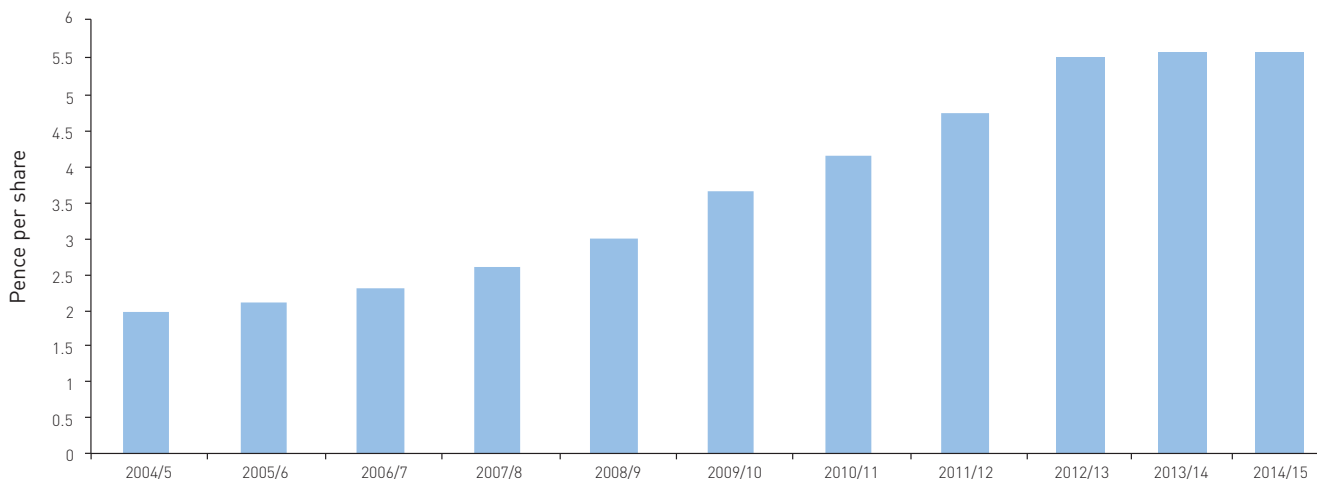


citynatural  
resources  
high yield trust plc



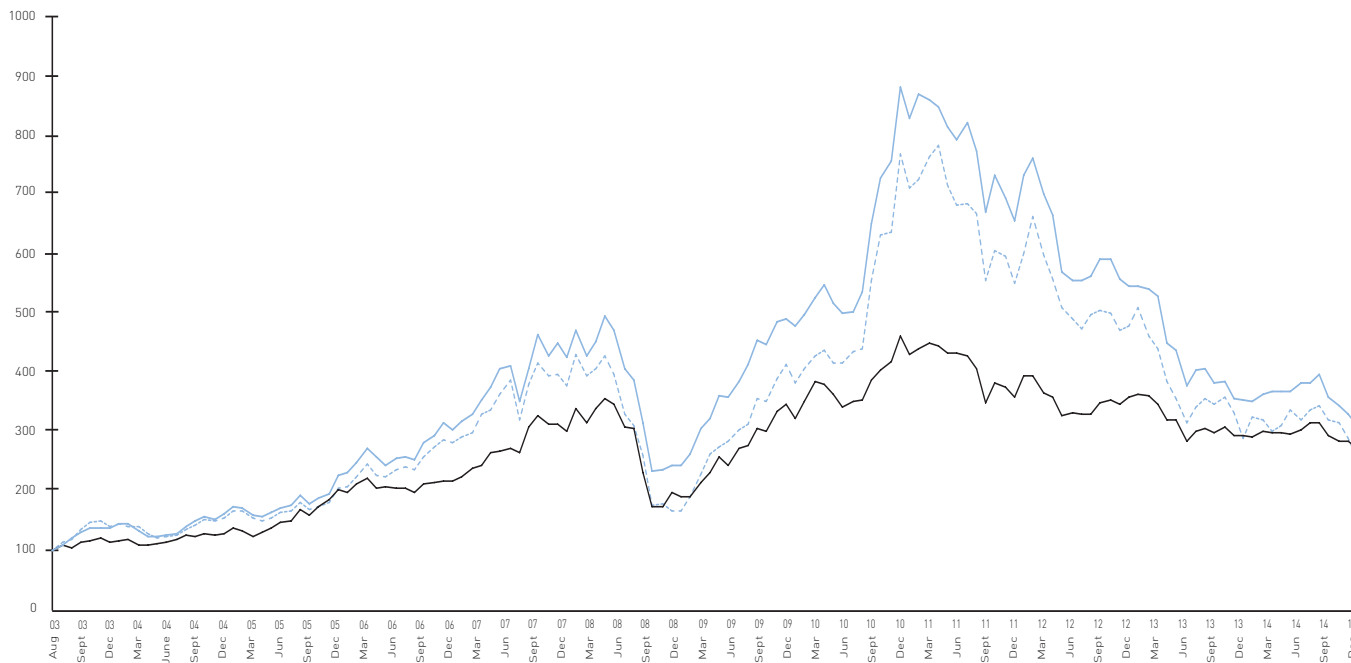
**Interim Report**  
for the six months ended  
31 December 2014

### Dividends Declared in Respect of Each Financial Year



\* 2014/15 assumes that the third interim dividend in respect of the financial year ended 30 June 2015 remains in line with the first and second interim payments paid for that year at 0.86 pence per share and that the fourth interim dividend is in line with the fourth interim dividend paid in respect of the financial year ended 30 June 2014 of 3.02 pence per share.

