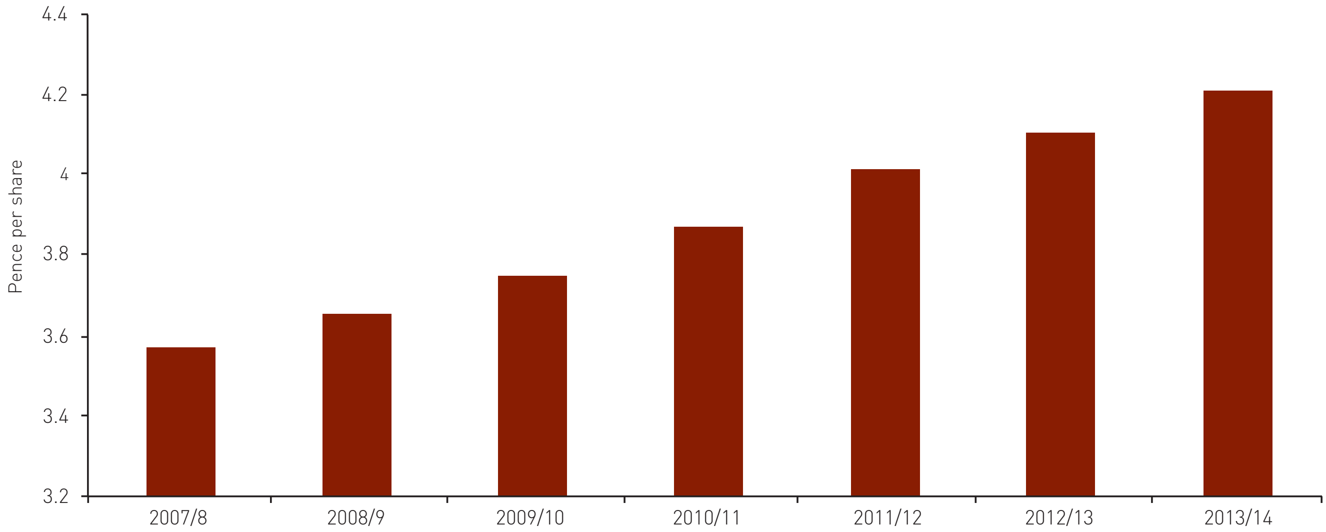
NEW CITY HIGH YIELD FUND LIMITED

ANNUAL REPORT & ACCOUNTS

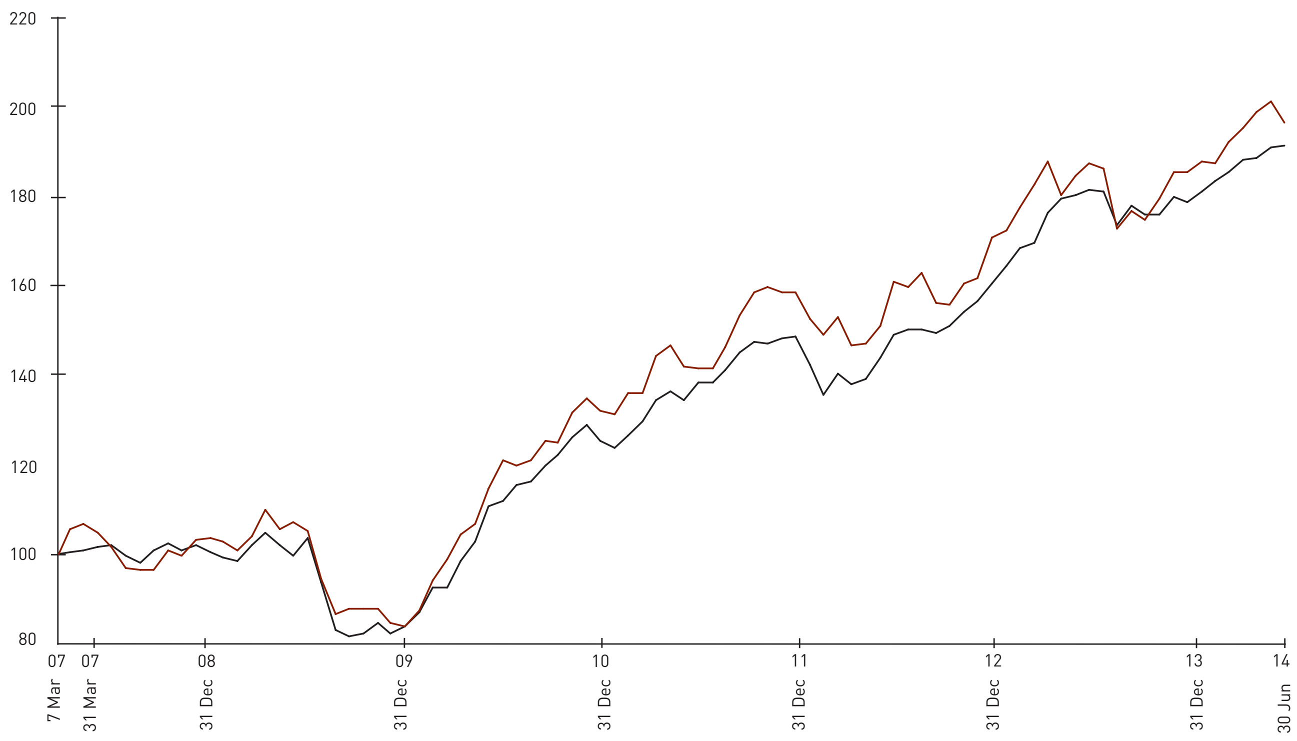
30 JUNE 2014

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 2014	Year to 30 June 2013
Net asset value	10.3%	14.9%
Ordinary share price	13.7%	11.1%

Capital Values	30 June 2014	30 June 2013	% change
Total assets less current liabilities (with the exception of the bank loan facility)	£197.2m	£160.1m	+23.2%
Net asset value per ordinary share	62.41p	60.53p	+3.1%
Share price (mid market)	65.25p	61.25p	+6.5%

Revenue and Dividends	30 June 2014	30 June 2013	% change
Revenue earnings per ordinary share	4.76p	5.42p	–12.2%
Dividends per ordinary share	4.21p	4.10p	+2.7%
Dividend cover	1.13x	1.32x	–14.4%
Revenue reserve per ordinary share (after recognition of annual dividends)	3.45p	3.72p	
Dividend Yield*	6.5%	6.7%	
Premium*	4.6%	1.2%	
Gearing*	110	109	
Ongoing Charges Ratio*	1.2%	1.2%	

Period's High/Lows	2013/14 High	2013/14 Low
Net asset value	61.88	58.73
Ordinary share price (mid market)	67.50	60.38
Premium	9.53	1.43

Dividend History	Rate	xd date	Record date	Payment date
Fourth interim 2014	1.45p	23 July 2014	25 July 2014	29 August 2014
Third interim 2014	0.92p	30 April 2014	2 May 2014	30 May 2014
Second interim 2014	0.92p	29 January 2014	31 January 2014	28 February 2014
First interim 2014	0.92p	30 October 2013	1 November 2013	29 November 2013
Total	4.21p			
Fourth interim 2013	1.40p	31 July 2013	2 August 2013	30 August 2013
Third interim 2013	0.90p	24 April 2013	26 April 2013	31 May 2013
Second interim 2013	0.90p	30 January 2013	1 February 2013	22 February 2013
First interim 2013	0.90p	31 October 2012	2 November 2012	30 November 2012
Total	4.10p			

* A glossary of the terms used can be found on page 41.

