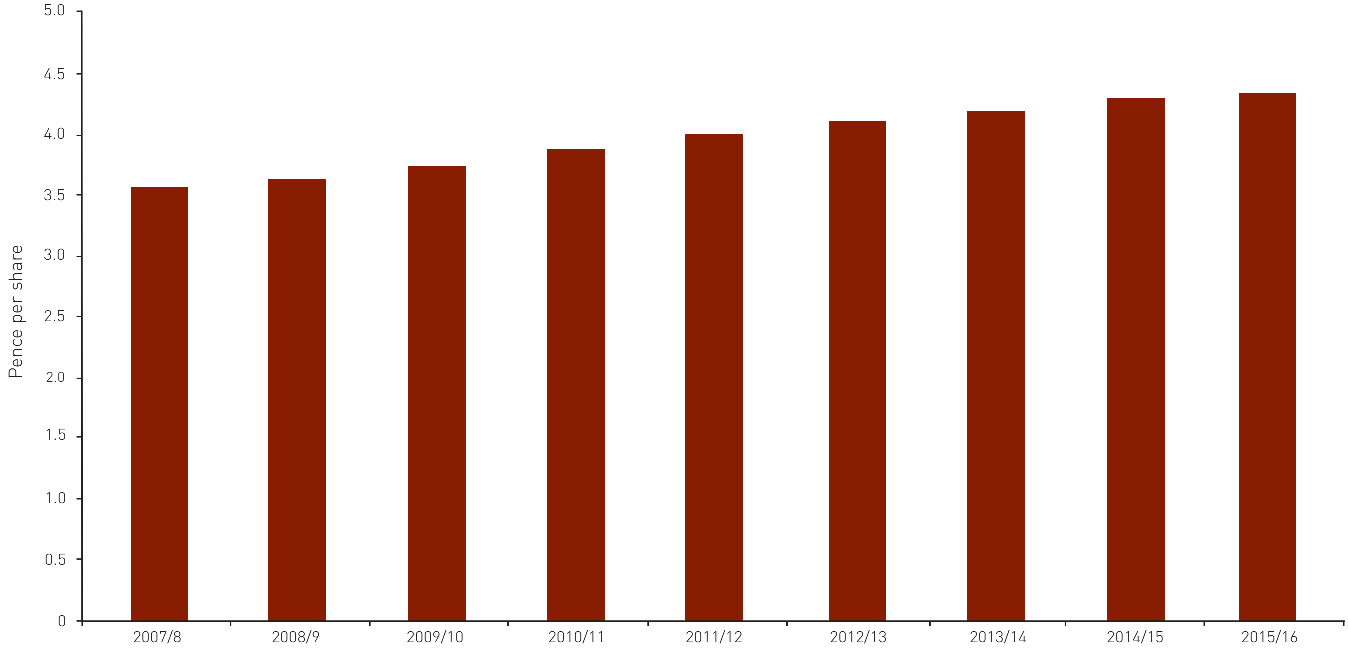
CQS NEW CITY
HIGH YIELD FUND
LIMITED

ANNUAL REPORT & ACCOUNTS

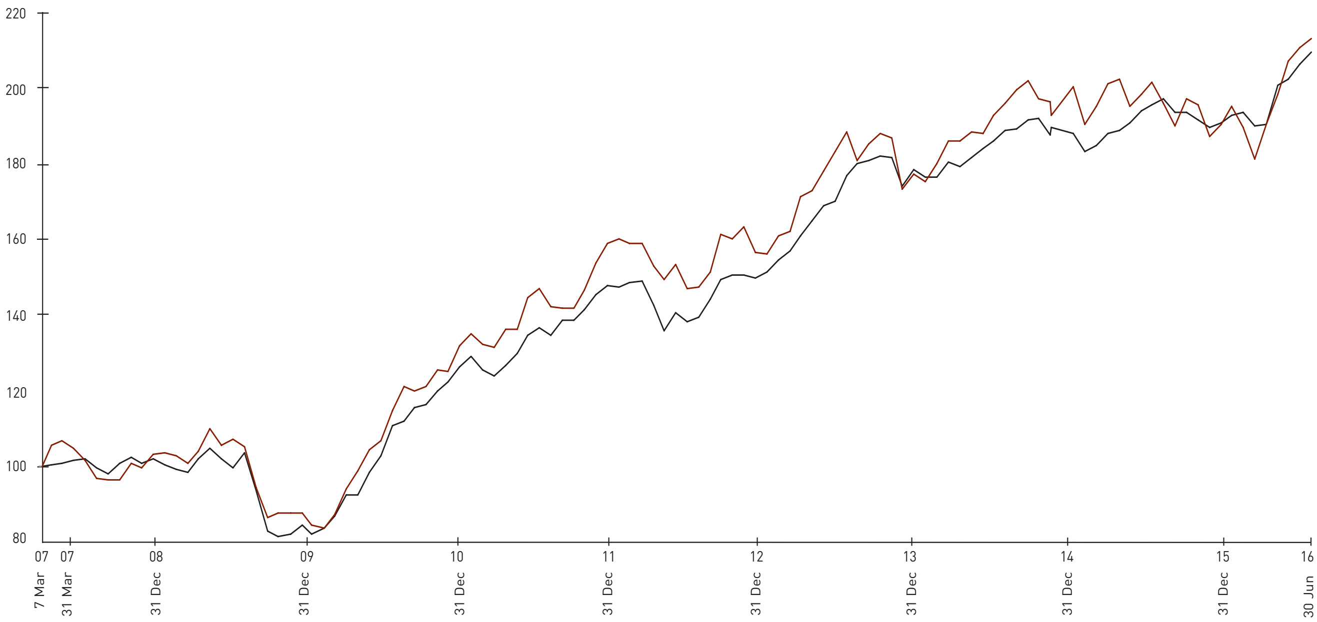
30 JUNE 2016

Dividends Declared in Respect of Each Financial Year



Source: R&H Fund Services Limited

Net Asset Value Total Return and Share Price Total Return



— Share price total return (dividends reinvested)
— Net asset value total return (dividends reinvested)

(Index restated to 100 from 7 March 2007)
Source: R&H Fund Services Limited

Our Objective

To provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

Contents

Financial Highlights

Total Return*	Year to 30 June 2016	Year to 30 June 2015
Net asset value	**0.97%**	1.00%
Ordinary share price	**4.74%**	(3.61)%

Capital Values	30 June 2016	30 June 2015	% change
Total assets less current liabilities (with the exception of the bank loan facility)	**£222.8m**	£231.7m	(3.84)%
Net asset value per ordinary share	**54.68p**	58.63p	(6.74)%
Share price (mid market)	**57.00p**	58.88p	(3.19)%

Revenue and Dividends	30 June 2016	30 June 2015	% change
Revenue earnings per ordinary share	**4.50p**	4.51p	(0.22)%
Dividends per ordinary share	**4.36p**	4.31p	1.16%
Dividend cover	**1.04x**	1.05x	(0.95)%
Revenue reserve per ordinary share (after recognition of annual dividends)	**4.36p**	4.24p	
Dividend Yield*	**7.6%**	7.3%	
Premium*	**3.54%**	0.4%	
Gearing*	**109**	111	
Ongoing Charges Ratio*	**1.2%**	1.3%	

Period's High/Lows	2015/16 High	2015/16 Low
Net asset value	58.75	51.74
Ordinary share price (mid market)	60.75	51.00
Premium/(discount) to net asset value	6.34%	(7.09)%

Dividend History	Rate	xd date	Record date	Payment date
First interim 2016	0.97p	29 October 2015	30 October 2015	27 November 2015
Second interim 2016	0.97p	28 January 2016	29 January 2016	29 February 2016
Third interim 2016	0.97p	28 April 2016	29 April 2016	27 May 2016
Fourth interim 2016	1.45p	28 July 2016	29 July 2016	31 August 2016
Total	4.36p			
First interim 2015	0.94p	30 October 2014	31 October 2014	28 November 2014
Second interim 2015	0.96p	30 January 2015	29 January 2015	27 February 2015
Third interim 2015	0.96p	30 April 2015	1 May 2015	29 May 2015
Fourth interim 2015	1.45p	30 July 2015	31 July 2015	28 August 2015
Total	4.31p			

* A glossary of the terms used can be found on page 42.

Chairman's Statement

Highlights

- Net asset value total return of 1.0 per cent.
- Ordinary share price total return of 4.7%.
- Dividend yield of 7.6%, based on dividends at an annualised rate of 4.36 pence and a share price of 57.0 pence at 30 June 2016
- Ordinary share price at a premium of 3.5% at 30 June 2016.
- £3.4m of equity raised during the year to 30 June 2016.

Investment and Share Price Performance

The Company's net asset value total return was 1.0% for the year ended 30 June 2016. The share price total return for the same period was stronger at 4.7%, the premium to net asset value at which the Company's shares trade increasing to 3.5%. The average premium over the year to 30 June 2016 was 4%, and over three years 5%.

Investment returns have remained muted, primarily due to fears as to the robustness of the Chinese economy alongside Eurozone and Brexit concerns. Further information is set out in the Investment Manager's Review on page 4.

Earnings and Dividends

The Company's earnings per share were 4.50 pence for the year, essentially unchanged from the 4.51 pence earned the previous year.

The Company declared three interim dividends of 0.97 pence in respect of the period, and one of 1.45 pence. The aggregate payment of 4.36 pence per share represents a 1.2% increase on the 4.31 pence paid last year. Based on an annualised rate of 4.36 pence and a share price of 59.25 pence at the time of writing, this represents a yield of 7.4%. Since inception, the level of dividends paid by the Company has increased every year. This is illustrated by the graph on the inside front cover.

Gearing

The Company renewed its existing £30m loan facility with Scotiabank in December 2015 at a current all-in-rate of 1.1%. The new facility is on more favourable terms than the one that it replaced. £25m was drawn down at 30 June 2016 and the Company had effective gearing of 9%.

Rating and Fund Raising

The market has continued to attach a premium rating to the shares of your Company for much of the period, although the extraordinary volatility around the turn of the year saw a discount to net asset value for short periods.

The Company raised £3.4m from new and existing shareholders in November 2015. In March 2016 the Company issued 36.2m ordinary shares and re-purchased them into treasury. This provides the Company with flexibility to raise additional capital in a cost effective manner in due course, and in order to ensure maximum flexibility a resolution will be proposed at the Annual General Meeting to renew the Directors' authority to issue shares equivalent to 10% of the Company's share capital. As well as a modest increase in net asset value from any issue of shares, existing shareholders can look to benefit from a lower ongoing charges ratio and greater liquidity in the Company's shares. In August 2016 1,750,000 shares were allotted from those in treasury.

Board

I welcomed Duncan Baxter, who joined us on 31 July 2015, to the Board when I wrote to you at this time last year. Wendy Dorman joined us on 2 March 2016 and I am delighted to welcome her. Wendy is a Chartered Accountant and has over twenty five years' experience within the financial services industry, both in London and in Jersey, and further strengthens the Board's credentials. Her qualifications are ideally suited to her role as Audit Committee Chairman, which she assumed in June. Wendy replaced Gavin Breeze in that role, which he had fulfilled for more than nine years, and Gavin resigned from the Board on 18 July 2016. Allister Carey, another founder Director, resigned on 2 March 2016. Both were at the heart of the successful evolution of the Company and I would like to thank them on behalf of shareholders and the Board for their significant contributions.

The Board is well advanced in the process of recruiting a further new Director and expects to announce that it has done so in December this year.

Outlook

The markets have had a volatile twelve months, something belied by your Company's relative stability. Our increased size and our portfolio diversity have helped, as has the stock picking of our portfolio manager, Ian Francis. The Manager continues to find value in the bond markets, but, as he explains in the Investment Manager's Review on page 4, this has not been made any easier by the market's "lower for longer" mantra as QE remains the policy of choice. A degree of caution is healthy, but, that notwithstanding, your Company, and its shareholders, remain well positioned to benefit from the prevailing market trends.

James G West
27 October 2016

Investment Manager's Review

The sentiment for the first half of the Company's financial year, if not the whole year was set very early on with the Chinese market crashing by a mind numbing 14.7%; all this despite measures employed by the Chinese government and its agencies to stem the capital outflow. Early in August the Peoples Bank of China lowered its rates for a fifth time in eight months by 25bp to 4.6% in an effort to avoid a crash in asset prices. This, however, was not enough, putting all Asian markets in a tailspin with most markets falling to a 3 ½ year low in September.

Away from the troubles in Asia the United States economy was showing definite signs of further recovery with Q2 GDP improving over an upwardly revised Q1 figure. Adding to this comments from the Federal Reserve Bank that the economy was "expanding moderately "were seen by many commentators as a sign of an impending interest rate rise although this did not happen in September, mainly due to the aforementioned China turmoil and the knock on effect to the rest of Asia. Come October core inflation figures increased more than expected, prompting the Federal Reserve Bank to push the button for an increase at the December meeting. Rightly markets took this as a vote of confidence in the United States economy, also confirmed by the employment data showing the lowest level of unemployment in seven and a half years, at 5%, with GDP growing at a very solid 2.1%.

A very different situation this side of the Atlantic! Huge relief when the last minute deal was struck saving Greece from bankruptcy and keeping them within the Euro, evidenced by a rapid 4% rally in European equity markets, and peripheral government bond markets. The Governor of the ECB Mario Draghi has continually tried to kick-start the European inflation engine with all the effort and patience one could wish for! Including further hints at an extension of QE, in terms of size, composition and duration. There was some evidence that this was beginning to have a positive effect by November when composite PMI data was implying GDP growth of 0.4% in Q4, with German GDP growth at 0.3% the best positive figures since summer 2014.

The UK did not avoid the global fallout in August with the FTSE100 falling by 7.5% on the month having been down nearly twice that figure earlier in the month. October, commonly a twitchy month for markets, was not helped by a deflating economy in both CPI and RPI series, and a weaker than expected GDP figure, at which time we noted that this was likely to put us 12 -15 months behind the United States with any potential rate rise. The major positive for the UK as with the United States was the unemployment data hitting a seven year low of 5.4% in October: this was a theme set to continue for the rest of the Company's reporting period.

The second half of the Company's year also started with a bloodbath in China with the Shanghai Composite down 22.5% falling to levels last seen in November 2014, despite the many efforts by the Chinese government (again!) to stem the breach. The knock on effect was significant to all global markets evidenced by the 3.1% fall in FTSE 100, and, 5.1% in the Dow Jones Industrial. Credit markets too suffered a big hit, with the iTraxx European Crossover index spread widening to levels last seen in September 2013. With the arrival of February the bloodbath escalated, with the iTraxx crossover index spread widening to 496bp (100bp wider than the end of January) before rallying strongly to 408.15bp. It was against this backdrop that the then UK Prime Minister David Cameron called the date for the promised referendum on whether or not Britain was to stay in Europe. We commented at the time that this would increase volatility in the UK Currency, and equity and bond markets for the rest of the reporting period, and they duly obliged!