### Net Asset Value Total Return and Share Price Total Return v Composite Index Total Return



- City Natural Resources High Yield Trust share price total return (i)
- City Natural Resources High Yield Trust net asset value total return (i)
- Composite Index total return (i) & (ii)

- (i) Net dividends reinvested.
- (ii) Composite index of two-thirds Euromoney Global Mining Index (sterling adjusted) and one-third Credit Suisse High Yield Index (sterling adjusted).

Note: Graph starts at 1 August 2003, this being the date from which the investment objective changed.

(Index restated to 100)  
Sources: R&H Fund Services Limited and Bloomberg

## Our Objective

To provide shareholders with capital growth and income predominantly from a portfolio of mining and resource equities and of mining, resource and industrial fixed interest securities.

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## Financial Highlights

Total Return	Period from 1 August 2003 to 31 December 2014			
	Six months ended 31 December 2014	Six months ended 31 December 2013	Year to 30 June 2014	31 December 2014
Net asset value	-19.3%	-6.7%	+1.4%	207.5%
Ordinary share price	-21.2%	-8.3%	+2.2%	151.9%
Composite index	-9.7%	3.1%	+6.1%	171.6%
Euromoney Global Mining Index (sterling adjusted)	-15.5%	5.5%	+8.7%	177.4%
Credit Suisse High Yield Index [sterling adjusted]	5.7%	-2.7%	-0.3%	159.9%

Capital Values	31 December 2014	30 June 2014	% change period
Net asset value per share	125.9p	159.9p	-21.3%
Ordinary share price (mid market)	101.9p	133.0p	-23.4%
3.5% Convertible Unsecured Loan Stock ("CULS") (mid market)	93.8p	90.8p	3.3%
Discount (difference between share price and fully diluted net asset value)	(19.1)%	(16.8)%	

Revenue and Dividends	Six months ended 31 December 2014	Six months ended 31 December 2013	% change period
Earnings per ordinary share	3.09p	2.51p	23.1%
Dividends per ordinary share	1.72p	1.72p	-
Dividend Yield*	5.5%	4.6%	

Ratios	31 December 2014	30 June 2014
<b>Gearing</b>		
Gearing provided by CULS	22.0%	20.5%
<b>Ongoing charges</b> (as a percentage of average shareholders' funds)	1.7%	1.7%

Period's Highs/Lows	Six months ended 31 December 2014	Six months ended 31 December 2014
	High	Low
Net asset value	162.2p	119.8p
Ordinary share price (mid market)	146.0p	97.0p
Discount	-6.7%	-26.5%

Dividend History	Rate	xd date	Record date	Payment date
Second interim 2015	0.86p	29 January 2015	30 January 2015	27 February 2015
First interim 2015	0.86p	30 October 2014	31 October 2014	28 November 2014
<b>Total</b>	<b>1.72p</b>			
Fourth interim 2014	3.02p	30 July 2014	1 August 2014	29 August 2014
Third interim 2014	0.86p	30 April 2014	2 May 2014	30 May 2014
Second interim 2014	0.86p	29 January 2014	31 January 2014	28 February 2014
First interim 2014	0.86p	30 October 2013	1 November 2013	29 November 2013
<b>Total</b>	<b>5.60p</b>			

\*based on an annualised dividend of 3.02p (31 December 2013: 3.02p)

# Chairman's Statement 3

## Introduction

When I last wrote to you in September 2014 commodity prices seemed to have found a degree of stability; the relief proved short lived, and the last quarter of 2014 saw commodity prices move down again – spectacularly so in the case of oil. It will be no surprise then that I have to, with great regret, report a further period of disappointing performance for your Company.

## Investment and Share Price Performance

At 31 December 2014 your Company's net asset value stood at 125.9 pence, this represented a fall in the net asset value total return of 19.3%. The benchmark index total return fell by 9.7 per cent; its component parts had very different fortunes, with the Euromoney Global Mining Index (sterling adjusted; two thirds weighting) down 15.5 per cent, while the Credit Suisse High Yield Index (sterling adjusted; one third weighting) delivered a positive return of 5.7 per cent. Your Company was not alone in this maelstrom. It is sobering to note that despite the fall in the net asset value, your Company was first, over 2014, in its peer group of eight funds.\*

The Company's ordinary share price total return for the year was a little worse than that of the net asset value, the fall in total return of 21.2 per cent reflecting a slight widening in the discount at which the Company's shares trade from 16.8 per cent to 19.1 per cent during the period. The average discount over the year to 31 December 2014 was 16.5 per cent, and over three years 15.4 per cent. At the time of writing the discount is 16.1 per cent.

Your Company continues to provide a unique exposure to the less accessible areas of smaller mining and resource stocks, and a degree of volatility is inevitable. Will Smith and Ian Francis, our portfolio managers, report on investment performance in more detail below.

Over the long term, since the redirection of the Company in 2003 net asset value total return is 207.5 per cent, ordinary share price total return 151.9 per cent, and benchmark total return 171.6 per cent.

## Income and Dividends

Income and dividends have been a focus of the Company since 2004, with nine successive increases seeing a 280 per cent increase in dividends, and we continue to believe that they contribute an important element of stability to a volatile asset class.

