actively traded investments are valued using stock exchange prices provided by third party pricing vendors. Ownership of listed investments are verified by reconciliation to the Custodian's records and the Directors have received quarterly reports of the Depositary who has responsibility for overseeing operations of the Company, including verification of ownership and valuation.
Recognition of income	Income received, particularly special dividends, are accounted for in line with the Company's accounting policy (as set out on pages 42 to 44). Special dividends, and their treatment as revenue or capital, have been reviewed by the Committee and agreed.

The Committee is satisfied that the Annual Report for the year ended 30 June 2016, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Samantha Wren
Chair of the Audit Committee
19 September 2016

Independent Auditors' Report to the Members of The City of London Investment Trust plc

Report on the financial statements

Our opinion

In our opinion, The City of London Investment Trust plc's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of its net return 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.

What we have audited

The financial statements, included within the Annual Report, comprise:

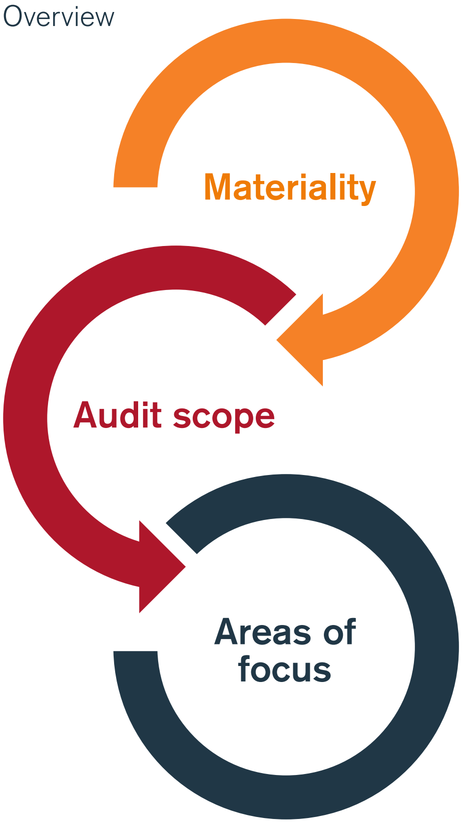
- the Statement of Financial Position as at 30 June 2016;
- the Income Statement for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", and applicable law (United Kingdom Generally Accepted Accounting Practice).

Our audit approach

Overview



- Overall materiality: £12.4 million which represents 1% of Net Assets.

- The Company is a standalone Investment Trust Company and engages Henderson Investment Funds Limited (the "Manager") to manage its assets.
- We conducted our audit of the financial statements using information from BNP Paribas Securities Services (the "Administrator") to whom the Manager has, with the consent of the Directors, delegated the provision of certain administrative functions.
- We tailored the scope of our audit taking into account the types of investments within the Company, the involvement of the third parties referred to above, the accounting processes and controls, and the industry in which the Company operates.

- Valuation and existence of investments.
- Dividend income.

Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Valuation and existence of investments Refer to page 33 (Report of the Audit Committee), page 42 (Accounting Policies) and page 48 (Notes). The investment portfolio at the year end comprised of listed equity investments valued at £1,341.4 million. We focused on the valuation and existence of investments because investments represent the principal element of the net asset value as disclosed on the Statement of Financial Position in the financial statements.	We tested the valuation of the listed equity investments by agreeing the prices used in the valuation to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. We tested the existence of the investment portfolio by agreeing the holdings for investments to an independent custodian confirmation from HSBC Bank plc. No differences were identified which required reporting to those charged with governance.
Dividend income Refer to page 33 (Report of the Audit Committee), page 43 (Accounting Policies) and page 45 (Notes). We focused on the accuracy and completeness of dividend income recognition and its presentation in the Income Statement as set out in the requirements of The Association of Investment Companies Statement of Recommended Practice (the "AIC SORP"). This is because incomplete or inaccurate income could have a material impact on the Company's net asset value and dividend cover.	We assessed the accounting policy for income recognition for compliance with accounting standards and the AIC SORP and performed testing to check that dividend income had been accounted for in accordance with this stated accounting policy. We found that the accounting policies implemented were in accordance with accounting standards and the AIC SORP, and that dividend income has been accounted for in accordance with the stated accounting policy. We understood and assessed the design and implementation of relevant controls surrounding dividend income recognition. In addition, we tested dividend receipts by agreeing the dividend rates from investments to independent third party sources. No misstatements were identified by our testing which required reporting to those charged with governance. To test for completeness, we tested that the appropriate dividends had been received in the year by reference to independent data of dividends declared by investment holdings in the portfolio. Our testing did not identify any unrecorded dividends. We tested the allocation and presentation of dividend income between the revenue and capital return columns of the Income Statement in line with the requirements set out in the AIC SORP. We then tested the validity of special dividends to independent third party sources. We did not find any special dividends that were not treated in accordance with the AIC SORP.

Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the geographic structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

The Company's accounting is delegated to the Administrator who maintain their own accounting records and controls.

As part of our risk assessment, we assessed the control environment in place at both the Manager and the Administrator to the extent relevant to our audit. This assessment of the operating and accounting structure in place at both organisations involved obtaining and reading the relevant control reports issued by the independent auditor of the Manager and the Administrator in accordance with generally accepted assurance standards for such work. We then identified those relevant controls at the Administrator on which we could place reliance to provide audit evidence.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall materiality	£12.4 million (2015: £11.8 million).
How we determined it	1% of Net Assets.
Rationale for benchmark applied	We have applied this benchmark, a generally accepted auditing practice for investment trust audits.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £621,000 (2015: £594,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the Directors' statement, set out on page 42, in relation to going concern. We have nothing to report having performed our review.