The situation was calmed when the Governor of the Federal Reserve Bank, Janet Yellen spoke in mid-March stating that "caution is appropriate" when it comes to raising interest rates, stating that she was unsure that underlying inflation had accelerated; US interest rates although on the upward path it became evident that the pace for increase would be gradual.

In Europe Mario Draghi the ECB President pulled out all the stops, further cutting rates, and expanding QE. Rates in Europe look set to be lower for longer.

Brexit fears were hanging over the UK economy in Q1 with GDP only growing by 0.4% against 0.6% in the last quarter of 2015, which was pretty much in line with market expectations. The main laggard was the construction sector down 0.9% with poor housing starts being the major contributor.

The United States economy also seemed to be slowing in GDP terms at 0.5% the slowest for two years, but against this the employment data continued to improve at an average of 209 jobs per month, plus household income was growing at 2.9% in Q1 against 2.3% in Q4 2015. The U.S. consumer continued to pay down debt as the consumer spend for the period was only up 1.9% another trend set to continue through the rest of the reporting period.

The real game changer came at the end of June when the UK referendum on the membership of the European Union voted to leave. David Cameron the Prime Minister resigned his leadership of the Conservative party, triggering what looked to be a summer long leadership campaign with all the headlines that media could throw at it. This subsequently turned out to be a very short and concentrated battle which was sorted by mid-July just after the reporting period finished, with Theresa May being confirmed into the post on the 11th July. The currency markets reacted almost instantly devaluing the pound by 10% against the US$ and 8% against the Euro.

The new Prime Minister is currently getting all departments and Ministers ready for the difficult negotiations ahead before enacting Article 50 of the Lisbon treaty. These negotiations will need to be carried out with all the expertise of a chess grand master thinking many moves ahead and covering all possible options, in order to leave Britain in the strongest possible position in a couple of year's time when we actually leave the European Union.

At the time of writing the equity and bond markets have rallied strongly, back to the pre Brexit level. We believe that this is potentially dangerous as it leaves a lot of room for disappointment when negotiations do finally get under way, probably early next year. When all commentators and the media in general will focus on the detail in the long and drawn out process, we await this process with great interest.

We made a number of tactical trades during the year as there were opportunities to upgrade the portfolio both in terms of quality and revenue; examples would be selling Ecclesiastical 8 5/8% perp, Santander 10 3/8% perp well above par and re investing in bonds such as Pizza Express 8 5/8% 2022, Perform Group 8 ½% 2024, Altice 7.25% Euro denominated bonds of 2022 and more of the Altice 7 ¾% Dollar denominated bonds of 2022. Market anomalies provided a few opportunities to invest in grossly under-priced bonds such as Tesco Property Finance 7.6227% and Scottish Widows 7% 2043 both around or just below par.

In addition Europcar 9.375% 2018, House of Fraser 8 7/8% 2018 and AA 9.5% 2019 were redeemed early and we replaced those positions with Iceland 6 ¾% 2024 and IDH Finance 8 ½% 2024.

In these very low interest rate and QE fuelled times the quest for income by all investment managers is making the scope for new opportunities more limited than, for example, 2009, but they are out there, not every day or every week but often enough.

Ian Francis
New City Investment Managers
27 October 2016

Classification of Investment Portfolio

By Currency	2016 Total investments %	2015 Total investments %
Sterling	**73**	72
US dollar	**15**	14
Euro	**6**	8
Australian dollar	**3**	3
Swedish krona	**2**	2
Norwegian krone	**1**	1
Canadian dollar	**–**	–
Total investments	**100**	**100**

By Asset Class	2016 Total investments %	2015 Total investments %
Bonds	**83**	76
Preference shares	**5**	11
Equity shares	**12**	11
Convertibles	**–**	2
Total investments	**100**	100

By Quotation	2016 Total investments %	2015 Total investments %
Listed/Quoted on a recognised investment exchange	**98.3**	99.8
Unquoted	**1.7**	0.2
Total investments	**100.0**	**100.0**

Classification of Investment Portfolio by Sector

As at 30 June	**2016 % of total investments**	2015 % of total investments
Oil & Gas	**5.1**	8.2
Basic Materials	**1.9**	2.2
Industrials	**4.4**	9.4
Consumer Goods	**11.2**	13.2
Consumer Services	**11.7**	10.9
Healthcare	**1.2**	0.8
Telecommunications	**4.6**	3.3
Utilities	**4.1**	3.8
Financials	**55.8**	48.2
Total Investments	100.0	100.0

Investment Portfolio

as at 30 June 2016

Company	Sector	Valuation £'000	Total Investments %
Old Mutual 7.875% 03/11/2025	Insurance	6,753	3.2
Galaxy Finco 7.875% 15/11/2021	Insurance	6,481	3.1
Brit Insurance 6.625% 09/12/2030	Insurance	5,957	2.8
Unique Pub Finance 7.395% 28/03/2024	Restaurants & Bars	5,421	2.6
Rea Finance 8.75% 31/08/2020	Food Products	5,370	2.5
Barclays Bank 7% 15/09/2019	Banks	5,180	2.4
Newriver Retail	Real estate	5,029	2.4
PizzaExpress Financing 8.625% 01/08/2022	Restaurants & Bars	5,005	2.4
Balfour Beatty 10.75% Pref Shares	Construction	4,807	2.3
Matalan Finance 8.875% 01/06/2020	Retail	4,773	2.2
Top ten investments		54,776	25.9
Co-operative Bank 8.5% 01/07/2025	Banks	4,472	2.1
Trafigura Beheer 7.625% 29/10/2049 PERP CALL	Financial	4,443	2.1
Aldermore Group 11.875% 30/04/2020	Banks	4,200	2.0
Stretford Seventy Nine 6.75% 15/07/2024	Supermarkets and Pharmacies	4,165	1.9
Banco Popular Espanol 8.25% PERP 10/04/2020	Banks	3,831	1.8
Altice 7.75% 15/05/2022	Telecommunications	3,794	1.8
Johnston Press 8.625% 01/06/2019	Media	3,782	1.8
Lloyds Banking Group 7.625% 27/06/2023	Banks	3,727	1.7
SAS AB PRF	Transport	3,665	1.7
Falcon Germany 9% 15/07/2020	Industrial	3,504	1.7
Top twenty investments		94,359	44.5
Antares Energy 10% 30/10/2023 *	Oil & Gas	3,465	1.6
Nextenergy Solar	Clean Energy	3,456	1.6
Greencoat UK Wind	Clean Energy	3,294	1.6
Perform Group Finance 8.5% 15/11/2020	Financial	3,190	1.5
Tesco Property 7.6227% 13/07/2039	Real estate	3,187	1.5
Bibby 7.5% 15/06/2021	Oil and Gas	3,138	1.5
Det Norske 10.25% 27/05/2022	Oil & Gas	3,113	1.5
Phoenix Life FRN 7.25% 25/03/2021 VAR	Insurance	3,052	1.4
REA Holding 9% Cum Pref Shares	Food Products	2,915	1.4
Cable & Wireless 8.625% 25/03/2019	Telecommunications	2,760	1.3
Top thirty investments		125,929	59.4
IDH Finance 8.5% 01/06/2019	Healthcare	2,755	1.3
Bristol & West 8.125% Pref	Financial	2,747	1.3
Virgin Money 7.875% 31/07/2019	Banks	2,685	1.3
Tizir 9% 28/09/2017	Mining	2,638	1.2
Lloyds Banking Group 7.875% 27/06/2029	Banks	2,612	1.2
Arrow Global Finance 7.875% 01/03/2020	Financial	2,478	1.2
National Westminster 11.5% 12/49 PERP (bearer)	Banks	2,475	1.2
Arqiva Broadcast Finance 9.5% 31/03/2020	Telecommunications	2,380	1.1
Investec Bank 9.625% 17/02/2022	Banks	2,364	1.1
Deutsche Bank 7.125% 30/04/2026	Banks	2,344	1.1
Top forty investments		151,407	71.4

Company	Sector	Valuation £'000	Total Investments %
UBS Group 7% Perp	Financial	2,279	1.1
HDL Debenture 10.375% 31/07/2023	Real estate	2,239	1.1
1st Credit Holdings 11% 06/10/2020	Financial	2,232	1.1
Nationwide CCDS 10.25%	Financial	2,147	1.0
Raven Russia 12% Pref Shares	Real Estate	2,040	1.0
Garfunkelux Holdco 3 SA 8.5% 01/11/2022	Financial	1,985	0.9
Hydra Dutch 8% 15/04/2019	Food Products	1,928	0.9
Louis Dreyfus 8.25% PERP 29/12/2049	Agriculture	1,858	0.9
Rothschild Cont Fin 9% 15/02/2024 PERP	Financial	1,673	0.8
HBOS Capital 6.85% 23/03/2049 PERP	Banks	1,650	0.8
Top fifty investments		171,438	81.0
Personalhuset FRN 11/09/2019	Support Services	1,563	0.7
Oro Negro Drilling 7.5% 24/01/2019	Oil & Gas	1,561	0.7
Channel Island Property REIT	Real estate	1,530	0.7
Garfunkelux Holdco 11% 01/11/2023	Financial	1,520	0.7
Drill Rigs 6.5% 01/10/2017	Oil & Gas	1,413	0.7
Scottish Widows 7% 16/06/2043	Insurance	1,411	0.7
Barclays 7.875% 15/09/2022	Financial	1,343	0.6
Elematic Oy 10% 30/05/2018	Machinery Manufacturing	1,293	0.6
SQN Asset Finance	Financial	1,266	0.6
British Airways Finance 6.75% 12/05/2014 PERP Pref	Transport	1,240	0.6
Top sixty investments		185,578	87.6
Principality Building 7% 01/06/2020	Financial	1,164	0.5
Southern Water 8.5% 15/04/2019	Utilities	1,113	0.5
Clerical Medical Fin FRN 7.375% 05/11/2019 VAR	Insurance	1,100	0.5
Altice Financing 7.5% 15/05/2026	Telecommunications	1,102	0.5
Crown Resorts FRN 14/09/2072	Entertainment	1,069	0.5
Euronav EUR	Oil & Gas	1,017	0.5
Odeon & UCI 9% 01/08/2018	Entertainment	1,008	0.5
NIB Capital Bank 7.625% Perp	Banks	970	0.5
Coventry Building Society 6.375% 01/11/2019 Perp	Banks	888	0.4
Ecclesiastical Insurance 8.625% Pref Shares	Insurance	874	0.4
Top seventy investments		195,883	92.4
Other investments (62)		15,999	7.6
Total investments		211,882	100.0

Notes:

CCP – Convertible Cumulative Preference Shares
CV – Convertible Bond
FRN – Floating Rate Note
PERP – Perpetual
VAR – Variable
CP – Cumulative Preference Shares
CULS – Convertible Unsecured Loan Stock
CLN – Convertible Loan Note
PREF/PRF – Preference Shares
* Unquoted

Top Ten Largest Holdings

	Valuation 30 June 2015 £'000	Purchases £'000	Sales £'000	(Depreciation)/ appreciation £'000	Valuation 30 June 2016 £'000
Old Mutual An international investment, savings, insurance and banking group.	–	6,637	–	116	6,753
Galaxy Finco 7.875% 15/11/2021* A specialist provider of warranties for consumer electric products.	6,069	498	–	(86)	6,481
Brit Insurance 6.625% 09/12/2030 A global speciality insurer and re-insurer.	6,357	–	–	(400)	5,957
Unique Pub The Unique Pub Company owns a portfolio of tenanted United Kingdom public houses.	3,162	2,535	–	(276)	5,421
Rea Finance 8.75% 31/08/2020 Cultivator of oil palms and production of crude palm oil and palm products.	–	5,790	–	(420)	5,370
Barclays Bank 7% 15/09/2019 A British multinational banking and financial services company.	5,755	–	–	(575)	5,180
Newriver Retail A property investment company specialising in the UK retail sector.	4,477	862	–	(310)	5,029
Pizza Express A restaurant group with over 400 restaurants across the United Kingdom and Europe, Hong Kong, India and the Middle East.	3,489	2,219	–	(703)	5,005
Balfour Beatty 10.75% Pref Shares Multinational infrastructure group specialising in construction and support services.	5,157	–	–	(350)	4,807
Matalan Finance 8.875% 01/06/2020 Owner and operator of Matalan stores.	6,315	436	–	(1,978)	4,773
	40,781	18,977	–	(4,982)	54,776

At 30 June 2016 these investments totalled £54,776,000 or 26.0% of the portfolio.

* Galaxy Finco is the holding company for Domestic and General Insurance

Strategic Review

Introduction

This review is part of a Strategic Report being presented by the Company under guidelines for UK-listed companies' Annual Reports in accordance with the Companies Act 2006, and is designed to provide information primarily about the Company's business and results for the year ended 30 June 2016. It should be read in conjunction with the Chairman's statement on page 3 and the Investment Manager's Review on page 4, which give a detailed review of the investment activities for the year and look to the future.

Business Model

The business model of the Company is described below.

Investment Policy

The Company invests predominantly in fixed income securities, including, but not limited to, preference shares, loan stocks, corporate bonds (convertible and/or redeemable) and government stocks. The Company also invests in equities and other income-yielding securities.

Exposure to higher yielding securities may also be obtained by investing in other closed-end investment companies and open-ended collective investment schemes.

There are no defined limits on securities and accordingly the Company may invest up to 100 per cent of total assets in any particular type of security.

There are no defined limits on countries, size or sectors, therefore the Company may invest in companies regardless of country, size or sector and, accordingly, the Company's portfolio is constructed without reference to the composition of any Stock Market index or benchmark.

The Company may, but is not obliged to, invest in derivatives, financial instruments, money market instruments and currencies for the purpose of efficient portfolio management.

The Company may acquire securities that are unlisted or unquoted at the time of investment but which are about to be convertible, at the option of the Company, into securities which are listed or traded on a stock exchange. The Company may continue to hold securities that cease to be listed or traded if the Investment Manager considers this appropriate. The Board has established a maximum investment limit in this regard of 10 per cent (calculated at the time of any relevant investment) of the Company's total assets. In addition, the Company may invest up to 10 per cent (calculated at the time of any relevant investment) of its total assets in other securities that are neither listed or traded at the time of investment.

The Company will not invest more than 10 per cent (calculated at the time of any relevant investment) of its total assets in other collective investment undertakings (open-ended or closed-end).

The Board has established a maximum investment limit whereby, at the time of investment, the Company may not invest more than 5 per cent of its total investments in the same investee company.

