



**newcity**  
high yield fund limited



Annual Report & Accounts

30 June 2009

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## Corporate Summary

New City High Yield Fund Limited is a closed-end investment company and was incorporated with limited liability in Jersey on 17 January 2007. 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; dealings commenced on 7 March 2007. The net assets of New City High Yield Trust plc were rolled over into New City High Yield Fund Limited with effect from 7 March 2007. New City High Yield Fund Limited issued one ordinary share for every one New City High Yield Trust plc share then held.

The Company's share capital structure consists only of ordinary shares of no par value. The ordinary shares give shareholders the entitlement to all of the capital growth in the Company's net assets and to all the Company's income that is resolved to be distributed. At 30 June 2009 the Company also had bank borrowings of £8 million which rank for repayment ahead of any capital return to shareholders.

## Investment Objective

The investment objective of the Company is to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

## Investment Policy

The Company invests predominantly in fixed income securities, including, but not limited to, preference shares, loan stocks, corporate bonds and government stocks.

Further details on the Investment Policy is contained in the Directors' Report on pages 11 and 12.

## Dividend Policy

In the absence of unforeseen circumstances the Company will aim to at least maintain the level of dividends paid in respect of each financial year. There can be no guarantee that this will be achieved.

Further details on dividends and the current dividend yield is contained in the Directors' Report on page 12.

## Important information

Past performance is not a guide to future performance. The value of investments and income from them may go down as well as up and are not guaranteed. Changes in rates of exchange may cause the value of investments to fluctuate. Net asset value performance is not linked to share price performance, and shareholders may realise returns that are lower or higher in performance.

**If you have sold or otherwise transferred all of your ordinary shares in New City High Yield Fund Limited, please forward this document as soon as possible to the purchaser or transferee, or to the stockholder, bank or other agent through whom the sale or transfer was, or is being, effected, for delivery to the purchaser or transferee.**

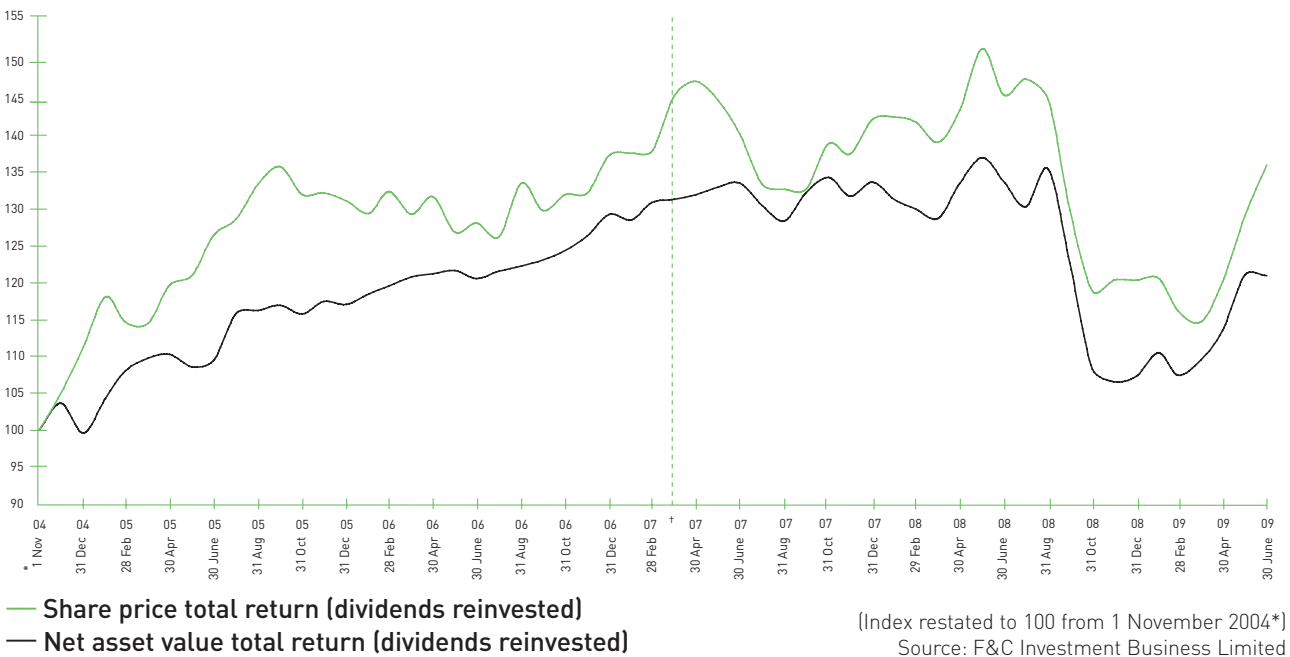


# Financial Highlights

For the year ended 30 June 2009

- Net asset value total return of -9.5 per cent since 1 July 2008.
- Ordinary share price total return of -6.5 per cent since 1 July 2008.
- Dividend yield of 8.1 per cent, based on dividends at an annual rate of 3.65p and a share price of 45.25p at 30 June 2009.
- Ordinary share price at a premium of 6.6 per cent to net asset value at 30 June 2009.
- £6.1 million raised in June 2009 through a placing with both existing and new investors.

## Net Asset Value Total Return and Share Price Total Return of New City High Yield Fund Limited and New City High Yield Trust plc since 1 November 2004



\* Richard Lockwood, Midas Capital Partners Limited appointed Investment Manager of New City High Yield Trust plc on 1 November 2004.  
 † The net assets of New City High Yield Trust plc were rolled over into New City High Yield Fund Limited with effect from 7 March 2007. New City High Yield Fund Limited issued one ordinary share for every one New City High Yield Trust plc share then held.

# Performance Summary

	Year to 30 June 2009	Period from launch‡ to 30 June 2008	
<b>Total Return</b>			
Net asset value	-9.5%	2.4%	
Ordinary share price	-6.5%	3.7%	
	30 June 2009	30 June 2008	% change
<b>Capital Values</b>			
Total assets less current liabilities (with the exception of the bank loan)	73.1m	87.1m	-16.1%
Net asset value per ordinary share	42.45p	51.03p	-16.8%
Share price (mid market)	45.25p	52.50p	-13.8%
	Year to 30 June 2009	Period from launch‡ to 30 June 2008 (annualised*)	% change
<b>Revenue and Dividends</b>			
Revenue earnings per ordinary share	4.46p	4.24p*	+5.2%
Dividends per ordinary share	3.65p	3.57p*	+2.2%
Dividend cover	1.22x	1.19x	+2.5%
Revenue reserve per ordinary share (after recognition of annual dividends)	1.60p	1.05p	
<b>Dividend Yield (annualised)</b>	8.1%	6.8%	
<b>Premium</b> (difference between share price and net asset value)	6.6%	2.9%	
<b>Gearing</b> (100 = nil geared position)†	112	122	
<b>Annualised Total Expense Ratio</b> (as percentage of average shareholders' funds)	1.6%	1.5%	
	2008/09 High	2008/09 Low	
<b>Period's Highs/Lows</b>			
Net asset value	50.8p	38.0p	
Ordinary share price	53.2p	36.0p	
Premium/(discount)	10.9%	(6.5)%	

‡The Company was launched on 7 March 2007.

\*The annualised revenue earnings is based on revenue earnings of 5.62p per ordinary share for the period from launch to 30 June 2008 and the annualised dividend of 3.57p per ordinary share is based on three interim dividends of 0.85p and one interim dividend of 1.02p per ordinary share.

†Gearing = (total assets less other payables) ÷ equity shareholders' funds.

## Dividend History

<b>24 November 2008</b>	First interim dividend of 0.85p per ordinary share paid
<b>20 February 2009</b>	Second interim dividend of 0.85p per ordinary share paid
<b>29 May 2009</b>	Third interim dividend of 0.85p per ordinary share paid
<b>28 August 2009</b>	Fourth interim dividend of 1.10p per ordinary share paid



## Directors

**James West (Chairman)** (age 62). He is a chartered accountant and was formerly managing director of Lazard Brothers & Co. Ltd and chief executive of Lazard Asset Management Ltd. He is chairman of Canaccord Adams Ltd, Gartmore Fledgling Trust plc, Jupiter Second Enhanced Income Trust plc and Rurelec plc. He is also a director of British Assets Trust plc, Shires Smaller Companies plc, JPMorgan Income and Capital Trust plc, IPSA Group plc and UK Select Trust Limited.

**Gavin Breeze** (age 48). 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 focussed on payment services.

**Allister Carey** (age 59). 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. He is also a director of Invesco Leveraged High Yield Fund Limited.

**Adrian Collins** (age 55). 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 Deputy Chairman of Liontrust Asset Management plc and is also on the boards of City Natural Resources High Yield Trust plc, Deutsche Land plc, Midas Capital plc and a number of other companies.

**Graeme Ross** (age 48). 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.

*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.*

## Investment Manager

New City Investment Managers Limited ("NCIM" or "Investment Manager") was established by Richard Lockwood, and New City High Yield Fund Limited initially appointed NCIM as its Investment Manager with effect from launch. With effect from 1 October 2007 NCIM joined CQS Cayman Limited Partnership ("CQS"), a US\$6.2 billion (at 30 June 2009) alternative asset manager, becoming a group company and the investment management agreement was novated to CQS.

As such, CQS became the Investment Manager and has delegated this function to NCIM.

Mr Lockwood has over 40 years' experience in institutional investment, primarily with Hoare Govett where he was a partner. Mr Lockwood was the founding director of City Merchants High Yield Trust Plc in May 1991, which he managed from its launch until April 2003. In June 2003, Mr Lockwood joined Midas Capital Partners Limited and subsequently transferred to NCIM in April 2005. He is also the lead Fund Manager of City Natural Resources High Yield Trust plc and Geiger Counter Limited.