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Company has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Company's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

ISAs (UK & Ireland) reporting

Under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

▪ information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report.
▪ the statement given by the Directors on page 26, in accordance with provision C.1.1 of the UK Corporate Governance Code (the "Code"), that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Company acquired in the course of performing our audit.	We have no exceptions to report.
▪ the section of the Annual Report on pages 32 and 33, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

The Directors' assessment of the prospects of the Company and of the principal risks that would threaten the solvency or liquidity of the Company

Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

▪ the Directors' confirmation on page 18 of the Annual Report, in accordance with provision C.2.1 of the Code, that they have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity.	We have nothing material to add or to draw attention to.
▪ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
▪ the Directors' explanation on pages 18 and 19 of the Annual Report, in accordance with provision C.2.2 of the Code, as to how they have assessed the prospects of the Company, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Under the Listing Rules we are required to review the Directors' statement that they have carried out a robust assessment of the principal risks facing the Company and the Directors' statement in relation to the longer-term viability of the Company. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the Code; and considering whether the statements are consistent with the knowledge acquired by us in the course of performing our audit. We have nothing to report having performed our review.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- 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.

We have no exceptions to report arising from this responsibility.

Independent Auditors' Report to the Members of The City of London Investment Trust plc (continued)

Directors' remuneration

Directors' Remuneration Report – Companies Act 2006 opinion

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to ten further provisions of the Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, 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 ISAs (UK & 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.

What an audit of financial statements involves

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.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jeremy Jensen (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 September 2016

Income Statement

Notes		Year ended 30 June 2016 Revenue return £'000	Year ended 30 June 2016 Capital return £'000	Year ended 30 June 2016 Total £'000	Year ended 30 June 2015 Revenue return £'000	Year ended 30 June 2015 Capital return £'000	Year ended 30 June 2015 Total £'000
2	(Losses)/gains on investments held at fair value through profit or loss	–	(10,641)	(10,641)	–	28,010	28,010
3	Income from investments held at fair value through profit or loss	60,219	–	60,219	54,171	–	54,171
4	Other interest receivable and similar income	216	–	216	302	–	302
	Gross revenue and capital gains	**60,435**	**(10,641)**	**49,794**	**54,473**	**28,010**	**82,483**
5	Management fees	(1,326)	(3,093)	(4,419)	(1,254)	(2,926)	(4,180)
6	Other administrative expenses	(672)	–	(672)	(653)	(5)	(658)
	Net return on ordinary activities before finance costs and taxation	**58,437**	**(13,734)**	**44,703**	**52,566**	**25,079**	**77,645**
7	Finance costs	(1,916)	(4,103)	(6,019)	(1,836)	(3,917)	(5,753)
	Net return on ordinary activities before taxation	**56,521**	**(17,837)**	**38,684**	**50,730**	**21,162**	**71,892**
8	Taxation on net return on ordinary activities	(845)	–	(845)	(604)	–	(604)
	Net return on ordinary activities after taxation	**55,676**	**(17,837)**	**37,839**	**50,126**	**21,162**	**71,288**
9	Return per ordinary share basic and diluted	17.42p	(5.58p)	11.84p	16.84p	7.11p	23.95p

The total columns of this statement represent the Income Statement of the Company. The revenue return and capital return columns are supplementary to this and are prepared under guidance published by the Association of Investment Companies. All revenue and capital items in the above statement derive from continuing operations. 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 on ordinary activities before taxation and the net return for the financial year stated above and their historical cost equivalents.

The notes on pages 42 to 57 form part of these financial statements.

Statement of Changes in Equity

Notes	Year ended 30 June 2016	Called up share capital £'000	Share premium account £'000	Capital redemption reserve £'000	Other capital reserves £'000	Revenue reserve £'000	Total shareholders funds £'000
	At 1 July 2015	76,921	346,149	2,707	724,379	38,356	1,188,512
	Net return on ordinary activities after taxation	–	–	–	(17,837)	55,676	37,839
17	Issue of 17,475,000 new ordinary shares	4,369	62,042	–	–	–	66,411
10	Dividends paid	–	–	–	–	(50,176)	(50,176)
	At 30 June 2016	**81,290**	**408,191**	**2,707**	**706,542**	**43,856**	**1,242,586**
	Year ended 30 June 2015	**Called up share capital £'000**	**Share premium account £'000**	**Capital redemption reserve £'000**	**Other capital reserves £'000**	**Revenue reserve £'000**	**Total shareholders funds £'000**
	At 1 July 2014	71,202	265,004	2,707	703,217	33,120	1,075,250
	Net return on ordinary activities after taxation	–	–	–	21,162	50,126	71,288
17	Issue of 22,875,000 new ordinary shares	5,719	81,145	–	–	–	86,864
10	Dividends paid	–	–	–	–	(44,890)	(44,890)
	At 30 June 2015	**76,921**	**346,149**	**2,707**	**724,379**	**38,356**	**1,188,512**

The notes on pages 42 to 57 form part of these financial statements.