Chairman's Statement

Highlights

- Net asset value total return of 10.3 per cent.
- Ordinary share price total return of 13.7 per cent.
- Dividend yield of 6.5 per cent, based on dividends at an annual rate of 4.21 pence and share price of 65.25 pence at 30 June 2014.
- Ordinary share price at a premium of 4.6 per cent to net asset value at 30 June 2014.

Investment and Share Price Performance

During another good year your Company's net asset value rose by 3.1% to 62.4 pence during the year ended 30 June 2014; when this capital measure is adjusted for the payment of dividends totalling 4.21 pence per share for the year, the net asset value total return was 10.3%.

The share price total return for the same period was even stronger at 13.7%, as the premium to net asset value at which your Company's shares trade increased from 1.2% to 4.6%. The Company's shares have traded at a premium throughout the year.

Earnings and Dividends

Three interim dividends of 0.92 pence per share were paid during the year, each representing a 2.2% increase on last year's corresponding dividends. The fourth interim dividend was increased by 3.6% from 1.40 pence to 1.45 pence per share; this was paid after the year end on 29 August 2014. Based on an annualised rate of 4.21 pence and a share price of 66.00 pence at the time of writing, this represents a yield of 6.4 per cent.

Earnings per share declined from 5.42 pence last year to 4.76 pence this year. This was a consequence of a number of factors, of which the interaction between a slight decline in portfolio yield and the pattern of share issues was the most important. The Company's earnings have been, and are expected to continue to be, sufficient to more than cover the dividend.

The level of dividends paid by the Company has increased every year, as illustrated by the graph on the inside front cover.

Rating and Fund Raising

The market continues to attach a premium rating to the shares of your Company. At an Extraordinary General Meeting in December 2013 shareholders approved a resolution granting authority to issue shares equivalent to 25% of the Company's issued share capital, and a prospectus was published in January this year. £30.0m was raised from new and existing shareholders under the subsequent placing programme, representing the issue of 47.1m shares of the total authority of 61.1m shares granted under the prospectus.

The Directors anticipate issuing further shares as necessary as part of the process of managing the premium to net asset value at which your Company's shares trade, and 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, existing shareholders can look to benefit from a lower ongoing charges ratio and greater liquidity in the Company's shares.

Outlook

Global economic recovery appears to be solidly entrenched, except perhaps in the Eurozone, with the United States and the United Kingdom amongst those showing good progress. Quantitative easing may be giving way to the prospect of interest rate rises in the latter, but it seems that the Eurozone can be relied upon to keep monetary policy slack. This is a backdrop that, your Company, and its shareholders, are well positioned to benefit from.

James G West
Chairman

9 October 2014

Investment Manager's Review

For most of the twelve months to 30 June 2014, the financial world was wondering when would the "Tapering" (i.e. the decreasing of quantitative easing ("QE")) commence? Mark Carney, the new Governor of the Bank of England and Mario Draghi, the Head of the European Central Bank ("ECB"), in the middle of 2013, gave definitive forward guidance that rates were not going to rise any time soon.

In August 2013 the figures from the Markit/CIPS UK services Purchasing Managers Index implied that the UK was growing at its fastest rate for over six years, this coincided with markets in the US and the UK implying that Tapering in the US was closer than expected, the short term result of this was that both of the ten year government benchmark bonds in the US and UK fell to a level that gave a yield of 3%.

This became even clearer when more figures were showing the US in recovery, this time the US third quarter GDP coming in at plus 2.8% against forecasts of 2% quickly backed up by the much improved non-farm payroll coming in at +204,000 at which point markets and pundits correctly predicted that tapering would come into effect in January 2014 at the rate of $10bn/month.

But in Europe the economics were somewhat different. In November 2013 the ECB cut rates to 0.25% to encourage Banks to lend and Companies to borrow or invest in new plant or staff. We commented at the time that this alone would be unlikely to be enough, which would be confirmed at the end of the Company's financial year.

In January we had the early effects of tapering with cheap money exiting emerging markets and higher risk investments in very short order. To add to this the cooling of the Chinese economy, albeit inline with the expectation of the markets, meant the net result was a very weak start to 2014 with all major equity markets substantially down, the Dow Jones Industrial down 5.5% , the Nikkei225 down 8.5% and our own FTSE 100 down 3.5%.

In February we had the all important speech from the new Governor of the US Federal Reserve Bank, Janet Yellen. The core theme of this was one of a steady and consistent course forward. The tone was optimistic following the tapering of QE, with the prospect that interest rates were going to remain low for some time to come emphasised by Mrs Yellen's comment on the current employment figure of 6.6%, "well above levels that the Fed finds consistent with maximum sustainable employment".

The last four months of the Company's financial year saw the ugly head of Geo-Politics come to the fore. In Ukraine, following the overthrow of the pro Russian regime in Kiev, the ethnic Russian majority of Crimea aided by masked gunmen occupied government buildings and Ukrainian military bases on the peninsula, during which time a referendum on the succession to Russia was hastily put to the region, with a resounding 96% in favour (85% of the region is ethnic Russian). The result being the Crimean parliament declaring independence of Ukraine and a request to join the Russian Federation, which was duly granted. Various other eastern states in Ukraine with a high ethnic Russian population continue to struggle for independence, this along with the political chess between Russia and the western governments looks to rumble on for some time.

In June at the end of the Company's financial year the ongoing Syrian problems took a worrying turn, spilling over into north western Iraq where the Jihadist militant group Isis has declared a Caliphate or Islamic state in the lands it occupies in Iraq and Syria. We believe that this will have a longer term effect on an already volatile political landscape of the middle-east.

Meanwhile back in Europe in June another battle was raging, this time economic, with the ECB and its ongoing task to encourage economic growth in the Euro zone, the salvo used was far greater than back in November, this time becoming the first of the world's major currency zones to move deposit rates to below zero moving to -0.1%, the targeted outcome a weakening of the Euro currency and to create a reflationary environment. As an addition the Banks will have access to 400Bn euro for four years at a rate very close to zero at the September and December Long Term Refinancing Operation auctions. This is seen as a much needed shot in the arm to the Euro zone economy, hopefully more effective than the November 2013 rate cut which had very little effect.

For the Company over the year we added to core holdings of Phoenix 7.25% 2021, British Airways 6.75% preferred, General Accident 8.875% preferred, Domestic and General 7.875% 2021, and Odeon 9.5% 2019. We participated in tap issues from Antares Energy 10% 2023 and Tizir 9% 2017, the majority of the funds invested coming from the on-going tap issue along with money received from the call by Skipton building society of its 10% bonds 2018 in early December 2013, and Ocean Rig of its 9.5% bond 2016. In March 2014, we were fortunate enough to exit our position in Co-op Bank equity at a price of 530p/share which was the high for the shares which were issued as part of the restructuring in quarter four of 2013 at 375p/share enabling the company to exit its position flat from its original purchase in April 2013. The diversity of the portfolio continues to be focussed on with several smaller holdings taken during the year, examples of which would be Thames Water 7 ¾% 2019 and Southern Water 8 ½% 2019 and Matalan 8 7/8% 2020.

The growth in the USA economy will be key going forward. We still expect the first rate rise to come at the end of quarter one 2015, if anything can be drawn from history then the fact that more companies go into default when the economy is in early/mid recovery phase, then this is a flag worth looking for in the coming months.