The Company uses gearing and the Board has set a current limit that gearing will not exceed 25 per cent of shareholders' funds at the time of borrowing. This limit is reviewed from time to time by the Board.

The Investment Manager expects that the Company's assets will normally be fully invested. However, during periods in which changes in economic circumstances, market conditions or other factors so warrant, the Company may reduce its exposure to securities and increase its positions in cash, money market instruments and derivative instruments in order to seek protection from Stock Market falls or volatility.

Investment Approach

Investments are typically made in securities which the Investment Manager has identified as undervalued by the market and which it believes will generate above average income returns relative to their risk, thereby also generating the scope for capital appreciation. In particular, the Investment Manager seeks to generate capital growth by exploiting the opportunities presented by the fluctuating yield base of the market and from redemptions, conversions, reconstructions and take-overs.

Principal Risks and Uncertainties and Risk Mitigation

Risks are inherent in the investment process, but it is important that their nature and magnitude are understood so that risks, particularly those which the Company does not wish to take, can be identified and either avoided or controlled. The Board has established a detailed framework of the key risks that the business is exposed to, with associated policies and processes devised to mitigate or manage those risks. The principal risks and mitigating factors faced by Company are set out below.

Investment and strategy risk The Board is responsible for deciding the investment strategy to fulfil the Company's objectives and monitoring the performance of the Investment Manager. Inappropriate strategy, including country and sector allocation, stock selection and the use of gearing could all lead to poor returns for shareholders. To manage this risk the Board requires the Investment Manager to provide an explanation of significant stock selection decisions and the rationale for the composition of the investment portfolio at each Board meeting, when gearing levels are also reviewed. The Board monitors the spread of investments to ensure that it is adequate to minimise the risk associated with particular countries or factors specific to particular sectors. The Investment Manager also provides the Board and shareholders with monthly factsheets which include an investment commentary.

Market risk The Company's assets consist principally of listed fixed interest securities and its greatest risks are in consequence market related, with exposure to ordinary movements in the prices of the Company's investments and the loss that the Company might suffer through holding investments in the face of negative market movements. The Board seeks to mitigate this risk through the processes described in the paragraph above, monitoring the implementation and results of the investment process with the Investment Manager.

Financial risk The Company's investment activities expose it to a variety of financial risks that include market price risk, foreign currency risk, interest rate risk, liquidity risk and credit risk. Further details of these risks and the ways in which they are managed are disclosed in notes 17 to 22 of the financial statements.

Earnings and dividend risk The earnings that underpin the amount of dividends declared and future dividend growth are generated by the Company's underlying portfolio. Fluctuations in earnings resulting from changes to the underlying portfolio or changes in the tax treatment of the dividends or interest received by the Company could reduce the level of dividends received by shareholders. The Board monitors and manages this risk by considering detailed income forecasts prepared by the Investment Manager and Company Secretary at each Board meeting and when the quarterly dividends are declared.

Operational risk The Company relies upon the services provided by third parties and is reliant on the control systems of the Investment Manager and the Company's other service providers. The security and/or maintenance of, inter alia, the Company's assets, dealing and settlement procedures, and accounting records depend on the effective operation of these systems. These are regularly tested and monitored and are reported on at each Board meeting. An internal control report, which includes an assessment of risks, together with the procedures to mitigate such risks, is prepared by the Investment Manager and the UK Administrator and reviewed by the Audit Committee once a year. The Depository and Custodian, HSBC Bank plc, produces an internal control report each year which is reviewed by its auditors and gives assurance regarding the effective operation of controls. This is reviewed by the Audit Committee.

Gearing risk A fall in the value of the Company's investment portfolio could be adversely affected by the impact of gearing. It could also result in a breach of loan covenants. The Board sets the gearing limits. Gearing levels and compliance with loan covenants are monitored monthly by the Investment Manager and by the Board at regular Board meetings. Gearing will not exceed 25 per cent of shareholders' funds at the time of borrowing.

Key man dependency Performance of the Company may be negatively affected by a change in fund management team within the Investment Manager. The Company delegates the management of the fund management team to New City Investment Managers. Whilst the lead fund manager is responsible for day to day portfolio management, an Investment Committee within New City Investment Managers also decides key stock selection. The Management Engagement Committee of the Company reviews the performance of the Investment Manager annually.

Regulatory risk The breach of regulatory rules could lead to a suspension of the Company's stock exchange listing or financial penalties. The Company Secretary and UK Administrator monitor the Company's compliance with the Listing Rules of the UK Listing Authority. Compliance with the principal rules is reviewed by the Directors at each Board meeting.

Viability Statement

In accordance with the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the viability of the Company over a period longer than the 12 months required by the 'Going Concern' provision (this provision is detailed below). The Board conducted this viability review for a period of three years. The Board considers the Company, with no fixed life, to be a long term investment vehicle but decided this is an appropriate time period over which to report, reflecting the long term objectives of the Company whilst taking into account the impact of uncertainties in the markets.

In making this statement the Board carried out a robust assessment of the principal risks facing the Company. These risks and their mitigations are set out on page 9. The principal risks identified as most relevant to the assessment of the viability of the Company were those relating to potential under-performance of the portfolio and its effect on the ability to pay dividends.

When considering the risk of under-performance, the Board carried out a series of stress tests including the effects of any substantial future falls in investment value on the ability to re-pay and re-negotiate borrowings, potential breaches of loan covenants and the maintenance of dividend payments over the next three years.

The results of the stress tests have given the Board comfort over the viability of the Company and its ability to maintain dividend levels.

The Board also considered the impact of potential regulatory change and the controls in place surrounding significant third party providers, including the investment manager.

The Board also noted the low liquidity risk in the portfolio where the percentage of easily realisable listed investments held at the year end was 98.3%.

The Scotiabank loan facility is due to expire on 22 December 2016. It is anticipated a new facility on comparable terms will be negotiated prior to this date.

Based on the Company's processes for monitoring revenue and costs and the Manager's compliance with the investment objective and policies, the Directors have concluded that there is a reasonable expectation that the Company will be able to continue in operation and meets its liabilities as they fall due for a period of three years from the date of approval of this Report.

Going Concern

The Company does not have a fixed winding-up date and, therefore, unless shareholders vote to wind-up the Company, shareholders will only be able to realise their investment through the market.

At each Annual General Meeting of the Company, shareholders are given the opportunity to vote on an ordinary resolution to continue the Company as an investment company. If any such resolution is not passed, the Board will put forward proposals at an extraordinary general meeting to liquidate or otherwise reconstruct or reorganise the Company.

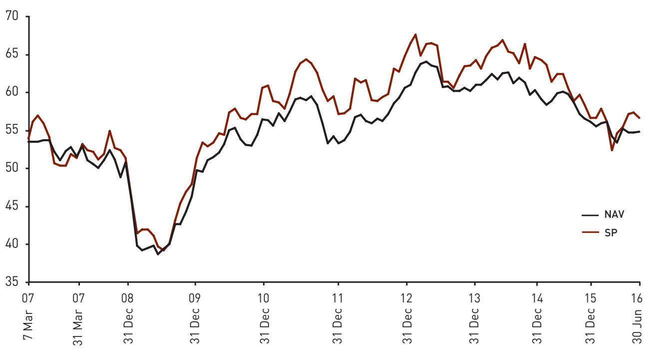
After making enquiries, and having considered the Company's investment objective, nature of the investment portfolio, loan facility and expenditure projections, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, and in light of the Company's strong investment record, the Directors continue to adopt the going concern basis in preparing the accounts, notwithstanding that the Company is subject to an annual continuation vote as described above.

Performance Measurement and Key Performance Indicators

The Board uses a number of performance measures to assess the Company's success in meeting its objectives. The key performance indicators are as follows:

- **Dividend Yield and Dividend Cover**
  The Board reviews the Company's dividend yield and dividend cover on a quarterly basis.
  (See Financial Highlights on page 2)
- **Total Return**
  The Board reviews the Company's Net Asset Value ("NAV") total return and Share Price total return on a quarterly basis. (See graph on inside front cover)
- **Discount/premium to NAV**
  At each Board meeting, the Board monitors the level of the Company's discount/premium to NAV. The Company publishes a NAV per share figure on a daily basis through the official newswire of the London Stock Exchange.

CQS New City High Yield Fund Limited, NAV vs Share Price, GBP



- **Revenue Earnings and Dividends per share**
  The Board reviews a revenue forecast on a quarterly basis to determine the quarterly dividend.
- **Ongoing Charges**
  The ongoing charges are a measure of the total expenses incurred by the Company expressed as a percentage of the average shareholders' funds over the year. The Board regularly reviews the ongoing charges and monitors all Company expenses.

Social, Community, Employee Responsibilities and Environmental Policy

The Directors recognise that their first duty is to act in the best financial interests of the Company's shareholders and to achieve good financial returns against acceptable levels of risk, in accordance with the objectives of the Company.

In asking the Company's Investment Manager to deliver against these objectives, they have also requested that the Investment Manager take into account the broader social, ethical and environmental issues of companies within the Company's portfolio, acknowledging that companies failing to manage these issues adequately run a long term risk to the sustainability of their businesses.

More specifically, they expect companies to demonstrate ethical conduct, effective management of their stakeholder relationships, responsible management and mitigation of social and environmental impacts, as well as due regard for wider societal issues.

As an investment company with its current structure the Company has no direct social, community, employee or environmental responsibilities of its own.

The Company has no greenhouse gas emissions to report from its operations for the year ended 30 June 2016 and prior year, nor does it have responsibility for any other emissions producing sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013 (including those within the underlying investment portfolio).

At 30 June 2016 there were four male and one female Director. The Company has no employees so does not require to report further on gender diversity.

By Order of the Board

J G West

27 October 2016

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Jersey law and International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB").

Jersey law requires the Directors to prepare, in accordance with generally accepted accounting principles, financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that year. Under Jersey law they have elected to prepare the financial statements in accordance with IFRS as adopted by the IASB.

In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies (Jersey) Law 1991. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. The financial statements are published on the www.ncim.co.uk website, which is a website maintained by the Company's Investment Manager. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with IFRS, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;
- that in the opinion of the Directors, the Annual Report and Accounts taken as whole, is fair, balanced and understandable and it provides the information necessary to assess the Company's performance, business model and strategy; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that the Company faces.

On behalf of the Board

J G West
Director

27 October 2016

Board of Directors and Investment Manager

James West

Independent Non-Executive Chairman

Length of service: 9 years 8 months.

Experience:
He is a chartered accountant and was formerly managing director of Lazard Brothers & Co. Ltd and chief executive of Lazard Asset Management Ltd.

Committee membership:
Audit & Risk Committee
Management Engagement Committee
Nomination Committee

Remuneration: £36,000 per annum

Public company directorships:
BlackRock Income Strategies Trust plc
JP Morgan Income and Capital Trust plc
Threadneedle UK Select Trust Ltd

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 55,850 Ordinary Shares

Allister Carey

Independent Non-Executive Director

Length of service: 9 years 3 months (resigned 2 March 2016).

Experience:
He has over 30 years' experience of stock broking and investment management in Guernsey and is a fellow of the Securities Institute. Until February 2003, he was in charge of the Guernsey branch of Brewin Dolphin, a post that he held since its inception in 1997.

Committee membership:
Audit & Risk Committee
Management Engagement Committee
Nomination Committee

Remuneration: £24,000 per annum

Public company directorships:
Red Fort Partnership Limited

Shared Directorships with any other Fund Directors: None

Shareholding in Company: Nil Ordinary Shares

Gavin Breeze

Independent Non-Executive Director and
Chairman of the Audit & Risk Committee (resigned 2 June 2016)

Length of service: 9 years 8 months (resigned 18 July 2016).

Experience:
He founded DataCash Group plc in September 1997 and was responsible for development of its payment services and products, setting up strategic relationships and developing its merchant client base. He left the board of DataCash Group plc in March 2008 and now runs his own consultancy company focused on payment services.

Committee membership:
Audit & Risk Committee
Management Engagement Committee
Nomination Committee

Remuneration: £24,000 per annum

Public company directorships:
Proxama plc
Mi-Pay plc

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 5,799,920 Ordinary Shares

Adrian Collins

Independent Non-Executive Director

Length of service: 9 years 8 months.

Experience:
He has worked in the fund management business for over 35 years, a large part of which was at Gartmore Investment Management Limited where latterly he was managing director. He is currently Chairman of Liontrust Asset Management plc.

Committee membership:
Audit & Risk Committee
Management Engagement Committee
Nomination Committee

Remuneration: £24,000 per annum

Public company directorships:
Liontrust Asset Management plc
Bahamas Petroleum Company plc
City Natural Resources High Yield Trust plc
Tristar Resources plc

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 40,000 Ordinary Shares

Duncan Baxter

Independent Non-Executive Director

Length of service: 1 year 2 months.

Experience:
He is a retired senior banker with over 25 years' experience of international banking, latterly as Managing Director of Swiss Bank Corporation in Jersey.

Committee membership:
Audit & Risk Committee
Management Engagement Committee
Nomination Committee

Remuneration: £24,000 per annum

Public company directorships:
Highland Gold Mining Limited

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 109,412 Ordinary Shares

Wendy Dorman

Independent Non-Executive Director and Chairman of the Audit & Risk Committee

Length of service: 6 months (appointed 2 March 2016).

Experience:
Wendy is a chartered accountant with over 25 years' experience in tax within the financial services industry. Wendy's career encompassed time in practice and in industry, based initially in London and later in Jersey. She retired as partner in charge of the PwC Channel Islands tax practice in June 2015. Wendy served as President of the Jersey Society of Chartered and Certified Accountants from 2008 to 2010.

Committee membership:
Audit & Risk Committee (appointed chair 2 June 2016)
Management Engagement Committee
Nomination Committee

Remuneration: £26,500 per annum

Public company directorships:
3i Infrastructure plc
Jersey Finance Limited
Jersey Electricity Plc

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 64,000 Ordinary Shares

Graeme Ross

Independent Non-Executive Director

Length of service: 8 years 8 months. (resigned 31 July 2015).

Experience:
He joined the Jersey practice of Rawlinson & Hunter in 1986 having previously worked at KPMG having qualified as a Chartered Accountant in 1984. In 1994 he was admitted to the Jersey partnership of Rawlinson & Hunter. He has been the managing director of R&H Fund Services (Jersey) Limited since 1996 and has in-depth knowledge and experience of the fund management industry generally and retail funds in particular.