Statement of Financial Position

Notes		30 June 2016 £'000	30 June 2015 £'000
	Fixed assets		
11	**Investments held at fair value through profit or loss**		
	Listed at market value in the United Kingdom	1,172,910	1,127,209
	Listed at market value overseas	168,509	132,106
12	Investment in subsidiary undertakings	347	347
		1,341,766	**1,259,662**
	Current assets		
13	Debtors	9,429	7,243
	Cash at bank and held at broker	–	3,150
		9,429	**10,393**
14	**Creditors:** amounts falling due within one year	(32,610)	(5,575)
	Net current (liabilities)/assets	(23,181)	4,818
	Total assets less current (liabilities)/assets	**1,318,585**	**1,264,480**
15	**Creditors:** amounts falling due after more than one year	(75,999)	(75,968)
	Net assets	**1,242,586**	**1,188,512**
	Capital and reserves		
17	Called up share capital	81,290	76,921
18	Share premium account	408,191	346,149
19	Capital redemption reserve	2,707	2,707
19	Other capital reserves	706,542	724,379
20	Revenue reserve	43,856	38,356
21	**Total shareholders' funds**	**1,242,586**	**1,188,512**
21	Net asset value per ordinary share – basic and diluted	382.15p	386.28p

The financial statements on pages 39 to 57 were approved by the Board of Directors on 19 September 2016 and signed on its behalf by:

Philip Remnant CBE
Chairman

The notes on pages 42 to 57 form part of these financial statements.

Notes to the Financial Statements

1 Accounting policies

a) Basis of accounting

The Company is a registered investment company as defined in Section 833 of the Companies Act 2006 and is incorporated in the United Kingdom. It operates in the United Kingdom and is registered at the address on page 17.

The financial statements have been prepared in accordance with the Companies Act 2006, FRS 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (which is effective for periods commencing on or after 1 January 2015) and with the Statement of Recommended Practice: Financial Statements of Investment Trust Companies and Venture Capital Trusts ("the SORP") issued in November 2014. The date of transition to FRS 102 was 1 July 2014. The Company has early adopted the amendments to FRS 102 in respect of fair value hierarchy disclosures as published in March 2016.

The principal accounting policies applied in the presentation of these financial statements are set out below. These policies have been consistently applied to all the years presented. Following the application of the revised reporting standards there have been no significant changes to the accounting policies compared to those set out in the Company's Annual Report for the year ended 30 June 2015.

There has been no impact on the Company's Income Statement, Statement of Financial Position (previously called the Balance Sheet) or Statement of Changes in Equity (previously called the Reconciliation of Movements in Shareholders' Funds) for periods previously reported.

As an investment fund the Company has the option, which it has taken, not to present a cash flow statement. A cash flow statement is not required when an investment fund meets all the following conditions: substantially all of the entity's investments are highly liquid, substantially all of the entity's investments are carried at market value, and the entity provides a statement of changes in equity. The Directors have assessed that the Company meets all of these conditions.

The accounts have been prepared under the historical cost basis except for the measurement at fair value of investments. In applying FRS 102, financial instruments have been accounted for in accordance with Section 11 and 12 of the standard. All of the Company's operations are of a continuing nature.

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 at least twelve months from the date of approval of the financial statements. Having assessed these factors, the principal risks and other matters discussed in connection with the viability statement, the Board has determined that it is appropriate for the financial statements to be prepared on a going concern basis.

c) Valuation of investments held at fair value through profit or loss

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.

The only unquoted investments are the Company's subsidiaries which are valued at the net asset value according to their latest financial statements and this is considered to be fair value.

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/(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 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 statement of financial position date are translated into sterling at the exchange rates ruling at that date.

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

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

e) Income

Dividends receivable from equity shares are taken to the revenue return on an ex-dividend basis except where, in the opinion of 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.

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 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 on page 44, under 'Derivative financial instruments'.

f) Management and administrative expenses and finance costs

All expenses and finance costs 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 and 30% to revenue, the Company charges to capital 70% of the finance costs (excluding dividends payable on the preference and preferred ordinary stocks) and management fees with the remaining 30% being charged to revenue.

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.

The tax effect of different items of expenditure is allocated between the capital return and revenue return using the Company's effective rate of tax for the year. 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 statement of financial position 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 statement of financial position date. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

h) Borrowings

Overdrafts, debentures and secured notes are recorded initially at fair value, being the proceeds received, net of direct issue costs. They are subsequently measured at amortised cost. Finance costs, 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 section 22.5 of FRS 102 preference and preferred ordinary stocks are classified as financial liabilities. The dividends associated with the preference and preferred ordinary stocks are charged fully to the Company's revenue return within finance costs.

Notes to the Financial Statements (continued)

1 Accounting policies (continued)

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 Statement of Changes in Equity.

k) Issue and repurchase of ordinary shares and associated costs

The proceeds from the share 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 Statement of Changes in Equity. Issue costs incurred in respect of shares sold out of treasury are offset against proceeds received and dealt with in other capital reserves. Share issues and repurchase transactions are accounted for on a trade date basis.

l) Capital and reserves

Called up share capital represents the nominal value of ordinary shares issued.

The share premium account represents the premium above nominal value received by the Company on issuing shares net of issue costs.

The revenue reserve represents accumulated revenue profits retained by the Company that have not currently been distributed to shareholders as a dividend.

The capital redemption reserve represents the nominal value of ordinary shares, preference stock and preferred ordinary shares that have been repurchased and cancelled.

Other capital reserves are split into two components, the capital reserve arising on investments sold and the capital reserve arising on revaluation of investments held. The following analyses what is accounted for in each of these components.