Mr Lockwood is supported in managing the Company's portfolio by Ian Francis and John Wong.

# Chairman's Statement

## Introduction

I am pleased to present the Report and Accounts for the year to 30 June 2009. Last year has been one of unprecedented difficulties in financial markets; your Company's net asset value total return was -9.5%. Despite this fall, based on both NAV and share price performance, the Company was the best performer within the AIC UK High Income Sector for the last year.

## Investment Performance

During the year the Company's net asset value per share fell by 16.8% to 42.45p per share. When this capital measure is adjusted for the payment of dividends totalling 3.57p per share in the year, the net asset value total return was -9.5%. The share price total return was -6.5%. At the year end, the shares were at a premium of 6.6% to net asset value and since then have continued to trade at a premium. This compares favourably with an average discount for the UK High Income Sector of 0.2% at 30 June 2009.

## Dividends and fund raising

In line with the dividend rate in the prior period, the first three interim dividends, each of 0.85p per share, were paid on 24 November 2008, 20 February 2009 and 29 May 2009. We were pleased to increase the fourth interim dividend from 1.02p to 1.10p per share; this was paid after the year end on 28 August 2009. Based on an annual rate of 3.65p and a share price of 45.25p at the year end, this represents a yield of 8.1 per cent. This has been achieved alongside a further increase in our revenue reserve equivalent to 0.64p per share.

It was pleasing that a share issue, equivalent to 9.9 per cent of the Company's share capital, was completed in June 2009. This raised £6.1 million from new and existing shareholders and was further evidence of the appeal of the Company's investment remit.

## Market and economic background

Since the onset of the credit crisis, action has been taken by many central banks and financial authorities in an attempt to stabilise and stimulate financial markets. These measures would appear to have averted the worst, however challenges lie ahead in funding the cost of these measures and balancing the prospect of inflation against that of a continued recession. Exchange rates have been volatile throughout the year, with sterling declining, in particular against the US dollar and Euro. Sterling has staged somewhat of a recovery since March but when compared to the start of our financial year, was still 17% lower against the US dollar and 7% lower against the Euro. The weakness in sterling has however benefited the Company when its overseas income receipts have been translated into sterling. Despite the difficult economic conditions during the year the investment portfolio has only experienced a small number of companies failing to meet interest payments. To be able to increase the fourth interim dividend despite the challenges in the year was testament to the Investment Manager's focus on the Company's income stream.

The top seventy investments and analysis by currency, asset class and quotation are shown on pages 8 to 10.

## Outlook

While some countries appear to be coming out of recession, for most, economic activity has not yet begun to improve. Conditions will remain difficult into 2010, and whether the stock markets apparently sanguine views of recovery are justified is unclear. There is certainly much further to go in the deleveraging process, and the twin pressures of "Quantitative easing" and budget deficits promise to make credit markets interesting. Nonetheless, there are opportunities and the Investment Manager continues to look for attractive investment prospects focussing on companies with solid assets or the ability to generate sustainable cash flows.

## James G West

Chairman

9 October 2009



# Investment Manager's Review

## Background

The last year has been the most devastating in all markets in living memory, with credit markets discounting conditions worse than the great depression of the 1930s.

Bad news came thick and fast during the first quarter of our financial year; in the US the two biggest mortgage lenders Fannie Mae and Freddie Mac, were bailed out by the US Treasury. At the same time in the UK we had the run on Northern Rock and subsequent nationalisation. The real bombshell which devastated the markets was the collapse of Lehman Brothers. The enduring effects of this event cannot be overstated; credit was effectively switched off in all markets, commercial paper, prime brokerage, credit lines – overall almost a complete seizure of the interbank lending markets.

The knock on in the UK was a horrible sight to see, with huge runs on Bank shares, leading to the partial nationalisation of RBS, Lloyds Bank's opportunistic purchase of HBOS and the subsequent partial nationalisation of this group. Barclays managed to hold on to its independent status with the help of some Middle Eastern investors.

The resultant responses from Governments and central banks was concerted and unprecedented both in terms of the size of funds committed and the slashing of interest rates to levels never seen in modern times. To focus on the UK, the OECD is forecasting that the UK Budget deficit will hit 14% of GDP in 2010. Even if the UK reduces Government borrowing by 1% of GDP per year for the next seven years, it will still have a debt to GDP ratio of 125% by 2017, one of the largest in the OECD.

The forecast Gilt issuance for 2010 is some £220 billion, 50% higher than in 2008/09 or, more scarily, 4½ times that of 2007/08. The newly named "Quantative Easing", or as we used to call it "Printing Money", seems to be having a positive effect. Whether or not this is the source of major future inflation, we wait and see. The above shows quite the scale of funds which have been put to use in the UK alone and quite how long it is going to take us to repay the resultant debt.

Even with this vast stimulus the Banks are still not keen to lend on the cash they are holding. One of the results has been the immense widening in credit spreads, this is shown by the levels of the ITRAXX S9 Crossover Index. At the end of August 2008, this index was at a margin of 549 basis points, it peaked at a margin of 1,302 basis points when the market bottomed in March 2009 and then rallied strongly to the year end when it was at a margin of 894 basis points. Further evidence of the turmoil has been volatility of sterling in the currency markets. Against the US dollar, sterling started the financial year within a whisker of \$2 to the pound, falling fairly consistently through to mid March 2009 when it touched \$1.375 to the pound before rallying to \$1.647 at our year end. Against the Euro, the volatility was greater, falling from €1.26 at the end of June 2008 to €1.025 on 30 December 2008 before rallying to €1.174 at the end of our financial year.

## Investment Performance

The share price total return for the Company over the year was -6.5%, which was a good result when compared to our peer group within the AIC UK High Income Sector and given stock market declines. Despite this, we are looking to further improve the performance of the investment portfolio in the coming months.

The prime objective is to produce a safe income stream whilst taking advantage of the continuing volatile markets to invest in stocks which have been over-sold in relation to their underlying fundamentals of ongoing visible cash-flow and strong asset backing.

During the most depressed months in the market, September and October, the NAV fell by 20%. This was due to the indiscriminate mark down of prices and the widening of market quotes (we value based on the market bid prices). In the top ten holdings core stocks such as Balfour Beatty Convertible Cumulative Preference Shares performed well showing a gain of 1% on the year and Brit Insurance 8.5% Convertible was redeemed at par on 31 December 2008. Antares Energy 10% Convertible 2013 returned to the top ten through the quality of its assets being proven in recent drilling results at Yellow Rose in Texas and the holdings in REA and Athabasca Group also performed well.

## Investment Manager's Review (continued)

### Investment Activity

As previously mentioned, the Brit Insurance 8.5% Convertible was redeemed in December 2008. Other realisations of note were the London Mining 11.5% 2012 bond which was called subsequent to the company selling its Brazilian asset and Xinhua Finance 10% 2011 had a partial repayment also following asset sales.

In terms of acquisitions we added to First Hydro Finance 9% First Mortgage Debenture 2021 and opened a position in Care First Group 11.8% First Mortgage Debenture 2014 (a division of BUPA Carehomes). Towards the end of the year, new positions in Aberdeen Asset Management 7.9% Perpetual, Clerical Medical 4.25% Perpetual and Scottish Widows 5<sup>1</sup>/<sub>8</sub> Perpetual were also added to the portfolio.

### Outlook

Whilst the outlook for markets may not be as grim as last year, we do not see a major recovery any time soon. We are still very focused on the maintenance of the income and preservation of capital. To this end the portfolio will continue to maintain its foreign currency exposure without being committed too much to any one currency or economy.

The Company repaid half of its loan facility in June and had a 10% capital raising at the end of the year. This has enabled the managers to focus on the portfolio and not to worry about the whims and vagaries of the Bankers, putting the portfolio in a good position going forward.

We remain confident that the Company will be able to present another positive report this time next year.

**Richard Lockwood / Ian Francis**

New City Investment Managers Limited

9 October 2009

\*ITRAXX Crossover Index is composed of 50 European sub-investment grade entities.



