

newcity  
high yield fund limited



Interim Report  
Period from  
17 January 2007 (date of incorporation)  
to 31 December 2007

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## Investment Objective

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 UK Listing Authority and trade on the London Stock Exchange's main market; dealings commenced on 7 March 2007.

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.

## Dividends

The Company has paid three interim dividends to date of 0.85p per ordinary share. These were paid on 24 August 2007, 23 November 2007 and 28 February 2008. In accordance with UK GAAP the third interim dividend, which was paid on 28 February 2008 has not been included as a liability in these accounts. In the absence of unforeseen circumstances, the Board expects that, in respect of the period from launch to 30 June 2008, two further interim dividends will be paid in May 2008 and August 2008, each at a rate no lower than that of the dividends already paid.

## Important Information

Past performance is not necessarily 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. The target dividend level for the period from launch to 30 June 2008 is based on certain assumptions and does not constitute a profit forecast.

**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.**

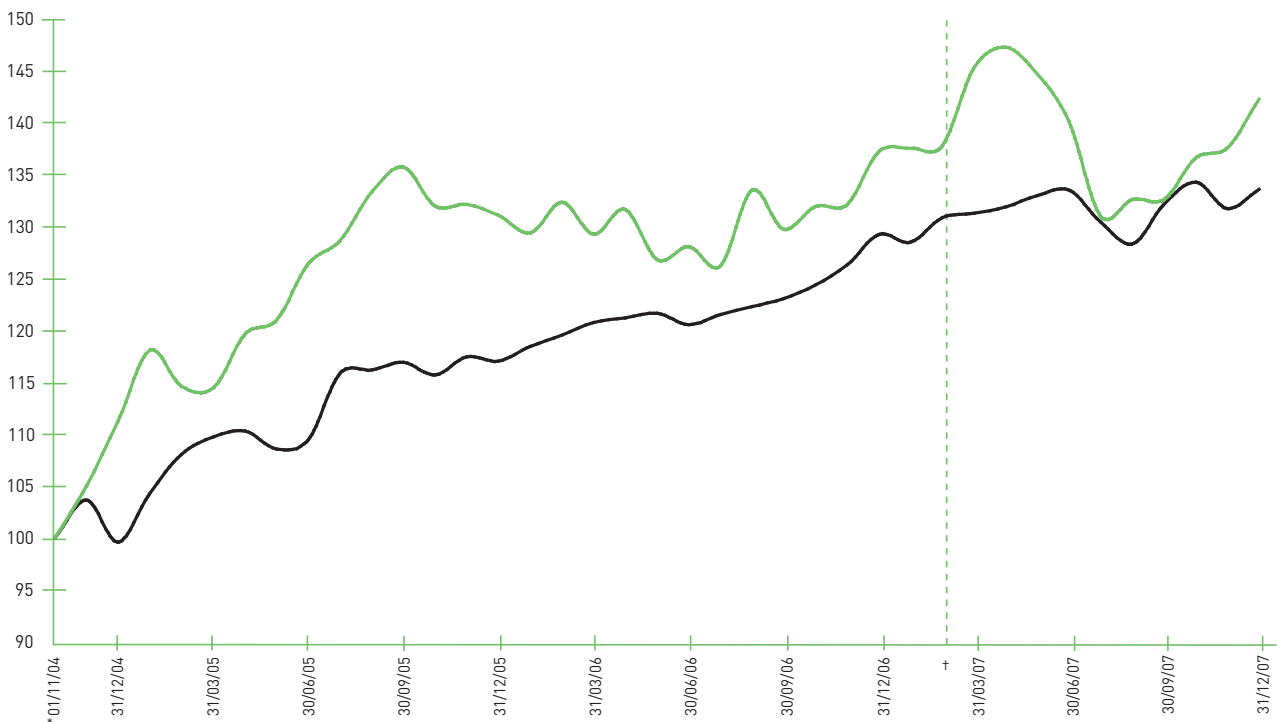


## Financial Highlights

For the period from 17 January 2007 (date of incorporation) to 31 December 2007

- Net asset value total return of 1.9 per cent since launch on 7 March 2007.
- Ordinary share price total return of 1.4 per cent since launch on 7 March 2007.
- Ordinary share price at a premium of 0.6 per cent to published net asset value at 31 December 2007.
- £15 million raised in March 2007 through a placing and offer for subscription, in addition to the rollover of New City High Yield Trust plc shareholders' interests of £52.9 million into the Company.
- £1.8 million and £4.7 million raised in December 2007 and February 2008 respectively, through placings 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 on 1 November 2004

†New City High Yield Fund Limited launched on 7 March 2007.