Capital reserve arising on investments sold

The following are accounted for in this reserve:

- gains and losses on 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) Distributable reserves

The Company's capital reserve arising on investments sold, capital reserve arising on revaluation of investments held and revenue reserve may be distributed by way of a dividend.

n) 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 Henderson'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.

Notes to the Financial Statements (continued)

2 (Losses)/gains on investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Gains on the sale of investments based on historical cost	14,093	26,228
Revaluation gains recognised in previous years	(19,300)	(34,326)
Losses on investments sold in the year based on the carrying value at the previous statement of financial position date	**(5,207)**	**(8,098)**
Revaluation of investments held at 30 June	(5,498)	36,442
Exchange gains/(losses)	64	(334)
Total (losses)/gains from investments held at fair value through profit or loss	**(10,641)**	**28,010**

3 Income from investments held at fair value through profit or loss

	2016 £'000	2015 £'000
Franked UK dividends:		
Listed – ordinary dividends	46,028	39,883
Listed – special dividends	2,833	4,210
	48,861	**44,093**
Unfranked – listed investments:		
Dividend income – overseas investments	9,223	7,997
Dividend income – UK REIT	2,006	1,581
Scrip dividends	129	500
	11,358	**10,078**
	60,219	**54,171**

4 Other interest receivable and similar income

	2016 £'000	2015 £'000
Bank interest	–	1
Underwriting commission (allocated to revenue)[1]	31	106
Stock lending revenue	185	195
	216	**302**

1 During the year the Company was not required to take up shares in respect of its underwriting commitments (2015: none).

At 30 June 2016 the total value of securities on loan by the Company for stock lending purposes was £15,251,000 (2015: £31,221,000). The maximum aggregate value of securities on loan at any one time during the year ended 30 June 2016 was £111,060,000 (2015: £98,988,000). The Company's agent holds collateral at 30 June 2016, with a value of £16,020,000 (2015: £32,784,000) in respect of securities on loan, 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% (2015: 105%) of the market value of any securities on loan.

5 Management fees

	2016			2015		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Management fee	1,326	3,093	4,419	1,254	2,926	4,180

A summary of the terms of the Management Agreement is given on page 4. Details of apportionment between revenue and capital can be found in note 1 on page 43.

Notes to the Financial Statements (continued)

6 Other administrative expenses (including irrecoverable VAT)

	2016 £'000	2015 £'000
Directors' fees and expenses (see Directors' Remuneration Report on page 28)	175	150
Auditors' remuneration – for statutory audit services	31	28
Marketing	71	60
Bank charges (loan facility fees)	9	15
Annual and Half Year reports	64	64
Registrar's fees	92	91
AIC	21	21
Listing fees	77	72
Advisory and consultancy fees	21	53
Depositary fees[1]	59	55
Other expenses	52	44
Expenses charged to income	**672**	**653**
Expenses charged to capital[2]	–	5
	672	**658**

1 Depositary appointed on 22 July 2014 to meet the requirements of AIFMD.

2 The capital expenses incurred relate to the redemption of the 11½% debenture stock 2014.

All transactions with Directors are disclosed in the Directors' Remuneration Report and are related party transactions.

All the above expenses include VAT where VAT is applied to them.

7 Finance costs

	2016			2015		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Interest on debentures and secured notes repayable wholly or partly						
– between one and five years	1,073	2,502	3,575	411	959	1,370
– after five years	476	1,110	1,586	1,243	2,897	4,140
Amortisation of secured notes						
Issue costs	9	22	31	8	22	30
Issue costs written back	–	–	–	(5)	(12)	(17)
Bank overdraft interest	201	469	670	22	51	73
Dividends per share:						
– Cumulative First Preference Stock	18	–	18	18	–	18
– Non-cumulative Second Preference Stock	21	–	21	21	–	21
– Non-cumulative Preferred Ordinary Stock	118	–	118	118	–	118
	1,916	**4,103**	**6,019**	**1,836**	**3,917**	**5,753**

Details of apportionment between revenue return and capital return can be found in note 1 on page 43.

8 Taxation on net return on ordinary activities

Analysis of tax charge for the year

	2016			2015		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Overseas withholding tax	1,245	–	1,245	873	–	873
Less: overseas withholding tax recoverable	(400)	–	(400)	(269)	–	(269)
	845	**–**	**845**	**604**	**–**	**604**

The Company's profit for the accounting year is taxed at an effective rate of 20.00% (2015: 20.75%). The standard rate of corporation tax has been 20% since 1 April 2015.

Notes to the Financial Statements (continued)

8 Taxation on net return on ordinary activities (continued)

Factors affecting the tax charge for the year

	2016			2015		
	Revenue return £'000	Capital return £'000	Total return £'000	Revenue return £'000	Capital return £'000	Total return £'000
Return on ordinary activities before taxation	56,521	(17,837)	38,684	50,730	21,162	71,892
Corporation tax at 20.00% (2015: 20.75%)	11,304	(3,567)	7,737	10,526	4,391	14,917
Effects of:						
Non-taxable UK dividends	(9,798)	–	(9,798)	(9,254)	–	(9,254)
Non-taxable stock dividends and other income	(1,845)	–	(1,845)	(1,659)	–	(1,659)
Overseas tax suffered	845	–	845	604	–	604
Income taxable in different years	(19)	–	(19)	(10)	–	(10)
Excess management expenses	326	1,439	1,765	364	1,421	1,785
Preference and preferred ordinary dividends not allowable for tax	32	–	32	33	–	33
Net capital loss/(gains) not subject to tax	–	2,128	2,128	–	(5,812)	(5,812)
	845	**–**	**845**	**604**	**–**	**604**

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.