In China GDP growth is now officially forecast below the "Magic" 7% level although this is still a large number, we would expect this to have a negative effect on both global growth and commodity prices.

Europe is still trying hard to get some growth into the economy, but this continues to be an uphill struggle.

The UK, post the 'No' vote in the independence vote for Scotland, will still be in political stress with the forthcoming general election in May 2015, and "what about England?" calls from various factions. Away from this uncertainty the underlying economy is still recovering well and given the forward guidance from the Bank of England we would expect a rate rise around about the same time as the USA at the end of Quarter one.

With this backdrop we are still comfortable with the prospects for the company going forward.

Ian Francis
New City Investment Managers

9 October 2014

Classification of Investment Portfolio

By Currency	2014 Total investments %	2013 Total investments %
Sterling	**63**	63
US dollar	**19**	18
Euro	**7**	2
Australian dollar	**5**	6
Swedish krona	**4**	3
Norwegian krone	**1**	6
Canadian dollar	**1**	2
Total investments	**100**	**100**

By Asset Class	2014 Total investments %	2013 Total investments %
Bonds	**76**	82
Preference shares	**11**	10
Equity shares	**8**	3
Convertibles	**5**	5
Total investments	**100**	**100**

By Quotation	2014 Total investments %	2013 Total investments %
Listed/Quoted on a recognised investment exchange	**100**	99
Unquoted	**–**	1
Total investments	**100**	**100**

Top Ten Largest Holdings

Company	Valuation 2013 £'000	Purchases £'000	Sales £'000	Change in Value £'000	Valuation 2014 £'000
Phoenix Life FRN 7.25% 25/03/2021	4,556	1,515	–	870	6,941
Brit Insurance 6.625% 09/12/2030	4,540	1,008	–	640	6,188
Antares Energy 10% 30/10/2023	4,463	995	–	(183)	5,275
British Airways Finance 6.75% 12/05/2014	2,816	1,894	–	516	5,226
REA Finance 9.5% 31/12/2017	4,854	–	–	23	4,877
Cable & Wireless 8.625% 25/03/2019	4,450	–	–	182	4,632
Galaxy Finco 7.875% 15/11/2021	–	4,569	–	38	4,607
Balfour Beatty 10.75% CP	4,485	–	–	78	4,563
General Accident 8.875% CP	3,390	479	–	687	4,556
Matalan Finance 8.875% 01/06/2020	–	4,000	–	(5)	3,995
	33,554	14,460	–	2,846	50,860

At 30 June 2014 these investments totalled £50,860,000 or 27.9% of the investment portfolio.

Investment Portfolio

as at 30 June 2014

Company	Sector	Valuation £'000	Total Investments %
Phoenix Life FRN 7.25% 25/03/2021	Insurance	6,941	3.6
Brit Insurance 6.625% 09/12/2030	Insurance	6,188	3.2
Antares Energy 10% 30/10/2023	Oil & Gas	5,275	2.7
British Airways Finance 6.75% 12/05/2014	Transport	5,226	2.7
REA Finance 9.5% 31/12/2017	Food products	4,877	2.5
Cable & Wireless 8.625% 25/03/2019	Telecommunications	4,632	2.4
Galaxy Finco 7.875% 15/11/2021	Financial	4,607	2.4
Balfour Beatty 10.75% CP	Construction	4,563	2.3
General Accident 8.875% CP	Financial	4,556	2.3
Matalan Finance 8.875% 01/06/2020	Retail	3,995	2.1
Top ten investments		50,860	26.2
Moto Finance 10.25% 15/03/2017	Retail	3,891	2.0
Iona Energy 9.5% 27/09/2018	Oil & Gas	3,887	2.0
Odeon & UCI 9% 01/08/2018	Consumer Services	3,651	1.9
Newriver Retail	Property	3,546	1.8
Investec Bank 9.625% 17/02/2022	Financial	3,514	1.8
House of Fraser 8.875% 15/08/2018	Retail	3,210	1.6
Unique Pub Finance 7.395% 28/03/2024	Restaurants & Bars	3,185	1.6
Barclays Bank 7% 15/09/2019	Financial	3,062	1.6
Lloyds Banking Group 7.875% 27/06/2029	Financial	3,029	1.6
Raven Russia 12% Pref	Real Estate	2,995	1.5
Top twenty investments		84,830	43.6
Europcar Groupe 9.375% 15/04/2018	Transport	2,723	1.4
Tizir 9% 28/09/2017	Mining	2,690	1.4
REA Holding 9% CP	Food products	2,650	1.4
Falcon Germany 9% 15/07/2020	Automobiles & Parts	2,627	1.4
Bristol & West 8.125% Pref	Financial	2,621	1.3
Lloyds Banking Group 7.625% 27/06/2023	Financial	2,614	1.3
Arqiva Broadcast Finance 9.5% 31/03/2020	Telecommunications	2,562	1.3
Ocean Rig 7.25% 01/04/2019	Oil & Gas	2,431	1.3
National Westminster 11.5% 12/49 PERP	Financial	2,409	1.2
Enterprise Inns 6.875% 09/05/2025	Leisure	2,318	1.2
Top thirty investments		110,475	56.8
AA Bond Co 9.5% 31/07/2019	Insurance	2,248	1.1
Thames Water Kemble 7.75% 01/04/2019	Oil & Gas	2,192	1.1
Trafigura Beheer 7.625% 29/10/2049 PERP	Financial	2,161	1.1
AA PIK 9.5% 07/11/2019	Insurance	2,090	1.1
Oro Negro Drilling 7.5% 24/01/2019	Oil & Gas	2,077	1.1
Ecclesiastical Insurance 8.625% Pref	Insurance	1,930	1.0
Diamorph 12% 06/07/2017	Chemicals	1,873	1.0
Pearl Group Holdings FRN 25/04/2016	Insurance	1,775	0.9
Abbey National 10.0625%	Financial	1,773	0.9
Norcell Sweden Holding 3 9.25% 29/09/2018	Telecommunications	1,730	0.9
Top forty investments		130,324	67.0