Committee membership:
Management Engagement Committee
Nomination Committee

Remuneration: £24,000 per annum

Public company directorships:
RHFS Growth & Income Funds Limited
ETFS Commodity Securities Australia Limited
ETFS Commodity Securities Limited
ETFS Equity Securities Limited
ETFS Foreign Exchange Limited
ETFS Hedged Commodity Securities Limited
ETFS Hedged Metal Securities Limited
ETFS Metal Securities Limited
ETFS Oil Securities Limited
Geiger Counter Limited
Gold Bullion Securities Limited
New City Energy Limited
Swiss Commodity Securities Limited

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 46,207 Ordinary Shares

Investment Manager

The Company appointed New City Investment Managers ("NCIM") as its Investment Manager with effect from launch. On 1 October 2007, NCIM joined the CQS Group, a global diversified asset manager running multiple strategies with, as at 1 September 2015, US$13.3 billion assets under management (including mandates with discretionary management, sub-investment discretionary management, investment advice, collateral management and intermediation), becoming a group company. NCIM's rights and obligations under the investment management agreement between the Company and NCIM were then novated to CQS Cayman Limited Partnership ("CQS"). Consequently, CQS became the Company's Investment Manager but, with the agreement of the Board, has delegated that function to NCIM.

Ian Francis has day to day responsibility for managing the Company's portfolio and is supported by the CQS team.

He joined the NCIM team in 2007. He has over 35 years' investment experience, primarily in the fixed interest and convertible spheres, and his career has included Collins Stewart, West LB Panmure, James Capel and Hoare Govett.

Alternative Investment Fund Managers Directive ("AIFMD")

The Company has appointed CQS Asset Management Limited, a subsidiary of CQS, as the Company's alternative investment manager "AIFM". The AIFM has received its approval from the FCA to act as AIFM of the company, your Company is therefore fully compliant. An additional requirement of the AIFMD is for the Company to appoint a depositary, which will oversee the custody and cash arrangements and other AIFMD required depositary responsibilities. The Board has appointed HSBC Bank plc to act as the Company's depositary.

As part of the process the Investment Management Agreement has been updated and builds in the regulatory requirements arising as a result of the appointment of the AIFM.

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 30 June 2016.

Results and Dividends

Details of the Company's results and dividends are shown on page 2 of this report.

Principal Activity and Status

CQS New City High Yield Fund Limited is a closed-end investment company and was incorporated with limited liability in Jersey under the Companies (Jersey) Law 1991 on 17 January 2007, with registered number 95691. In addition, the Company constitutes and is regulated as a collective investment fund under the Collective Investment Funds (Jersey) Law 1988 ("the Law"). The Company has obtained a certificate under the Law from the Jersey Financial Services Commission to operate as a Collective Investment Fund.

The Company's ordinary shares are listed on the Official List of the Financial Services Authority and trade on the London Stock Exchange's main market.

The Company is a member of The Association of Investment Companies ("AIC").

Share Capital

As at 1 July 2015 there were 355,903,477 ordinary shares in issue.

The Company issued a further 5,870,940 shares in November 2015. In March 2016, the Company issued 36,177,441 shares and immediately bought these back to be held in Treasury. Full details of these transactions are shown in note 13 on page 36 of this report. Following these issues of shares there are now 361,774,417 ordinary shares in issue as at 30 June 2016. On 9 August 2016, a further 1,750,000 shares were alloted from Treasury.

Bank Facilities

The Company has a short term loan facility with Scotiabank. As at the year end the unsecured loan facility had a limit of £30 million of which £25 million was drawn down at the year end.

Management and Administration

As part of its strategy for achieving its objectives, the Board has delegated the management of the investment portfolio to CQS Cayman Limited Partnership, which in turn has delegated management to New City Investment Managers ("NCIM") with Ian Francis as the lead fund manager.

At each Board meeting, the Board receives a presentation from the Investment Manager which includes a review of investment performance, portfolio activity and market outlook. The stock selection emphasis adopted by the Investment Manager is on each holding's unique characteristics rather than any benchmark weightings.

Company Secretarial Services are provided by R&H Fund Services (Jersey) Limited. Administration functions, including UK compliance oversight, has been delegated to R&H Fund Services Limited. Custody and settlement services are undertaken by HSBC Bank plc. The Board has delegated the exercise of voting rights attaching to the Company's investments to the Investment Manager.

All other matters are reserved for the approval of the Board.

Substantial Interests in Share Capital

At 30 September 2016 the only persons known to the Company who, directly or indirectly, were interested in 3.0 per cent or more of the Company's issued share capital were as follows:

	Number of Ordinary Shares Held	Percentage Held
Brewin Dolphin Limited	45,408,324	12.47%
James Sharp Stockbrokers	29,871,451	8.18%
Hargreaves Lansdown Stockbrokers	29,084,969	7.60%
Alliance Trust Savings	15,004,533	4.07%
Rathbones	14,486,611	4.03%
Charles Stanley Stockbrokers	13,901,509	3.83%
Redmayne Bentley Stockbrokers	13,030,324	3.62%
Canaccord Genuity Wealth Management	11,328,637	3.06%
Tilman Brewin Dolphin	10,993,756	3.01%

The shareholdings listed above refer to funds managed on behalf of clients of the groups named.

Directors' Remuneration Policy and Report

Among the resolutions being put to the Annual General Meeting as Ordinary Business, Resolution 2 is to approve the Directors' Remuneration Policy. This is a requirement and the vote is binding. It is also mandatory for listed companies to put their Directors' Remuneration Report to an advisory shareholder vote, Resolution 3 seeks to approve the Directors' Remuneration Report.

Continuation Vote

In accordance with the Articles of Association ("Articles") an ordinary resolution, Resolution 9, will be proposed at the Annual General Meeting to continue the Company as an investment company.

Directors' Authority to Allot Shares

Under the Articles the Directors are required to seek a disapplication of pre-emption rights from shareholders before issuing new shares on a non pre-emptive basis. In order to continue with its programme of new share issues, your Board is therefore also proposing that the annual disapplication of pre-emption rights authority given to the Directors so that they may continue to issue shares as and when appropriate is renewed. Accordingly, Resolution 10 proposes a renewal of the disapplication of the pre-emption rights in respect of 10% of the ordinary shares in issue, set to expire on the earlier of eighteen months from the date of the resolution or at the conclusion of the Annual General Meeting to be held in 2017.

New ordinary shares will not be issued at a price less than the prevailing net asset value per ordinary share, after taking into account any costs incurred by the Company in connection with such issue. Any issues of new ordinary shares will be carried out in accordance with the Listing Rules.

Directors' Authority to Buy Back Shares

In March 2016, the Company bought back 36,177,441 shares to be held in Treasury.

The current authority of the Company to make purchases of up to approximately 14.99 per cent of its issued capital expires at the end of the Annual General Meeting and Resolution 11 seeks renewal of such authority until the next Annual General Meeting (or the expiry of fifteen months from the date of the passing of the resolution, if earlier). The maximum and minimum prices to be paid for shares are set out in Resolution 11. This power will be exercised only if, in the opinion of the Directors, a repurchase would result in an increase in net asset value per share and would be in the best interests of shareholders as a whole. Any shares purchased under this authority will either be held in treasury or cancelled.

Statement Regarding Annual Report and Accounts

Following a detailed review of the Annual Report and Accounts by the Audit & Risk Committee, the Directors consider that taken as a whole it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy. In reaching this conclusion, the Directors have assumed that the reader of the Annual Report and Accounts would have a reasonable level of knowledge of the investment industry in general and investment companies in particular.

Dividend Policy

Subject to market conditions and the Company's performance, financial position and financial outlook, it is the Director's intention to pay an attractive level of dividend income to Shareholders on a quarterly basis. The Company intends to continue to pay all dividends as interim dividends. A resolution to approve this dividend policy will be proposed at the Annual General Meeting.

Disclosure of Information to the Auditor

The Directors confirm that, so far as each of them are aware, there is no relevant audit information of which the Company's auditor is unaware and the Directors have taken all the steps that they might to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent Auditor

KPMG LLP have been auditor to the Company since 2007, and the Board has decided that, in the interest of good governance, the audit should now be put out to tender. The level of auditor remuneration will be authorised by the Directors as part of the tender process.

Recommendation

The Directors consider that the passing of the resolutions to be proposed at the Annual General Meeting is in the best interests of the Company and its shareholders as a whole and is most likely to promote the success of the Company for the benefit of the shareholders as a whole. The Directors unanimously recommend that all shareholders vote in favour of those resolutions.

By Order of the Board

J G West

27 October 2016

Statement of Corporate Governance

Introduction

The UK Listing Authority requires all listed companies to describe how they have complied with the principles of the UK Corporate Governance Code published in September 2014 (the "Governance Code"), which is available on the Financial Reporting Council's website: www.frc.org.uk. The Governance Code covers in particular the annual re-appointment of Directors, Board diversity, external evaluation, the Board's responsibilities in relation to risk, and a clear explanation of business model and strategy.

The Association of Investment Companies has also published a Code of Corporate Governance ("AIC Code") and a Corporate Governance Guide for Investment Companies ("AIC Guide") which are available on the AIC's website: www.theaic.co.uk. The AIC Code, as explained by the AIC Guide, addresses all of the principles set out in Section 1 of the Governance Code, as well as setting out additional principles and recommendations on issues that are of specific relevance to investment companies.

The Board considers that reporting against the principles and recommendations of the AIC Code, and by reference to the AIC Guide (which incorporates the Governance Code), will provide better information to shareholders.

There is no standard Code of Corporate Governance in Jersey, where the Company is incorporated.

Application of the Principles of the Codes

The Company has complied with the provisions of the AIC Code and the Governance Code, except for the Governance Code provisions relating to:

- The role of the chief executive (A 1.2)
- Executive directors' remuneration (D.1.1 and D.1.2)
- The need for an internal audit function (C 3.6)

As indicated by the AIC Code the above exceptions are not believed to be applicable to an externally managed investment company.

The Board

The Board currently consists of a non-executive Chairman and three non-executive Directors.

In view of the requirement in the Articles of Association that all Directors retire by rotation, the Board has agreed that each Director, over nine years service, will retire and, if appropriate, seek re-election annually. Outwith this Directors will retire and seek re-election every three years. For the purposes of assessing compliance with the UK Corporate Governance Code, the Board considers all of the Directors as independent of the Investment Manager and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. However, as both Mr A J R Collins and Mr G D Ross sat during the year on the boards of more than one company managed by the Investment Manager, they are not regarded as independent for the purpose of the AIC Code. Subsequent to the previous year end, Mr G D Ross resigned on 31 July 2015 and Mr D A H Baxter was appointed the same day.

On 2 March 2016 Mr A F de L Carey resigned, Mrs W Dorman was appointed and then subsequently took over as Audit & Risk Chairman on 2 June 2016. After the year end, on 18 July 2016, Mr G D P Breeze resigned from the Board.

Given the size and composition of the Board it is not felt necessary to appoint a Senior Independent Non-executive Director. New Directors receive an induction from the Company Secretary and Administrator on joining the Board, and all Directors receive other relevant training as necessary.

The basis on which the Company agrees to generate value over the longer term is set out in its objective and investment policy as contained within the Business Review.

The Company has no executive Directors or employees. A management agreement between the Company and its Investment Manager sets out the matters over which the Investment Manager has authority and the limits beyond which Board approval must be sought. All other matters, including strategy, investment and dividend policies, gearing and corporate governance procedures, are reserved for the approval of the Board.

Directors have attended Board and Committee meetings during the year ended 30 June 2016 as follows (with their eligibility to attend the relevant meeting in brackets):

	Board meetings	Audit & Risk Committee meetings	Management Engagement and Nomination Committee meetings
J G West (Chairman)	4 (4)	2 (2)	2 (2)
G D P Breeze	4 (4)	2 (2)	2 (2)
A F de L Carey	3 (3)	2 (2)	2 (2)
A J R Collins	4 (4)	2 (2)	2 (2)
G D Ross	0 (0)	n/a	0 (0)
D A H Baxter	4 (4)	2 (2)	2 (2)
W Dorman	2 (2)	1 (1)	0 (0)

The Board has a schedule of matters reserved to it for decision and the requirement for Board approval on these matters is communicated directly to the Investment Manager. Such matters include strategy, borrowings, treasury and dividend policy. Full and timely information is provided to the Board to enable the Directors to function effectively and to discharge their responsibilities. The Board also reviews the financial statements, performance and revenue budgets.

The Board has put in place necessary procedures to conduct, on an annual basis, an appraisal of the Chairman of the Board as well as a performance evaluation of the Board as a whole, the individual Directors and the Board Committees. This was conducted through a forum based assessment process.

Management Engagement Committee

The Management Engagement Committee, which is chaired by Mr J G West, operates within clearly defined terms of reference which are available on request, comprises the full Board and reviews the appropriateness of the Investment Manager's continuing appointment together with the terms and conditions thereof on a regular basis.

Nomination Committee

The Nominations Committee, which is chaired by Mr J G West, operates within clearly defined terms of reference which are available on request, comprises the full Board and is convened for the purpose of considering the appointment of additional Directors as and when considered appropriate. In considering appointments to the Board, the Nomination Committee takes into account the ongoing requirements of the Company and the need to have a balance of skills and experience within the Board.

Diversity

The Board believes in the benefits of having a diverse range of skills and backgrounds, and the need to have a balance of experience, independence, diversity, including gender, and knowledge of the Company on its Board of Directors. All appointments will continue to be based on merit and therefore the Board is unwilling to commit to numerical diversity targets.

Exercise of Voting Powers

The Investment Manager, in the absence of explicit instruction from the Board, is empowered to exercise discretion in the use of the Company's voting rights in respect of investee companies. The underlying aim of exercising such voting rights is to protect the return from an investment.

Relations with Shareholders

The Directors place a great deal of importance on communication with shareholders. The Annual Report and Accounts are widely distributed to other parties who have an interest in the Company's performance. Shareholders and investors may obtain up to date information on the Company through the Investment Manager's website. The Company responds to letters from shareholders on a wide range of issues.

A regular dialogue is maintained with the Company's institutional shareholders.

The Notice of the Annual General Meeting included within the Annual Report and Accounts is sent out 20 working days in advance of the meeting. The Company Secretary is available to answer general shareholder queries at any time throughout the year.

By Order of the Board

R&H Fund Services (Jersey) Limited
Secretary

Ordnance House, 31 Pier Road
St. Helier, Jersey, JE4 8PW

27 October 2016

Report of the Audit & Risk Committee

Composition of the Audit & Risk Committee

An Audit & Risk Committee has been established with written terms of reference and comprises four non-executive Directors, Mrs W Dorman (Chairman), Mr D A H Baxter, Mr A J R Collins and Mr J G West. The Audit & Risk Committee members have recent and relevant financial experience. The terms of reference of the Audit & Risk Committee are reviewed and re-assessed for their adequacy on an annual basis and are available on request.