Two interim dividends of 0.86 pence per share have been paid in respect of this year, the same level as those paid last year.

Earnings per share rose from 2.51 pence to 3.09 pence over the six months to 31 December 2014, as some of the sterling strength that reduced our earnings last year unwound. Currency volatility remains a factor, but the Board continues to expect a solid income performance in the year to 30 June 2015, with the dividend for the year covered by earnings in that period. The yield on the Company's shares is 5.4 per cent as I write.

\*Source: Winterflood Securities Limited

## Gearing and 3.5% Cumulative Unsecured Loan Stock 2018 ("CULS")

The Company has £39.9 million nominal of CULS in issue.

Gearing was generally maintained in the range of 20 per cent to 25 per cent of shareholders' funds during the period, 25 per cent being the upper limit allowed under the Company's investment policy. It was 22.0 per cent at 31 December 2014.

The Company's 3.5% Cumulative Unsecured Loan Stock 2018 ("CULS") price rose from 90.8 pence to 93.8 pence during the period, an increase of 3.3 per cent.

## Outlook

The oil price more than halved during the six month period under review, and with Saudi Arabia apparently determined not to forego market share we may have an opportunity to discover what the cost price of shale oil really is. Lower oil prices will put money into consumers' pockets and boost the majority of corporate profit margins, but they also add to the deflationary pressures that so frighten the world's central bankers. The US Federal Reserve appears to be in no hurry to raise interest rates, while increases in the Bank of Japan's QE programme and Mario Draghi's first 1 trillion tranche of European QE further entrench a loose monetary policy that promises to sustain an asset price bubble.

Commodity prices have not participated, and in the face of a slowing China, with all the consequential knock-on effects in Australia, South Africa and Brazil, it is not easy to be positive in the short term. There are always exceptions, and the renewed threat to the Euro, together with the sudden move by the Swiss Central bank on 15 January 2015 to decouple the Swiss franc, has renewed interest in gold, a key long term component of our portfolio. Negative interest rates reduce the opportunity cost of holding gold and, the Swiss franc aside, it is hard to maintain faith in currencies awash with artificial surplus liquidity.

The medium term is a different matter. There the case for your Company remains as compelling as ever, world population growth and increasing urbanisation underpinning a demand for commodities that can only expand. The current period of financial retrenchment at producing companies, combined with the supply constraints that threaten all but bulk commodities, will make the recovery even more dramatic when it does arrive. Of course the exact timing of this turn is hard to predict, depending as it does on a number of major macro political and economic events.

The Board is very aware that the shareholders, which include us, have had a torrid time in the last couple of years. However, we firmly believe that patience and a steady nerve are the watchwords in the short term.

**Geoff Burns**

Chairman

25 February 2015

## Investment Manager's Review

### Backdrop

The global economy grew at a steady, if unspectacular, rate during the last six months of 2014 and the physical demand for commodities rose. This fact was masked by the unstoppable rise of the mighty US dollar which pushed most commodity prices lower and weighed upon resource equities. Institutional investors still regard the sector with antipathy, and the Euromoney Global Mining Index lost 20% in 2014, falling for the fourth year in succession. It had previously only managed two successive down years since inception in December 1985, which puts the severity of the current slump into context.

Oil prices fell 50% in the latter half of 2014, and whilst this is undeniably good news for emerging economies and global growth over the medium to long term, investors took a more cautious view of the short term negative effects on capital spending and the oil sector itself.

### Income

In times of high volatility and skewed valuations the significance of dividends becomes paramount. The deflationary fears haunting markets further accentuates the virtue of a stable income stream. The company's bond portfolio provides the majority of the income account, but we alluded last year to an increasing trend among development companies to articulate post production dividend policies. Northern Star Resources, Sandfire Resources and Mandalay Resources all followed the path successfully trodden by Central Asia Metals in returning cash to shareholders and still presenting a growth case. Lower commodity prices have hindered the sector's ability to increase shareholder returns, but we still believe that companies increasing the rewards to capital providers is crucial for the rehabilitation of mining companies in investors portfolios. The fixed interest portfolio at the core of the income producing element of the Company was stable, with very little turnover. We continue to manage the fixed interest element of the portfolio aiming to generate income with low turnover and where possible looking to enhance capital values as well.

### Capital

The oil price declined by 50% over the six months to December, caused primarily by Saudi Arabia's unwillingness to forfeit any more market share by acting as the swing producer. The previously tight market had been tipped into oversupply by the continued growth in production from the North American shales and OPEC, led by Saudi Arabia, signalled its willingness to let the market find a clearing price. Rig counts are plummeting and exploration budgets are being savagely cutback, so production will fall particularly as the steep declines of the unconventional wells will become apparent. The resilience of every oil company's business model will be tested by \$50 oil and the company's focus remains on those producing companies with strong balance sheets able to withstand this, possibly extended, period of lower prices. Natural gas prices vary widely around the globe, and Vermilion Energy, the Company's largest oil and gas holding, is exposed to the European market through its operations in Germany, Holland and Ireland. Europe remains one of the strongest gas markets but that did not prevent Vermilion falling 20% over the half.