Deferred taxation

No provision for deferred taxation has been made in the current or prior accounting year. 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.

Factors that may affect future tax charges

The Company has not recognised a deferred tax asset totalling £23,664,000 (2015: £20,537,000) arising as a result of having unutilised management expenses and unutilised non-trade 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.

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 £37,839,000 (2015: net return of £71,288,000) and on 319,488,967 ordinary shares (2015: 297,668,020), 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:

	2016 £'000	2015 £'000
Net revenue return	55,676	50,126
Net capital return	(17,837)	21,162
Net total return	**37,839**	**71,288**
Weighted average number of ordinary shares in issue during the year	**319,488,967**	**297,668,020**

	2016 Pence	2015 Pence
Revenue return per ordinary share	17.42p	16.84p
Capital (loss)/return per ordinary share	(5.58p)	7.11p
Total return per ordinary share	**11.84p**	**23.95p**

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

Notes to the Financial Statements (continued)

10 Dividends paid on the ordinary shares

	Record date	Payment date	2016 £'000	2015 £'000
Fourth interim dividend (3.75p) for the year ended 30 June 2014	1 August 2014	29 August 2014	–	10,763
First interim dividend (3.75p) for the year ended 30 June 2015	24 October 2014	28 November 2014	–	11,014
Second interim dividend (3.75p) for the year ended 30 June 2015	23 January 2015	27 February 2015	–	11,345
Third interim dividend (3.90p) for the year ended 30 June 2015	1 May 2015	29 May 2015	–	11,816
Fourth interim dividend (3.90p) for the year ended 30 June 2015	31 July 2015	28 August 2015	12,119	–
First interim dividend (3.90p) for the year ended 30 June 2016	23 October 2015	30 November 2015	12,376	–
Second interim dividend (3.90p) for the year ended 30 June 2016	29 January 2016	29 February 2016	12,560	–
Third interim dividend (4.05p) for the year ended 30 June 2016	29 April 2016	31 May 2016	13,109	–
Unclaimed dividends over 12 years old			–	(48)
Reclaimed dividends from previous years			12	–
			50,176	**44,890**

In accordance with FRS 102, dividends are not accrued in the financial statements unless they have been approved by shareholders before the statement of financial position date. Interim dividends payable to equity shareholders are recognised in the Statement of Changes in Equity when they have been paid to shareholders.

All dividends have been paid or will be paid out of revenue profits.

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.

	2016 £'000	2015 £'000
Revenue available for distribution by way of dividend for the year	55,676	50,126
First interim dividend of 3.90p (2015: 3.75p)	(12,376)	(11,014)
Second interim dividend of 3.90p (2015: 3.75p)	(12,560)	(11,345)
Third interim dividend of 4.05p (2015: 3.90p)	(13,109)	(11,816)
Fourth interim dividend of 4.05p (2015: 3.90p) paid on 30 August 2016[1]	(13,177)	(12,119)
Undistributed revenue for Section 1158 purposes[2]	**4,454**	**3,832**

1 Based on 325,359,868 ordinary shares in issue at 28 July 2016 (the ex-dividend date) (2015: 310,734,868).

2 The surplus of £4,454,000 (2015: surplus of £3,832,000) 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
2016:			
Valuation at 1 July 2015	347	1,259,315	1,259,662
Investment holding gains at 1 July 2015	–	(428,774)	(428,774)
Cost at 1 July 2015	**347**	**830,541**	**830,888**
Additions at cost	–	195,927	195,927
Disposals at cost	–	(89,024)	(89,024)
Cost at 30 June 2016	**347**	**937,444**	**937,791**
Investment holding gains at 30 June 2016	–	403,975	403,975
Valuation at 30 June 2016	**347**	**1,341,419**	**1,341,766**

Notes to the Financial Statements (continued)

11 Investments held at fair value through profit or loss (continued)

	Investments in subsidiaries £'000	Other investments £'000	Total £'000
2015:			
Valuation at 1 July 2014	347	1,151,477	1,151,824
Investment holding gains at 1 July 2014	–	(426,656)	(426,656)
Cost at 1 July 2014	**347**	**724,821**	**725,168**
Additions at cost	–	193,405	193,405
Disposals at cost	–	(87,685)	(87,685)
Cost at 30 June 2015	**347**	**830,541**	**830,888**
Investment holding gains at 30 June 2015	–	428,774	428,774
Valuation at 30 June 2015	**347**	**1,259,315**	**1,259,662**

The portfolio valuation at 30 June 2016 of £1,341,766,000 (2015: £1,259,662,000) is shown on the Statement of Financial Position as investments held at fair value through profit or loss.

Purchase transaction costs for the year ended 30 June 2016 were £873,000 (2015: £1,015,000). These comprise mainly of stamp duty and commission. Sale transaction costs for the year ended 30 June 2016 were £84,000 (2015: £126,000).

12 Subsidiaries and related undertakings

The Company's related undertakings are its 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 and dormancy. 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. Its registered office is 201 Bishopsgate, London, EC2M 3AE. The aggregate amount of the capital and reserves of The City of London European Trust Limited at 30 June 2016 was £347,000 (2015: £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. Its registered office is 201 Bishopsgate, London, EC2M 3AE. The aggregate amount of the capital and reserves of City of London Investments Limited at 30 June 2016 was £2 (2015: £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 registered office is 201 Bishopsgate, London, EC2M 3AE. The aggregate amount of capital and reserves of The City of London Finance Company Limited at 30 June 2016 was £2 (2015: £2). This Company has two issued ordinary shares of £1 each.