Role of the Audit & Risk Committee

A summary of the Committee's main audit review functions is shown below:

- to review and monitor the internal control systems and risk management systems on which the Company is reliant;
- to consider annually whether there is a need for the Company to have its own internal audit function;
- to monitor the integrity of the interim and annual financial statements of the Company by reviewing, and challenging where necessary, the actions and judgements of the Manager, the Company Secretary and the UK Administrator;
- to meet with the external Auditor, KPMG LLP ("KPMG") to review their proposed audit programme of work and their findings. The Board shall also use this as an opportunity to assess the effectiveness of the audit process;
- to make recommendations in relation to the appointment of the external Auditor and to approve the remuneration and terms of engagement of the external Auditor;
- to monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification; and
- to consider and approve all non-audit services.

Annual Report and Financial Statements

The Board of Directors are responsible for preparing the Annual Report and financial statements. The Audit & Risk Committee advises the Board on the form and content of the Annual Report and financial statements, any issues which may arise and any specific areas which require judgement.

The valuation of unquoted securities was an area of judgement specifically reviewed by the Audit & Risk Committee. Following discussion with the Investment Manager, the Audit & Risk Committee gained comfort over the valuation as included in the Annual Report and financial statements.

Auditor

As part of its review of the scope and results of the audit, during the year the Audit & Risk Committee considered and approved KPMG's plan for the audit of the financial statements for the year ended 30 June 2016. At the conclusion of the audit KPMG did not highlight any issues to the Audit & Risk Committee which would cause it to qualify its audit report nor did it highlight any fundamental internal control weaknesses. KPMG issued an unqualified audit report which is included on pages 24 and 25.

As part of the review of auditor independence and effectiveness, KPMG has confirmed that it is independent of the Company and has complied with relevant auditing standards. In evaluating KPMG, the Audit & Risk Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit & Risk Committee, from direct observation and enquiry of the Manager and the UK Administrator, remains satisfied that KPMG continues to provide effective independent challenge in carrying out its responsibilities.

Following professional guidelines, the audit partner rotates after five years. The current audit director is in the second year of his appointment. KPMG have been auditors of the Company since the first year end 30 June 2008. In the interests of good governance, the Audit & Risk Committee has recommended to the Board that the audit should now be put out to tender. The Board has agreed with this recommendation.

Following a discussion with KPMG and the Investment Manager, the Audit & Risk Committee considers the main risk to arise from the audit to be the valuation and ownership of listed investments held by the company.

In order to address this the Company have appointed an Investment Manager and Custodian with clearly defined contracts and any breaches of these, or any law or regulation to Company is required to comply with, are reported to the Board. The Company also receives regular reporting on internal controls (as set out on below).

As part of the annual audit, KPMG has agreed the valuation of all of the quoted investments in the portfolio to independent pricing providers and validated the existence of all the securities held by the Company to records of the Custodian. KPMG reviewed the basis and justification for the fair value of the unquoted securities established by the Investment Manager and approved by the Board. KPMG also highlighted income recognition (in respect of the fixed interest portfolio) and calculation of the management fee as the other areas of focus considered within the audit. KPMG has reviewed these and no matters material to the financial statements were raised.

Internal Controls

The Board is ultimately responsible for the Company's system of internal control and for reviewing its effectiveness. Following publication of the Financial Reporting Council's "Internal Control: Revised Guidance for Directors on the Combined Code" (the "FRC Guidance") the Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of this Annual Report and is regularly reviewed by the Board and accords with the FRC Guidance.

The Board has reviewed the effectiveness of the system of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and policies by which these risks are managed. The significant risks faced by the Company are as follows:

- financial;
- operational; and
- compliance.

The key components designed to provide effective internal control are outlined below:

- R&H Fund Services (Jersey) Limited as Company Secretary and Administrator and R&H Fund Services Limited (as UK Administrator) together with the Investment Manager prepare forecasts and management accounts which allow the Board to assess the Company's activities and review its performance;
- the Board and Investment Manager have agreed clearly defined investment criteria, specified levels of authority and exposure limits. Reports on these issues, including performance statistics and investment valuations, are regularly submitted to the Board and there are meetings with the Investment Manager as appropriate;
- as a matter of course the Investment Manager's compliance department continually reviews the Investment Manager's operations and reports to the Board on a quarterly basis;
- written agreements are in place which specifically define the roles and responsibilities of the Investment Manager, Company Secretary, UK Administrator and other third party service providers;
- the Board has considered the need for an internal audit function but, because of the compliance and internal control systems in place at the Investment Manager, the Company Secretary and the UK Administrator, has decided to place reliance on the Investment Manager's, the Company Secretary's and the UK Administrator's systems and internal audit procedures.

At its September meeting, the Audit & Risk Committee carried out an annual assessment of internal controls for the year ended 30 June 2016 by considering documentation from the Investment Manager, the Company Secretary and UK Administrator, including the internal audit and compliance functions and taking account of events since 30 June 2015. The results of the assessment were then reported to the Board at the next Board meeting.

Internal control systems are designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and by their nature can only provide reasonable and not absolute assurance against mis-statement and loss.

The principal risks and uncertainties affecting the Company are disclosed on pages 9 and 10.

W Dorman

Chairman of Audit & Risk Committee
27 October 2016

Directors' Remuneration Report

Remuneration Committee

Under the UK Listing Rules, where an investment company has only non-executive directors, the Governance Code principles relating to directors' remuneration do not apply. The full Board acts as the Remuneration Committee whose Chairman is the Chairman of the Company.

The remuneration of the Directors has been set in order to attract individuals of a calibre appropriate to the future development of the Company. The Company's policy on Directors' remuneration, together with details of the remuneration of each Director, is shown below.

The Board has prepared this report in accordance with the requirements of Section 421 of the Companies Act 2006. An ordinary resolution for the approval of this Report will be put to the members at the forthcoming Annual General Meeting. As the Board of Directors is comprised solely of non-executive Directors, it is exempt under the Listing Rules from appointing a Remuneration Committee. The determination of the Directors' fees is a matter dealt with by the whole Board. This Report has been divided into separate sections for unaudited and audited information.

Policy on Directors' Remuneration

The Company's Articles of Association limit the aggregate fees payable to the Board of Directors to a total of £250,000 per annum. Subject to this overall limit, it is the Company's policy that the remuneration of non-executive Directors should reflect the experience of the Board as a whole, be fair and comparable to that of other relevant investment companies that are similar in size and have similar investment objectives and structures. Furthermore, the level of remuneration should be sufficient to attract and retain the Directors needed to oversee properly the Company and to reflect the specific circumstances of the Company, the duties and responsibilities of the Directors and the value and amount of time committed to the Company's affairs. It is intended that this policy will continue for the year ending 30 June 2016 and subsequent years.

No element of the Directors' remuneration is performance-related.

The Company's Articles of Association provide that Directors shall not remain in office for longer than three years without submitting themselves for re-election.

No Director past or present has any entitlement to pensions, and the Company has not awarded any share options or long-term performance incentives to any of the Directors.

Directors' and Officers' liability insurance cover is maintained by the Company on behalf of the Directors.

It is the Board's policy that Directors do not have service contracts, but new Directors are provided with a letter of appointment.

The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are obliged to retire by rotation, and may offer themselves for re-election by shareholders at least every three years after that. There is no notice period and no provision for compensation upon early termination of appointment.

Director	Date of Appointment	Due date for re-election
J G West	17 January 2007	AGM 2016
G D P Breeze***	17 January 2007	n/a
A F de L Carey**	17 January 2007	n/a
A J R Collins	17 January 2007	AGM 2016
G D Ross*	17 January 2007	n/a
D A H Baxter	31 July 2015	AGM 2018
W Dorman	2 March 2016	AGM 2016

*Resigned 31 July 2015.
**Resigned 2 March 2016.
***Resigned 18 July 2016.

Annual Report on Directors' Remuneration

Directors' Emoluments (audited)

The Directors who served in the year received the following fees:

	2016 £	2015 £
J G West (Chairman)	36,000	36,000
G D P Breeze	26,310	26,500
A F de L Carey	16,076	24,000
A J R Collins	24,000	24,000
G D Ross	–	24,000
D A H Baxter	22,000	–
W Dorman	8,114	–
Totals	132,500	134,500

The amounts paid by the Company to the Directors were for services as non-executive Directors.

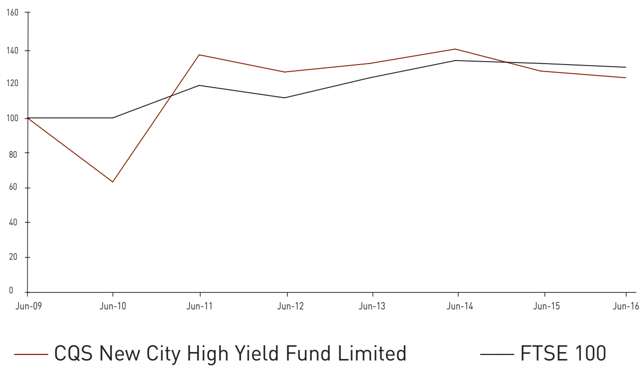
As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

Company Performance

The Board is responsible for the Company's investment strategy and performance, although the management of the Company's investment portfolio is delegated to the Investment Manager through the investment management agreement, as referred to in the Directors' Report on page 16.

The graph below illustrates the total shareholder return for a holding in the Company's shares as compared to the FTSE 100 for the seven year period to 30 June 2016. The Company considers this to be an appropriate index against which to measure the Company's performance, in the absence of a meaningful benchmark index.

Share Price Total Return versus FTSE 100 Index Total Return



The Directors who held office at the year end and their interests in the Ordinary Shares of the Company were as follows:

	At 30 June 2016 Ordinary shares	At 30 June 2015 Ordinary shares
J G West	55,850	55,850
G D P Breeze	5,799,920	5,799,920
A F de L Carey	–	–
A J R Collins	40,000	40,000
D A H Baxter	109,412	–
W Dorman	64,000	–

G D P Breeze resigned on 18 July 2016.

There has been no change in the ordinary share holdings of the Directors between 30 June 2016 and 27 October 2016.

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 11 December 2015, shareholders approved the Directors' Remuneration Policy and the Directors' Remuneration Report in respect of the year ended 30 June 2015. 99.6% and 92.3% were in favour of the resolutions respectively and 0.4% and 7.7% were against.

An ordinary resolution for the approval of this Directors' Remuneration Report will be put to an advisory shareholders vote at the forthcoming Annual General Meeting.

An ordinary resolution for the approval of the Directors' Remuneration Policy will be put to a binding shareholders vote at the forthcoming Annual General Meeting.

Approval

The Directors' Remuneration Report on pages 22 and 23 was approved by the Board of Directors and signed on its behalf on 27 October 2016.

On behalf of the Board

J G West
Director

Independent Auditor's Report to the Members of CQS New City High Yield Fund Limited Only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of CQS New City High Yield Fund Limited for the year ended 30 June 2016 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related note set out on pages 26 to 41. In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards as adopted by the European Union, of the state of the company's affairs as at 30 June 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with the Companies (Jersey) Law 1991; and

2. Our assessment of risk of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit was as follows:

Valuation of unquoted equity investments £3.6m (2015: £382k) Risk vs 2015 : [▲] *

Refer to page 20 (Report of the Audit & Risk Committee), page 30 (accounting policy) and pages 35 and 36 (financial disclosures).

The risk: The Company's portfolio of unquoted investments, where no quoted market price is available, makes up 1.6% (2015: 0.16%) of the Company's total assets (by value). Unquoted investments are measured at fair value, which is established in accordance with the International Private Equity and Venture Capital Valuation Guidelines by using measurements of value such as price of recent orderly transactions, earnings multiples and net assets. Although the unquoted investments portfolio reflects only 1.6% of the Company's total assets, the value in 2016 is driven by a smaller number of individual investments, compared with 2015, and given the subjective nature of the valuations, an error in the valuation of one such investment could result in a material misstatement.

Our response: Our procedures over the completeness, valuation and existence of the Company's quoted investment portfolio included, but were not limited to:

- documenting and assessing the design and implementation of the valuation processes controls in place to value the portfolio;
- discussion with the investment manager to assess their review of the investment valuations and review of the Valuation Committee minutes for justification of the valuation approach;
- assessment of investment realisations in the period, comparing actual sales proceeds to prior year and valuations to understanding the reasons for significant variances and determine whether they are indicative of bias or error in the company's approach to valuations;
- challenge the investment manager on key judgments affecting investee company valuations in the context of observed industry best practice and the provisions of the International Private Equity and Venture Capital Valuation Guidelines. We challenged the appropriateness of the valuation bases selected as well as the underlying assumptions identified in the Valuation Committee minutes We compared key underlying financial data inputs to external sources, investee company audited accounts and management information as applicable. We challenged the assumptions around sustainability of earnings based on the plans of the investee companies and whether these are achievable, and we obtained an understanding of existing and prospective investee company cash flows to understand whether borrowings can be serviced or whether refinancing may be required. Our work included consideration of events which occurred subsequent to the year end up until the date of this audit report;
- attending the year-end Audit Committee meeting where we assessed the effectiveness of the Audit Committee's challenge and approval of unlisted investment valuations; and
- consideration of the appropriateness, in accordance with relevant accounting standards, of the disclosures in respect of unquoted investments and the effect of changing one or more inputs to reasonably possible alternative valuation assumptions

Valuation of quoted equity investments £208.3m (2015: £222.9m) Risk vs 2015 : [◀▶] **

Refer to page 20 (Report of the Audit committee), page 30 (accounting policy) and pages 35 and 36 (financial disclosures).

The risk: The Company's portfolio of quoted investments makes up 93% (2015: 96%) of the Company's total assets (by value) and is considered to be the key driver of the Company's operations and performance results. We do not consider these investments to be at high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.

Our response: Our procedures over the completeness, valuation and existence of the Company's quoted investment portfolio included, but were not limited to:

- documenting and assessing the processes in place to record investment transactions and to value the portfolio;
- agreeing the valuation of 100% of investments in the portfolio to externally quoted prices; and
- agreeing 100% of investment holdings in the portfolio to independently received third party confirmations.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £2,240,000 (2015: £2,331,000), determined with reference to a benchmark of Total Assets (of which it represents 1% (2015: 1%)).

* Increase in risk in prior year

** Change in risk compared to the prior year

We agree with the Audit Committee to report to it any corrected and uncorrected identified misstatements exceeding £111,000 (2015: £117,000), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above.

4. Our opinion on other matters prescribed by the Companies (Jersey) Law 1991 is unmodified

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies (Jersey) Law 1991; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Viability Statement on page 10 within the Strategic Review, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the company's continuing in operation over the three years to date; or
- the disclosures in Note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they consider that the annual report and financial statements 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; or
- the Statement of Corporate Governance does not appropriately address matters communicated by us to the audit committee.