Company	Sector	Valuation £'000	Total Investments %
Rothschild Cont Fin 9% 15/02/2024	Financial	1,716	0.9
Sea Trucks Group 9% 26/03/2018	Shipping	1,701	0.9
Banco Bilbao Vizcaya 7% 19/02/19	Financial	1,694	0.9
Kensington Group FRN 7.285% 21/12/2015	Financial	1,670	0.9
SAS AB	Transport	1,656	0.9
Elematic Oy 10% 30/05/2018	Machinery Manufacturing	1,444	0.7
Santander Finance 10.375% Pref	Financial	1,440	0.7
Provident Financial 8% 23/10/2019	Financial	1,422	0.7
West Air Europe 8% 08/05/2018	Transport	1,385	0.7
Oceanteam Shipping FRN 24/10/2017	Oil & Gas	1,379	0.7
Top fifty investments		145,831	75.0
HBOS Capital 6.85%	Financial	1,302	0.7
HDL Debenture 10.375% 31/07/2023	Property	1,300	0.7
Global Ship Lease 10% 01/04/2019	Transport	1,257	0.6
Dresdner Funding Trust 8.151% 30/06/2031	Financial	1,243	0.6
Puma Intl 6.75% 01/02/2014	Oil & Gas	1,211	0.6
Crown Holdings 8.6067% FRN 14/09/2072	Casinos & Gaming	1,201	0.6
Clerical Medical Fin FRN 7.375% 05/11/2019	Healthcare	1,130	0.6
Healthscope Note 11.25% 17/06/2016	Healthcare	1,130	0.6
Southern Water 8.5% 15/04/2019	Utilities	1,121	0.6
Great Western Minerals 8% 06/04/2017	Mining	1,097	0.6
Top sixty investments		157,823	81.2
Bluewater Holding 10% 10/12/2019	Oil & Gas	1,061	0.6
Standard Life Investment Property Income Trust	Property	1,055	0.6
Nextenergy Solar	Clean Energy	1,028	0.5
Welltec 8% 01/02/2019	Engineering	1,021	0.5
John Laing Environmental Assets Group	Clean Energy	1,020	0.5
Target Healthcare REIT	Healthcare	1,015	0.5
Enterprise Inns 6.375% 26/09/2031	Leisure	1,005	0.5
Santa Maria Offshore 8.875% 03/07/2018	Oil & Gas	996	0.5
Skipton Building Society 6.75% 30/05/2022	Financial	990	0.5
Detnor FRN 9.75% 28/01/2016	Oil & Gas	989	0.5
Top seventy investments		168,003	86.4
Other investments (67)		26,438	13.6
Total investments		194,441	100.0

Notes:

† Including bank loan facility of £15.4 million.

CCP – Convertible Cumulative Preference Shares
CV – Convertible Bond
FRN – Floating Rate Note
CP – Cumulative Preference Shares
CULS – Convertible Unsecured Loan Stock
CLN - Convertible Loan Note

Strategic Review

Introduction

This review is part of a Strategic Report being presented by the Company under updated 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 2014. 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 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.

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.

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.

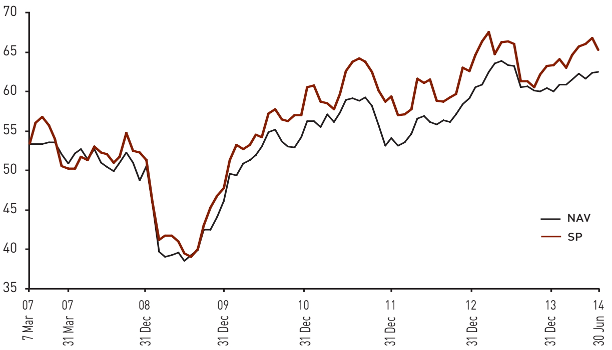
After making enquiries, and having considered the Company's investment objective, nature of the investment portfolio, loan facility and expenditure projections, the Directors consider that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, 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.

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 2014, 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 2014 there were five male Directors. The Company has no employees so does not require to report further on gender diversity.

By Order of the Board

R&H Fund Services (Jersey) Limited
Secretary

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

9 October 2014

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 asses the Company's performance, business model and strategy; and
- the Strategic Report includes 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

9 October 2014

Board of Directors and Investment Manager

All of the Directors are non-executive, were appointed on 17 January 2007 and are considered by the Board to be independent. Under the rules of the UK Listing Authority all of the Directors, except Adrian Collins and Graeme Ross, are deemed to be independent of the Investment Manager. Adrian Collins is also a director of City Natural Resources High Yield Trust plc and Graeme Ross is also a director of Geiger Counter Limited and New City Energy Limited, which are also managed by the Investment Manager.

James West

Independent Non-Executive Chairman

Age: 67

Length of service: 7 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 Committee
Management Engagement Committee
Nomination Committee

Remuneration: £30,000 per annum

Public company directorships:
British Assets plc
JP Morgan Income and Capital Trust plc
Threadneedle UK Select Trust Ltd
Aberdeen Smaller Companies High Income Trust plc

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 55,850 Ordinary Shares

Gavin Breeze

Independent Non-Executive Director and Chairman of the Audit Committee

Age: 53

Length of service: 7 years 8 months.

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 Committee
Management Engagement Committee
Nomination Committee

Remuneration: £22,500 per annum

Public company directorships:
Proxama plc
Mi-Pay plc

Shared Directorships with any other Fund Directors: None

Shareholding in Company: 5,433,254 Ordinary Shares

Allister Carey

Independent Non-Executive Director

Age: 64

Length of service: 7 years 8 months.

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. Prior to that appointment he had been the chief executive in Guernsey for James Capel (Channel Islands) Ltd.

Committee membership:
Audit Committee
Management Engagement Committee
Nomination Committee

Remuneration: £20,000 per annum

Public company directorships:
Red Fort Partnership Limited

Shared Directorships with any other Fund Directors:
Red Fort Partnership Limited

Shareholding in Company: Nil Ordinary Shares

Adrian Collins

Independent Non-Executive Director

Age: 60

Length of service: 7 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 Committee
Management Engagement Committee
Nomination Committee

Remuneration: £20,000 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

Graeme Ross
Independent Non-Executive Director

Age: 53

Length of service: 7 years 8 months.

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. He has worked in the offshore fund management industry for over 20 years and also served as a committee member of the Jersey Fund Association for three years.

Committee membership:
Management Engagement Committee
Nomination Committee

Remuneration: £20,000 per annum

Public company directorships:
BDP Limited
Camber International Equity Growth Fund 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 Industrial Metal Securities Limited
ETFS Oil Securities Limited
Geiger Counter Limited
Gold Bulletin Securities Limited
New City Energy Limited
New City High Yield Fund Limited
Red Fort Partnership Limited
Swiss Commodity Securities Limited

Shared Directorships with any other Fund Directors:
Red Fort Partnership Limited

Shareholding in Company: 30,000 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 2014, US$14.2 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 Board has appointed CQS as the Company's AIFM, delegating the investment management function to CQS Asset Management Limited, a subsidiary trading as NCIM. The AIFM has received its approval 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 CQS as AIFM.

Directors' Report

The Directors present their Report and the audited financial statements for the year ended 30 June 2014.

Results and Dividends

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

Principal Activity and Status

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 2013 there were 244,239,339 ordinary shares in issue.

The Company issued a further 47,166,202 shares during the year. Full details of these transactions are shown in note 13 on page 35 of this report. Following these issues of shares there are now 291,405,541 ordinary shares in issue as at 30 June 2014 and 9 October 2014.

Bank Facilities

The Company has a short term loan facility with HSBC Bank Plc. This facility allows up to 20 per cent of the value of shareholders' funds to be borrowed with the drawn down amount repayable on demand.

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 9 October 2014 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	44,100,903	15.1%
James Sharp Stockbrokers	20,567,527	7.1%
Rathbones	18,260,760	6.3%
Charles Stanley Stockbrokers	11,923,024	4.1%
Veritas Investment Management	11,646,818	4.0%
Hargreaves Landsdown Stockbrokers	11,251,916	3.9%
Redmayne Bentley Stockbrokers	10,924,600	3.8%

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 new 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 8, 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 9 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 2015.

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

The Company did not purchase any shares for cancellation during the year.

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 10 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 10. 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 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.

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 Auditors

KPMG LLP have indicated their willingness to continue in office. The Directors will place a Resolution before the Annual General Meeting for the reappointment of KPMG LLP as independent auditors of the Company for the ensuing year, and to authorise the Directors to determine their remuneration.

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

R&H Fund Services (Jersey) Limited
Secretary

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

9 October 2014

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 2012 (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 (B 2.1)
- The need for an internal audit function (C 3.5)

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 four non-executive Directors.