13 Debtors

	2016 £'000	2015 £'000
Sales for future settlement	766	–
Withholding and income tax recoverable	415	255
Prepayments and accrued income	8,248	6,988
	9,429	**7,243**

Notes to the Financial Statements (continued)

14 Creditors: amounts falling due within one year

	2016 £'000	2015 £'000
Bank overdraft	25,954	–
Purchases for future settlement	2,855	1,933
Amounts owed to subsidiary undertakings	347	347
Accruals	3,375	3,216
Dividends payable on preference and preferred ordinary stocks	79	79
	32,610	**5,575**

The Company has an uncommitted overdraft facility of £120,000,000 at 30 June 2016 (2015: £80,000,000) provided by its custodian and has provided a floating charge over its assets in return. The overdraft may be withdrawn by the custodian at any time and is repayable on demand. Interest on the overdraft was payable at a rate of HSBC Base rate plus 1.25% at 30 June 2016 (2015: plus 1.25%). 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.

15 Creditors: amounts falling due after more than one year

	2016 £'000	2015 £'000
10¼% debenture stock 2020	10,000	10,000
8½% debenture stock 2021	30,000	30,000
4.53% secured notes 2029	34,600	34,569
£301,982 (2015: £301,982) cumulative first preference stock	302	302
£507,202 (2015: £507,202) non-cumulative second preference stock	507	507
£589,672 (2015: £589,672) non-cumulative preferred stock	590	590
	75,999	**75,968**

On 22 January 2014 the Company issued £35,000,000 (nominal) 4.53% secured notes due 2029, net of issue costs totalling £476,000. The issue costs will be amortised over the life of the secured notes.

The repayment terms of the debenture stocks and secured notes are as follows:

- £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.
- £35,000,000 4.53% secured notes 2029 redeemable at par on 22 January 2029.

The notes are secured by a first floating charge over the Company's assets, ranking pari passu with the debenture stocks.

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.

Notes to the Financial Statements (continued)

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

	First Preference Stock	Second Preference Stock	Preferred Ordinary Stock
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.

16 Risk management policies and procedures

The Directors manage investment risk principally through setting an investment policy (that is approved by shareholders) which incorporates risk parameters (see page 4), by contracting management of the Company's investments to an investment manager (Henderson) under a contract which incorporates appropriate duties and restrictions and by monitoring performance in relation to these. The Board's relationship with Henderson is discussed on page 31. Internal control and the Board's approach to risk is on page 30. There have been no material changes to the management or nature of the Company's investment risks from the prior year.

The main risks arising from the Company's pursuit of its investment objective are market risk (comprising market price risk, currency risk and interest rate risk), credit risk and liquidity risk. The effects of these can also be increased by gearing.

The Board and Henderson coordinate the Company's risk management and there are various risk management systems in place as detailed below.

- Straight-through processing via a deal order and management system ("OMS") is utilised for listed securities
- Portfolio modelling and investment management functions (including order-raising, dealing and trade execution) are performed using one of, or a combination of, the following third-party software applications: Charles River Development OMS and/or Imagine.
- Fund pricing and accounting services are outsourced to a third-party administrator (currently BNP Paribas Securities Services) which utilises Hiportfolio software.
- The IT tools to which the Henderson risk, compliance and operations teams have access for independent monitoring and risk measurement purposes include:
  - Charles River Compliance module for investment restrictions monitoring;
  - ArcLogics operational risk database;
  - RiskMetrics, UBS Delta, Style Research, Finanalytica and Barra Aegis for market risk measurement;
  - Bloomberg for market data and price-checking; and
  - Hiportfolio for portfolio holdings and valuations.

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 Fund 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 Henderson. The Board meets regularly and at each meeting reviews investment performance. The Board monitors Henderson'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 2016 the Company had no open positions (2015: nil).

Concentration of exposure to market price risk

An analysis of the Company's investment portfolio is shown on pages 14 and 15. 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.

Notes to the Financial Statements (continued)

16 Risk management policies and procedures (continued)

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 statement of financial position date is shown below. This level of change is considered to be reasonably possible, based on observation of current market conditions.

The impact of a 10% increase in the value of the investments on the revenue return as at 30 June 2016 is a decrease of £141,000 (2015: £132,000) and on the capital return is an increase of £133,814,000 (2015: £125,623,000). The total impact on equity shareholders' funds would be an increase of £133,673,000 (2015: £125,491,000).

The impact of a 10% decrease in the value of the investments on the revenue return as at 30 June 2016 is an increase of £141,000 (2015: £132,000) and on the capital return is a decrease of £133,814,000 (2015: £125,623,000). The total impact on equity shareholders' funds would be a decrease of £133,673,000 (2015: £125,491,000).

16.1.2 Currency risk

The Company is not itself significantly 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 2016 are £683,000 (2015: £445,000).