The bulk commodities of iron ore and coal remain oversupplied; a problem compounded by weak demand growth and the company

maintains its underweight position. We do not, however, see other metals such as copper, zinc and nickel in such abundant surplus. The price weakness across all the base metals is exaggerated by the dollar's strength. Major zinc mines such as Century in Australia and Xstrata's Brunswick and Perseverance in Canada are all due to close within a year, while nickel supply is threatened by the ongoing ban of raw ore from Indonesia. Copper's ageing mines around the globe suffer from declining grades which combined increased taxes in Zambia and water shortages in Chile, will lead to declining supply growth. Base metal stocks such as Sirius Resources and Sandfire Resources have suffered as commodity prices have slipped back, but these mines' high grades will always leave them in the lowest quartile of producers.

The Gold price dropped 10% in the first half of the Company's year and was lagged by the equities; the GDX losing 20% and GDXJ 40% over the same time. The new year revealed that little has been solved over the last seven years in Europe and the arrival of large scale QE and a recurring bout of Greek induced nerves all serve to remind investors of gold's role as a store of value and unencumbered currency. For the first time in a number of years, producers are witnessing margin expansion as costs, labour, steel and particularly fuel, are coming down. The Company increased the weighting of Agnico Eagle, Northern Star Resources, Saracen Mineral Holdings and silver miner First Majestic which should also benefit from currency translations operating in Australia, Canada and Mexico.

The protracted saga of New Britain Palm Oil's takeover by Sime Darby contained many unexpected twists, boardroom intrigue included, but has concluded satisfactorily with Sime paying a fair price for a first tier asset. The Company's other major investment in the agricultural sector is in the field of plant science. We believe that the next step changes in yields are going to come from either improved seeds or crop protection and Plant Impact have demonstrated great success in improving the yields of the Brazilian soy bean crop. Although rising 50% over the half year, the potential for their applications across many crops remains vast.

### Outlook

The stronger dollar is a major headwind for all commodities and resource equities but we believe that this is masking nascent supply constraints that have been built up by underinvestment over the last four years of falling prices. Margin expansion is being witnessed in producing mines and developers are also reporting significant savings when building projects. The Company's focus remains on those companies with tier one assets and sound balance sheets. Four years of falling prices and investor desertion have left the sector starved of capital and valuations correspondingly depressed, but this is the opportune time in the cycle to invest. As interest rates reach zero and lower in parts of Europe, we remain conscious of the importance of income to investors and are heartened by the number of management teams expressing a similar recognition.

**Will Smith**  
**Ian Francis**  
New City Investment Managers

25 February 2015

## Classification of Investment Portfolio by Sector

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As at 31 December 2014	As at 31 December 2014 % of total investments	As at 31 December 2013 % of total investments
Oil & Gas	19.7	27.3
Gold	10.1	8.8
Palm Oil	5.5	6.6
Agriculture	4.7	1.7
Copper	4.7	4.1
Nickel	3.0	2.5
Uranium	2.8	4.1
Silver	2.8	1.0
Diamonds	2.1	2.2
Alternative Energy	2.1	1.4
Iron Ore	0.5	1.0
Other Mining Investments	0.4	2.9
Rare Earth	0.4	0.4
Platinum	0.2	0.1
Potash	0.1	–
UK Government Treasury Stock	5.7	–
Preference Shares	10.8	9.6
Fixed Interest Securities	24.4	26.3
<b>Total Investments</b>	<b>100.0</b>	<b>100.0</b>

## Classification of Investments by Stockmarket Quotation

	As at 31 December 2014 % of total investments	As at 31 December 2013 % of total investments
Canada	28.8	34.2
UK	38.0	26.1
Australia	18.5	17.1
Europe	8.3	13.2
US	1.5	3.2
Singapore	0.6	–
Papua New Guinea	–	0.1
Unquoted	4.3	6.1
<b>Total Investments</b>	<b>100.0</b>	<b>100.0</b>