Under the Companies (Jersey) Law 1991 we are required to report to you if, in our opinion:

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

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 10, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 18 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 12, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on , the financial statements in accordance with applicable law and international Standards on Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

The Purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a bod, in accordance with Article 113A of the Companies (Jersey) Law 1991. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report, and for no other purpose. To the fullest extent permitted by Law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

John Waterson
for and on behalf of KPMG LLP
Chartered Accountants and Recognised Auditor
Saltire Court, Castle Terrace,
Edinburgh
EH1 2EG

27 October 2016

Income Statement

For the year ended 30 June 2016

	Notes	Year ended 30 June 2016 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2015 Revenue £'000	Capital £'000	Total £'000
Capital losses on investments							
Losses on investments	9	–	(14,281)	(14,281)	–	(12,898)	(12,898)
Exchange gains		–	75	75	–	130	130
Revenue							
Income	2	18,692	–	18,692	16,602	–	16,602
		18,692	(14,206)	4,486	16,602	(12,768)	3,834
Expenses							
Investment management fee	3	(1,328)	(443)	(1,771)	(1,241)	(414)	(1,655)
Other expenses	4	(653)	(61)	(714)	(749)	(94)	(843)
Total expenses		(1,981)	(504)	(2,485)	(1,990)	(508)	(2,498)
Profit before finance costs and taxation		16,711	(14,710)	2,001	14,612	(13,276)	1,336
Finance costs							
Interest receivable		1	–	1	7	–	7
Interest payable and similar charges	5	(295)	(98)	(393)	(208)	(69)	(277)
Profit before taxation		16,417	(14,808)	1,609	14,411	(13,345)	1,066
Irrecoverable withholding tax	6	(261)	–	(261)	(264)	–	(264)
Profit after taxation		16,156	(14,808)	1,348	14,147	(13,345)	802
Earnings per ordinary share (pence)	8	4.50	(4.12)	0.38	4.51	(4.25)	0.26

The total column of this statement represents the Company's Statement of Comprehensive Income, prepared in accordance with IFRS (refer to note 1). The supplementary revenue return and capital return columns are both prepared under guidance published by the Association of Investment Companies.

There is no other comprehensive income as all income is recorded in the Income Statement above.

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

No operations were acquired or discontinued in the year.

The accompanying notes are an integral part of these financial statements.

Balance Sheet

As at 30 June 2016

	Notes	As at 30 June 2016 £'000	As at 30 June 2015 £'000
Non-current assets			
Investments held at fair value	9	211,882	223,365
Current assets			
Other receivables	10	3,952	3,543
Cash and cash equivalents		8,201	6,220
		12,153	9,763
Total assets		224,035	233,128
Current liabilities			
Bank loan facility	11	(25,000)	(23,000)
Other payables	12	(1,208)	(1,452)
Total liabilities		(26,208)	(24,452)
Net assets		197,827	208,676
Stated capital and reserves			
Stated capital account	13	154,397	150,963
Special distributable reserve		50,385	50,385
Capital reserve		(22,325)	(7,775)
Revenue reserve		15,370	15,103
Equity shareholders' funds		197,827	208,676
Net asset value per ordinary share (pence)	15	54.68	58.63

The financial statements on pages 26 to 41 were approved by the Board of Directors and authorised for issue on 27 October 2016 and were signed on its behalf by:

J G West
Director

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 30 June 2016

	Notes	Stated capital account* £'000	Special distributable reserve‡ £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £'000
At 1 July 2015		150,963	50,385	(7,775)	15,103	208,676
Total comprehensive income for the year:						
Profit for the year		–	–	(14,808)	16,156	1,348
Reserve transfer		–	–	258	(258)	–
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(15,631)	(15,631)
Issue of shares	13	22,825	–	–	–	22,825
Buyback of ordinary shares for Treasury		(19,391)	–	–	–	(19,391)
At 30 June 2016		154,397	50,385	(22,325)	15,370	197,827

For the year ended 30 June 2015

	Notes	Stated capital account* £'000	Special distributable reserve‡ £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £'000
At 1 July 2014		111,638	50,385	5,570	14,268	181,861
Total comprehensive income for the year:						
Profit for the year		–	–	(13,345)	14,147	802
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(13,312)	(13,312)
Issue of shares	13	39,325	–	–	–	39,325
At 30 June 2015		150,963	50,385	(7,775)	15,103	208,676

The accompanying notes are an integral part of these financial statements.

* Following a change in Jersey Company Law effective 27 June 2008, dividends can be paid out of any capital account of the Company subject to certain solvency restrictions. It is the Company's policy however to account for revenue items and pay dividends through a separate revenue reserve.

‡ The balance on the special distributable reserve of £50,385,000 (2015: £50,385,000) is treated as distributable profits available to be used for all purposes permitted by Jersey Company Law including the buying back of ordinary shares, the payment of dividends and the payment of preliminary expenses.

† The balance on the revenue reserve of £15,370,000 (2015: £15,103,000) is available for paying dividends.

Cash Flow Statement

For the year ended 30 June 2016

	Notes	Year ended 30 June 2016 £'000	Restated Year ended 30 June 2015 £'000
Operating activities			
Profit before finance costs and taxation		2,001	1,336
Losses on investments		14,281	12,898
Effective yield		(625)	(794)
Exchange gains		(75)	(130)
(Increase)/decrease in other receivables		(409)	77
Increase in other payables		31	35
Net cash inflow from operating activities before interest and taxation		15,204	13,422
Interest received		1	7
Interest paid		(377)	(306)
Irrecoverable withholding tax paid		(261)	(264)
Net cash inflow from operating activities		14,567	12,859
Investing activities			
Purchases of investments		(65,791)	(87,832)
Sales of investments		62,410	47,588
Net cash outflow from investing activities		(3,381)	(40,244)
Financing			
Equity dividends paid		(15,631)	(13,312)
Drawdown of bank loan facility		2,000	7,640
Issue of ordinary shares		3,434	39,325
Net cash (outflow)/inflow from financing		(10,197)	33,653
Increase in cash and cash equivalents		989	6,268
Cash and cash equivalents at the start of the year		6,220	(212)
Cashflow		989	6,268
Bank overdraft		917	34
Exchange gains		75	130
Cash and cash equivalents at the end of the year	16	8,201	6,220

Notes to the Financial Statements

1 Accounting Policies

(a) Basis of accounting

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the International Accounting Standards Board ("IASB") and in accordance with the guidance set out in the Statement of Recommended Practice ("SORP") for investment trust companies and venture capital trusts issued by the Association of Investment Companies ("AIC") in November 2014. Notwithstanding that CQS New City High Yield Fund Limited is not an investment trust company, given the purpose of the Company and certain similar characteristics, the Company has chosen to follow the guidance set out in the SORP where it is consistent with the requirements of IFRS.

The functional and reporting currency of the Company is pounds sterling because that is the primary economic environment in which the Company operates. The notes and financial statements are presented in pounds sterling and are rounded to the nearest thousand except where otherwise indicated.

The financial statements have been prepared on the historical cost basis, except that investments are stated at fair value and categorised as financial assets at fair value through profit or loss.

At the date of authorisation of these financial statements, the following Standards and Interpretations were effective for annual periods beginning on or after 1 January 2018:

–IFRS 9 – Financial Instruments (revised, early adoption permitted)

–IFRS 15 – Revenue from Contracts with Customers (early adoption permitted)

At the date of authorisation of these financial statements, the following Standards and Interpretations were effective for annual periods beginning on or after 1 January 2019:

–IFRS 16 – Leases (early adoption permitted)

The following amendments to Standards are all effective for annual periods beginning on or after 1 January 2016:

–IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

–IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception

–IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations

–IAS 1 – Disclosure Initiative

–IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

–IAS 27 – Equity Method in Separate Financial Statements

In addition, under the Annual Improvements to IFRSs 2012 – 2014 Cycle, a number of Standards are included for annual periods beginning on or after 1 January 2016.

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material financial impact on the financial statements of the Company. The Company concludes however that certain additional disclosures may be necessary on their application.

Critical accounting estimates and judgements

The preparation of the financial statements necessarily requires the exercise of judgement both in application of accounting policies which are set out below and in the selection of assumptions used in the calculation of estimates. These estimates and judgements are reviewed on an ongoing basis and are continually evaluated based on historical experience and other factors. However, actual results may differ from these estimates. The most significant judgements are the valuation of unquoted investments which is described in note 1(b) below and the adoption of the going concern basis of preparation which is discussed on page 10 of the Strategic Review.

A summary of the principal accounting policies which have been applied to all periods presented in these financial statements is set out below.

(b) Investments

Purchases or sales of investments are recognised/derecognised on the date the Company commits to purchase/sell the investments. On initial recognition investments are classified as fair value through profit or loss with any resultant gain or loss, including any gain or loss arising from a change in exchange rates, recognised in the Income Statement. For listed securities this is either the bid price or last traded price, depending on the convention of the exchange on which the investment is listed, adjusted for accrued income where it is reflected in the market price.

Investments which are not listed or where trading in the securities of an investee company is suspended are valued at the Board's estimate of fair value. Unquoted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. This includes a review of the financial and trading information of the company, covenant compliance, ability to pay the interest due and cash held. For convertible bonds this also includes consideration of their discounted cash flows and underlying equity value based on information provided by the Investment Manager. Where no reliable fair value can be estimated, investments may be carried at cost less any provision for impairment.

International Financial Reporting Standard ("IFRS") 7 Financial Instruments: Disclosures' requires an analysis of investments valued at fair value based on the reliability and significance of information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investments quoted in an active market;
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices;
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

Transfers in and out of the levels have been deemed to have occurred at the end of the reporting period.

(c) Income

Dividends receivable on equity shares are recognised as income on the date that the related investments are marked ex-dividend. Dividends receivable on equity shares where no ex-dividend date is quoted are recognised as income when the Company's right to receive payment is established.

Fixed returns on non-equity shares and debt securities are recognised on a time apportioned basis so as to reflect the effective interest rate on those instruments. Other returns on non-equity shares are recognised when the right to the return is established.

Income from deposit interest is recognised on an accruals basis.

Where the Company has elected to receive its dividends in the form of additional shares rather than cash, an amount equal to the cash dividend is recognised as income. Any excess in the value of the shares received over the amount of the cash dividend is recognised in the capital reserve.

(d) Expenses, including finance charges

All expenses are accounted for on an accruals basis. Expenses are charged through the revenue account except as follows:

- expenses which are incidental to the acquisition of an investment are included within the cost of the investment;
- expenses which are incidental to the disposal of an investment are deducted from the disposal proceeds of the investment and are thus charged to the capital reserve;
- the Company charges 25 per cent of investment management fees and interest costs to capital, in line with the Board's expected long term return in the form of capital gains and income respectively from the investment portfolio of the Company. For further details refer to notes 3 and 5; and
- expenses incurred in connection with the maintenance or enhancement of the value of the investments or for the long term benefit of the Company are charged to capital.

(e) Foreign currencies

Transactions denominated in foreign currencies are recorded in the functional currency at actual exchange rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the period end are reported in sterling at the rates of exchange prevailing at the period end. Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the capital reserve.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and bank overdrafts.

(g) Bank borrowings

Interest bearing bank loans are recorded at cost.

(h) Reserves

(a) Capital reserve. Following a change in Jersey Company law effective 27 June 2008, dividends can be paid out of any capital account of the Company subject to certain solvency restrictions. It is the Company's policy however to account for revenue items and pay dividends through a separate revenue reserve. The following are accounted for in the Capital reserve:

- gains and losses on the realisation of investments;
- realised and unrealised exchange differences of a capital nature;
- expenses and finance costs charged in accordance with the policies above; and
- increases and decreases in the valuation of investments held at the period end.

(b) Special distributable reserve. This reserve is treated as distributable profits available to be used for all purposes permitted by Jersey company law including the buying back of ordinary shares, the payment of dividends and the payment of preliminary expenses.

(c) Revenue reserve. The net profit/(loss) arising in the revenue column of the income statement is added to or deducted from this reserve and is available for paying dividends.

(i) Treasury shares

When the Company purchases its Ordinary shares to be held in treasury, the amount of the consideration paid, which includes directly attributable costs, and is recognised as a deduction from the stated capital account. When these shares are sold subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to or from the stated capital account.

(j) Segmental information

The Directors are of the opinion that the Company is engaged in a single segment of business, being investment business.

2 Income

	2016 £'000	2015 £'000
Income from investments*		
Dividend income	1,471	945
Preference share income	1,180	1,865
Interest on fixed interest securities	16,041	13,792
Total income	18,692	16,602
Income from investments		
Quoted	18,692	16,602
Unquoted	–	–
	18,692	16,602

*All investment income arises on investments valued at fair value through Profit or Loss.

3 Investment Management Fee

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Investment management fee	1,328	443	1,771	1,241	414	1,655

The Company's Investment Manager is CQS which in turn has delegated this function to NCIM. The contract between the Company and CQS may be terminated by either party giving not less than 12 months' notice of termination. CQS receives a basic monthly fee at the rate of 0.8 per cent per annum of the Company's total assets (less current liabilities other than bank borrowings), payable in arrears up to and including £200,000,000 and 0.7 per cent per annum above this. The balance due to CQS for management fees at the year end was £149,000 (2015: £155,000).

Investment management fees have been allocated 25 per cent to capital and 75 per cent to revenue.

4 Other Expenses

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Secretarial and administration fees	163	–	163	162	–	162
Directors' fees	133	–	133	133	–	133
Auditors' remuneration for:						
– audit services	23	–	23	21	–	21
Share Plan expenses	8	–	8	12	–	12
Broker fees	31	–	31	30	–	30
Printing	16	–	16	26	–	26
Bank and custody charges	50	–	50	45	–	45
Registrars' fees	35	–	35	47	–	47
Depositary fees	61	–	61	52	–	52
Legal & professional fees	26	–	26	60	–	60
Other	107	61	168	161	94	255
	653	61	714	749	94	843

The Company has an agreement with R&H Fund Services (Jersey) Limited ("R&H") to provide administrative, compliance oversight and company secretarial services to the Company. One of the Company's Directors, Graeme Ross, is managing director of R&H. Under the administration agreement, R&H was entitled to a fixed fee of £9,000 per annum prior to Graeme Ross resigning from the Board on 31 July 2015.

As part of the Company's administration arrangements, the accounting, valuation, UK compliance oversight and certain other administrative services are delegated by the Administrator to R&H Fund Services Limited ("UK Administrator"). During the year, the UK Administrator was entitled to a fixed fee of £130,000 per annum and a variable fee of 0.01 per cent per annum of the Company's total assets (less current liabilities excluding any bank borrowings) in excess of £200 million. The Administration Agreement may be terminated by either party giving to the other not less than 12 months' notice.

The total fees paid under these agreements were £31,000 (2015: £33,000) to R&H (including the Director's fee to G D Ross) and £132,000 (2015: £145,000) to RHFSL. There was no fees due to any of the parties at the year end.