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

(Index restated to 100 from 1 November 2004\*)  
 Source: F&C Investment Business Limited

# Chairman's Statement

## Introduction

I am pleased to present the Company's second Interim Report. This is for the period from incorporation on 17 January 2007 to 31 December 2007 and will be followed by the first Annual Report to 30 June 2008.

## Launch of the Company and Fundraisings

The Company was launched on 7 March 2007 following the voluntary winding up of New City High Yield Trust plc and the rollover of its shareholders' interests (£52.9 million) into the Company. A further £15 million was raised from new and existing shareholders pursuant to a placing.

The objective of New City High Yield Fund Limited is to provide investors with a high dividend yield and the potential for capital growth by investing mainly in high yielding fixed interest securities.

The appeal of this remit, and the Company's success in delivering it, has been evidenced by two further fund raisings; one of £1.8 million in December 2007, and another of £4.7 million in February 2008.

I would like to welcome new shareholders who participated in these placings.

## Investment Performance

If markets were difficult during the first few months of the Company's life, as I noted in the first Interim Report, they were very difficult thereafter. This was especially true of fixed interest markets which were traumatised by the sub-prime mortgage débâcle in the United States and its attendant banking crises.

American interest rates were slashed as the Federal Reserve attempted to stave-off recession, and we have witnessed the unusual sight of bond prices following interest rates down.

Against this backdrop it is pleasing to be able to report a net asset value total return of 1.9 per cent since launch on 7 March 2007, while the share price total return was 1.4 per cent. The Company's shares continue to trade at a modest premium to net asset value as I write.

## Dividends

Dividends are the Company's bedrock, and we have now paid three dividends of 0.85 pence per share, in line with the rate envisaged in the Prospectus. Shareholders will note that this has been achieved alongside a significant increase in our revenue reserve.

The yield to shareholders currently stands at approximately 6.7 per cent per annum.

## Outlook

It is the consequences of the credit crisis generated by the US sub-prime débâcle that underly the market's nervousness, and we can see no reason for this to change in the short term. We therefore remain cautious.

That said, we do not believe that we are on the verge of a full-blown world-wide recession, and longer term valuations and yields look attractive – on a carefully selected basis.

## James G West

Chairman

20 March 2008

# Investment Manager's Review

## Investment Performance

In the first interim report issued in September 2007, we suggested that interest rates might well have peaked worldwide; in the event, the six months under review saw a severe slowing down in the American economy causing the Federal Reserve to slash interest rates in an attempt to revive the situation.

Events were exacerbated by ongoing events relating to the sub-prime mortgage crisis, with various areas of the financial sector taking it in turn to report substantial losses. In the United Kingdom, conditions were not much better with the banks, led by Northern Rock, moving from one disaster to another. Conditions in Europe were similar with the fragility of the banking system much in evidence. Given this background it was hardly surprising that equities and bonds were increasingly friendless. If the performance of the Company might be regarded as somewhat pedestrian, under the circumstances outlined above this could be regarded as satisfactory.

## Investment Activity

At the start of the second half of 2007 we became increasingly anxious about the prospects for sterling and changed the balance of the portfolio accordingly. From a position of approximately 60% invested in sterling bonds and convertibles, the figure is down to approximately 40% at the time of writing. We have purchased a number of Norwegian oil rig and mining bonds, including Sevan Drilling and London Mining and, further afield, scanned the Australian market. Myer Group is that country's second largest retailer and has consistently reported strong figures. Perhaps the fact that the equity of the group is owned by venture capitalists and only the bonds are quoted has had a derogatory effect on the bonds, but yielding over 10% they look remarkably good value. Those that have disappeared from the investment portfolio include Georgica, which were bought back, and Real Estate Opportunities where the rising bond price left us with an unacceptably low yield.