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 £1,120,000 (2015: £1,046,000) if Sterling strengthens and a profit of £1,368,000 (2015: £1,278,000) 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 2016 of financial assets and financial liabilities to fixed interest rate risk can be found in notes 14 and 15. The exposure to floating interest rates can be found on the statement of financial position 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 over the HSBC base rate.
- interest paid on borrowings under the overdraft facility provided by the Custodian is at a margin of 1.25% above the HSBC base rate (2015: 1.25% above the HSBC 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 2016			30 June 2015		
	Within 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000	Within 1 year £'000	Between 1 and 5 years £'000	More than 5 years £'000
Debenture stocks[1]	3,575	52,042	–	3,575	24,129	31,488
Secured notes[2]	1,586	6,342	47,017	1,586	6,342	48,603
Preference stock and preferred ordinary stock[3]	157	628	1,399	157	628	1,399
Bank overdrafts and interest	25,954	–	–	–	–	–
Other creditors and accruals	6,656	–	–	5,575	–	–
	37,928	**59,012**	**48,416**	**10,893**	**31,099**	**81,490**

1 The above figures show interest payable over the remaining terms of the debenture stocks. The figures in the "between 1 and 5 years" column also include the capital to be repaid. Details of repayment are set out on page 50 and dividend/interest payment dates on page 59.
2 The above figures show interest payable over the remaining term of the secured notes. The figures in the "more than 5 years" column also include the capital to be repaid. Details of repayment are set out on page 50 and interest payment dates on page 59.
3 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 Henderson 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 2016, based on the earliest date on which payment can be required, is given on page 50.

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 Fund Manager, and limits are set on the amount that may be due from any one broker.
- cash at bank and overdrafts are held only with reputable banks with high quality external credit ratings.

Stock lending transactions are carried out with a number of approved counterparties, whose credit rating is reviewed regularly by Henderson 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 statement of financial position. 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 Company only transacts with counterparties that it considers to be credit worthy. The exposure to credit and counterparty risk at 30 June 2016 was to cash at bank of £Nil (2015: £3,150,000) and to other debtors of £8,940,000 (2015: £7,177,000).

None of the Company's financial assets are past their due date or impaired.

Notes to the Financial Statements (continued)

16 Risk management policies and procedures (continued)

16.4 Fair values of financial assets and financial liabilities

The financial assets and financial liabilities are either carried in the statement of financial position at their fair value or the statement of financial position 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 2016 the aggregate fair value of the debenture stocks and secured notes was £84,870,000 (2015: £84,450,000) and the aggregate fair value of the preferred and preference stock was £2,725,000 (2015: £2,685,000). The valuations of the debenture stocks are obtained from brokers based on market prices. The valuations of the preferred and preference stock are from the Daily Official List quotations. The valuation of the secured notes was deemed to be par. The debenture stock, secured notes, preference stock and preferred ordinary stock are carried in the statement of financial position at par.

16.5 Fair value hierarchy disclosures

The table below sets out fair value measurements using the FRS 102 fair value hierarchy.

Financial assets at fair value through profit or loss at 30 June 2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	1,341,419	–	347	1,341,766
Total	**1,341,419**	**–**	**347**	**1,341,766**

Financial assets at fair value through profit or loss at 30 June 2015	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Equity investments	1,259,315	–	347	1,259,662
Total	**1,259,315**	**–**	**347**	**1,259,662**

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; and

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 42.

The investments that were previously Level 1 and Level 3 in 2015 under the FRS 29 fair value hierarchy continue to be catergorised as Level 1 and Level 3 under FRS 102.

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

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 total capital at 30 June 2016 was £1,344,539,000 (2015: £1,264,480,000) comprising £25,954,000 (2015: £nil) of bank overdrafts, £40,000,000 (2015: £40,000,000) of Debenture Stock, £34,600,000 (2015: £34,569,000) of Secured Notes, £1,399,000 (2015: £1,399,000) of Preference and Preferred Stock and £1,242,586,000 (2015: £1,188,512,000) of equity share capital and reserves.

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

Notes to the Financial Statements (continued)

16 Risk management policies and procedures (continued)

- 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.

  Other than in exceptional market conditions, gearing will not exceed 20% of the net asset value at the time of draw down of the relevant borrowings.

17 Called up share capital

	Shares in issue	Nominal value of total shares in issue £'000
Allotted and issued ordinary shares of 25p each		
At 1 July 2015	307,684,868	76,921
Issue of new ordinary shares	17,475,000	4,369
At 30 June 2016	**325,159,868**	**81,290**
Allotted and issued ordinary shares of 25p each		
At 1 July 2014	284,809,868	71,202
Issue of new ordinary shares	22,875,000	5,719
At 30 June 2015	**307,684,868**	**76,921**

During the year the Company issued 17,475,000 (2015: 22,875,000) ordinary shares with total proceeds of £66,411,000 (2015: £86,864,000) after deduction of issue costs of £88,000 (2015: £68,000). The average price of the ordinary shares that were issued was 380.0p (2015: 379.7p).

There is a single class of ordinary share. Accounting policy (m) on page 44 details the reserves that can be distributed as a dividend. The repayment of capital would be after the priority of preference and preferred stockholders as set out on page 50.