# Investment Portfolio

As at 30 June 2009

Company	Sector	Valuation £'000	Net assets %
Balfour Beatty 10.75% CCP	Construction	4,992	7.7
REA Finance 9.5% 31/12/17	Food Products	3,400	5.2
Antares Energy CV 10% 31/10/13	Oil & Gas	2,546	3.9
First Hydro Finance 9% 31/07/21	Financial	2,538	3.9
Cable & Wireless 8.625% 25/03/19	Telecom	2,503	3.8
Collins Stewart Tullett 8.25% 12/08/14	Financial	2,380	3.7
Myer Group Finance 10.1938% 15/03/13	Retail	1,945	3.0
Care First Group 11.8% 30/06/14	Healthcare	1,825	2.8
Alliance Pharma 8% CV 31/12/13	Pharmaceuticals	1,755	2.7
Corero 8% CULS 31/10/11	Software	1,386	2.1
<b>Top ten investments</b>		<b>25,270</b>	<b>38.8</b>
Athabasca Oil Sands 13% 30/07/11 (unquoted)	Oil & Gas	1,307	2.0
Cirsa Capital 8.75% 15/05/14	Leisure	1,244	1.9
FMG Finance 9.75% 01/09/13	Mining	1,148	1.7
Norwegian Energy 11% 13/07/10	Oil & Gas	1,110	1.7
Providence Resources CV 12% 29/07/12	Oil & Gas	1,107	1.7
Western Area 8% CV 02/07/12	Mining	1,027	1.6
Katanga Mining 14% 13/11/13	Mining	1,020	1.6
Troms Fylkes 7% CV 08/06/12	Marine	1,018	1.6
Edcon Proprietary FRN 15/06/14	Retail	1,017	1.6
Metals Exploration 9% CV 01/08/11 (unquoted*)	Mining	1,000	1.5
<b>Top twenty investments</b>		<b>36,268</b>	<b>55.7</b>
Scottish Mutual 7.25% 25/03/21	Insurance	946	1.5
Sevan Drilling FRN 07/12/12	Oil & Gas	849	1.3
Mercator Minerals 11.5% 16/02/12	Mining	808	1.2
Cirsa Capital 7.875% 15/07/12	Leisure	797	1.2
Coutts Consulting 8% CP (unquoted)	Commercial Services	775	1.2
British Airways 7.25% 23/08/16	Airlines	764	1.2
Croma Group 8% CLN 20/06/11 (unquoted*)	Aerospace & Defence	750	1.2
Grohe Holdings 8.625% 01/10/14	Manufacturing	733	1.1
Scottish Widows 5.125% 24/09/15	Insurance	705	1.1
Warner Music 8.125% 15/04/14	Media	700	1.1
<b>Top thirty investments</b>		<b>44,095</b>	<b>67.8</b>
Iron Mountain 7.25% 15/04/14	Commercial Services	664	1.0
First Australian Resources 15% 31/01/12	Oil & Gas	654	1.0
Rubicon Offshore FRN 16/04/12	Oil & Gas	650	1.0
Allied London Properties 10.75% 31/12/25	Real Estate	641	1.0
IFCO Systems 10.375% 15/10/10	Paper & Forestry Products	620	1.0
Bounty 10% 30/06/10	Oil & Gas	550	0.8
Great Panther 8% CV 11/07/11 (unquoted*)	Mining	529	0.8
FMG Finance 10.625% 01/09/16	Mining	522	0.8
Aberdeen Asset Management 7.9% Perpetual	Financial	513	0.8
F&C Asset Management 6.75% 20/12/16	Financial	513	0.8
<b>Top forty investments</b>		<b>49,951</b>	<b>76.8</b>

## Investment Portfolio (continued)

As at 30 June 2009

Company	Sector	Valuation £'000	Net assets %
GoIndustry 12% CV 05/05/11 (unquoted*)	Retail	500	0.8
Mano River Resources 9% 01/08/10 (unquoted*)	Mining	500	0.8
Kensington Group 9% 21/12/15	Financial	500	0.8
White Energy Co. 7.9% CV 12/10/12 (unquoted*)	Mining	491	0.7
Advance Energy 11% CV 14/05/09 (unquoted*)	Oil & Gas	491	0.7
Clerical Medical 4.25% Perpetual	Financial	477	0.7
AES Corporation 8.375% 01/03/11	Electricity	476	0.7
Petrorig III FRN 16/04/12	Oil & Gas	467	0.7
Norse Energy 10% 13/07/10	Oil & Gas	462	0.7
Sevan Marine FRN 14/05/13	Oil & Gas	443	0.7
<b>Top fifty investments</b>		<b>54,758</b>	<b>84.1</b>
Glencore 8% 06/02/11	Financial	355	0.5
Thiel Logistik 8% 15/12/12	Transport	345	0.5
Royal & Sun Alliance 8.5% Perpetual	Insurance	343	0.5
Enerplus Resources Fund	Oil & Gas	328	0.5
Lloyds 6.3673% 17/06/19	Banks	313	0.5
HTM Sport & Freizeit 8.5% 01/02/14	Leisure	307	0.5
MWB 9.75% 30/06/12	Financial	304	0.5
KazKo 7.625% 13/02/12	Banks	304	0.5
Cambrian Mining 15.0% 21/08/09	Mining	298	0.5
BAA Funding 4.6% 15/02/18	Transport	291	0.4
<b>Top sixty investments</b>		<b>57,946</b>	<b>89.0</b>
Pengrowth Energy Trust	Oil & Gas	287	0.4
Skyepharma 6% CV 04/05/24	Pharmaceuticals	250	0.4
Malka Oil	Oil & Gas	247	0.4
Manganese Bronze	Construction & Engineering	244	0.4
Petaquilla 15% 20/05/13	Mining	242	0.4
New Gold 10% 28/06/17	Mining	240	0.4
Britannia Building Society 5.55% Perpetual	Financial	227	0.3
Scandinavian Airlines 2.375% Perpetual	Airlines	205	0.3
Satcom 8% CV 30/06/10	Telecom	200	0.3
TVMK Partners 10% 08/06/12	Media	182	0.3
<b>Top seventy investments</b>		<b>60,270</b>	<b>92.6</b>
<b>Other investments (31)</b>		<b>1,891</b>	<b>2.9</b>
<b>Total investments</b>		<b>62,161</b>	<b>95.5</b>
<b>Net current assets<sup>†</sup></b>		<b>2,920</b>	<b>4.5</b>
<b>Net assets</b>		<b>65,081</b>	<b>100.0</b>

Notes:

\* Unquoted security which is convertible into a quoted security at the option of New City High Yield Fund Limited.

† Including bank loan of £8 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



## Classification of Investments as at 30 June 2009

### By Currency

	2009 Total investments %	2008 Total investments %
Sterling	53	53
Euro	15	14
Australian dollar	13	9
US dollar	7	8
Canadian dollar	6	7
Norwegian krone	6	9
<b>Total investments</b>	<b>100</b>	<b>100</b>

### By Asset Class

	2009 Total investments %	2008 Total investments %
Bonds	64	55
Convertibles	24	28
Preference shares	10	12
Equity shares	2	5
<b>Total investments</b>	<b>100</b>	<b>100</b>

### By Quotation

	2009 Total investments %	2008 Total investments %
Listed/Quoted on a recognised investment exchange	89	89
Unquoted (convertible into a security quoted on a recognised exchange)	7	8
Unquoted	4	3
<b>Total investments</b>	<b>100</b>	<b>100</b>

# Directors' Report (including Business Review)

## Results and Dividends

The Directors present their second Report and Accounts of the Company for the year to 30 June 2009.

The results for the year are set out in the attached accounts.

<b>Dividends</b>	<b>£'000</b>
Current year net revenue available for dividends	6,229
Dividends on ordinary shares	
First interim dividend of 0.85p per share paid on 24 November 2008	(1,185)
Second interim dividend of 0.85p per share paid on 20 February 2009	(1,185)
Third interim dividend of 0.85p per share paid on 29 May 2009	(1,185)
Fourth interim dividend of 1.10p per share paid on 28 August 2009*	(1,686)
	<hr/> 988

\*The fourth interim dividend of 1.10p per share which was paid after the year end has not been included as a liability in these accounts.

## 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 is a member of The Association of Investment Companies ('AIC').

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; dealings commenced on 7 March 2007.

The Company conducted its affairs so as to satisfy the requirements as a qualifying security for individual savings accounts. The Directors intend that the Company will continue to conduct its affairs in this manner in the future.

## Business Review

The Board of Directors is responsible for the overall stewardship of the Company, including investment and dividend policies, corporate strategy, gearing, corporate governance, and risk management. Biographical details of the Directors, all of whom are non-executive, can be found on page 4.

The following review provides information about the Company's business and results for the year to 30 June 2009 and covers:

- Investment objective
- Investment policy and limits
- Investment approach
- Gearing
- Dividends
- Management and administration
- Principal risks and risk management
- Performance measurement and key performance indicators
- Bank facilities

### *Investment objective*

The investment objective of the Company is to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

### *Investment policy and limits*

- 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 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 stockmarket 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.



## Directors' Report (including Business Review) (continued)

- The Company may acquire securities that are unlisted or unquoted at the time of investment but which are about to be, or are immediately convertible at the option of the Company into securities which are, listed or traded on a stock exchange, and may continue to hold securities that cease to be quoted or listed 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 its total investments. In addition, the Company may invest up to 10 per cent of its gross assets in other securities that are unlisted or unquoted 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 gross 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 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 stockmarket 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.

### *Gearing*

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.

### *Dividends*

While it is the intention of the Directors to pay dividends to shareholders quarterly, the ability of the Company to pay any dividends in respect of the

shares will depend primarily on the level of income received from its investments and the timing of receipt of such income by the Company. Accordingly, the amount of the quarterly dividends paid to shareholders may fluctuate.

In the reporting period, the Company paid dividends totalling 2.55p per share in respect of the year to 30 June 2009 and has declared a further dividend of 1.10p per share which was paid after the year end, on 28 August 2009. Based on an annual rate of 3.65p per share and a share price of 45.25p at the year end, this represents a yield of 8.1 per cent.

### *Management and administration*

As part of its strategy for achieving its objectives, the Board has delegated the management of the investment portfolio to CQS, which in turn has delegated management to New City Investment Managers Limited ("NCIM") with Richard Lockwood and Ian Francis as the Fund Managers.

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.

Administration services and the services of the Company Secretary are provided by R&H Fund Services (Jersey) Limited. Certain administration functions including UK compliance oversight has been delegated to F&C Investment Business 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.

### *Principal risks and risk management*

The Company's assets consist principally of listed fixed interest securities and its principal risks are therefore market related. The Company is also exposed to currency risk in respect of the markets in which it invests. More detailed explanations of these risks and the way in which they are managed are contained in notes 16 to 21 to the financial statements. Other risks include the following:

- External risks – any events or developments which can affect the general level of share prices including, for instance, terrorism, disease, protectionism, inflation or deflation, economic recessions and movements in interest rates.