## Outlook

These are traumatic times in the fixed interest markets. Who would have thought that we would be looking at the scenario of falling interest rates and falling bond prices? Perhaps the situation is best illustrated by the convertible preference shares of Balfour Beatty. This company has consistently reported good figures but the yield has risen from 6% to 7%\* (Source: Bloomberg). Working on the principle that good value is worth staying with, we remain strong holders. Turning to the future we will continue in our search for overseas bonds, while remaining aware that companies such as Libra Natural Resources and REA generate most of their profits abroad. The security of the dividend remains our main priority, while an eventual improvement in the bond and credit markets will help the asset value.

**Richard Lockwood / Andrew Ferguson / Ian Francis**

New City Investment Managers Limited  
20 March 2008

# Unaudited Income Statement

Period from 17 January 2007 (date of incorporation) to 31 December 2007

	Period to 31 December 2007		
	Revenue £'000	Capital £'000	Total £'000
Realised losses on disposal of investments	–	(869)	(869)
Unrealised losses on investments	–	(1,410)	(1,410)
Exchange losses	–	(102)	(102)
Income	5,718	–	5,718
Investment management fee	(409)	(136)	(545)
Other expenses	(246)	–	(246)
<b>Net return before finance costs and taxation</b>	<b>5,063</b>	<b>(2,517)</b>	<b>2,546</b>
Interest payable and similar charges	(673)	(224)	(897)
<b>Return on ordinary activities before taxation</b>	<b>4,390</b>	<b>(2,741)</b>	<b>1,649</b>
Irrecoverable withholding tax	(66)	–	(66)
<b>Return on ordinary activities after taxation</b>	<b>4,324</b>	<b>(2,741)</b>	<b>1,583</b>
<b>Return per ordinary share (pence)</b>	<b>3.41p</b>	<b>(2.16)p</b>	<b>1.25p</b>

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

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

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

## Amounts recognised as dividends in the period

	Period to 31 December 2007 £'000
First interim dividend for the period ended 30 June 2008 of 0.85p per share paid on 24 August 2007	1,077
Second interim dividend for the period ended 30 June 2008 of 0.85p per share paid on 23 November 2007	1,077
	<b>2,154</b>



## Unaudited Balance Sheet

As at 31 December 2007

	As at 31 December 2007 £'000
<b>Fixed assets</b>	
Investments	79,576
<b>Current assets</b>	
Debtors	2,064
Cash at bank	4,056
	6,120
<b>Creditors: amounts falling due within one year</b>	(17,074)
<b>Net current liabilities</b>	(10,954)
<b>Net assets</b>	<b>68,622</b>
<b>Share capital and reserves</b>	
Stated capital account	18,806
Special distributable reserve	50,387
Capital reserves	(2,741)
Revenue reserve	2,170
<b>Equity shareholders' funds</b>	<b>68,622</b>
<b>Net asset value per ordinary share (pence)</b>	<b>52.71p</b>

## Unaudited Reconciliation of Movements in Shareholders' Funds

Period from 17 January 2007 (date of incorporation) to 31 December 2007

	Period to 31 December 2007 £'000
Equity shareholders' funds at 17 January 2007 (date of incorporation)	–
Return on ordinary activities after taxation	1,583
Increase in share capital in issue attributable to rollover from New City High Yield Trust plc	52,964
Increase in share capital in issue attributable to placings and offer for subscription	16,835
Launch costs	(594)
Cost of reduction in stated capital account	(12)
Dividends paid	(2,154)
Equity shareholders' funds at 31 December 2007	68,622

