THE CITY OF LONDON INVESTMENT TRUST PLC

Annual Report for the year ended 30 June 2016

This announcement contains regulated information

CHAIRMAN'S COMMENT

"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

PERFORMANCE HIGHLIGHTS

	2016	2015
Total Return Performance:		
Net asset value per share('NAV')	**3.1%**	6.4%
Share Price	**0.4%**	7.2%
AIC UK Equity Income sector (Benchmark)	**2.3%**	6.2%
FTSE All-Share Index	**2.2%**	2.6%
UK Equity Income OEIC sector	**-1.7%**	7.0%
Total Returns:		
NAV per share	**382.2p**	386.3p
NAV per share (debt at market value)	**378.6p**	382.7p
Share Price	**378.1p**	392.5p
Gearing at year end	**8.0%**	6.0%
Revenue Earnings per share	**17.4p**	16.8p
Dividends per share	**15.9p**	15.3p
Revenue Reserve per share	**13.5p**	12.5p
Ongoing Charge for the year	**0.42%**	0.42%
(Discount)/Premium	**(1.1%)**	1.6%
(Discount)/Premium (debt at market value)	**(0.1%)**	2.6%

Sources: Morningstar for the AIC, Henderson, Datastream.

CHAIRMAN'S STATEMENT

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 £4.2million to £2.8million. 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 £5.5million 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.

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 competiveness 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

FUND MANAGER'S REPORT

Investment Background

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%. 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.

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.

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.

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
Total	**+0.91**	+3.84

Source: Henderson

Performance of Higher Yielding Shares Compared with Lower Yielding Shares

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.

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.

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

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.

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 on 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 in the Annual Report.

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.
- 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 in the Annual Report.

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 longterm 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.

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 in the Annual Report.

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 the Annual Report.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In accordance with Disclosure Guidance and Transparency Rule 4.1.12, each of the Directors 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

INCOME STATEMENT

Notes		Year ended 30 June 2016 Revenue return £'000	Capital return £'000	Total £'000	Year ended 30 June 2015 Revenue return £'000	Capital return £'000	Total £'000
	(Losses)/gains on investments held at fair value through profit or loss	**-**	**(10,641)**	**(10,641)**	-	28,010	28,010
2	Income from investments held at fair value through profit or loss	**60,219**	**-**	**60,219**	54,171	-	54,171
3	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
	Management fees	**(1,326)**	**(3,093)**	**(4,419)**	(1,254)	(2,926)	(4,180)
	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
	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
	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
4	**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.

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**
7	**Issue of 17,475,000 new ordinary shares**	**4,369**	**62,042**	**-**	**-**	**-**	**66,411**
6	**Dividends paid**	**-**	**-**	**-**	**-**	**(50,176)**	**(50,176)**
		----------	-----------	---------	-----------	----------	----------
	At 30 June 2016	**81,290**	**408,191**	**2,707**	**706,542**	**43,856**	**1,242,586**
		======	======	=====	======	=====	======

Notes	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
7	Issue of 22,875,000 new ordinary shares	5,719	81,145	-	-	-	86,864
6	Dividends paid	-	-	-	-	(44,890)	(44,890)
		----------	-----------	---------	-----------	----------	----------
	At 30 June 2015	76,921	346,149	2,707	724,379	38,356	1,188,512
		======	======	=====	======	=====	======

STATEMENT OF FINANCIAL POSITION

Notes		Year ended 30 June 2016 £'000	Year ended 30 June 2015 £'000
	Fixed assets		
	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
	Investment in subsidiary undertakings	**347**	347
		1,341,766	1,259,662
	Current assets		
	Debtors	**9,429**	7,243
	Cash at bank and held at broker	**-**	3,150
		9,429	10,393
	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
	Creditors: amounts falling due after more than one year	**(75,999)**	(75,968)
	Net assets	**1,242,586**	1,188,512
	Capital and reserves		
7	Called up share capital	**81,290**	76,921
	Share premium account	**408,191**	346,149
	Capital redemption reserve	**2,707**	2,707
	Other capital reserves	**706,542**	724,379
	Revenue reserve	**43,856**	38,356
5	**Total shareholders' funds**	**1,242,586**	1,188,512
5	**Net asset value per ordinary share – basic and diluted**	**382.15p**	386.28p

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting policies

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 in the Annual Report.

The financial statements have been prepared in accordance with Companies Act 2006, FRS102 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 preparation of these financial statements are sset 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 FRS102, 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.

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.

2. Income from investments held at fair value through profit or loss

	2016	2015
	£'000	£'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
	=====	=====

3. **Other interest receivable and similar income**

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

* 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.

4. **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	**17.42**	16.84
Capital (loss)/return per ordinary share	**(5.58)**	7.11
	----------	----------
Total return per ordinary share	**11.84**	23.95
	======	======

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

5. **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.

6. 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 Aug 2014	29 Aug 2014	**-**	**10,763**
First interim dividend (3.75p) for the year ended 30 June 2015	24 Oct 2014	28 Nov 2014	**-**	**11,014**
Second interim dividend (3.75p) for the year ended 30 June 2015	23 Jan 2015	27 Feb 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 Jul 2015	28 Aug 2015	**12,119**	**-**
First interim dividend (3.90p) for the year ended 30 June 2016	23 Oct 2015	30 Nov 2015	**12,376**	**-**
Second interim dividend (3.90p) for the year ended 30 June 2016	29 Jan 2016	29 Feb 2016	**12,560**	**-**
Third interim dividend (4.05p) for the year ended 30 June 2016	29 Apr 2016	31 May 2016	**13,109**	**-**
Unclaimed dividends over 12 years old			**-**	**(48)**
Reclaimed dividends from previous years			**12**	**-**
			50,176	**44,890**

7. 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).

8. Dividends paid

A fourth interim dividend of 4.05p (2015: 3.90p) per ordinary share in respect of the year ended 30 June 2016 was paid on 30 August 2016 to shareholders for a total consideration of £13,177,000.

9. 2016 Financial information

The figures and financial information for the year ended 30 June 2016 are extracted from the Company's annual financial statements for that period and do not constitute statutory accounts. The Company's annual financial statements for the year to 30 June 2016 have been audited but have not yet been delivered to the Registrar of Companies. The Independent Auditors' Report on the 2016 annual financial statements was unqualified, did not include a reference to any matter to which the Auditors drew attention without qualifying the report, and did not contain any statements under sections 498(2) or 498(3) of the Companies Act 2006.

10. 2015 Financial information

The figures and financial information for the year ended 30 June 2015 are compiled from an extract of the published financial statements for that year and do not constitute statutory accounts. Those financial statements have been delivered to the Registrar of Companies and included the report of the Auditors which was unqualified, did not include a reference to any matter to which the auditors drew attention without qualifying the report, and did not contain any statements under sections 498(2) or 498(3) of the Companies Act 2006.

11. Annual Report and Annual General Meeting

The Annual Report will be posted to shareholders in late September 2016 and will be available on the Company's website (www.cityinvestmenttrust.com) or in hard copy format from the Company's registered office, 201 Bishopsgate, London, EC2M 3AE thereafter.

The Annual General Meeting will be held at the offices of Henderson Global Investors, 201 Bishopsgate, London EC2M 3AE on Thursday 27 October 2016 at 2.30pm. The Notice of Meeting will be sent to shareholders with the Annual Report.

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