## Directors' Report (including Business Review) (continued)

- Investment and strategic – inappropriate strategy, asset allocation (including use of gearing), diversification and stock selection could all lead to poor returns for shareholders.
- Regulatory – breach of regulatory rules could lead to suspension of the Company's Stock Exchange listing, financial penalties or a qualified audit report.
- Operational – failure of the Investment Manager's systems or disruption to the Investment Manager's business, or that of third party service providers, could lead to an inability to provide accurate reporting and monitoring, leading to a loss of shareholders' confidence.
- Financial – inadequate controls by the Investment Manager or other third party service providers could lead to misappropriation of assets. Inappropriate accounting policies or failure to comply with accounting standards could lead to misreporting or breaches of laws, rules or regulations.

The Board seeks to mitigate and manage these risks through continual review, policy setting and enforcement of contractual obligations. It also regularly monitors the investment environment and the management of the Company's investment portfolio, and applies the principles detailed in the internal control guidance issued by the Financial Reporting Council. Details of the Company's internal controls are described in more detail on pages 16 and 17.

### *Performance measurement and key performance indicators*

The Company's performance in meeting its objective is measured against key performance indicators ('KPIs'). The primary KPI is the dividend yield, together with dividend cover, given the Company's investment objective of maintaining a high dividend yield.

The Board believes that three years is a suitable time period over which to assess performance. It has assessed Richard Lockwood from 1 November 2004 when he was initially appointed Lead Fund Manager of New City High Yield Trust plc. It uses the following KPIs to measure the Company's performance in meeting its objectives:

- Dividend yield.
- Dividend cover.
- Share price total return.
- Net asset value total return.
- Discount/premium of share price to net asset value.

- Total expenses as a ratio of shareholders' funds.

The relevant information is found on pages 2 and 3 under the Financial Highlights and Performance Summary sections.

A review of the Company's returns during the financial year, the position of the Company at the year end and the outlook for the coming year is contained within the Chairman's Statement on page 5 and the Investment Manager's Review on pages 6 and 7.

The Investment Manager's Review on pages 6 and 7 provides a review of the investment portfolio (as detailed on pages 8 to 10) and market conditions during the year.

### *Bank facilities*

At the year end a borrowing facility of £8 million was in place with Allied Irish Bank and the Company had drawn down £8 million under this facility.

The use of borrowings by the Company may increase the volatility of the net asset value per share, ie, a movement in the Company's gross assets may result in a magnified movement, either favourable or unfavourable, in the net asset value of the Company.

### **Directors' Interests**

Biographies of the Directors are shown on page 4.

All of the Company's Directors retired at the first Annual General Meeting of the Company following their appointment and were re-elected.

In accordance with the Listing Rules, a Director of the Company who is also a Director of other investment companies that are managed by the same Investment Manager (NCIM), must be subject to annual re-election. Accordingly, Mr Adrian Collins and Mr Graeme Ross, whose biographies appear on page 4 will retire at the Annual General Meeting of the Company and, being eligible, will offer themselves for re-election.

In addition, Mr Allister Carey whose biography appears on page 4 retires by rotation at the third Annual General Meeting of the Company and, being eligible, offers himself for re-election.

The Board confirms that, following performance evaluations, the performance of each of the Directors seeking re-election continues to be effective and demonstrates commitment to the role, and the Board believes that it is therefore in the best interests of shareholders that these Directors are re-elected.



## Directors' Report (including Business Review) (continued)

The Directors who held office during the year and their interests in the shares of the Company as at 30 June 2009 were:

	Ordinary Shares 2009	Ordinary Shares 2008
J G West (Chairman)	5,000	5,000
G D P Breeze	1,406,425	1,186,425
A F Carey	–	–
A J R Collins	40,000	40,000
G D Ross	10,000	10,000

There have been no changes in the holdings of the Directors between 30 June 2009 and 9 October 2009.

Mr G D Ross is a Director of the Company and also a Director of R&H Fund Services (Jersey) Limited and Computershare Investor Services (Jersey) Limited which provide administration and share register services to the Company respectively. Further information is disclosed in note 4 to the financial statements.

No Director has any other material interest in any contract to which the Company is a party.

### Managers' Interest

The interest of the key Fund Managers at NCIM, in the shares of the Company as at 30 June 2009 were:

	Ordinary Shares 2009	Ordinary Shares 2008
R Lockwood	225,000	225,000
I Francis	73,053	73,053

### Substantial Interests in Share Capital

At 9 October 2009 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 Securities, Stockbrokers	28,688,860	18.7%
Deutsche Bank Private Wealth Management	15,010,840	9.8%
Newton Investment Management	12,661,314	8.3%
Rathbones	7,113,543	4.6%
UBS Wealth Management	5,759,475	3.8%
Rensburg Sheppards Investment Management	4,941,903	3.2%
Charles Stanley Stockbrokers	4,774,786	3.1%
Collins Stewart Stockbrokers	4,549,767	3.0%

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

### Management and Management Fees

The management of the investment portfolio has been delegated to CQS, which in turn has delegated the management to New City Investment Managers Limited ("NCIM") with Richard Lockwood and Ian Francis as the Fund Managers. The Management Engagement Committee reviews the performance of the Investment Manager and the level and method of remuneration and the notice period. Following this review, the continuing appointment of the Investment Manager is believed to be in the best interests of the shareholders as a whole. The administration of the Company has been delegated to R&H Fund Services (Jersey) Limited ("R&H") and F&C Investment Business Limited ("F&C"). Summaries of the contracts between the Company and CQS/NCIM, R&H and F&C are given in notes 3 and 4 respectively to the financial statements. 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.

### Corporate Governance

Arrangements in respect of corporate governance, appropriate to an investment company, have been made by the Board. The Board has considered the principles and recommendations of the AIC's Code of Corporate Governance (the 'AIC Code') issued in May 2007 and subsequently revised in March 2009 by reference to the AIC Corporate Governance Guide for Investment Companies (the 'AIC Guide'). The AIC Code, as explained by the AIC Guide, addresses all the principles set out in Section 1 of the Combined Code on Corporate Governance issued in June 2008 by the Financial Reporting Council (the 'Combined Code'), as well as setting out additional principles and recommendations on issues which 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 Combined Code), will provide better information to shareholders than if it had adopted the Combined Code.

There is no standard code of corporate governance in Jersey, where the Company is incorporated.

Except as disclosed, the Company has complied throughout the year with the recommendations of the AIC Code, and the relevant provisions of the

## Directors' Report (including Business Review) (continued)

Combined Code. Since all Directors are non-executive, and in accordance with the AIC Code and the preamble to the Combined Code, the provisions of the Combined Code on the role of the chief executive and, except in so far as they apply to non-executive Directors, on Directors' remuneration are not relevant to the Company and are not reported on further.

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 principle 3 of the AIC Code and provision A.7.2 of the Combined 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 Combined 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 Collins and Mr G 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 Collins and Mr G Ross, as non-independent Directors under the AIC Code, are subject to annual re-election.

The Board consists solely of non-executive Directors. Mr J G West is Chairman. 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 Company has no executive Directors or employees. A management agreement between the Company and its Investment Manager, CQS/NCIM, 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 of Directors. The Board currently meets four times a year and receives full information about the Company's investment performance, assets, liabilities and other relevant information in advance of Board meetings. In between these formal meetings there is regular

contact on a less formal basis, between the Directors, the Company Secretary, the Administrators and the Investment Manager. The Directors may, at the expense of the Company, seek independent professional advice on any matter that concerns them in the furtherance of their duties. The Investment Manager, in the absence of explicit instructions from the Board, is empowered to exercise discretion in the use of the Company's voting rights. All shareholdings are voted, where practicable in accordance with the Investment Manager's own corporate governance policy, which is to seek to maximise shareholder value by constructive use of votes at company meetings and by endeavouring to use its influence as an investor with a principled approach to corporate governance.

### Board Committees

Throughout the year a number of committees have been in operation, namely the Audit Committee, the Management Engagement Committee and the Nomination Committee.

#### *Audit Committee*

The Audit Committee, chaired by Mr G D P Breeze, operates within clearly defined terms of reference, which are available on request, and comprises all of the Directors. The duties of the Audit Committee include reviewing the Annual and Interim report and accounts, the system of internal controls, the terms of appointment of the auditors together with their remuneration, and ensuring that auditor objectivity and independence is safeguarded in the provision of non-audit services by the auditors. It also provides a forum through which the auditors may report to the Board of Directors. It meets at least twice yearly.

#### *Management Engagement Committee*

The Management Engagement Committee, chaired by Mr J G West, 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 Nomination Committee, chaired by Mr J G West, operates within clearly defined terms of reference, which are available on request, and 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



## Directors' Report (including Business Review) (continued)

balance of skills and experience within the Board.

### Performance evaluation

During the year the performance of the Board, committees and individual Directors was evaluated through a forum based assessment process, led by the Chairman. The Board confirms that the

performance of each of the Directors continues to be effective and demonstrates commitment to the role and recommends to shareholders the approval of Resolutions 3 to 5 contained in the Notice of Annual General Meeting on page 39 relating to the Directors seeking re-election.

The following table sets out the number of Board and Committee meetings held during the period to 9 October 2009 and the number of meetings attended by each Director.