# Investment Portfolio

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As at 31 December 2014

Company	Sector	Valuation £'000	Total Investments %
REA Holdings (note 1)	Palm oil	7,175	6.6
Vermilion Energy	Oil & gas	5,009	4.6
New Britain Palm Oil	Palm oil	4,392	4.0
APA Group	Oil & gas	3,901	3.5
Sirius Resources	Nickel	3,099	2.9
Plant Impact	Agriculture	3,073	2.8
Iona Energy 9.5% 27/09/2018	Oil & gas	2,247	2.1
Sandfire Resources	Copper	2,133	2.0
Antares Energy 10% 30/10/2023	Oil & gas	2,131	2.0
ARC Resources	Oil & gas	2,082	1.9
<b>Top ten investments</b>		<b>35,242</b>	<b>32.4</b>
Greencoat UK Wind	Alternative energy	1,926	1.8
UK Treasury 0% 12/01/2015	Treasury stock	1,800	1.6
Ocean Rig 7.25% 01/04/2019	Oil & gas	1,797	1.6
National Westminster 9.0% NC Pref Shares	Finance	1,605	1.5
Bonterra Energy	Oil & gas	1,596	1.5
UK Treasury 0% 02/02/2015	Treasury stock	1,500	1.4
UK Treasury 0% 09/02/2015	Treasury stock	1,500	1.4
Bluewater Holding 10% 10/12/2019	Oil & gas	1,496	1.4
Central Asia Metals	Copper	1,491	1.4
Skipton Building Society 6.75% 30/05/2022 VAR	Finance	1,455	1.3
<b>Top twenty investments</b>		<b>51,408</b>	<b>47.3</b>
Fortuna Silver Mines	Silver	1,450	1.3
Agnico-Eagle Mines	Gold	1,436	1.3
First Majestic Silver	Silver	1,417	1.3
Santander Finance 10.375% Pref Shares	Finance	1,400	1.3
Raven Russia 12% Pref Shares	Property	1,380	1.3
Tizir 9% 28/09/2017	Mineral sands	1,369	1.3
UK Treasury 0% 19/01/2015	Treasury stock	1,339	1.2
Mountain Province Diamonds	Diamonds	1,337	1.2
Ecclesiastical Insurance 8.625% Pref Shares	Finance	1,285	1.2
Twinkle Pizza 8.625% 01/08/2022	Other investments	1,223	1.1
<b>Top thirty investments</b>		<b>65,044</b>	<b>59.8</b>
Diamorph 7% 05/09/2019	Other investments	1,211	1.1
Crescent Point Energy	Oil & gas	1,188	1.1
Crown Holdings 8.6067% FRN 14/09/2072	Other investments	1,112	1.0
Elematic Oy 10% 30/05/2018	Oil & gas	1,100	1.0
Surge Energy	Oil & gas	1,062	1.0
Northern Star Resources	Gold	1,032	1.0
Mandalay Resources	Gold	1,028	1.0
Welltec 8% 01/02/2019	Oil & gas	1,024	1.0
Louis Dreyfus 8.25% 29/12/2049	Various	1,019	0.9
Brit Insurance 6.625% 09/12/2030	Finance	1,014	0.9
<b>Top forty investments</b>		<b>75,834</b>	<b>69.8</b>
Lloyds Banking Group 7.875% 27/06/2029	Finance	1,013	0.9
European Gas UK *	Oil & gas	1,007	0.9
Balfour Beatty 10.75% Pref Shares	Other investments	969	0.9
Union Agriculture Group (Placement) *	Agriculture	965	0.9
Great Western Minerals 8% 06/04/2017 (note 2)	Rare earth	948	0.9
Trafigura Beheer 7.625% 29/10/2049	Finance	943	0.9
Kennady Diamonds	Diamonds	932	0.9
DeeThree Exploration	Oil & gas	903	0.8
APT Pipelines 8.13% FRN 30/09/2072	Oil & gas	882	0.8
Fission Uranium	Uranium	879	0.8
<b>Top fifty investments</b>		<b>85,275</b>	<b>78.5</b>



Company	Sector	Valuation £'000	Total Investments %
United Cacao	Agriculture	850	0.8
PHX Energy Services	Oil & gas	818	0.7
Stretford Seventy Nine 6.75% 15/07/2024	Finance	762	0.7
Freeport-Mcmoran Copper B	Copper	749	0.7
Saracen Mineral Holdings	Gold	669	0.6
Denison Mines	Uranium	656	0.6
WhiteCap Resources	Oil & gas	630	0.6
Oro NegroImpetus 11% 04/12/2014	Oil & gas	623	0.6
Perseus Mining	Gold	573	0.5
General Exploration 11.5% 13/11/2018	Gold	540	0.5
<b>Top sixty investments</b>		<b>92,145</b>	<b>84.8</b>
Baytex Energy	Oil & gas	533	0.5
Ferrous Resources *	Iron Ore	533	0.5
Continental Gold	Gold	483	0.5
Union Minerals Group *	Base metals	481	0.4
Phoenix Gold	Gold	479	0.4
Petroamerica Oil 11.5% 19/04/2015 *	Oil & gas	465	0.4
Golden Prospect Precious Metals +	Metal Gold	453	0.4
Foran Mining (note 3)	Copper	449	0.4
Maya Gold & Silver Conv Deb 8% 28/03/2017 *	Gold	442	0.4
AuRico Gold	Gold	432	0.4
<b>Top seventy investments</b>		<b>96,895</b>	<b>89.1</b>
Berkeley Resources	Uranium	431	0.4
Newstrike Capital	Gold	420	0.4
Alkane Energy	Oil & gas	408	0.4
Eldorado Gold	Gold	390	0.4
Sheffield Resources	Mineral Sands	388	0.4
Toros (Placement) *	Oil & gas	377	0.3
Condor Gold (note 4)	Gold	367	0.3
Polarcus 8% 07/06/2018	Oil & gas	359	0.3
Castle Mountain Mining	Gold	336	0.3
Foresight Solar	Alternative energy	323	0.3
<b>Top eighty investments</b>		<b>100,694</b>	<b>92.6</b>
<b>Other investments</b>		<b>7,997</b>	<b>7.4</b>
<b>Total investments</b>		<b>108,691</b>	<b>100.0</b>

Note 1 - Includes REA Holdings valued at £1,530,000, REA Holdings 9% preference shares valued at £5,122,975 and REA Finance 9.5% 31/12/2017 valued at £522,500.

Note 2 - Includes Great Western Minerals warrants valued at £nil.

Note 3 - Includes Foran Mining warrants valued at £nil.

Note 4 - Includes Condor Gold warrants valued at £nil.