In view of the requirement in the Articles of Association that all Directors retire by rotation, the Board considers that it is not appropriate for the Directors to be appointed for a specified term as recommended by the AIC Code and the UK Corporate Governance Code. However, the Board has agreed that each Director will retire and, if appropriate, seek re-election after each three years' service, and annually after serving on the Board for more than nine 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 sit 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. Mr A J R Collins and Mr G D Ross, as non-independent Directors under the AIC Code, are subject to annual re-election.

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 2014 as follows (with their eligibility to attend the relevant meeting in brackets):

	Board meetings	Audit Committee meetings	Management Engagement and Nomination Committee meetings
J G West (Chairman)	4(5)	2(2)	2(2)
G D P Breeze	5(5)	2(2)	2(2)
A F de L Carey	4(5)	2(2)	2(2)
A J R Collins	4(5)	2(2)	2(2)
G D Ross	4(5)	n/a	–(2)

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. The Chairman regularly reviews and agrees with each Director their training and development needs.

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.

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

9 October 2014

Report of the Audit Committee

Composition of the Audit Committee

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

Role of the Audit 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; and,
- to monitor and review annually the external Auditor's independence, objectivity, effectiveness, resources and qualification.

Annual Report and Financial Statements

The Board of Directors are responsible for preparing the Annual Report and financial statements. The Audit 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.

Auditor

As part of its review of the scope and results of the audit, during the year the Audit Committee considered and approved KPMG's plan for the audit of the financial statements for the year ended 30 June 2014. At the conclusion of the audit KPMG did not highlight any issues to the Audit 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 22 and 23.

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 Committee has taken into consideration the standing, skills and experience of the firm and the audit team. The Audit 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 partner is in the third year of her appointment. On the basis of this assessment, the Audit Committee has recommended the continuing appointment of KPMG to the Board. KPMG's performance will continue to be reviewed annually taking into account all relevant guidance and best practice.

Following a discussion with KPMG and the Investment Manager, the Audit Committee considers the main risk to arise from the audit to be the valuation and ownership of quoted 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 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 has not reported any exceptions.

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 Committee carried out an annual assessment of internal controls for the year ended 30 June 2014 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 2014. 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 8 and 9.

G D P Breeze

Chairman of Audit Committee

9 October 2014

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 £150,000 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 2015 and subsequent years.

From 1 July 2014 the Chairman received fees of £36,000 per annum, the Audit Committee Chairman received fees of £26,500 per annum and other Directors received fees of £24,000 per annum.

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	AGM 2014
A F de L Carey	17 January 2007	AGM 2015
A J R Collins	17 January 2007	AGM 2014
G D Ross	17 January 2007	AGM 2014

Annual Report on Directors' Remuneration

Directors' Emoluments (audited)

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

	2014 £	2013 £
J G West (Chairman)	30,000	30,000
G D P Breeze	22,500	22,500
A F de L Carey	20,000	20,000
A J R Collins	20,000	20,000
G D Ross	20,000	20,000
Totals	112,500	112,500

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

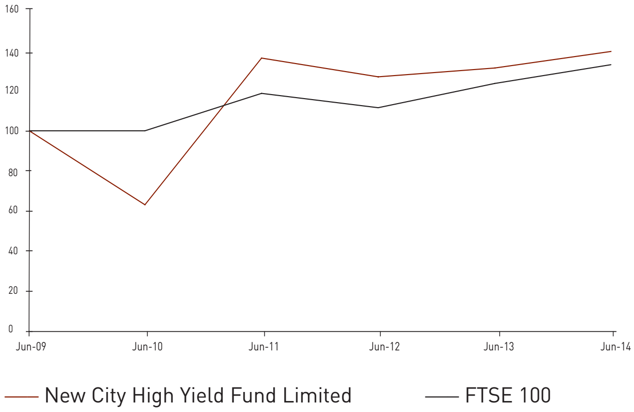
As the Company has no employees, the Directors do not consider it appropriate to present a table comparing remuneration paid to employees with distributions to shareholders.

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 14.

The graph below illustrates the total shareholder return for a holding in the Company's shares as compared to the FTSE 100 for the five year period to 30 June 2014. 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 2014 Ordinary shares	At 30 June 2013 Ordinary shares
J G West	55,850	55,850
G D P Breeze	5,433,254	5,433,254
A F de L Carey	–	–
A J R Collins	40,000	40,000
G D Ross	30,000	30,000

Voting at Annual General Meeting

At the Company's last Annual General Meeting, held on 5 December 2013, shareholders approved the Directors' Remuneration Report in respect of the year ended 30 June 2013. 99.6% of votes were in favour of the resolution and 0.4% 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 20 and 21 was approved by the Board of Directors and signed on its behalf on 9 October 2014.

On behalf of the Board

J G West
Director

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

Opinions and Conclusions Arising From Our Audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of New City High Yield Fund Limited for the year ended 30 June 2014 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes on pages 24 to 40. 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 2014 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

2. Our assessment of risk of material misstatement

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

Carrying amount of listed investments (£194,364,000)

Refer to page 18 (Report of the Audit Committee), page 29 (accounting policy) and page 34 (financial disclosures).

The risk: The Company's listed investment portfolio makes up 98% of total assets (by value) and is considered to be the key driver of the Company's capital and revenue performance. 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 quoted investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be the area 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 existence, valuation and completeness of the Company's listed 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 the investments to externally quoted prices; and
- agreeing ownership of 100% of portfolio investment holdings 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 £4.0m. This has been determined with reference to a benchmark of total assets (of which it represents 2%). Total assets, which is primarily composed of the company's investment portfolio, is considered to be the key driver of the company's capital and revenue performance and, as such, we consider it to be one of the principal considerations for members of the company in assessing the financial performance of the company.

In addition, we applied a materiality of £0.62m to Income, for which we believe misstatements of lesser amounts than materiality as a whole could be reasonably expected to influence the economic decisions of the members of the Company taken on the basis of the financial statements.

We agreed with the Audit Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £0.2m in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

Our audit of the company was undertaken to the materiality level specified above and was performed at the Edinburgh offices of KPMG and the offices of the UK administrator, R&H Fund Services Limited.

4. 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 performance, business model and strategy; or
- the 'Report of the Audit Committee' 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:

- proper accounting records have not been kept by the Company, or
- proper returns adequate for our audit have not been received from branches not visited by us; or
- the Company's accounts are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review the part of the Corporate Governance Statement on pages 16 and 17 relating to the company's compliance with the nine provisions of the 2010 UK Corporate Governance Code specified for our review.

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

5. Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the Directors are responsible for the preparation of financial statements which 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 of Auditing (UK and Ireland). Those standards require us to comply with the UK Ethical Standards for Auditors.

6. Scope of an audit of financial statements performed in accordance with ISAs (UK and Ireland)

A description of the scope of an audit of financial statements is provided on our website at **www.kpmg.com/uk/auditscopeother2013**. This report is made subject to important explanations regarding our responsibilities, as published on that website, 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.

7. The purpose of this report and restrictions on its use by persons other than the Company's members as a body

This report is made solely to the Company's members, as a body, 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 those matters that we have agreed to state to them in our 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.