	Board of Directors		Audit Committee		Nomination Committee		Management Engagement Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J G West	4	4	2	2	1	1	1	1
G D P Breeze	4	4	2	2	1	1	1	1
A F Carey	4	4	2	2	1	1	1	1
A J R Collins	4	4	2	2	1	1	1	1
G D Ross	4	4	2	2	1	1	1	1

### 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, they 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.

### Internal Controls

The Board is responsible for the Company's system of internal control and for reviewing its effectiveness. Following publication of "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull 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

period under review and up to the date of approval of this Report and Accounts, and is regularly reviewed by the Board and is in accordance with the Turnbull guidance. The Board has reviewed the effectiveness of the systems of internal control. In particular, it has reviewed and updated the process for identifying and evaluating the significant risks affecting the Company and the 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:

- The UK Administrator prepares 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 of these issues, including performance statistics and investment valuations, are regularly submitted to the Board. The Investment Manager's evaluation procedure and financial analysis of the companies concerned include detailed appraisal and due diligence,
- Written agreements are in place which specifically define the roles and responsibilities

## Directors' Report (including Business Review) (continued)

of the Investment Manager and other third party service providers,

- The Board has considered the need for an internal audit function, but because of the internal control system in place at CQS/NCIM and F&C throughout the period of appointment, the Board has decided to monitor CQS/NCIM's and F&C's systems and internal audit procedures,
- At its September 2009 Board meeting the Board carried out an annual assessment of internal controls for the year ended 30 June 2009 by considering the internal control functions at F&C and CQS/NCIM, including the former's internal audit function and taking account of events since 30 June 2009.

The internal control system is designed to meet the Company's particular needs and the risks to which it is exposed. Accordingly the internal control system is designed to manage rather than eliminate the risk of failure to meet business objectives and by its nature can only provide reasonable and not absolute assurance against misstatement and loss.

### Whistleblowing

The Board has considered the Combined Code's recommendations in respect of arrangements by which staff of the Investment Manager, Secretary or Administrator of the Company may, in confidence, raise concerns within their respective organisations about possible improprieties in financial reporting or other matters. It has concluded that adequate arrangements are in place for the proportionate and independent investigation of such matters and, where necessary, for appropriate follow-up action to be taken within their respective organisations.

### Financial Statements

The Directors' responsibilities regarding the financial statements and safeguarding of assets are set out on page 20.

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information

of which the Company's auditors are unaware and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

### Continuation Vote

In accordance with the Articles of Association an ordinary resolution, Resolution 7, will be proposed at the Annual General Meeting to continue the Company as an investment company.

### Directors' Authority to Allot Shares

Under the Articles of Association, the Directors have wide powers to issue new ordinary shares on a non pre-emptive basis. 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 and therefore, will not be disadvantageous to existing shareholders. Any issues of new ordinary shares will be carried out in accordance with the Listing Rules. During the year 13,936,600 new ordinary shares have been issued as shown in note 13.

### 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 8 seeks renewal of such authority until the next Annual General Meeting (or the expiry of 15 months, if earlier). The maximum and minimum prices to be paid for shares are set out in Resolution 8. 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.



## Directors' Report (including Business Review) (continued)

### Environment

The Company seeks to conduct its affairs responsibly and environmental factors are, where appropriate, taken into consideration with regard to investment decisions taken on behalf of the Company. The Company's Investment Manager considers socially responsible investment and actively engages with investee companies.

### Relations with Shareholders

The Company welcomes the views of shareholders and places great importance on communication with its shareholders. The Investment Manager maintains a regular dialogue with institutional shareholders, the feedback from which is reported to the Board. The Annual General Meeting of the Company provides a forum, both formal and informal, for shareholders to meet and discuss issues with the Directors and Investment Manager. The Secretary is available to answer general shareholder queries at any time throughout the year.

### Creditor Payment Policy

It is the policy of the Company to settle all investment transactions in accordance with the terms and conditions of the relevant markets in which it operates. All other expenses are paid on a timely basis in the ordinary course of business. The Directors do not consider any creditors to represent trade creditors.

### Auditors

KPMG Audit Plc have expressed their willingness to continue in office as auditors and a resolution proposing their re-appointment and to authorise the Directors to determine their remuneration will be submitted at the Annual General Meeting.

### 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 2009

# Directors' Remuneration Report

The Board has prepared this report in accordance with the requirements of Listing Rule 9.8 of the Financial Services Authority. An ordinary resolution for the approval of this report will be put to shareholders at the forthcoming Annual General Meeting as Resolution 2.

The Board consists solely of non-executive Directors and considers, at least annually, the level of the Directors' fees, in accordance with the Combined Code on Corporate Governance. The Company Secretary provides information on comparative levels of Directors' fees to the Board in advance of each review.

As the Board of Directors consists 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.

## Policy on Directors' Fees

The Company's current 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 2010 and subsequent years.

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

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

The Directors' interests in contractual arrangements with the Company are as shown in notes 4 and 22 to the financial statements. No other Directors were interested in contracts with the Company during the year or subsequently.

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.

## Directors' Service Contracts

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

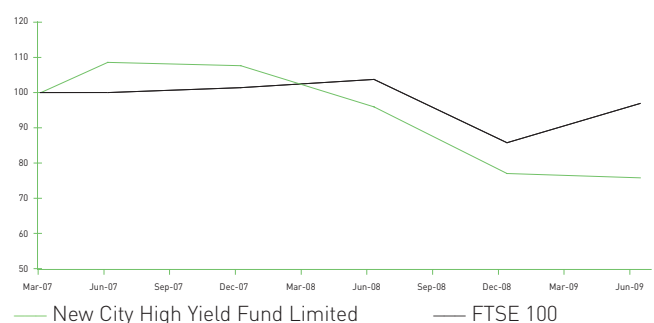
The terms of Directors' appointments provide that Directors should retire and be subject to re-election at the first Annual General Meeting after their appointment. Directors are obliged to retire by rotation, and may offer themselves for re-election by shareholders at least every three years after that.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

## 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 12.

The graph below illustrates the total shareholder return for a holding in the Company's shares as compared to the FTSE 100 for the period from launch to 30 June 2009. The Company considers this, as a generalist equity index, 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



## Directors' Remuneration Report (continued)

### Directors' Emoluments for the Year

The Directors who served during the year received the following emoluments in the form of fees:

	Fees 2009 £'000	Fees 2008* £'000
J G West (Chairman)	24,750	31,137
G D P Breeze (Audit Committee Chairman)	18,500	23,392
A F Carey	16,500	20,758
A J R Collins	16,500	20,758
G D Ross†	11,000	14,975
	<b>87,250</b>	<b>111,020</b>

\*Period from date of appointment on 17 January 2007 to 30 June 2008.

† Fees paid to R&H Fund Services (Jersey) Limited

The annual rates of remuneration were increased with effect from 1 November 2007, and are currently £24,750 for the Chairman (At launch: £22,500), £18,500 for the Chairman of the Audit Committee (At launch: £17,000), £11,000 for G D Ross (At launch: £10,000) and £16,500 for each other Director (At launch: £15,000).

On behalf of the Board

**J G West**

Director

9 October 2009

## Statement of Directors' Responsibilities

### Statement of Directors' Responsibilities in respect of the Annual Report and the Financial Statements

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](http://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; and
- the Report of the Directors includes a fair review of the development and performance of the business and the position of the Company together with a description of the principal risks and uncertainties that it faces.

On behalf of the Board

**J G West**

Director

9 October 2009

# Independent Auditors' Report to the Members of New City High Yield Fund Limited

We have audited the financial statements of New City High Yield Fund Limited for the year ended 30 June 2009 which comprise the Income Statement, the Balance Sheet, the Statement of Changes in Equity and the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with Article 110 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 auditors' 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.

## Respective responsibilities of Directors and Auditors

As described in the Statement of Directors' Responsibilities on page 20, the Company's directors are responsible for preparation of the financial statements in accordance with applicable law and International Financial Reporting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies (Jersey) Law 1991. We also report to you if, in our opinion, the Company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the June 2008 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the Directors' Report, the Financial Highlights, Performance Summary, Directors and Investment Manager, Chairman's Statement, Investment Manager's Review, Investment Portfolio, Classification of Investments, Directors' Remuneration Report, Statement of Directors' Responsibilities, Notice of Annual General Meeting and Corporate Information accompanying the financial statements and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with International Financial Reporting Standards, of the state of the Company's affairs as at 30 June 2009 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies (Jersey) Law 1991.

## KPMG Audit Plc

Chartered Accountants

Registered Auditor, Edinburgh

9 October 2009



# Income Statement

For the year ended 30 June 2009

	Notes	Year ended 30 June 2009			Period from 17 January 2007* to 30 June 2008		
		Revenue £'000	Capital £'000	Total £'000	Revenue £'000	Capital £'000	Total £'000
<b>Capital losses on investments</b>							
Losses on investments	9	-	(12,627)	(12,627)	-	(4,858)	(4,858)
Exchange losses		-	(299)	(299)	-	(153)	(153)
<b>Revenue</b>							
Investment income	2	7,880	-	7,880	9,685	-	9,685
		<b>7,880</b>	<b>(12,926)</b>	<b>(5,046)</b>	<b>9,685</b>	<b>(5,011)</b>	<b>4,674</b>
<b>Expenses</b>							
Investment management fee	3	(454)	(151)	(605)	(666)	(222)	(888)
Other expenses	4	(371)	(9)	(380)	(462)	(6)	(468)
<b>Total expenses</b>		<b>(825)</b>	<b>(160)</b>	<b>(985)</b>	<b>(1,128)</b>	<b>(228)</b>	<b>(1,356)</b>
<b>Profit/(loss) before finance costs and taxation</b>		<b>7,055</b>	<b>(13,086)</b>	<b>(6,031)</b>	<b>8,557</b>	<b>(5,239)</b>	<b>3,318</b>
<b>Finance costs</b>							
Interest payable and similar charges	5	(637)	(212)	(849)	(1,069)	(356)	(1,425)
<b>Profit/(loss) before taxation</b>		<b>6,418</b>	<b>(13,298)</b>	<b>(6,880)</b>	<b>7,488</b>	<b>(5,595)</b>	<b>1,893</b>
Irrecoverable withholding tax	6	(189)	-	(189)	(161)	-	(161)
<b>Profit/(loss) after taxation</b>		<b>6,229</b>	<b>(13,298)</b>	<b>(7,069)</b>	<b>7,327</b>	<b>(5,595)</b>	<b>1,732</b>
<b>Earnings/(loss) per ordinary share (pence)</b>	8	<b>4.46p</b>	<b>(9.53)p</b>	<b>(5.07)p</b>	<b>5.62p</b>	<b>(4.29)p</b>	<b>1.33p</b>

The total column of this statement represents the Company's Income Statement, prepared in accordance with IFRS (Refer to notes 1 and 24). 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 Company was incorporated on 17 January 2007 and commenced operations on 7 March 2007.