\* Denotes an unquoted security

+ Denotes a related party investment

## 8 Top Ten Largest Holdings

	Valuation 30 June 2014 £'000	Purchases £'000	Sales £'000	Appreciation £'000	Valuation 31 December 2014 £'000
REA Holdings	7,935	33	-	(793)	7,175
Vermilion Energy	6,484	-	-	(1,475)	5,009
New Britain Palm Oil GBP	5,155	575	(5,818)	4,480	4,392
APA Group	2,849	874	-	178	3,901
Sirius Resources	4,198	-	(1,054)	(45)	3,099
Plant Impact	2,022	40	(52)	1,063	3,073
Iona Energy 9.5% 27/09/2018	2,879	-	-	(632)	2,247
Sandfire Resources	1,715	1,392	-	(974)	2,133
Antares Energy 10% 30/10/2023	2,368	-	-	(237)	2,131
ARC Resources	2,657	-	-	(575)	2,082
	38,262	2,914	(6,924)	990	35,242

At 31 December 2014, these investments totalled £35,242,000 or 32.4% of the investment portfolio.

## Condensed Income Statement 9

	Notes	Six months ended 31 December 2014 (unaudited)			Six months ended 31 December 2013 (unaudited)			Year ended 30 June 2014 (audited)		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
(Losses)/gains on investments	3	-	(21,024)	(21,024)	-	(7,582)	(7,582)	-	202	202
Exchange (losses)/gains		-	(22)	(22)	-	171	171	-	71	71
Income	4	3,003	-	3,003	2,549	-	2,549	5,399	-	5,399
Investment management fee		(148)	(445)	(593)	(163)	(490)	(653)	(318)	(955)	(1,273)
Other expenses		(250)	-	(250)	(226)	-	(226)	(485)	-	(485)
<b>Net return before finance costs and taxation</b>		<b>2,605</b>	<b>(21,491)</b>	<b>(18,886)</b>	<b>2,160</b>	<b>(7,901)</b>	<b>(5,741)</b>	<b>4,596</b>	<b>(682)</b>	<b>3,914</b>
Interest payable and similar charges		(194)	(937)	(1,131)	(194)	(940)	(1,134)	(393)	(1,872)	(2,265)
<b>Net return on ordinary activities before taxation</b>		<b>2,411</b>	<b>(22,428)</b>	<b>(20,017)</b>	<b>1,966</b>	<b>(8,841)</b>	<b>(6,875)</b>	<b>4,203</b>	<b>(2,554)</b>	<b>1,649</b>
Tax on ordinary activities		(343)	217	(126)	(288)	191	(97)	(560)	420	(140)
<b>Net return attributable to equity shareholders</b>	5	<b>2,068</b>	<b>(22,211)</b>	<b>(20,143)</b>	<b>1,678</b>	<b>(8,650)</b>	<b>(6,972)</b>	<b>3,643</b>	<b>(2,134)</b>	<b>1,509</b>
<b>Return per ordinary share</b>	5	<b>3.09p</b>	<b>(33.21)p</b>	<b>(30.12)p</b>	<b>2.51p</b>	<b>(12.94)p</b>	<b>(10.43)p</b>	<b>5.45p</b>	<b>(3.19)p</b>	<b>2.26p</b>

All revenue and capital items in the above statement derived from continuing operations.

The total column in the above statement is the profit and loss account of the Company.

All of the (loss)/profit for the period is attributable to the owners of the Company.

## Condensed Balance Sheet

	Notes	As at 31 December 2014 (unaudited) £'000	As at 31 December 2013 (unaudited) £'000	As at 30 June 2014 (audited) £'000
<b>Fixed assets</b>				
Investments		108,691	120,707	129,186
<b>Current assets</b>				
Debtors		820	796	1,217
Cash at bank and on deposit		12,202	14,869	14,539
		13,022	15,665	15,756
<b>Creditors: amounts falling due within one year</b>		<b>(652)</b>	<b>(724)</b>	<b>(1,554)</b>
<b>Net current assets</b>		<b>12,370</b>	<b>14,941</b>	<b>14,202</b>
3.5% Convertible Unsecured Loan Stock 2018	7	(36,864)	(36,049)	(36,459)
<b>Net assets</b>		<b>84,197</b>	<b>99,599</b>	<b>106,929</b>
<b>Capital and reserves</b>				
Called-up share capital		16,719	16,718	16,718
Special distributable reserve	8	30,386	30,386	30,386
Share premium	8	4,802	4,797	4,796
Equity component of 3.5% Convertible Unsecured Loan Stock 2018	7/8	2,610	3,335	2,973
Capital reserve	8	23,908	38,879	45,757
Revenue reserve	8	5,772	5,484	6,299
<b>Equity shareholders' funds</b>	6	<b>84,197</b>	<b>99,599</b>	<b>106,929</b>
<b>Net asset value per share</b>	6	<b>125.90p</b>	<b>148.94p</b>	<b>159.90p</b>

## Reconciliation of Movement in Shareholders' Funds

	Six months ended 31 December 2014 (unaudited) £'000	Six months ended 31 December 2013 (unaudited) £'000
Opening equity shareholders' funds	106,929	109,094
Losses on investments	(21,024)	(7,582)
Net return attributable to ordinary shareholders	2,068	1,678
Costs charged to capital	(1,165)	(1,239)
Exchange (losses)/gains	[22]	171
Dividends paid	(2,595)	(2,528)
Issue of ordinary shares	6	5
<b>Closing equity shareholders' funds</b>	<b>84,197</b>	<b>99,599</b>