Catherine Burnet
for and on behalf of KPMG LLP
Chartered Accountants and Recognised Auditor
Saltire Court, Castle Terrace,
Edinburgh
EH1 2EG
9 October 2014

Income Statement

For the year to 30 June 2014

	Notes	Year ended 30 June 2014 Revenue £'000	Capital £'000	Total £'000	Year ended 30 June 2013 Revenue £'000	Capital £'000	Total £'000
Capital gains on investments							
Gains on investments	9	–	2,948	2,948	–	5,600	5,600
Exchange gains		–	57	57	–	54	54
Revenue							
Income	2	14,269	–	14,269	14,176	–	14,176
		14,269	3,005	17,274	14,176	5,654	19,830
Expenses							
Investment management fee	3	(1,037)	(346)	(1,383)	(916)	(305)	(1,221)
Other expenses	4	(567)	(90)	(657)	(518)	–	(518)
Total expenses		(1,604)	(436)	(2,040)	(1,434)	(305)	(1,739)
Profit before finance costs and taxation		12,665	2,569	15,234	12,742	5,349	18,091
Finance costs							
Interest payable and similar charges	5	(211)	(70)	(281)	(196)	(65)	(261)
Profit before taxation		12,454	2,499	14,953	12,546	5,284	17,830
Irrecoverable withholding tax	6	(182)	–	(182)	(160)	–	(160)
Profit after taxation		12,272	2,499	14,771	12,386	5,284	17,670
Earnings per ordinary share (pence)	8	4.76	0.97	5.73	5.42	2.31	7.73

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.

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

For the year to 30 June 2014

	Notes	As at 30 June 2014 £'000	As at 30 June 2013 £'000
Non-current assets			
Investments held at fair value	9	194,441	157,714
Current assets			
Other receivables	10	5,027	3,918
Cash and cash equivalents		–	777
		5,027	4,695
Total assets		199,468	162,409
Current liabilities			
Bank loan facility	11	(15,360)	(12,214)
Other payables	12	(2,247)	(2,346)
Total liabilities		(17,607)	(14,560)
Net assets		181,861	147,849
Stated capital and reserves			
Stated capital account	13	111,638	81,890
Special distributable reserve		50,385	50,385
Capital reserve		5,570	3,071
Revenue reserve		14,268	12,503
Equity shareholders' funds		181,861	147,849
Net asset value per ordinary share (pence)	15	62.41	60.53

The financial statements on pages 24 to 40 were approved by the Board of Directors and authorised for issue on 9 October 2014 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 2014

	Notes	Stated capital account* £'000	Special distributable reserve‡ £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £000
At 1 July 2013		81,890	50,385	3,071	12,503	147,849
Total comprehensive income for the year:						
Profit for the year		–	–	2,499	12,272	14,771
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(10,507)	(10,507)
Issue of shares	13	29,748	–	–	–	29,748
At 30 June 2014		111,638	50,385	5,570	14,268	181,861

For the year ended 30 June 2013

	Notes	Stated capital account* £'000	Special distributable reserve‡ £'000	Capital reserve* £'000	Revenue reserve† £'000	Total £000
At 1 July 2012		66,680	50,385	(2,213)	9,297	124,149
Total comprehensive income for the year:						
Profit for the year		–	–	5,284	12,386	17,670
Transactions with owners recognised directly in equity:						
Dividends paid	7	–	–	–	(9,180)	(9,180)
Issue of shares	13	15,210	–	–	–	15,210
At 30 June 2013		81,890	50,385	3,071	12,503	147,849

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 (2013: £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 £14,268,000 (2013: £12,503,000) is available for paying dividends.

Cash Flow Statement

For the year ended 30 June 2014

	Notes	Year ended 30 June 2014 £'000	Year ended 30 June 2013 £'000
Operating activities			
Profit before finance costs and taxation		15,234	18,091
Gains on investments		(2,948)	(5,600)
Exchange gains		(57)	(54)
Decrease/(increase) in other receivables		297	(144)
Increase in other payables		18	20
Net cash inflow from operating activities before interest and taxation		12,544	12,313
Interest paid		(274)	(252)
Irrecoverable withholding tax paid		(182)	(160)
Net cash inflow from operating activities		12,088	11,901
Investing activities			
Purchases of investments		(102,911)	(77,918)
Sales of investments		67,390	55,904
Net cash outflow from investing activities		(35,521)	(22,014)
Financing			
Equity dividends paid		(10,507)	(9,180)
Drawdown of bank loan facility		3,146	4,751
Issue of ordinary shares		29,748	15,210
Net cash inflow from financing		22,387	10,781
(Decrease)/increase in cash and cash equivalents		(1,046)	668
Net debt at the start of the year		(11,437)	(7,408)
Drawdown of bank loan facility		(3,146)	(4,751)
Exchange gains		57	54
Net debt at the end of the year†	16	(15,572)	(11,437)

† Net debt includes cash held at bank and bank loan facility.

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 January 2009. Notwithstanding that 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.

The accounting policies adopted are consistent with those of the previous financial year, except that the following new standard has been adopted in the current year:

- In May 2011, the IASB issued IFRS 13 *'Fair Value Measurement'*. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements, IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. In particular, it unifies the definition of fair value as the price at which an ordinary transaction to sell an asset or to transfer a liability would make place between investor participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 *'Financial Instruments: Disclosures'*. This standard became effective for accounting periods beginning on or after 1 January 2013 and requires specific disclosures on fair value but has not materially affected the fair value measurements made by the Company.

The following new standards have been issued but are not effective for this accounting period and have not been adopted early:

- In October 2010, the IASB issued IFRS 9 *'Financial Instruments'* which, following an amendment in December 2011, becomes effective for accounting periods commencing on or after 1 January 2018. This represents part of a project to replace IAS 39 *'Financial Instruments: Recognition and Measurement'*. The objective of the standard is to enhance the ability of investors and other users of financial information to understand the accounting of financial assets and to reduce complexity.
- In May 2011, the IASB issued IFRS 10 *'Consolidated Financial Statements'*. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled and therefore are required to be consolidated by a parent, compared with the requirements that were in IAS 27. This standard becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- In May 2011, the IASB issued IFRS 12 *'Disclosure of Involvement with Other Entities'*. IFRS 12 includes all the disclosures which were previously required by IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- As a consequence of the new IFRS 10 and IFRS 12 above, what remains of IAS 27 *'Separate Financial Statements (2011)'* is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements. The amendment becomes effective in the EU for accounting periods beginning on or after 1 January 2014.
- On 31 October 2012, the IASB issued amendments to IFRS 10 *'Consolidated Financial Statements'*, IFRS 12, *'Disclosure of Interests in Other Entities'* and IAS 27, *'Separate Financial Statements'*. These amendments are expected to exempt the Company from consolidating controlled investees and allow the Company to fair value controlled investments, rather than having to consolidate them. The amendments to IFRS 12 introduce additional disclosures. The amendments become effective in the EU for accounting periods beginning on or after 1 January 2014; earlier application is permitted.

The Company does not consider that the future adoption of any new standards, in the form currently available, will have any material impact on the financial statements as presented except for changes to disclosures.

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 unlisted investments which is described in note 1(b) below and the adoption of the going concern basis of preparation which is discussed on page 9 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. Unlisted 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.