# Summarised Unaudited Cash Flow Statement

Period from 17 January 2007 (date of incorporation) to 31 December 2007

	Period to 31 December 2007 £'000
Net cash inflow from operating activities	4,193
Net cash outflow from servicing of finance	(815)
Irrecoverable withholding tax paid	(66)
Net cash outflow from financial investments	(15,762)
Equity dividends paid	(2,154)
Net cash outflow before financing	(14,604)
Net cash inflow from financing	18,230
<b>Increase in cash</b>	<b>3,626</b>
<b>Reconciliation of net cash flow to movement in net debt</b>	
Increase in cash as above	3,626
Cash inflow from transfer of cash from New City High Yield Trust plc <sup>†</sup>	532
Cash inflow from drawdown of loan	(2,000)
Exchange losses	(102)
<b>Change in net debt resulting from cash flows</b>	<b>2,056</b>
Opening net debt at 17 January 2007	–
Transfer of loan from New City High Yield Trust plc <sup>†</sup>	(14,000)
<b>Closing net debt at 31 December 2007</b>	<b>(11,944)</b>
<b>Represented by:</b>	
Cash at bank	4,056
Debt falling due within one year	(16,000)
	<b>(11,944)</b>
<b>Reconciliation of net return before finance costs and taxation to net cash inflow from operating activities</b>	
Net return before finance costs and taxation	2,546
Realised losses on disposal of investments	869
Unrealised losses on investments	1,410
Exchange losses	102
Increase in prepayments and accrued income	(821)
Increase in other creditors	87
<b>Net cash inflow from operating activities</b>	<b>4,193</b>

<sup>†</sup> 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 (refer note 5).



## Notes to the Accounts

1. The unaudited interim results which cover the period from incorporation on 17 January 2007 to 31 December 2007 have been prepared in accordance with applicable United Kingdom accounting standards and adopting the accounting policies which will be set out in the statutory accounts of the Company for the period ended 30 June 2008.

The Company's year end is 30 June and the first accounting period will end on 30 June 2008.

2. A third interim dividend of 0.85p per ordinary share was paid on 28 February 2008. In accordance with UK GAAP this dividend has not been included as a liability in these accounts.

3. The breakdown of income for the period to 31 December 2007 was as follows:

	31 December 2007 £'000
<b>Income from investments</b>	
Dividend income	720
Interest on fixed interest securities	4,901
	5,621
<b>Other income</b>	
Deposit interest	97
<b>Total income</b>	5,718

4. The return per ordinary share is based on the net return on ordinary activities after taxation of £1,583,000 and on a weighted average of 126,859,619 ordinary shares in issue throughout the period.  
The net asset value per ordinary share is based on net assets at the period end of £68,622,000 and on 130,196,828 ordinary shares, being the number of ordinary shares in issue at the period end.
5. On 6 March 2007, 99,022,414 ordinary shares were issued pursuant to the scheme for the voluntary winding up of New City High Yield Trust plc and rollover of its shareholders' interests into the Company. A further 27,674,414 ordinary shares were issued pursuant to a placing and offer for subscription which raised £15 million. Dealings in these shares commenced on 7 March 2007. A further 3,500,000 ordinary shares were issued pursuant to a placing on 18 December 2007 and raised £1.8 million. After the period end, a further 9,169,600 ordinary shares were issued pursuant to a placing on 28 February 2008 and raised £4.7 million.
6. 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. This amount, being £50,993,244, has been used to create a distributable reserve in the Company's accounts. This reserve shall be 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. Launch costs of £594,000 and legal costs of £12,000 have been written off against this reserve as shown on page 6.
7. The financial information for the period to 31 December 2007 comprise non-statutory accounts. The first full audited accounts for the period ended 30 June 2008, will be lodged with the Registrar of Companies following the Annual General Meeting in 2008.