# Condensed Cash Flow Statement

	Six months ended 31 December 2014 (unaudited) £'000	Six months ended 31 December 2013 (unaudited) £'000	Year ended 30 June 2014 (audited) £'000
Net cash inflow from operating activities	2,144	2,096	3,776
Net cash outflow from servicing of finance	(717)	(712)	(1,440)
Net cash (outflow)/inflow from financial investment	(1,147)	4,948	4,885
Equity dividends paid	(2,595)	(2,528)	(3,678)
<b>Net cash (outflow)/inflow before financing</b>	<b>(2,315)</b>	<b>3,804</b>	<b>3,573</b>
Issue expenses on ordinary shares	-	(1)	-
<b>(Decrease)/increase in cash</b>	<b>(2,315)</b>	<b>3,803</b>	<b>3,573</b>
<b>Reconciliation of net cash flow to movement in net debt</b>			
(Decrease)/increase in cash	(2,315)	3,803	3,573
Exchange (losses)/gains	(22)	171	71
<b>Movement in net cash in the period</b>	<b>(2,337)</b>	<b>3,974</b>	<b>3,644</b>
Opening net cash at 1 July	14,539	10,895	10,895
<b>Closing net cash at 31 December/30 June</b>	<b>12,202</b>	<b>14,869</b>	<b>14,539</b>
<b>Represented by:</b>			
Cash at bank	12,202	14,869	14,539
	12,202	14,869	14,539
<b>Reconciliation of operating revenue to net cash flow from operating activities</b>			
Net return before finance costs and taxation	(18,886)	(5,741)	3,914
Losses on investments	21,024	7,582	9
Effective yield adjustment	(63)	-	(211)
Withholding tax suffered	(139)	(97)	(171)
Decrease in accrued income	236	538	285
(Decrease)/increase in other debtors	3	(6)	(5)
(Decrease)/increase in other creditors	(53)	(9)	26
Exchange losses/(gains)	22	(171)	(71)
<b>Net cash inflow from operating activities</b>	<b>2,144</b>	<b>2,096</b>	<b>3,776</b>

## Notes to the Accounts

1. The unaudited interim results which cover the six months to 31 December 2014 have been prepared in accordance with applicable accounting standards and adopting the accounting policies set out in the statutory accounts of the Company for the year ended 30 June 2014.
2. A first interim dividend of 0.86p per share was paid on 28 November 2014. A second interim dividend of 0.86p per share will be paid on 27 February 2015.
3. Included within losses on investments for the period ended 31 December 2014 are realised losses of £6,658,000 and unrealised losses of £14,366,000.
4. The breakdown of income for the six months to 31 December 2014, 31 December 2013 and the year to 30 June 2014 was as follows:

	Six months ended 31 December 2014 £'000	Six months ended 31 December 2013 £'000	Year ended 30 June 2014 £'000
<b>Income from investments:</b>			
UK dividend income	151	40	146
UK unfranked interest income	176	251	752
Preference share income	455	454	482
Overseas dividend income	926	688	1,420
Overseas interest income	1,290	1,111	2,559
	<b>2,998</b>	<b>2,544</b>	<b>5,359</b>
<b>Other income:</b>			
Deposit interest	5	2	4
Other income	-	3	36
<b>Total income</b>	<b>3,003</b>	<b>2,549</b>	<b>5,399</b>

5. The revenue return per ordinary share is based on a net profit after tax of £2,068,000 (31 December 2013 – £1,678,000 and 30 June 2014 – £3,643,000) and on a weighted average of 66,873,490 ordinary shares (31 December 2013 – 66,872,052 and 30 June 2014 – 66,872,434).  
The capital return per ordinary share is based on a net capital loss after tax of £22,211,000 (31 December 2013 – a loss of £8,650,000 and 30 June 2014 – a loss of £2,134,000) and on a weighted average of 66,873,490 ordinary shares (31 December 2013 – 66,872,052 and 30 June 2014 – 66,872,434).
6. The net asset value per ordinary share is based on net assets at the period end of £84,197,000 (31 December 2013 – £99,599,000, 30 June 2014 – £106,929,000) and on 66,874,451 (31 December 2013 – 66,872,822 and 30 June 2014 – 66,872,822) ordinary shares, being the number of ordinary shares in issue at the period end. The net asset value per ordinary share at 31 December 2014 was 125.90p.

**7. 3.5% Convertible Unsecured Loan Stock 2018**

	Number of units £'000	Liability component £'000	Equity component £'000
Balance at 30 June 2014	39,941	36,459	2,973
Amortisation of discount on issue and issue expenses	-	48	-
Transfer of CULS liability discount amortisation	-	362	(362)
Conversion during the period	(6)	(5)	(1)
<b>Balance at 31 December 2014</b>	<b>39,935</b>	<b>36,864</b>	<b>2,610</b>

On 16 October 2014, the Company issued 1,629 ordinary shares in connection with the exercise of £6,151 nominal of the Company's CULS.

Once 80% of the CULS issued have been converted the Company is allowed to request that holders redeem or convert the remainder. Interest is paid on the CULS on 31 March and 30 September each year, commencing 31 March 2012. 25% of the interest is charged to revenue in line with the Board's expected long-term split of returns from the investment portfolio of the Company.

As at 31 December 2014, there was £39,934,624 nominal of CULS in issue.