(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 and overdrafts are recorded at amortised 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) Segmental information

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

Rates of exchange at 30 June

	2014	2013
Euro	1.2481	1.1706
Australian dollar	1.8073	1.6442
US dollar	1.7034	1.5258
Canadian dollar	1.8167	1.5988
Norwegian krone	10.4355	9.2205
Swedish krona	11.4683	10.2860
Swiss franc	1.5177	1.4419

2 Income

	2014 £'000	2013 £'000
Income from investments*		
Dividend income	379	339
Preference share income	1,547	1,261
Interest on fixed interest securities	12,343	12,576
Total income	14,269	14,176
Income from investments		
Listed	14,133	14,088
Unlisted	136	88
	14,269	14,176

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

3 Investment Management Fee

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Investment management fee	1,037	346	1,383	916	305	1,221

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. The balance due to CQS for management fees at the year end was £130,000 (2013: £112,000).

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

4 Other Expenses

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Secretarial and administration fees	138	–	138	141	–	141
Directors' fees	113	–	113	113	–	113
Auditors' remuneration for:						
– audit services	21	–	21	21	–	21
Share Plan expenses	10	–	10	13	–	13
Consultancy	30	–	30	20	–	20
Printing	20	–	20	20	–	20
Bank and custody charges	42	–	42	36	–	36
Registrars' fees	34	–	34	41	–	41
Other	159	90	249	113	–	113
	567	90	657	518	–	518

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 is entitled to a fixed fee of £6,000 (2013: £6,000) per annum (index-linked).

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"). The UK Administrator is entitled to a fixed fee of £55,000 per annum (index-linked) and a variable fee of 0.075 per cent per annum of the Company's total assets (less current liabilities excluding any bank borrowings) in excess of £50 million, subject to a maximum variable fee of £75,000 per annum. 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 £6,000 (2013: £12,000) to R&H (excluding the Director's fee to G D Ross) and £132,000 (2013: £129,000) 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 £30,000 per annum. Further details are provided in the Directors' Remuneration Report on pages 20 and 21.

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

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Bank loan	211	70	281	196	65	261

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:

	2014 Revenue £'000	2014 Capital £'000	2014 Total £'000	2013 Revenue £'000	2013 Capital £'000	2013 Total £'000
Irrecoverable withholding tax suffered	182	–	182	160	–	160

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 (2013: 0%) as follows:

	2014 £'000	2013 £'000
Profit on ordinary activities before taxation	14,953	17,830
Theoretical tax expense at zero per cent (2013: 0%)	–	–
Effects of :		
Foreign withholding tax	182	160
Current year revenue tax charge	182	160

Effective 1 January 2009, Jersey's tax regime changed. The new regime imposes a general corporate income tax rate of zero per cent. A 10 per cent rate applies to certain regulated financial services companies and a 20 per cent rate applies to utilities and income from Jersey land (i.e. rents and development profits). Jersey registered companies are treated as resident for tax purposes and are subject to zero per cent or 10 per cent standard income tax rate.

Since the Company is not a regulated financial services entity, the effect of the new tax regime is limited to the change of status from exempt to liable to Jersey income tax at zero per cent.

7 Dividends

	Payment date	2014 Revenue £'000	2013 Revenue £'000
Amounts recognised as distributions to equity holders in the year:			
Dividends in respect of the year ended 30 June 2013			
– Fourth interim of 1.40p per ordinary share	30 Aug 2013	3,419	3,018
Dividends in respect of the year ended 30 June 2014			
– First interim of 0.92p (2013: 0.90p) per ordinary share	29 Nov 2013	2,247	1,982
– Second interim of 0.92p (2013: 0.90p) per ordinary share	28 Feb 2014	2,247	1,982
– Third interim of 0.92p (2013: 0.90p) per ordinary share	30 May 2014	2,594	2,198
		10,507	9,180
Distributions to equity holders after the year end:			
Dividends in respect of the year ended 30 June 2014			
– Fourth interim of 1.45p per ordinary share	29 Aug 2014	4,225	–
Dividends in respect of the year ended 30 June 2013			
– Fourth interim of 1.40p per ordinary share	30 Aug 2013	–	3,419

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

	2014 Revenue pence	2014 Capital pence	2014 Total pence	2013 Revenue pence	2013 Capital pence	2013 Total pence
Ordinary share	4.76p	0.97p	5.73p	5.42p	2.31p	7.73p

The revenue earnings per ordinary share is based on the net profit after taxation of £12,272,000 (2013: £12,386,000) and on 257,812,038 (2013: 228,639,498) 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 gain of £2,499,000 (2013: net capital gain of £5,284,000) and on 257,812,038 (2013: 228,639,498) 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.

	2014 £'000	2013 £'000
Investments listed/quoted on a recognised investment exchange	194,364	155,709
Unquoted investments	77	2,005
	194,441	157,714
Equity shares	15,136	4,744
Preference shares	21,929	7,122
Fixed income securities	148,631	130,225
Convertible securities	8,745	15,623
	194,441	157,714

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.

	2014				2013
	Level 1 Listed in UK £'000	Level 1 Listed overseas £'000	Level 3 £'000	Total £'000	Total £'000
Opening book cost	99,732	60,993	6,460	167,185	136,037
Opening fair value adjustment	494	(5,510)	(4,455)	(9,471)	(8,493)
Opening valuation	100,226	55,483	2,005	157,714	127,544
Movements in the year:					
Purchases at cost	70,320	32,255	–	102,575	79,509
Sales – proceeds	(47,926)	(20,870)	–	(68,796)	(54,939)
– realised gains/(losses) on sales	3,027	(706)	(1,008)	1,313	6,578
Transfers from/(to) Level 3	(220)	932	(712)	–	–
Increase/(decrease) in fair value adjustment	7,983	(6,140)	(208)	1,635	(978)
Closing valuation	133,410	60,954	77	194,441	157,714
Closing book cost	124,933	72,604	4,740	202,277	167,185
Closing fair value adjustment	8,477	(11,650)	(4,663)	(7,836)	(9,471)
Closing valuation	133,410	60,954	77	194,441	157,714

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 £24,000 (2013 – £29,000) on the purchase of investments and £9,000 (2013 – £nil) on the sale of investments.

Gains/(losses) on investments	2014 £'000	2013 £'000
Realised gains	1,313	6,578
Movement in fair value	1,635	(978)
Gains on investments	2,948	5,600

10 Other Receivables

	2014 £'000	2013 £'000
Income receivable from shares and securities	3,608	3,903
Amounts due from brokers	1,406	–
Prepayments and other debtors	13	15
	5,027	3,918

11 Bank Loan Facility

	2014 £'000	2013 £'000
Bank loan facility	15,360	12,214

The Company has a short term loan facility with HSBC Bank Plc. This facility allows up to 20 per cent of the value of shareholders' funds to be borrowed with the drawn down amount repayable on demand.

As at the year end the unsecured loan facility had a limit of £20.0 million of which £15.4 million was drawn down at the year end.

12 Other Payables

	2014 £'000	2013 £'000
Bank overdraft	212	–
Interest on bank loan	29	22
Amount due to brokers	1,823	2,159
Other creditors	183	165
	2,247	2,346

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	2014 £'000
Total issued share capital at 1 July 2013	244,239,339	81,890
17,528,292 ordinary shares of no par value issued on 7 February 2014	17,528,292	11,001
1,000,000 ordinary shares of no par value issued on 10 February 2014	1,000,000	628
7,150,000 ordinary shares of no par value issued on 20 March 2014	7,150,000	4,594
9,137,910 ordinary shares of no par value issued on 26 March 2014	9,137,910	5,899
2,850,000 ordinary shares of no par value issued on 24 April 2014	2,850,000	1,852
6,500,000 ordinary shares of no par value issued on 7 May 2014	6,500,000	4,155
3,000,000 ordinary shares of no par value issued on 8 May 2014	3,000,000	1,920
Expenses of share issues	–	(301)
Total issued share capital at 30 June 2014	291,405,541	111,638

On 7 February 2014 the Company allotted 17,528,292 ordinary shares of no par value, under its placement programme, for cash at 62.76 per share.