### R&H Fund Services (Jersey) Limited

Secretary

20 March 2008

# Investment Portfolio

As at 31 December 2007

Company	Sector	Valuation £'000	Net assets %
Balfour Beatty 10.75% CCP	Construction	3,878	5.7
Antares Energy CV 10% 31/10/13	Oil & Gas	3,236	4.7
Libra Natural Resources 8% CV 30/6/10	Mining	2,952	4.3
Cable & Wireless 8.625% 25/3/19	Telecom	2,784	4.1
Alliance Pharma 8% CV 31/12/13	Pharmaceuticals	1,944	2.8
REA Finance 9.5% 31/12/17	Commercial Services	1,854	2.7
Myer Group Finance 10.1938% 15/03/13	Financial	1,830	2.7
Katanga Mining 14% 13/11/13	Mining	1,527	2.2
London Mining 11.5% 26/4/12	Mining	1,480	2.2
Corero 8% CULS 31/10/11	Software	1,470	2.1
<b>Top ten investments</b>		<b>22,955</b>	<b>33.5</b>
Edcon Proprietary FRN 15/06/14	Textiles	1,229	1.8
Wind Acquisition Finance 9.75% 1/12/15	Telecom	1,174	1.7
Satcom 8% CLN 30/6/09	Telecom	1,150	1.7
First Hydro Finance 9% 31/7/21	Financial	1,140	1.6
Sevan Drilling FRN 7/12/12	Oil & Gas	1,116	1.6
British Airways 7.25% 23/08/16	Airlines	1,052	1.5
REA Holdings 9% CP	Food Products	1,040	1.5
Great Panther 8% CV 11/7/11 (unquoted*)	Mining	1,031	1.5
Kensington Group 9% 21/12/15	Financial	1,022	1.5
Norwegian Energy 11% 13/7/10	Oil & Gas	1,018	1.5
<b>Top twenty investments</b>		<b>33,927</b>	<b>49.4</b>
Invensys 9.875% 15/03/11	Machinery	1,005	1.5
GoIndustry 8% CV 5/5/9 (unquoted*)	Oil & Gas	1,000	1.5
Metals Exploration 9% CV 01/08/11 (unquoted*)	Mining	1,000	1.5
Green Park CLN 8% 31/07/10 (unquoted)	Commercial Services	1,000	1.5
Troms Fylkes 7% CV 8/6/09	Marine	999	1.4
Collins Stewart Tullett 8.25% 12/08/14	Financial	976	1.4
Grohe Holdings 8.625% 01/10/14	Construction	973	1.4
Zlomrex International 8.5% 01/02/14	Financial	925	1.3
Warner Music 8.125% 15/4/14	Media	907	1.3
Western Area 8% CV 02/07/12	Mining	868	1.3
<b>Top thirty investments</b>		<b>43,580</b>	<b>63.5</b>
HTM Sport & Freizeit 8.5% 1/2/14	Leisure	837	1.2
PA Resources FRN 09/01/09	Oil & Gas	833	1.2
Cirsa Capital 7.875% 15/7/12	Leisure	813	1.2
FMG Finance 9.75% 1/9/13	Financial	797	1.2
General Motors 8.875% 10/07/23	Automobiles	793	1.2
BRIT Insurance 8.5% CULS 31/12/08	Insurance	792	1.1
Coutts Consulting 8% CP (unquoted)	Commercial Services	775	1.1
Croma Group 8% CLN 20/6/11 (unquoted*)	Aerospace & Defence	750	1.1
Allied London Properties 10.75% 31/12/25	Real Estate	742	1.1
Chemetall 9% CP	Chemicals	735	1.1
<b>Top forty investments</b>		<b>51,447</b>	<b>75.0</b>