**8. Reserves**

	Special reserve £'000	Share premium £'000	Equity component of CULS £'000	Capital reserve £'000	Revenue reserve £'000
At 30 June 2014	30,386	4,796	2,973	45,757	6,299
Exchange losses	-	-	-	(22)	-
Losses on investments	-	-	-	(21,024)	-
Management fees charged to capital	-	-	-	(445)	-
Finance costs charged to capital	-	-	-	(937)	-
Taxation credited to capital	-	-	-	217	-
Dividends paid	-	-	-	-	(2,595)
Retained net revenue for the period	-	-	-	-	2,068
Transfer of CULS liability discount amortisation	-	-	(362)	362	-
Issue of ordinary shares	-	6	(1)	-	-
<b>At 31 December 2014</b>	<b>30,386</b>	<b>4,802</b>	<b>2,610</b>	<b>23,908</b>	<b>5,772</b>

9. The Company's Investment Manager is CQS Cayman Limited Partnership ("CQS") which in turn has delegated this function to its wholly owned subsidiary New City Investment Managers ("NCIM"). CQS receive a monthly fee at the rate of 0.1 per cent of the Company's gross assets (excluding cross-holdings) less current liabilities and any borrowings, payable in arrears. During the period investment management fees of £593,000 were incurred, of which £86,000 was payable at the period end.

As at 31 December 2014, the Company held shares in New City Energy and Golden Prospect Precious Metals; these two investment companies are also managed by the Investment Manager. The valuations of these holdings are deducted from gross assets when calculating the management fee.

10. After making enquiries and having considered the Company's investment objective, nature of the investment portfolio, bank facility and expenditure projections, the Directors consider that the Company has adequate resources to continue in operation for the foreseeable future. For this reason and in light of the Company's strong long term investment record, the Directors are satisfied that it is appropriate to adopt the going concern basis in preparing this report.
11. The results for the six months ended 31 December 2014 and 31 December 2013, which have not been reviewed by the Company's auditors pursuant to the Auditing Practices Board guidance on "Review of Interim Financial Information", constitute non-statutory accounts in terms of Section 434 of the Companies Act 2006. The latest published accounts which have been delivered to the Registrar of Companies are for the year ended 30 June 2014; the report of the auditors thereon was unqualified and did not contain a statement under Section 498 of the Companies Act 2006. The abridged financial statements shown above for the year ended 30 June 2014 are an extract from those accounts.
12. The report and accounts for the six months ended 31 December 2014 will be posted to shareholders and made available on the website [www.ncim.co.uk](http://www.ncim.co.uk). Copies may also be obtained from the Company Secretary, R&H Fund Services Limited, 15-19 York Place, Edinburgh, EH1 3EB.

**R&H Fund Services Limited**

Secretaries

25 February 2015



## Principal Risks and Uncertainties

The Company's assets consist principally of listed equities and fixed interest securities and its principal risks are therefore market related. The Company is also exposed to currency risk in respect of the markets in which it invests. Other key risks faced by the Company relate to investment and strategy, sector, financial, earnings and dividend, operational and regulatory. These risks, and the way in which they are managed, are described in more detail under the heading 'Principal risks and risk mitigation' within the Strategic Review contained within the Company's annual report and accounts for the year ended 30 June 2014. The Company's principal risks and uncertainties have not changed materially since the date of the report and are not expected to change materially for the rest of the Company's financial year.

## Statement of Directors' Responsibilities in Respect of the Interim Report

We confirm that to the best of our knowledge:

- the financial statements have been prepared in accordance with the Statement 'Half-Yearly Financial Reports' issued by the UK Accounting Standards Board and give a true and fair view of the assets, liabilities, financial position and return of the Company;
- the Chairman's Statement together with the Statement of Principal Risks and Uncertainties above include a fair review of the information required by the Disclosure and Transparency Rules ("DTR") 4.2.7R, being an indication of important events that have occurred during the first six months of the financial year and their impact on the financial statements; and
- the financial statements include a fair review of the information required by DTR 4.2.8R, being related party transactions that have taken place in the first six months of the financial year and that have materially affected the financial position or performance of the Company during the period, and any changes in the related party transactions described in the last Annual Report that could do so.

On behalf of the Board

**Geoff Burns**  
Chairman

25 February 2015



# Corporate Information

## Registered Number

02978531

## Registered Office

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6 New Street Square  
New Fetter Lane  
London EC4A 3AQ

## Directors

Geoffrey D C Burns (Chairman)  
Adrian J R Collins  
B Michael L Coulson  
Alun G Evans  
Richard Ö Prickett\*

## Investment Manager

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## AIFM

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London SW1X 7HY

## Secretary

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Tel: 0131 524 6140

## Solicitors

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## Financial Adviser and Corporate Broker

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One Churchill Place  
Canary Wharf  
London E14 5RB

## Bankers, Custodian and Depository

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London E14 5HQ

## Auditor

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20 Castle Terrace  
Edinburgh EH1 2EG

## Registrars

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Aspect House  
Spencer Road, Lancing  
West Sussex BN99 6DA

Shareholder helpline UK: **0871 384 2410\*\***  
Shareholder helpline overseas: **+44 121 415 7047**

## Shareholder Information

### Net Asset Value/Share Price

The net asset value of the Company's ordinary shares may be obtained by contacting CQS on 0207 201 6900 or by email at [clientservice@cqsm.com](mailto:clientservice@cqsm.com) or alternatively by visiting the Company's web site at [www.ncim.co.uk](http://www.ncim.co.uk).

## Website

[www.ncim.co.uk](http://www.ncim.co.uk)

\*Chairman of the Audit Committee

\*\*Calls to this number cost 8p per minute (excluding VAT) plus network extras. Calls from outside the UK will be charged at international rates. Other telephony provider costs may vary. Lines open 8.30am to 5.30pm, Monday to Friday.