On 10 February 2014 the Company allotted 1,000,000 ordinary shares of no par value, under its placement programme, for cash at 62.77 per share.

On 20 March 2014 the Company allotted 7,150,000 ordinary shares of no par value, under its placement programme, for cash at 64.25 per share.

On 26 March 2014 the Company allotted 9,137,910 ordinary shares of no par value, under its placement programme, for cash at 64.56 per share.

On 24 April 2014 the Company allotted 2,850,000 ordinary shares of no par value, under its placement programme, for cash at 65.00 per share.

On 7 May 2014 the Company allotted 6,500,000 ordinary shares of no par value, under its placement programme, for cash at 63.92 per share.

On 8 May 2014 the Company allotted 3,000,000 ordinary shares of no par value, under its placement programme, for cash at 64.00 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 8.

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

The Company's capital is represented by the stated capital account, special distributable reserve, capital reserve and revenue reserve. Details of the movement through each reserve are shown in the Statement of Changes in Equity. The Company is not subject to any externally imposed capital requirements.

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	
	2014 pence	2013 pence	2014 £'000	2013 £'000
Ordinary shares	**62.41p**	60.53p	**181,861**	147,849

The net asset value per ordinary share is based on net assets of £181,861,000 (2013: £147,849,000) and on 291,405,541 (2013: 244,239,339) ordinary shares, being the number of ordinary shares in issue at the year end.

16 Analysis of Changes in Net Debt

	At 30 June 2013 £'000	Cash flow £'000	Currency movements £'000	At 30 June 2014 £'000
Cash at bank and in hand	777	(1,015)	26	**(212)**
Bank facility	(12,214)	(3,146)	–	**(15,360)**
	(11,437)	(4,161)	26	**(15,572)**

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 25. 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 2014 all of which are held at fair value, other than the bank loan which is held at amortised cost:

	2014 £'000	2013 £'000
Financial instruments		
Investment portfolio	194,441	157,714
Cash and cash equivalents	–	777
Accrued income	3,608	3,903
Amounts due from brokers	1,406	–
Financial liabilities		
Bank overdraft	212	–
Bank loan	15,360	12,214
Amounts due to brokers	1,823	2,159
Interest on bank loan facility	29	22
Other payables	183	165

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 5 to 7.

If the investment portfolio valuation fell 5 per cent at 30 June 2014, the impact on the profit or loss and the net asset value would have been negative £9.7 million (2013: a fall of 5 per cent would have impacted the profit or loss and the net asset value by negative £7.9 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 (2013: decrease of 5.3 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 2014.

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 0.5 per cent, the impact on the profit or loss would have been a loss of £78,000 (2013: £65,000). If the bank base rate had decreased by 0.5 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 £15,360,000 from HSBC Bank plc, details of which are contained in note 11 on page 35.

Fixed rate

The Company holds fixed interest investments.

	2014 £'000	2014 Weighted average interest rate (%)	2014 Weighted average period for which the rate is fixed (years)	2013 £'000	2013 Weighted average interest rate (%)	2013 Weighted average period for which the rate is fixed (years)
Assets:						
Fixed income & convertible securities	157,376	7.77	9.21	145,848	8.55	11.73
Preference shares	21,929	5.08	n/a	7,122	7.82	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 2014 was as follows:

	2014 Investments £'000	2014 Accrued Income £'000	2014 Total £'000	2013 Investments £'000	2013 Accrued Income £'000	2013 Total £'000
Euro	13,940	180	14,120	2,791	57	2,848
Australian dollar	9,909	127	10,036	9,115	127	9,242
US dollar	37,306	728	38,034	29,281	517	29,798
Norwegian krone	2,448	30	2,478	9,803	165	9,968
Canadian dollar	1,179	5	1,184	3,537	72	3,609
Swedish krona	7,109	155	7,264	6,017	175	6,192
Swiss franc	190	1	191	164	1	165
	72,081	1,226	73,307	60,708	1,114	61,822

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 £3.9 million (2013: positive £3.3 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:

	2014 £'000	2013 £'000
Cash and cash equivalents	–	777
Interest, dividends and other receivables	3,608	3,903
Balances due from brokers	1,406	–
	5,014	4,680

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 2014. No individual investment exceeded 3.8 per cent of the net assets attributable to the Company's shareholders at 30 June 2014.

22 Liquidity Risk

The Company's financial instruments include investments in unlisted 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:

	2014 £'000	2013 £'000
Listed/Quoted on a recognised investment exchange	194,364	155,708
Unquoted	77	2,006
Total investments	194,441	157,714

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 is 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 20 and 21, 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 21. 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 eighth Annual General Meeting of 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 10 December 2014 for the following purposes:

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

Ordinary Business

1. To receive the Report of the Directors and the financial statements of the Company for the year ended 30 June 2014, together with the auditor's report thereon.
2. To approve the Directors' Remuneration Policy.
3. To approve the Directors' Remuneration Report.
4. That Gavin D P Breeze, who retires by rotation at the Annual General Meeting, be re-elected as a Director.
5. That Adrian J R Collins, who retires at the Annual General Meeting, be re-elected as a Director.
6. That Graeme D Ross, who retires at the Annual General Meeting, be re-elected as a Director.
7. That KPMG LLP, Chartered Accountants, be appointed as Auditor and that the Directors be authorised to determine their remuneration.

Special Business

8. That, pursuant to Article 164 of the Company's Articles of Association, the Company shall continue as an investment company until the conclusion of the next Annual General Meeting of the Company.
9. That, the Company be authorised to issue equity securities (as defined in Article 16.2 of the Company's Articles of Association for cash 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 disapplication shall expire (unless and to the extent previously revoked, varied or renewed by the Company in general meeting by Special Resolution) at the earlier of the conclusion of the annual general meeting of the Company to be held in 2015 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.

Special Resolutions

10. 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 is 43,681,691 being 14.99 per cent of the issued share capital of the Company;

    (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; and

    (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.

By Order of the Board

R&H Fund Services (Jersey) Limited
Company Secretary

9 October 2014

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, Queensway House, Hilgrove Street, St Helier, Jersey, JE1 1ES 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 8 December 2014, 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 8 December 2014, 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.

Corporate Information

Registered Number
95691

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

Directors
James G West (Chairman)
Gavin D P Breeze (Audit Committee Chairman)
Allister F de L Carey
Adrian J R Collins
Graeme D Ross

Investment Manager
New City Investment Managers
CQS Cayman Limited Partnership
5th Floor
33 Grosvenor Place
London SW1X 7HY

AIFM
CQS Asset Management Limited
5th Floor
33 Grosvenor Place
London SW1X 7HY

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
15-19 York Place
Edinburgh, EH1 3EB
Tel: 0131 524 6140

Registrars
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St. Helier, Jersey JE1 1ES
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Tel: 01534 281800

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Auditor
KPMG LLP
20 Castle Terrace
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Bankers, Custodian Bankers and Depositary
HSBC Bank PLC
8 Canada Square
London E14 5HQ

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.

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