The remuneration of the Chairman, the highest paid Director, was at a rate of £36,000 per annum. Further details are provided in the Directors' Remuneration Report on pages 22 and 23.

No pension contributions were payable in respect of any of the Directors.

The Company does not have any employees.

5 Interest Payable and Similar Charges

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Bank loan	295	98	393	208	69	277

Interest payable on the bank loan has been allocated 25 per cent to capital and 75 per cent to revenue.
Interest payable is on financial liabilities that are not valued at fair value through profit or loss.

6 Taxation

The taxation charge for the year is comprised of:

	2016 Revenue £'000	2016 Capital £'000	2016 Total £'000	2015 Revenue £'000	2015 Capital £'000	2015 Total £'000
Irrecoverable withholding tax suffered	261	–	261	264	–	264

The taxation on profit differs from the theoretical expense that would apply on the Company's profit before taxation using the applicable tax rate in Jersey of zero per cent (2015: 0%) as follows:

	2016 £'000	2015 £'000
Profit on ordinary activities before taxation	1,609	1,066
Theoretical tax expense at zero per cent (2015: 0%)	–	–
Effects of :		
Foreign withholding tax	261	264
Current year revenue tax charge	261	264

7 Dividends

	Payment date	2016 Revenue £'000	2015 Revenue £'000
Amounts recognised as distributions to equity holders in the year:			
Dividends in respect of the year ended 30 June 2015			
– Fourth interim of 1.45p per ordinary share	28 August 2015	5,161	4,225
Dividends in respect of the year ended 30 June 2016			
– First interim of 0.97p (2015: 0.94p) per ordinary share	27 November 2015	3,452	2,739
– Second interim of 0.97p (2015: 0.96p) per ordinary share	29 February 2016	3,509	2,931
– Third interim of 0.97p (2015: 0.96p) per ordinary share	29 May 2016	3,509	3,417
		15,631	13,312
Distributions to equity holders after the year end:			
Dividends in respect of the year ended 30 June 2016			
– Fourth interim of 1.45p per ordinary share	31 August 2016	5,246	–
Dividends in respect of the year ended 30 June 2015			
– Fourth interim of 1.45p per ordinary share	28 August 2015	–	5,161

In accordance with IFRS the fourth interim dividend has not been included as a liability in these accounts and will be recognised in the period in which it is paid.

8 Earnings per Ordinary Share

	2016 Revenue pence	2016 Capital pence	2016 Total pence	2015 Revenue pence	2015 Capital pence	2015 Total pence
Ordinary share	4.50p	(4.12)p	0.38p	4.51p	(4.25)p	0.26p

The revenue earnings per ordinary share is based on the net profit after taxation of £16,156,000 (2015: £14,147,000) and on 359,441,578 (2015: 313,955,040) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital earnings per ordinary share is based on a net capital loss of £14,808,000 (2015: net capital loss of £13,345,000) and on 359,441,578 (2015: 313,955,040) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

9 Investments

All investments are valued at fair value through Profit or Loss. Gains or losses arising from changes in the fair value of investments are included in the Income Statement.

	2016 £'000	2015 £'000
Investments listed/quoted on a recognised investment exchange	208,277	222,983
Unquoted investments	3,605	382
	211,882	223,365
Equity shares	24,867	24,681
Preference shares	11,841	23,725
Fixed income securities	175,011	170,301
Convertible securities	163	4,658
	211,882	223,365

International Financial Reporting Standard ("IFRS") 7 Financial Instruments: Disclosures' requires an analysis of investments valued at fair value based on the reliability and significance of information used to measure their fair value. The level is determined by the lowest (that is the least reliable or independently observable) level of input that is significant to the fair value measurement for the individual investment in its entirety as follows:

- Level 1 – investments quoted in an active market;
- Level 2 – investments whose fair value is based directly on observable current market prices or indirectly being derived from market prices;
- Level 3 – investments whose fair value is determined using a valuation technique based on assumptions that are not supported by observable current market prices or based on observable market data.

	Level 1 Listed in UK £'000	Level 1 Listed overseas £'000	Level 2 ** £'000	Level 3 £'000	2016 Total £'000	Restated 2015 Total £'000
Opening book cost *	68,322	38,527	132,044	5,393	244,286	202,277
Opening fair value adjustment *	1,443	(10,993)	(6,360)	(5,011)	(20,921)	(7,836)
Opening valuation *	69,765	27,534	125,684	382	223,365	194,441
Purchases at cost	6,864	1,998	56,451	(105)	65,208	88,004
Sales – proceeds	(39,115)	(12,730)	(10,565)	–	(62,410)	(46,182)
– realised gains on sales	3,611	(2,751)	(1,124)	–	(264)	187
Transfers/Conversions	(1,311)	(10,427)	2,925	8,813	–	–
Effective interest	(18)	(35)	(572)	–	(625)	(794)
Increase in fair value adjustment	(6,548)	6,959	(8,318)	(5,485)	(13,392)	(12,291)
Closing valuation	33,248	10,548	164,481	3,605	211,882	223,365
Closing book cost	38,371	14,617	179,731	14,101	246,820	244,286
Closing fair value adjustment	(5,123)	(4,069)	(15,250)	(10,496)	(34,938)	(20,921)
Closing valuation	33,248	10,548	164,481	3,605	211,882	223,365

*The opening figures reflecting the portfolio as at 30 June 2015 have been revised to more accurately reflect trading volume data which for the corporate bond portfolio is limited with security prices commonly based on consensus broker quotes rather than recent trading activity.

**Normally, investment company investments would be valued using stock market active prices with investments disclosed as Level 1, and this is the case for the quoted equity investments that the Company holds. However, a significant number of the investments are non-equity investments. These securities are priced using evaluated prices from a third party vendor, together with a price comparison made to secondary and tertiary evaluated third party sources. Evaluated prices are in turn based on a variety of sources, including broker quotes and benchmarks. As a result these investments are disclosed as Level 2 – recognising that the fair values of these investments are not as visible as quoted equity investments and their higher inherent pricing risk. However, this does not mean that the fair values shown in the portfolio valuation are not achievable at point of sale and the securities remain liquid and easily realisable.

Transfers in to and out of Level 3 have been deemed to have occurred at the end of the reporting period. Transfers in to Level 3 at the period end were in relation to Antares Energy 10% 30/10/2023 and Litebulb Group Convertible Loan Note 05/02/2017, both of which became unquoted and are currently priced using unobservable valuation techniques. There were no transfers out of Level 3 as at the year end.

The Directors believe that the use of reasonable possible alternative assumptions for its Level 3 holdings would not result in a valuation significantly different from the valuation included in these financial statements.

During the year the Company incurred brokerage costs of £14,000 (2015 – £5,000) on the purchase of investments and £5,000 (2015 – £7,000) on the sale of investments.

Losses on investments	2016 £'000	2015 £'000
Realised (losses)/gains	(264)	187
Effective yield	(625)	(794)
Movement in fair value	(13,392)	(12,291)
Losses on investments	(14,281)	(12,898)

10 Other Receivables

	2016 £'000	2015 £'000
Income receivable from shares and securities	3,932	3,513
Amounts due from brokers	2	–
Prepayments and other debtors	18	30
	3,952	3,543

11 Bank Loan Facility

	2016 £'000	2015 £'000
Bank loan facility	25,000	23,000

The Company has a short term loan facility with Scotiabank. The facility is due to expire 22 December 2016 after which it is anticipated the Company will take out a new facility on comparable terms.

As at the year end the unsecured loan facility had a limit of £30 million of which £25 million was drawn down at the year end.

12 Other Payables

	2016 £'000	2015 £'000
Bank overdraft	951	34
Interest on bank loan	8	–
Amount due to brokers	–	1,200
Other creditors	249	218
	1,208	1,452

13 Stated Capital Account

Authorised

The authorised share capital of the Company is represented by an unlimited number of ordinary shares of no par value.

Allotted, called up and fully-paid	Number of ordinary shares	2016 £'000
Total issued share capital at 1 July 2015	355,903,477	150,963
5,670,940 ordinary shares of no par value issued on 23 November 2015	5,670,940	3,317
200,000 ordinary shares of no par value issued on 24 November 2015	200,000	117
36,177,441 ordinary shares of no par value issued on 2 March 2016	36,177,441	19,391
36,177,441 ordinary shares of no par value bought back for Treasury on 2 March 2016	(36,177,441)	(19,391)
Total issued share capital at 30 June 2016	361,774,417	154,397

On 23 November 2015 the Company allotted 5,670,940 ordinary shares of no par value, under its placement programme, for cash at 58.50p per share.

On 24 November 2015 the Company allotted 200,000 ordinary shares of no par value, under its placement programme, for cash at 58.50p per share.

On 2 March 2016 the Company allotted 36,177,441 ordinary shares of no par value, under its placement programme, for cash at 53.60p per share.

On 2 March 2016 the Company bought back 36,177,441 ordinary shares of no par value to be held in Treasury, for cash at 53.60p per share.

14 Reserves

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, which are detailed on pages 1 and 9.

On 24 May 2007, the Royal Court of the Island of Jersey confirmed that the amount standing to the credit of the Company's stated capital account be reduced by 75 per cent and was used to create a distributable reserve in the Company's accounts. This reserve is treated as distributable profits available to be used for all purposes permitted by Jersey company law including the buying back of ordinary shares, the payment of dividends and the payment of preliminary expenses.

Capital management policies and procedures

The Company's capital management objectives are:

- to ensure that the Company will be able to continue as a going concern; and
- to maximise the capital return to its equity shareholders through an appropriate balance of equity capital and debt. The Board normally seeks to limit gearing to 25% of net assets.

The Board monitors and reviews the broad structure of the Company's capital on an ongoing basis. This review includes the nature and planned level of gearing, which takes account of the Investment Manager's views on the market, and the extent to which revenue in excess of that which is required to be distributed should be retained. The Company has no externally imposed capital requirements.

The capital of the Company is managed in accordance with its investment policy detailed in the Strategic Review on page 9.

15 Net Asset Value per Ordinary Share

The net asset value per ordinary share and the net asset value attributable to the ordinary shares at the year end calculated in accordance with their entitlements in the Articles of Association were as follows:

	Net asset value per share attributable		Net asset value attributable	
	2016 pence	2015 pence	2016 £'000	2015 £'000
Ordinary shares	**54.68p**	58.63p	**197,827**	208,676

The net asset value per ordinary share is based on net assets of £197,827,000 (2015: £208,676,000) and on 361,774,417 (2015: 355,903,477) ordinary shares, being the number of ordinary shares in issue at the year end.

16 Analysis of Changes in Net Debt

	At 30 June 2015 £'000	Cash flow £'000	Currency movements £'000	At 30 June 2016 £'000
Cash at bank and in hand	6,186	989	75	**7,250**
Bank facility	(23,000)	(2,000)	–	**(25,000)**
	(16,814)	(1,011)	75	**(17,750)**

17 Financial Instruments

The Company's financial instruments comprise its investment portfolio, cash balances, bank loan and debtors and creditors that arise directly from its operations. As an investment company, the Company holds a portfolio of financial assets in pursuit of its investment objective. The Company uses flexible borrowings for short term purposes, and to seek to enhance the returns to shareholders, when considered appropriate by the Investment Manager.

Investments held (see note 9) are valued at fair value. For listed securities this is either bid price or the last traded price depending on the convention of the exchange on which the investment is listed. Unlisted investments are valued by the Directors on the basis of all the information available to them at the time of valuation. The fair value of all other financial assets and liabilities is represented by their carrying value in the Balance Sheet shown on page 27. The fair value of the loan is not materially different from the carrying value in the Balance Sheet.

The main risks that the Company faces arising from its financial instruments are:

(i) market price risk, being the risk that the value of investment holdings will fluctuate as a result of changes in market prices caused by factors other than interest rate or currency rate movements;

(ii) interest rate risk, being the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates;

(iii) foreign currency risk, being the risk that the value of investment holdings, investment purchases, investment sales and income will fluctuate because of movements in currency exchange rates;

(iv) credit risk, being the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company; and

(v) liquidity risk, being the risk that the bank may demand repayment of the loan and or that the Company may not be able to liquidate quickly its investments.

The Company held the following categories of financial instruments as at 30 June 2016 all of which are held at fair value, other than the bank loan which is held at amortised cost:

	2016 £'000	2015 £'000
Financial instruments		
Investment portfolio	211,882	223,365
Cash and cash equivalents	8,201	6,220
Accrued income	3,932	3,513
Amounts due from brokers	2	–
Financial liabilities		
Bank overdraft	951	34
Bank loan	25,000	23,000
Amounts due to brokers	–	1,200
Interest on bank loan facility	8	–
Other creditors	249	218

18 Market Price Risk

Market price risk arises mainly from uncertainty about future prices of financial instruments held.
It represents the potential loss the Company might suffer through holding market positions in the face of price movements. To mitigate the risk the Board's investment strategy is to select investments for their fundamental value. Stock selection is therefore based on disciplined accounting, market and sector analysis, with the emphasis on long term investments. An appropriate spread of investments is held in the portfolio in order to reduce both the statistical risk and the risk arising from factors specific to a country or sector. The Investment Manager actively monitors market prices throughout the year and reports to the Board, which meets regularly in order to consider investment strategy.

Investment and portfolio performance are discussed in the Investment Manager's Review and further information on the investment portfolio is set out on pages 6 to 7.

If the investment portfolio valuation fell 5 per cent at 30 June 2016, the impact on the profit or loss and the net asset value would have been negative £10.6 million (2015: a fall of 5 per cent would have impacted the profit or loss and the net asset value by negative £11.1 million). Due to the effect of gearing, the impact on the net asset value per share would have been a decrease of 5.4 per cent (2015: decrease of 5.4 per cent). If the investment portfolio valuation rose by the same amount, the effect would have been equal and opposite. The calculations are based on the portfolio valuation at the balance sheet date and is not representative of the period as a whole, and may not be reflective of future market conditions.

19 Interest Rate Risk

Financial assets

Bond and preference share yields, and their prices, are determined by market perception as to the appropriate level of yields given the economic background. Key determinants include economic growth prospects, inflation, the Government's fiscal position, short term interest rates and international market comparisons. The Investment Manager takes all these factors into account when making any investment decisions as well as considering the financial standing of the potential investee company.

Returns from bonds and preference shares are fixed at the time of purchase, as the fixed coupon payments are known, as are the final redemption proceeds. Consequentially, if a bond is held until its redemption date, the total return achieved is unaltered from its purchase date. However, over the life of a bond the market price at any given time will depend on the market environment at that time. Therefore, a bond sold before its redemption date is likely to have a different price to its purchase level and a profit or loss may be incurred.