## Investment Portfolio (continued)

As at 31 December 2007

Company	Sector	Valuation £'000	Net assets %
Bombardier 7.25% 15/11/16	Industrial	735	1.1
Iron Mountain 7.25% 15/4/14	Commercial Services	725	1.1
Ardagh Glass Fin 8.875% 15/7/13	Financial	716	1.0
IT Holding Finance 9.875% 15/11/12	Textiles	694	1.0
Cirsa Capital 8.75% 15/5/14	Leisure	685	1.0
Xinhua Finance 10% 21/11/11	Media	676	1.0
Dyno Nobel SPS Preference Shares	Mining	671	1.0
Interoil E&P 12.5% 29/3/10	Oil & Gas	648	0.9
Norse Energy 10% 13/7/10	Oil & Gas	647	0.9
Premier Farnell 89.2p CCP	Industrial	634	0.9
<b>Top fifty investments</b>		<b>58,278</b>	<b>84.9</b>
Bellway 9.5% CP	Real Estate	597	0.9
DP Producer Ocean FRN 24/7/09	Oil & Gas	592	0.9
FMG Finance 10.625% 1/9/16	Financial	577	0.9
IFCO Systems 10.375% 15/10/10	Paper & Forestry Products	574	0.8
First Australian Resources 10% 31/01/09	Oil & Gas	565	0.8
Babcock & Brown Power NPV Ordinary Shares	Electricity	565	0.8
Royal & Sun Alliance 7.375% CP	Insurance	513	0.8
CQS Rig Finance Fund C Shares	Financial	505	0.7
Tamaya Resources 8.5% CV 22/10/12 (unquoted*)	Mining	502	0.7
Mano River Resources 9% 01/08/10 (unquoted*)	Mining	500	0.7
<b>Top sixty investments</b>		<b>63,768</b>	<b>92.9</b>
Rubicon Offshore FRN 16/4/12	Oil & Gas	492	0.7
AES Corporation 8.375% 01/03/11	Electricity	483	0.7
Invesco Leveraged High Yield Fund	Financial	477	0.7
Skyepharma 6% CV 4/5/24	Pharmaceuticals	476	0.7
Neder Waterschapsbank 6% 30/6/45	Financial	471	0.7
Waterford Wedgewood 9.875% 1/12/10	Household	465	0.7
Neder Waterschapsbank 6.5% 15/8/35	Financial	460	0.7
New Gold 10% 28/6/17	Mining	456	0.7
White Energy Co 7.9% CV 12/10/12 (unquoted*)	Mining	441	0.6
Advance Energy 11% CV 14/05/09 (unquoted*)	Oil & Gas	441	0.6
<b>Top seventy investments</b>		<b>68,430</b>	<b>99.7</b>
<b>Other investments (40)</b>		<b>11,146</b>	<b>16.3</b>
<b>Total investments</b>		<b>79,576</b>	<b>116.0</b>
<b>Net current liabilities<sup>†</sup></b>		<b>(10,954)</b>	<b>(16.0)</b>
<b>Net Assets</b>		<b>68,622</b>	<b>100.0</b>

Notes:

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

† Including bank loan of £16 million.

CCP – Convertible Cumulative Preference Shares

CV – Convertible Bond

FRN – Floating Rate Note

CLN – Convertible Loan Note

CP – Cumulative Preference Shares

CRP – Cumulative Redeemable Preference Shares

CULS – Convertible Unsecured Loan Stock

# Classification of Investments at 31 December 2007

## By Currency

	2007 Total investments %
Sterling	49
Euro	19
Australian Dollar	13
Norwegian Krone	9
US Dollar	6
Canadian Dollar	4
<b>Total investments</b>	<b>100</b>

## By Asset Class

	2007 Total investments %
Bonds	59
Convertibles	26
Preference Shares	12
Equity Shares	3
<b>Total investments</b>	<b>100</b>

## By Quotation

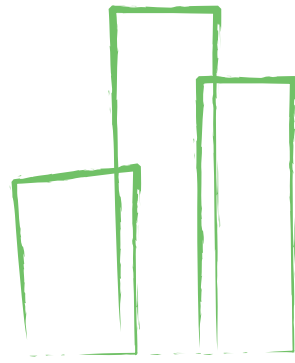
	2007 Total investments %
Quoted	89
Unquoted	11
<b>Total investments</b>	<b>100</b>



## 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>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 (Channel Islands) 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/Intelli Stockbrokers</b> 63 Queen Victoria Street London EC4N 4UA
<b>Auditors</b>	<b>KPMG Audit Plc</b> 20 Castle Terrace, Edinburgh EH1 2EG
<b>Bankers</b>	<b>Allied Irish Bank PLC</b> St Helen's 1 Undershaft, London EC3A 8AB
<b>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