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

# Balance Sheet

As at 30 June 2009

	Notes	As at 30 June 2009 £'000	As at 30 June 2008 £'000
<b>Non-current assets</b>			
Investments held at fair value	9	62,161	83,461
<b>Current assets</b>			
Other receivables	10	2,384	2,400
Cash and cash equivalents		9,206	2,103
		11,590	4,503
<b>Total assets</b>		<b>73,751</b>	<b>87,964</b>
<b>Current liabilities</b>			
Bank loan	11	(8,000)	(16,000)
Other payables	12	(670)	(840)
<b>Total liabilities</b>		<b>(8,670)</b>	<b>(16,840)</b>
<b>Net assets</b>		<b>65,081</b>	<b>71,124</b>
<b>Share capital and reserves</b>			
Stated capital account	13	29,455	23,452
Special distributable reserve		50,385	50,385
Capital reserve		(18,893)	(5,595)
Revenue reserve		4,134	2,882
<b>Equity shareholders' funds</b>		<b>65,081</b>	<b>71,124</b>
<b>Net asset value per ordinary share (pence)</b>	15	<b>42.45p</b>	51.03p

The financial statements on pages 22 to 38 were approved by the Board of Directors and authorised for issue on 9 October 2009 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 2009

	Notes	Stated capital account £'000	Special distributable reserve† £'000	Capital reserve £'000	Revenue reserve† £'000	Total £000
At 1 July 2008		23,452	50,385	(5,595)	2,882	71,124
(Loss)/profit for the year		-	-	(13,298)	6,229	(7,069)
Dividends paid	7	-	-	-	(4,977)	(4,977)
Issue of shares	13	6,003	-	-	-	6,003
At 30 June 2009		29,455	50,385	(18,893)	4,134	65,081

For the period from 17 January 2007\* to 30 June 2008

	Notes	Stated capital account £'000	Special distributable reserve† £'000	Capital reserve £'000	Revenue reserve† £'000	Total £000
At 17 January 2007 (date of incorporation)		-	-	-	-	-
(Loss)/profit for the period		-	-	(5,595)	7,327	1,732
Dividends paid	7	-	-	-	(4,445)	(4,445)
Issue of shares		74,445	-	-	-	74,445
Transfer to special distributable reserve		(50,993)	50,993	-	-	-
Launch costs		-	(596)	-	-	(596)
Cost of reduction in stated capital account		-	(12)	-	-	(12)
At 30 June 2008		23,452	50,385	(5,595)	2,882	71,124

\*The Company was incorporated on 17 January 2007 and commenced operations on 7 March 2007.

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

† The balance on the revenue reserve of £4,134,000 (2008: £2,882,000) is available for paying dividends.

‡ The balance on the special distributable reserve of £50,385,000 (2008: £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.

# Cash Flow Statement

For the year ended 30 June 2009

	Year ended 30 June 2009 €'000	Period from 17 January 2007* to 30 June 2008† €'000
<b>Operating activities</b>		
(Loss)/profit before finance costs and taxation	(6,031)	3,318
Losses on investments	12,627	4,858
Exchange losses	299	153
Decrease/(increase) in other receivables	418	(1,165)
Increase in other payables	28	137
<b>Net cash inflow from operating activities before interest and taxation</b>	<b>7,341</b>	<b>7,301</b>
Interest paid	(986)	(1,180)
Irrecoverable withholding tax paid	(198)	(152)
<b>Net cash inflow from operating activities</b>	<b>6,157</b>	<b>5,969</b>
<b>Investing activities</b>		
Purchase of investments	(17,641)	(57,322)
Sales of investments	26,159	34,649
<b>Net cash inflow/(outflow) from investing activities</b>	<b>8,518</b>	<b>(22,673)</b>
<b>Financing</b>		
Equity dividends paid	(4,977)	(4,445)
(Repayment)/drawdown of bank loan	(8,000)	2,000
Issue of ordinary shares	5,704	21,599
Expenses of share issues and launch costs	-	(714)
Cost of reduction in stated capital account	-	(12)
<b>Net cash (outflow)/inflow from financing</b>	<b>(7,273)</b>	<b>18,428</b>
<b>Increase in cash and cash equivalents</b>	<b>7,402</b>	<b>1,724</b>
Cash and cash equivalents at the start of the year/period	2,103	-
Exchange losses	(299)	(153)
Cash inflow from transfer of cash from New City High Yield Trust plc <sup>†</sup>	-	532
<b>Cash and cash equivalents at the end of the year/period</b>	<b>9,206</b>	<b>2,103</b>

† On 6 March 2007 the net assets of New City High Yield Trust plc, which totalled €52,964,000, were transferred in specie to New City High Yield Fund Limited. Cash of €532,000 and investments with a market value of €66,432,000 were received and a loan of €14 million due to Allied Irish Bank was also novated and transferred to the Company.

‡ The cashflow statement above has been presented in accordance with IFRS. Until 30 June 2008 the Company reported its results in accordance with UK GAAP. Note 24 to the financial statements provides a reconciliation of the cashflow statement previously presented under UK GAAP to IFRS.

\*The Company was incorporated on 17 January 2007 and commenced operations on 7 March 2007. The accompanying notes are an integral part of these financial statements.



# Notes to the Financial Statements

## 1. Accounting policies

### (a) Basis of accounting

These financial statements have, for the first time, 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 accounting policies adopted under IFRS are not materially different from those previously adopted under UK Generally Accepted Accounting Practice ("UK GAAP"). The transition to IFRS has not resulted in a change to the net asset value or return per share as would have been reported under UK GAAP. The disclosures required by IFRS1 'First Time Adoption of International Financial Reporting Standards' ('IFRS1') concerning the transition from UK GAAP to IFRS are given in note 24.

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.

### 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 judgement is the valuation of unlisted investments which is described in note 1(b) below.

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 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; the information is 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.

# Notes to the Financial Statements (continued)

## 1. Accounting policies (continued)

### (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) Taxation

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.

### (g) Cash and cash equivalents

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

### (h) Bank borrowings

Interest bearing bank loans and overdrafts are recorded at amortised cost.

### (i) Reserves

(a) Capital reserve. The following are accounted for in this 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.



# Notes to the Financial Statements (continued)

## 1. Accounting policies (continued)

### (j) Segmental information

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

### (k) New standards, amendments to standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2009, and have not been applied in preparing these financial statements. The Directors believe that there will be no significant impact on the Company's financial statements upon the introduction of these standards.

- Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments, effective for accounting periods beginning on or after 1 January 2009.
- IFRS 8 Operating Segments, effective for accounting periods beginning on or after 1 January 2009.
- Amendments to IAS 1 Presentation of Financial Statements, effective for accounting periods beginning on or after 1 January 2009.

## Rates of exchange at 30 June

	2009	2008
Euro	1.174	1.263
Australian dollar	2.037	2.074
US dollar	1.647	1.990
Canadian dollar	1.913	2.019
Norwegian krone	10.600	10.137

## 2. Income

	2009 £'000	2008 £'000
<b>Income from investments*</b>		
Dividend income	790	1,335
Interest on fixed interest securities	7,040	8,218
	<b>7,830</b>	9,553
<b>Other income<sup>†</sup></b>		
Deposit interest	50	132
<b>Total income</b>	<b>7,880</b>	9,685
<b>Income from investments</b>		
Listed	6,941	8,760
Unlisted	889	793
	<b>7,830</b>	9,553

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

<sup>†</sup>Other income on financial assets not valued at fair value through Profit or Loss.

## Notes to the Financial Statements (continued)

### 3. Investment management fee

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Investment management fee	454	151	605	666	222	888

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 £50,000 (2008: £58,000).

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

### 4. Other expenses

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Secretarial and administration fees	100	–	100	124	–	124
Directors' fees	87	–	87	111	–	111
Auditors' remuneration for:						
– audit services	23	–	23	20	–	20
– other services supplied pursuant to legislation	6	–	6	4	–	4
– other services	2	–	2	–	–	–
Share Plan expenses	19	–	19	48	–	48
Consultancy	25	–	25	39	–	39
Printing	26	–	26	25	–	25
Bank and custody charges	15	–	15	24	–	24
Registrars' fees	16	–	16	14	–	14
Other	52	9	61	53	6	59
	371	9	380	462	6	468

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 £26,000 (2008: £25,000) per annum (index-linked), including the Director's fee payable to Graeme Ross. Graeme Ross is also a Director of the Registrar, Computershare Investor Services (Jersey) Limited ("Computershare"), which receives fees from the Company.

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 F&C Investment Business Limited ("UK Administrator"). The UK Administrator is entitled to a fixed fee of £50,000 per annum (index-linked) and a variable fee of 0.075 per cent per annum of the Company's total assets (less current liabilities other than bank borrowings) in excess of £50 million, subject to a maximum variable fee of £50,000 per annum. The Administration Agreement and the Delegation Agreement may be terminated by any party giving to the other or others not less than 12 months' notice.