18 Share premium account

	2016 £'000	2015 £'000
At beginning of year	346,149	265,004
Issue of shares	62,130	81,213
Less : issue costs	(88)	(68)
At end of year	**408,191**	**346,149**

19 Other capital reserves

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves £'000
At 1 July 2015	2,707	428,772	295,607	724,379
Transfer on disposal of investments	–	(19,300)	19,300	–
Net losses on investments	–	(5,498)	(5,207)	(10,705)
Exchange gains	–	–	64	64
Management fees charged to capital	–	–	(3,093)	(3,093)
Finance costs charged to capital	–	–	(4,103)	(4,103)
Other administrative expenses	–	–	–	–
At 30 June 2016	**2,707**	**403,974**	**302,568**	**706,542**

Notes to the Financial Statements (continued)

19 Other capital reserves (continued)

	Capital redemption reserve £'000	Capital reserve arising on revaluation of investments held £'000	Capital reserve arising on investments sold £'000	Other capital reserves £'000
At 1 July 2014	2,707	426,656	276,561	703,217
Transfer on disposal of investments	–	(34,326)	34,326	–
Net gains/(losses) on investments	–	36,442	(8,098)	28,344
Exchange losses	–	–	(334)	(334)
Management fees charged to capital	–	–	(2,926)	(2,926)
Finance costs charged to capital	–	–	(3,917)	(3,917)
Other administrative costs	–	–	(5)	(5)
At 30 June 2015	**2,707**	**428,772**	**295,607**	**724,379**

20 Revenue reserve

	Total £'000
At 1 July 2015	38,356
Net return for the year	55,676
Dividends paid (note 10)	(50,176)
At 30 June 2016	**43,856**

	Total £'000
At 1 July 2014	33,120
Net return for the year	50,126
Dividends paid (note 10)	(44,890)
At 30 June 2015	**38,356**

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 £1,242,586,000 (2015: £1,188,512,000) and on 325,159,868 (2015: 307,684,868) shares in issue on 30 June 2016.

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 2016 calculated on this basis was 378.58p (2015: 382.65p).

	Total £'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 2015	1,188,512
Total net return on ordinary activities after taxation	37,839
Dividends paid on ordinary shares in the year	(50,176)
Issue of shares	66,411
Total net assets attributable to the ordinary shares at 30 June 2016	**1,242,586**

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 2016 (2015: none).

Contingent liabilities
There were no contingent liabilities including in respect of sub-underwriting participations as at 30 June 2016 (2015: none).

Notes to the Financial Statements (continued)

23 Transactions with the Manager and Related Parties

Under the terms of an agreement effective from 22 July 2014 the Company has appointed subsidiaries of Henderson Group plc ("Henderson") to provide investment management, accounting, secretarial and administration services. Henderson has contracted BNP Paribas Securities Services to provide accounting and administration services.

Details of the fee arrangements for these services are given on page 4. The total of management fees paid or payable to Henderson under this agreement in respect of the year ended 30 June 2016 was £4,419,000 (2015: £4,180,000). The amount outstanding at 30 June 2016 was £1,113,000 (2015: £1,068,000).

In addition to the above services, Henderson has provided the Company with sales and marketing services during the year. The total fees paid or payable for these services for the year ended 30 June 2016 amounted to £71,000 including VAT (2015: £60,000) of which £24,000 was outstanding at 30 June 2016 (2015: £24,000).

Details of fees paid to Directors are included in the Directors' Remuneration Report on page 28 and in note 6 on page 46.

General Shareholder Information

AIFMD Disclosures

In accordance with the Alternative Investment Fund managers Directive ('AIFMD'), information in relation to the Company's leverage and remuneration of Henderson, as the Company's Alternative Investment Fund manager ('AIFM') are required to be made available to investors. These disclosures, including those on the AIFM's remuneration policy, are contained in a Key Investor Information Document ('KIID') which can be found on the Company's website.

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 page 17) 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.

Common Reporting Standard

With effect from 1 January 2016 new tax legislation under The Organisation for Economic Co-operation and Development Common Reporting Standard for Automatic Exchange of Financial Account Information is being introduced. The legislation will require the Company to provide personal information to HMRC on certain investors who purchase shares in investment trusts. This information will have to be provided annually to the local tax authority of the tax residencies of a number of non-UK based certificated shareholders and corporate entities.

ISA

The Company intends to continue to manage its affairs in order to qualify as an eligible investment for a stocks and shares ISA.

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 premium/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.

General Shareholder Information (continued)

Equality Act – 2010

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.

Non-Mainstream Pooled Investments (NMPI) Status

The Company currently conducts its affairs so that its ordinary shares of 25p each can be recommended by IFAs to ordinary retail investors in accordance with the Financial Conduct Authority's ("FCA") rules in relation to non-mainstream investment products and intends to continue to do so for the foreseeable future. The shares are excluded from the FCA's restrictions which apply to non-mainstream investment products because they are shares in an investment trust.

Dates of Dividend and Interest Payments

Dividends[1]

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

10¼% debenture stock 2020:

- payable on 30 April and 31 October

8½% debenture stock 2021:

- payable on 31 January and 31 July

Secured Loan Notes

4.53% secured notes 2029:

- payable on 22 January and 22 July

1 If a dividend payment date falls on a weekend or bank holiday, payment will be made on the preceding business day.

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.

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 which was 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. In December 2012 the Group changed its tax residency from the Republic of Ireland to the UK by means of a corporate restructuring.

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

The City of London Investment Trust plc
Registered as an investment company in England and Wales
Registration Number 34871
Registered Office: 201 Bishopsgate, London EC2M 3AE

ISIN number/SEDOL: Ordinary Shares: GB0001990497/0199049
London Stock Exchange (EPIC) Code: CTY
Global Intermediary Identification Number (GIIN): S55HF7.99999.SL.826
Legal Entity Identifier (LEI): 213800F3NOTF47H6AO55

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Email: **trusts@henderson.com**

www.cityinvestmenttrust.com

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