Interest rate risk on fixed interest instruments is considered to be part of market price risk as disclosed in Note 18.

Floating rate

When the Company retains cash balances they are held in floating rate deposit accounts. The benchmark rate which determines the interest payments received on interest bearing cash balances is the UK bank base rate, which was 0.5 per cent at 30 June 2016.

Financial liabilities

The Company may utilise the bank loan facility to meet any liabilities due. The Company has borrowed in sterling at a variable rate of interest based on the UK bank base rate. The Board sets borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis.

If the bank base rate had increased by 0.50 per cent, the impact on the profit or loss would have been a loss of £89,000 (2015: £84,000). If the bank base rate had decreased by 0.50 per cent, the impact on the profit or loss would have been equal and opposite. The calculations are based on borrowings as at the respective balance sheet dates and are not representative of the year as a whole.

At the year end, the Company had borrowings of £25 million from Scotiabank, details of which are contained in note 11 on page 36.

Fixed rate

The Company holds fixed interest investments.

	2016 £'000	2016 Weighted average interest rate (%)	2016 Weighted average period for which the rate is fixed (years)	2015 £'000	2015 Weighted average interest rate (%)	2015 Weighted average period for which the rate is fixed (years)
Assets:						
Fixed income & convertible securities	168,368	8.4	8.8	158,880	8.41	8.34
Preference shares	11,841	10.8	n/a	28,393	6.24	n/a

20 Foreign Currency Risk

The Company invests in overseas securities and may hold foreign currency cash balances which give rise to currency risks. It is not the Company's policy to hedge this risk on a continuing basis but it may do so from time to time.

Foreign currency exposure at 30 June 2016 was as follows:

	2016 Investments £'000	2016 Accrued Income £'000	2016 Total £'000	2015 Investments £'000	2015 Accrued Income £'000	2015 Total £'000
Euro	13,651	339	13,990	18,542	302	18,844
Australian dollar	5,748	34	5,782	7,150	109	7,259
US dollar	31,519	596	32,115	31,198	779	31,977
Norwegian krone	1,711	7	1,718	1,676	10	1,686
Canadian dollar	335	3	338	462	3	465
Swedish krona	3,665	–	3,665	4,513	14	4,527
Swiss franc	–	–	–	541	4	545
	56,629	979	57,608	64,082	1,221	65,303

If the value of sterling had weakened against each of the currencies in the portfolio by 5 per cent, the impact on the profit or loss and the net asset value would have been positive £3.0 million (2015: positive £3.4 million). If the value of sterling had strengthened by the same amount the effect would have been equal and opposite. The calculations are based on the portfolio valuation and accrued income balances at the balance sheet date and are not representative of the period as a whole and may not be reflective of future market conditions.

21 Credit Risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Company. The Investment Manager has in place a monitoring procedure in respect of counterparty risk which is reviewed on an ongoing basis. The carrying amounts of financial assets best represents the maximum risk exposure at the balance sheet date.

At the reporting date, the Company's financial assets exposed to credit risk amounted to the following:

	2016 £'000	2015 £'000
Cash and cash equivalents	8,201	6,220
Interest, dividends and other receivables	3,932	3,513
Balances due from brokers	2	–
	12,135	9,733

Credit risk on fixed interest instruments is considered to be part of market price risk as disclosed in note 18.

Credit risk arising on transactions with brokers relates to transactions awaiting settlement. Risk relating to unsettled transactions is considered to be small due to the short settlement period involved and the acceptable credit quality of the brokers used. The Board monitors the quality of service provided by the brokers used to further mitigate this risk.

The cash held by the Company and all the assets of the Company which are traded on a recognised exchange are held by HSBC Bank plc ('HSBC'), the Company's custodian. Bankruptcy or insolvency of the custodian may cause the Company's rights with respect to the cash and securities held by the custodian to be delayed or limited. The Board monitors the Company's risk by reviewing the custodian's internal control reports.

Should the credit quality or the financial position of HSBC deteriorate significantly the Investment Manager will move the cash holdings to another bank.

The Company did not have any exposure to any financial assets which were past due or impaired at the year end.

There were no significant concentrations of credit risk to counterparties at 30 June 2016. No individual investment exceeded 3.0 per cent of the net assets attributable to the Company's shareholders at 30 June 2016.

22 Liquidity Risk

The Company's financial instruments include investments in unquoted investments which are not traded in an organised public market and which generally may be illiquid. As a result, the Company may not be able to liquidate these investments at an amount close to their fair value.

The Company's listed securities are considered to be readily realisable.

At the reporting date, the Company's investments were categorised as follows:

	2016 £'000	2015 £'000
Listed/Quoted on a recognised investment exchange	208,277	222,983
Unquoted	3,605	382
Total investments	211,882	223,365

The Company's liquidity risk is managed on an ongoing basis by the Investment Manager in accordance with policies and procedures in place as described in the Directors' Report. The Company's overall liquidity risks are monitored on a quarterly basis by the Board.

The Company maintains sufficient cash, has a short term bank loan facility and readily realisable securities to pay accounts payable and accrued expenses. The Company also maintains sufficient cash and readily realisable securities to meet any demand repayment on its overdraft facility.

23 Related Parties

The following are considered related parties: the Board of Directors ("the Board") and CQS/New City Investment Managers ("the Investment Manager"):

Mr G Ross, who was a director of the Company during the year, is also a director of the Company Secretary and Administrators, R&H Fund Services (Jersey) Limited and also the UK Administrator, R&H Fund Services Limited, which receive fees from the Company. Secretarial and administration fees for the period are disclosed in note 4.

All transactions with related parties are carried out at an arms length basis.

There are no other transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on pages 22 and 23, and as set out in note 4 to the accounts. The beneficial interests of the Directors in the shares of the Company are disclosed on page 23. There are no outstanding balances to the Board at the year end.

Details of the fee arrangement with the Investment Manager is included within the Directors' Report under the heading Management and Management Fees and is disclosed in note 3.

Glossary of Terms and Definitions

Gearing	Total assets (as below) less all cash divided by shareholders' funds.
Asset Cover	The value of a company's net assets available to repay a certain security. Asset cover is usually expressed as a multiple and calculated by dividing the net assets available by the amount required to repay the specific security.
Discount/Premium	The amount by which the market price per share of an investment trust is lower or higher than the net asset value per share. The discount or premium is normally expressed as a percentage of the net asset value per share.
Dividend Cover	Earnings per share divided by dividends per share expressed as a ratio.
Dividend Yield	The annual dividend expressed as a percentage of the share price.
Net Asset Value or NAV	The value of total assets less liabilities. Liabilities for this purpose included current and long-term liabilities. To calculate the net asset value per Ordinary share the net asset value divided by the number of shares in issue produces the net asset value per share.
Ongoing Charges Ratio	A measure of all operating costs incurred in the reporting period, calculated as a percentage of average net assets in that year. Operating costs exclude costs suffered within underlying investee funds, costs of buying and selling investments, interest costs, taxation and the costs of buying back or issuing ordinary shares.
Price/Earnings Ratio	The ratio is calculated by dividing the middle-market price per share by the earnings per share. The calculation assumes no change in earnings but in practice the multiple reflects the stock market's view of a company's prospects and profit growth potential.
Prior Charges	The name given to all borrowings including debentures, loan and short term loans and overdrafts that are to be used for investment purposes, reciprocal foreign currency loans, currency facilities to the extent that they are drawn down, index-linked securities, and all types of preference or preferred capital and the income shares of split capital trusts, irrespective of the time until repayment.
Redemption Yield	The measure of the annualised total return on the current price of a security up to the date of its repayment. The calculation is based on aggregated income and capital returns, no account being taken of taxation.
Total Assets	Total assets less current liabilities (excluding prior charges as defined above).
Total Return	Share price total return involves reinvesting the net dividend in the month that the share price goes xd. The NAV total return involves investing the same net dividend in the NAV of the trust on the date to which that dividend was earned, eg quarter end, half year or year end date.

Notice of Annual General Meeting

Notice is hereby given that the ninth Annual General Meeting of CQS New City High Yield Fund Limited will be held at 11.00 a.m. at Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW on 14 December 2016 for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 9 as ordinary resolutions and resolutions 10 to 11 as a special resolutions:

Ordinary Business

1. To receive the Report of the Directors and the financial statements of the Company for the year ended 30 June 2016, together with the auditor's report thereon.

2. To approve the Directors' Remuneration Policy.

3. To approve the Directors' Remuneration Report for the year ended 30 June 2016.

4. To approve the Company's Dividend Policy.

5. To elect Wendy Dorman as a Director.

6. That Adrian J R Collins, who retires at the Annual General Meeting, be re-elected as a Director.

7. That James G West, who retires at the Annual General Meeting, be re-elected as a Director.

8. To re-appoint KPMG LLP as Independent Auditor, or such new auditor as appointed following the tender process, and that the Directors be authorised to determine their remuneration.

Special Business

9. That, pursuant to Article 164 of the Company's Articles of Association, the Company shall continue as an investment fund until the conclusion of the next Annual General Meeting of the Company.

10. That, the Company be authorised to issue equity securities (as defined in Article 16.2 of the Company's Articles of Association) for cash, including by way of a sale of ordinary shares held by the Company as treasury shares, in accordance with Article 16.2 of the Articles in such amount as represents up to 10 per cent of the Company's issued share capital as at the date of the passing of this resolution, provided that such authorisation shall expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting by Ordinary Resolution) at the earlier of the conclusion of the annual general meeting of the Company to be held in 2017 or eighteen months from the date of this resolution but so that this power shall enable the Company to make offers or agreements before such expiry which would or might require equity securities to be issued after such expiry and the directors of the Company may issue equity securities in pursuance of any such offer or agreement as if such expiry had not occurred.

11. That, pursuant to Article 57 of the Companies (Jersey) Law 1991, the Company be generally and unconditionally authorised to make one or more market purchases of ordinary shares of no par value in the capital of the Company (ordinary shares) provided that:

(i) the maximum aggregate number of ordinary shares authorised to be purchased shall be equal to 14.99 per cent of the total issued share capital of the Company on the date at which the resolution is passed;

(ii) the minimum price which may be paid for an ordinary share is 1p;

(iii) the maximum price which may be paid for an ordinary share is an amount equal to the higher of:

(a) 105 per cent of the average of the middle market quotations for an ordinary share as derived from the Daily Official List of the London Stock Exchange for the five business days immediately preceding the day on which the ordinary share is purchased; and

(b) the higher of (1) the price of the last independent trade in ordinary shares and (2) the highest current independent bid for ordinary shares on the London Stock Exchange's Main Market;

(iv) any ordinary shares to be purchased may be cancelled or held as treasury shares in accordance with the Companies (Jersey) Law, 1991, provided that the Company shall not hold as treasury shares more than 10% of the aggregate number of ordinary shares in issue at any one time;

(v) this authority expires at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution or fifteen months from the date of the passing of this resolution, whichever is earlier;

(vi) the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be executed wholly or partly after the expiry of the authority, and may make a purchase of ordinary shares in pursuance of any such contract; and

(vii) the Directors provide a statement of solvency in accordance with Articles 55 and 57 of the Companies (Jersey) Law, 1991.

By Order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

27 October 2016

Notes:

1. Information about this meeting is available from the Company's website; www.ncim.co.uk
2. As a member who is entitled to attend and vote at this meeting you are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote on your behalf. Such a proxy need not also be a member of the Company. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise the rights attached to any one share.
3. A form of proxy is enclosed for use at the meeting. To be valid, the proxy card and any power of attorney or other authority, if any, under which it is signed, or a certified copy thereof must be lodged with the Company's registrar, Computershare Investor Services (Jersey) Limited, c/o The Pavillions, Bridgewater Road, Bristol BS99 6ZY at least 48 hours before the meeting.
4. Completion of the proxy card will not prevent a shareholder from attending the meeting and voting in person.
5. Pursuant to Article 40 of the Companies (Uncertificated Securities) (Jersey) Order 1999, the Company has specified that only those shareholders registered on the register of members of the Company as at 6.00 pm on 12 December 2016, or in the event that the meeting is adjourned, on the register of members 48 hours before the time of the meeting, shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that relevant time. Changes to entries on the register of members after 6.00 pm on 12 December 2016, or in the event that the meeting is adjourned to a later time, on the register of members 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Electronic receipt of proxies

6. To appoint one or more proxies or give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, CREST messages must be received by the Company's agent (ID number 3RA50) no later than the 12 December 2016 at 11am. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which the issuer's agent is able to retrieve the message. The Company may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. Instructions on how to vote through CREST can be found on the website www.euroclear.com

Corporate Information

Registered Number

95691

Registered Office

CQS New City High Yield Fund Limited
Ordnance House, 31 Pier Road
St. Helier, Jersey JE4 8PW
Channel Islands

Directors

James G West (Chairman)
Duncan A H Baxter – appointed 31 July 2015
Gavin D P Breeze – resigned 18 July 2016
Allister F de L Carey – resigned 2 March 2016
Adrian J R Collins
Wendy Dorman – appointed 2 March 2016
Graeme D Ross – resigned 31 July 2015

Investment Manager

New City Investment Managers
CQS Cayman Limited Partnership
1 Strand
London
WC2N 5HR

AIFM

CQS Asset Management Limited
1 Strand
London
WC2N 5HR

Company Secretary and Administrator

R&H Fund Services (Jersey) Limited
Ordnance House, 31 Pier Road
St. Helier, Jersey JE4 8PW
Channel Islands
Tel: 01534 825200

UK Administrator

R&H Fund Services Limited
20 Forth Street
Edinburgh, EH1 3LH
Tel: 0131 550 3760

Registrars

Computershare Investor Services (Jersey) Limited
Queensway House, Hilgrove Street
St. Helier, Jersey JE1 1ES
Channel Islands
Tel: 01534 281800

Financial Adviser and Corporate Broker

Cantor Fitzgerald Europe
One Churchill Place
Canary Wharf
London E14 5RB

Auditor

KPMG LLP
Saltire Court
20 Castle Terrace
Edinburgh EH1 2EG

Custodian Bankers and Depositary

HSBC Bank PLC
8 Canada Square
London E14 5HQ

Bankers

HSBC Bank PLC
8 Canada Square
London E14 5HQ

Scotiabank
201 Bishopsgate
London EC2M 3NS

Jersey Lawyers to the Company

Ogier
Ogier House, The Esplanade
St. Helier
Jersey, JE4 9WG
Channel Islands

UK Solicitors to the Company

Maclay Murray & Spens LLP
One London Wall,
London EC2Y 5AB

Website

www.ncim.co.uk

ISIN

JE 00B1LZS514

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 or alternatively by visiting the Company's web site at www.ncim.co.uk.

CQS NEW CITY
HIGH YIELD FUND
LIMITED