The total fees paid and payable under these agreements were £15,000 (2008: £22,000) to R&H (excluding the Directors' fee to Graeme Ross), £16,000 (2008: £14,000) to Computershare and £85,000 (2008: £102,000) to F&C. £5,000 (2008: £nil) due to F&C was outstanding at the year end.

The remuneration of the Chairman, the highest paid Director, was at a rate of £24,750 per annum. Further details are provided in the Directors' Remuneration Report on pages 19 and 20.

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

The Company does not have any employees.



## Notes to the Financial Statements (continued)

### 5. Interest payable and similar charges

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Bank loan	637	212	849	1,069	356	1,425

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:

	2009 Revenue £'000	2009 Capital £'000	2009 Total £'000	2008 Revenue £'000	2008 Capital £'000	2008 Total £'000
Irrecoverable withholding tax suffered	189	–	189	161	–	161

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 (2008: 20%) as follows:

	2009 £'000	2008 £'000
(Loss)/profit on ordinary activities before taxation	(6,880)	1,893
Theoretical tax expense at zero per cent (2008: 20%)	–	379
Effects of :		
Jersey exempt tax relief	–	(379)
Foreign withholding tax	189	161
Current year revenue tax charge	189	161

### 7. Dividends

	Payment date	2009 Revenue £'000	2008 Revenue £'000
<b>Amounts recognised as distributions to equity holders in the year/period:</b>			
<b>Dividends in respect of the period ended 30 June 2008</b>			
– Fifth interim of 1.02p per ordinary share	29 Aug 2008	1,422	–
<b>Dividends in respect of the year ended 30 June 2009</b>			
– First interim of 0.85p (2008: 0.85p) per ordinary share	24 Nov 2008	1,185	1,077
– Second interim of 0.85p (2008: 0.85p) per ordinary share	20 Feb 2009	1,185	1,077
– Third interim of 0.85p (2008: 0.85p) per ordinary share	29 May 2009	1,185	1,106
– Fourth interim (2008: 0.85p) per ordinary share		–	1,185
		4,977	4,445
<b>Distributions to equity holders after the year/period end:</b>			
<b>Dividends in respect of the year ended 30 June 2009</b>			
– Fourth interim of 1.10p per ordinary share	28 Aug 2009	1,686	–
<b>Dividends in respect of the period ended 30 June 2008</b>			
– Fifth interim of 1.02p per ordinary share		–	1,422

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.

## Notes to the Financial Statements (continued)

### 8. Earnings per ordinary share

	2009 Revenue pence	2009 Capital pence	2009 Total pence	2008 Revenue pence	2008 Capital pence	2008 Total pence
Ordinary share	4.46p	(9.53)p	(5.07)p	5.62p	(4.29)p	1.33p

The revenue earnings per ordinary share is based on the net profit after taxation of £6,229,000 (2008: £7,327,000) and on 139,595,523 (2008: 130,471,218) ordinary shares, being the weighted average number of ordinary shares in issue during the year.

The capital loss per ordinary share is based on a net capital loss of £13,298,000 (2008: capital loss of £5,595,000) and on 139,595,523 (2008: 130,471,218) 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.

	2009 £'000	2008 £'000
Investments listed/quoted on a recognised investment exchange	54,984	74,510
Unquoted investments	7,177	8,951
	<b>62,161</b>	83,461
Equity shares	1,158	4,335
Preference shares	6,011	9,604
Fixed income securities	40,075	45,871
Convertible securities	14,917	23,651
	<b>62,161</b>	83,461

	2009				2008 Total £'000
	Listed in UK £'000	Listed overseas £'000	Unquoted £'000	Total £'000	
Opening book cost	42,261	36,800	9,849	88,910	65,188
Opening unrealised depreciation	(3,767)	(784)	(898)	(5,449)	-
Opening valuation	38,494	36,016	8,951	83,461	65,188
Movements in the year:					
Purchases at cost	7,591	8,146	1,749	17,486	57,780
Sales – proceeds	(10,366)	(14,119)	(1,674)	(26,159)	(34,649)
– realised (losses)/gains on sales	(1,276)	699	300	(277)	591
– reclassification	(2,773)	-	2,773	-	-
Increase in unrealised depreciation	(2,496)	(4,932)	(4,922)	(12,350)	(5,449)
Closing valuation	29,174	25,810	7,177	62,161	83,461
Closing book cost	35,437	31,526	12,997	79,960	88,910
Closing unrealised depreciation	(6,263)	(5,716)	(5,820)	(17,799)	(5,449)
Closing valuation	29,174	25,810	7,177	62,161	83,461

During the year the Company incurred brokerage costs of £471 (2008 - £37,296) on the purchase of investments and £4,244 (2008 - £21,300) on the sale of investments.

	2009 £'000	2008 £'000
<b>(Losses)/gains on investments</b>		
Realised (losses)/gains	(277)	591
Increase in unrealised depreciation	(12,350)	(5,449)
Losses on investments	<b>(12,627)</b>	(4,858)



## Notes to the Financial Statements (continued)

### 10. Other receivables

	2009 £'000	2008 £'000
Income receivable from shares and securities	1,979	2,386
Proceeds due from share issue	393	-
Prepayments	12	14
	<b>2,384</b>	2,400

### 11. Bank loan

	2009 £'000	2008 £'000
Bank loan	8,000	16,000

During the year, the Company had an unsecured bank loan facility of £18 million with Allied Irish Bank under which a loan of £16 million had been drawn down. £8 million was repaid on 17 June 2009 and accordingly £8 million was outstanding at the year end. At 30 June 2009 the bank loan facility had also been reduced to £8 million.

A further £3 million was repaid on 28 August 2009, and on 9 October 2009 the Allied Irish bank loan was fully repaid. On the same date, the Company drew down £5 million under a new bank loan facility with HSBC Bank plc which allows up to 20 per cent of the value of shareholders' funds to be borrowed.

### 12. Other payables

	2009 £'000	2008 £'000
Interest on bank loan	108	245
Amount due to brokers	303	458
Expenses of share issue	94	-
Other creditors	165	137
	<b>670</b>	840

### 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	2009 £'000
Total issued share capital at 1 July 2008	139,366,428	23,452
13,936,600 ordinary shares of no par value issued on 25 June 2009	13,936,600	6,097
Expenses of share issue		(94)
Total issued share capital at 30 June 2009	153,303,028	29,455

13,936,600 ordinary shares were issued at a price of 43.75p per share pursuant to a placing on 25 June 2009 and raised £6.1 million.

The capital of the Company is managed in accordance with its investment policy, in pursuit of its investment objective, both of which are detailed in the Directors' Report on pages 11 and 12.

# Notes to the Financial Statements (continued)

## 14. Reserves

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	
	2009 pence	2008 pence	2009 £'000	2008 £'000
Ordinary shares	42.45p	51.03p	65,081	71,124

The basic net asset value per ordinary share is based on net assets of £65,081,000 (2008: £71,124,000) and on 153,303,028 (2008: 139,366,428) ordinary shares, being the number of ordinary shares in issue at the year end.

## 16. 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 borrowing 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 23. 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;



## Notes to the Financial Statements (continued)

### 16. Financial instruments (continued)

- (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 Company may not be able to liquidate quickly its investments.

The Company held the following categories of financial instruments as at 30 June 2009 all of which are held at fair value, other than the bank loan which is held at amortised cost:

	2009 £'000	2008 £'000
<b>Financial instruments</b>		
Investment portfolio	62,161	83,461
Cash and cash equivalents	9,206	2,103
Accrued income	1,979	2,386
Sundry receivables	393	-
<b>Financial liabilities</b>		
Bank loan	8,000	16,000
Amounts due to brokers	303	458
Interest on bank loan	108	245
Other payables	259	137

### 17. 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 8 to 10.

If the investment portfolio valuation fell 5 per cent at 30 June 2009, the impact on the profit or loss and the net asset value would have been negative £3.1 million (2008: a fall of 5 per cent would have impacted the profit or loss and the net asset value by negative £4.2 million). Due to the effect of gearing, the impact on the net asset value per share would have been a decrease of 4.8 per cent (2008: decrease 5.9 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.

## Notes to the Financial Statements (continued)

### 18. 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.

#### 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 2009.

#### Financial liabilities

The Company finances its operations through its bank loan. The Company has borrowed in sterling at a fixed rate of interest. The Board sets borrowing limits to ensure gearing levels are appropriate to market conditions and reviews these on a regular basis.

At the year end, the Company had borrowings of £8,000,000 from Allied Irish Bank, details of which are contained in note 11 on page 32.

#### Fixed rate

The Company holds fixed interest investments and has fixed interest liabilities.

	2009 £'000	2009 Weighted average interest rate (%)	2009 Weighted average period until maturity (years)	2008 £'000	2008 Weighted average interest rate (%)	2008 Weighted average period until maturity (years)
<b>Assets:</b>						
Fixed income & convertible securities	54,992	9.25	5.9	69,522	8.94	5.5
Preference shares	6,011	9.40	n/a	9,604	9.06	n/a
<b>Liabilities:</b>						
Bank loan	8,000	3.00	0.1	16,000	6.59	-



## Notes to the Financial Statements (continued)

### 19. 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 2009 was as follows:

	2009 Investments £'000	2009 Accrued Income £'000	2009 Total £'000	2008 Investments £'000	2008 Accrued Income £'000	2008 Total £'000
Euro	8,943	352	9,295	11,574	362	11,936
Australian dollar	8,007	242	8,249	7,842	234	8,076
US dollar	4,460	168	4,628	6,542	111	6,653
Norwegian krone	3,906	163	4,069	7,497	230	7,727
Canadian dollar	3,737	34	3,771	6,023	174	6,197
	<b>29,053</b>	<b>959</b>	<b>30,012</b>	39,478	1,111	40,589

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 £1.4 million (2008: positive £1.9 million). Due to the effect of gearing, the impact on the net asset value per share would have been an increase of 2.2 per cent (2008: increase of 2.7 per cent). 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.

### 20. 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:

	2009 £'000	2008 £'000
Cash and cash equivalents	9,206	2,103
Interest, dividends and other receivables	2,372	2,386
	<b>11,578</b>	4,489

Credit risk on fixed interest instruments is considered to be part of market price risk as disclosed in note 17.

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 issued. 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.

There were no significant concentrations of credit risk to counterparties at 30 June 2009. No individual investment exceeded 7.7 per cent of the net assets attributable to the Company's shareholders at 30 June 2009.

# Notes to the Financial Statements (continued)

## 21. 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:

	2009 Total investments €'000	2008 Total investments €'000
Listed/Quoted on a recognised investment exchange	54,984	74,510
Unquoted (convertible into a security quoted on a recognised exchange)	4,426	6,229
Unquoted	2,751	2,722
<b>Total investments</b>	<b>62,161</b>	<b>83,461</b>

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 and readily realisable securities to pay accounts payable and accrued expenses.

## 22. Related parties

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

Mr G Ross is a Director of the Company Secretary and Administrator, R&H Fund Services (Jersey) Limited which receives fees from the Company. Administration fees for the period are disclosed in note 4.

Mr G Ross is also a Director of the Registrar, Computershare Investor Services (Jersey) Limited which receives fees from the Company. Registrar fees for the period are disclosed in note 4.

Intelli Corporate Finance Limited ("ICF") provides advisory and brokerage services to the Company. Mr A Collins is a Director of Midas Capital plc, which was the parent company of ICF until 1 October 2009 when ICF was acquired by Canaccord Adams Ltd. Mr J West is Chairman of Canaccord Adams Ltd.

There are no other transactions with the Board other than aggregated remuneration for services as Directors as disclosed in the Directors' Remuneration Report on page 19 and 20, 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 14. There are no outstanding balances with 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.

## 23. Contingent asset

The Association of Investment Companies and JPMorgan Claverhouse Investment Trust plc lodged a joint appeal in 2004 for the payment of management fees by investment trusts to be treated as exempt from VAT. In June 2007 the European Court of Justice ('ECJ') found in favour of the appellants, declaring that investment trusts should be treated as special investment funds and thus exempted from VAT on management fees. HM Revenue & Customs ('HMRC') has announced that it will not appeal against the ECJ decision. While the Company does not incur VAT on management fees, its predecessor, New City High Yield Trust plc, did incur VAT. Accordingly the liquidator of New City High Yield Trust plc may be able to reclaim amounts in respect of VAT previously charged by its Investment Managers. In accordance with the terms of the voluntary winding-up of New City High Yield Trust plc and the rollover of shareholders' interests into New City High Yield Fund Limited, any VAT reclaimed, net of any liquidator's costs, will be paid to New City High Yield Fund Limited.

The mechanics and, in particular, the quantum and timing of any recovery is so uncertain, that it has not been recognised as an asset in the accounts.

# Notes to the Financial Statements (continued)

## 24. Explanation of transition to IFRS

Due to the implementation of the Disclosure and Transparency Rules which applied to the Company from 1 July 2008, the Company has adopted IFRS. Until 30 June 2008 the Company reported its results in accordance with UK GAAP. The transition to IFRS has not changed how transactions and balances are recorded in the Income Statement and Balance Sheet due to the convergence between UK GAAP and IFRS.

a) **Reconciliation of equity/net assets**

Had the Company reported its results under IFRS at the end of the comparable 'year end' (30 June 2008) the net assets would have been unchanged from those previously reported under UK GAAP.

b) **Reconciliation of the Income Statement**

Had the Company reported its results under IFRS at the end of the comparable 'year end' (30 June 2008) the return on ordinary activities would have been unchanged from that previously reported under UK GAAP.

c) **Reconciliation of the Cash Flow Statement for the period from 17 January 2007 to 30 June 2008**

	Reference	Previously reported UK GAAP £'000	Effect of transition to IFRS £'000	IFRS £'000
Net cash inflow from operating activities	(i)	7,301	(1,332)	5,969
Servicing of finance	(i)	(1,180)	1,180	-
Taxation	(i)	(152)	152	-
Equity dividends paid	(iii)	(4,445)	4,445	-
Capital expenditure and financial investment		(22,673)	-	(22,673)
Financing	(ii)	22,873	(4,445)	18,428
<b>Increase in cash</b>		<b>1,724</b>	<b>-</b>	<b>1,724</b>

The above reconciliations show the re-allocation of amounts within the Cash Flow Statement but the actual cash flows remain unchanged.

Reference to reconciling items:

- (i) Loan interest paid and withholding tax paid are now shown under operating activities rather than servicing of finance and taxation.
- (ii) Equity dividends paid are now disclosed under financing.

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000. If you have sold or otherwise transferred all your shares in the Company, please forward this document, together with the accompanying document, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee.

## Notice of Annual General Meeting

Notice is hereby given that the third Annual General Meeting of New City High Yield Fund Limited will be held at 11 a.m. at Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW on Thursday, 10 December 2009 for the following purposes:

To consider and, if thought fit, pass resolutions 1 to 7 as ordinary resolutions and resolution 8 as a special resolution:

### Ordinary Business

1. To receive the Report of the Directors and the financial statements of the Company for the year to 30 June 2009, together with the auditors' report thereon.
2. To approve the Directors' Remuneration Report.
3. That Allister F Carey, who retires by rotation at the Annual General Meeting, be re-appointed as a Director.
4. That Adrian J R Collins, who retires at the Annual General Meeting, be re-appointed as a Director.
5. That Graeme D Ross, who retires at the Annual General Meeting, be re-appointed as a Director.
6. That KPMG Audit Plc, Chartered Accountants, be re-appointed as Auditors and that the Directors be authorised to determine their remuneration.

### Special Business

7. That, pursuant to Article of 164 of the Company's Articles of Association, the Company continues as an investment company until the conclusion of the next Annual General Meeting of the Company.

### Special Resolution

8. 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 22,980,120, 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;



## Notice of Annual General Meeting (continued)

- (v) this authority expires at the conclusion of the next AGM of the Company after the passing of this resolution or 15 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

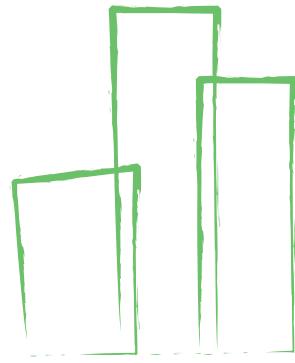
R&H Fund Services (Jersey) Limited  
Company Secretary  
9 October 2009

### Notes:

1. Information about this meeting is available from the Company's website; [www.ncim.co.uk](http://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, Ordnance House, 31 Pier Road, St. Helier, Jersey, JE4 8PW 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 2009, 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 2009, 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

<b>Registered Number</b>	95691	
<b>Directors</b>	James G West ( <i>Chairman</i> ) Gavin D P Breeze ( <i>Audit Committee Chairman</i> ) Allister F Carey Adrian J R Collins Graeme D Ross	
<b>Registered Office</b>	<b>New City High Yield Fund Limited</b> Ordnance House, 31 Pier Road St. Helier, Jersey JE4 8PW Channel Islands	
<b>Investment Manager</b>	<b>New City Investment Managers Limited</b> 5th Floor 33 Grosvenor Place, London SW1X 7HY Tel: 020 7201 6900	<b>CQS Cayman Limited Partnership</b> Ugland House South Church Street George Town, KY1-1104 Grand Cayman Cayman Islands
<b>Company Secretary and Administrator</b>	<b>R&amp;H Fund Services (Jersey) Limited</b> Ordnance House, 31 Pier Road St. Helier, Jersey JE4 8PW Channel Islands Tel: 01534 825200	
<b>UK Administrator</b>	<b>F&amp;C Investment Business Limited</b> 80 George Street, Edinburgh EH2 3BU Tel: 020 7628 8000	
<b>Registrars</b>	<b>Computershare Investor Services (Jersey) Limited</b> Ordnance House, 31 Pier Road St. Helier, Jersey JE4 8PW Channel Islands Tel: 01534 825230	
<b>Financial Adviser/Stockbroker</b>	<b>Intelli Corporate Finance Limited/Canaccord Adams Ltd</b> Cardinal Place 7th Floor, 80 Victoria Street London SW1E 5JL	
<b>Auditors</b>	<b>KPMG Audit Plc</b> 20 Castle Terrace, Edinburgh EH1 2EG	
<b>Bankers and Custodian Bankers</b>	<b>HSBC Bank PLC</b> 8 Canada Square, London E14 5HQ	
<b>Jersey Lawyers to the Company</b>	<b>Ogier</b> Whiteley Chambers Don Street, St. Helier Jersey, JE4 9WG Channel Islands	
<b>UK Solicitors to the Company</b>	<b>Maclay Murray &amp; Spens LLP</b> One London Wall, London EC2Y 5AB	
<b>Website</b>	<a href="http://www.ncim.co.uk">www.ncim.co.uk</a>	
<b>ISIN</b>	JE 00B1LZS514	



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Liberation Square, Jersey